

Press Release
14 July 2011

The FRC completed its fifth investigation

(14 July 2011, Hong Kong) The Financial Reporting Council (the "FRC") completed its fifth investigation in relation to the audits of the consolidated financial statements of a former listed entity (the "Relevant Financial Statements").

The FRC directed the Audit Investigation Board (the "AIB") to conduct this investigation on 5 November 2009 and adopted the investigation report prepared by the AIB which summarizes the findings of the investigation on 7 July 2011.

Based on its findings, the AIB is of the view that the auditor did not obtain sufficient appropriate audit evidence: (i) to enable it to draw reasonable conclusions in relation to recognition and measurement of certain lands in the Relevant Financial Statements; (ii) to enable it to conclude that the transactions recorded in a purported bank account were properly reflected in the Relevant Financial Statements; and (iii) that the scope of a valuer's work was adequate for the purposes of the audits.

The AIB also finds that the auditor did not properly document how it obtained the necessary level of assurance in relation to (i) recognition and measurement of certain lands in the Relevant Financial Statements; (ii) its review of the general ledger and the journal entries selected for substantiation; and (iii) its assessment of the professional competence and objectivity of the valuer of certain land.

The FRC would like to remind auditors that they should obtain sufficient appropriate audit evidence to support their audit opinion. They should also prepare sufficient and appropriate audit documentation so as to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing, and extent of the audit procedures performed.

The investigation report has been referred to the Hong Kong Institute of Certified Public Accountants to determine if any disciplinary actions are warranted. The investigation report will be published upon completion of an ongoing proceeding in respect of matters addressed in the report.

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