

Press Release
11 August 2015

Completed investigation

On 17 July 2015, the FRC adopted the investigation report on the audit of the consolidated financial statements of a listed entity for the year ended 31 December 2010 (**the 2010 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 assessing the appropriateness of the management's use of the going concern assumption in the 2010 Financial Statements and the audit of the acquisition of a subsidiary (**the Acquisition**). The AIB found that the engagement director failed to maintain professional knowledge and skill at the level required and act diligently in the audit of the 2010 Financial Statements (**the 2010 Audit**) in these respects.

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 16 January 2014, the FRC directed the AIB to conduct an investigation on the 2010 Audit.

The AIB noted that the listed entity failed to recognize deferred tax liabilities on taxable temporary differences arising from the fair value adjustments of the intangible assets acquired in the Acquisition in accordance with paragraphs 19 and 66 of Hong Kong Accounting Standard 12 *Income Taxes*. The listed entity had made retrospective adjustments relating to the above in its consolidated financial statements for the year ended 31 December 2011.

As a result of the Investigation, the AIB found that, during the 2010 Audit, the auditor failed to:

- (a) obtain sufficient appropriate audit evidence to properly evaluate the management's assessment of the listed entity's ability to continue as a going concern in accordance with paragraphs 6 and 12 of Hong Kong Standard on Auditing (**HKSA**) 570 (Clarified) *Going Concern* (**HKSA 570 (Clarified)**);

- (b) request written representations from management regarding their plans for future action and the feasibility of those plans relating to going concern in accordance with paragraph 16 of HKSA 570 (Clarified);
- (c) include an emphasis of matter paragraph in the auditor's report to highlight the existence of a material uncertainty relating to the event or condition that might cast significant doubt on the listed entity's ability to continue as a going concern in accordance with paragraph 19 of HKSA 570 (Clarified); and
- (d) identify the above non-compliance with accounting requirements relating to the Acquisition and form an appropriate opinion on whether the 2010 Financial Statements were prepared, in all material respects, in accordance with the applicable financial reporting framework in accordance with paragraph 10 to 13 of HKSA 700 (Clarified) *Forming an Opinion and Reporting on Financial Statements*.

The AIB also found that the engagement director failed to maintain professional knowledge and skill at the level required and failed to act diligently in accordance with section 130.1 of the Code of Ethics for Professional Accountants.

On 17 July 2015, the FRC adopted the investigation report prepared by the AIB, which summarized 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.