

Press Release

13 June 2017

Completed investigation

On 7 June 2017, the FRC adopted the investigation report on the audit of the consolidated financial statements of a listed entity for the year ended 31 December 2014 (**the 2014 Financial Statements**).

The Audit Investigation Board (**the AIB**) found that the auditor failed or neglected to observe, maintain or otherwise apply certain professional standards in the audit of a significant sale transaction recognised in the preceding year's financial statements, which formed part of the opening balances and comparative information of the 2014 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.

On 8 September 2016, the FRC directed the AIB to conduct an investigation on the audit of the 2014 Financial Statements relating to a significant sale transaction recognised in the preceding year's financial statements, which was audited by a predecessor auditor and which was subjected to another investigation conducted by the FRC.

According to the payment terms of the sale transaction, the customer was allowed to pay the sales proceeds by installments over ten years and the account balance was interest-free. The listed entity recognised the revenue and receivable of the sale transaction at invoiced amount without measuring the revenue at the fair value of the consideration received or receivable in accordance with paragraphs 9 and 11 of Hong Kong Accounting Standard 18 *Revenue*.

As a result of the investigation, the AIB found that the auditor failed to challenge management's assessment on the fair value measurement of the revenue from the sale transaction and to evaluate the effects of the non-compliance with accounting requirement to support their unmodified audit opinion on the 2014 Financial Statements in accordance with paragraph 15 of Hong Kong Standard on Auditing (**HKSA**) 200 (Clarified) *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*, paragraph 18 of HKSA 540 (Clarified) *Auditing Accounting Estimates, Including*

Fair Value Accounting Estimates, and Related Disclosures and paragraph 12 of HKSA 710 (Clarified) *Comparative Information – Corresponding Figures and Comparative Financial Statements*.

The AIB also found that there was no evidence supporting that the sole practitioner had appointed an engagement quality control reviewer and followed the requirements in accordance with paragraph 19 of HKSA 220 (Clarified) *Quality Control for an Audit of Financial Statements* in the audit of the 2014 Financial Statements.

Based on the above, the sole practitioner failed to act diligently according to the applicable technical and professional standards in accordance with section 130.1 of the Code of Ethics for Professional Accountants.

On 7 June 2017, the FRC adopted the investigation report prepared by the AIB, which summarised the findings of the investigation. The investigation report has been referred to the HKICPA to determine if any disciplinary actions are warranted. Names of the relevant parties are withheld pending the conclusion of such disciplinary proceedings, if any.

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

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Note to editors

About the FRC

The FRC is a statutory body established in December 2006 under the Financial Reporting Council Ordinance. The FRC is entrusted with the statutory responsibilities to conduct independent investigations into possible auditing or reporting irregularities in relation to listed entities and to enquire into possible non-compliance with accounting requirements on the part of listed entities. The FRC has 11 members with a variety of professional backgrounds and the majority of whom, including the Chairman, are lay persons. For more information, please visit www.frc.org.hk.

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