

The FRC publishes its second investigation report

(17 August 2010, Hong Kong) Today, the Financial Reporting Council (the "FRC") publishes its second investigation report in relation to the audit of the consolidated financial statements of a listed entity.

The FRC directed the Audit Investigation Board (the "AIB") to conduct this investigation on 3 September 2009 and adopted the investigation report prepared by the AIB which summarizes the findings of the investigation on 5 August 2010.

Based on its findings, the AIB is of the view that the auditor should have modified the audit opinion in its report in accordance with the relevant auditing and assurance requirements given the non-compliances with accounting requirements in the financial statements of the listed entity. The non-compliances identified include (i) the non-disclosure of a description of the factors that contributed to a cost that results in the recognition of goodwill, (ii) the non-recognition of deferred tax liabilities on taxable temporary difference arising from fair value adjustments on the intangible assets of the subsidiaries acquired, and (iii) the overstatement of impairment loss on goodwill in the financial statements of the listed entity.

The FRC would like to remind the preparers of financial statements that in preparing financial statements, (i) all necessary disclosures should be made in accordance with the relevant accounting requirements, (ii) deferred tax assets and liabilities arising from business combinations should be properly recognized and (iii) the carrying amount and the recoverable amount of a cash-generating unit should be determined on a consistent basis for the purpose of assessing the amount of impairment loss.

Auditors should evaluate whether financial statements are prepared in accordance with accounting requirements, such as those mentioned above. They should carefully evaluate the conclusions drawn from the audit evidence obtained before forming an opinion on the financial statements.

The investigation report has been referred to the Hong Kong Institute of Certified Public Accountants (the "HKICPA") to determine if any disciplinary actions are warranted. In the meantime, the investigation report is published on a "no-name" basis to avoid the disclosure of the identity of the auditor while the HKICPA is considering the case.

The AIB is chaired by the Chief Executive Officer and its members are full-time staff of the FRC.

[The investigation report](http://www.frc.org.hk) is available on the website of the FRC (www.frc.org.hk).