

Statement accompanying the publication of investigation report I01-07

The Investigation

The Financial Reporting Council (the “FRC”) initiated an investigation in relation to the audit of the consolidated financial statements of a listed entity (the “Relevant Financial Statements”).

On 31 October 2007, the FRC directed the Audit Investigation Board (the “AIB”) to conduct the investigation. On 26 November 2008, the AIB completed the investigation and prepared a report on the findings of the investigation (the “Investigation Report”). The Investigation Report was subsequently adopted by the Council on 4 December 2008.

The AIB considered that there is evidence to suggest that:

- (a) Sufficient independent audit evidence had not been obtained on the recoverability of an amount receivable as required by paragraph 2 of Hong Kong Standard on Auditing (“HKSA”) 500 *Audit Evidence*;
- (b) The auditor did not exercise sufficient professional skepticism in respect of the valuation of certain property, plant and equipment according to paragraph 15 of HKSA 200 (Revised) *Objectives and General Principles Governing an Audit of Financial Statements*; and
- (c) The documentation in the audit working papers, with respect to the audit of a number of areas, was insufficient according to the requirement in paragraph 2 of Statement of Auditing Standards 230 *Documentation*.

Post-Investigation Events

On 12 December 2008, the Investigation Report was referred to the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) for it to determine if any follow-up action is appropriate.

In its letter dated 14 May 2009, the HKICPA informed the FRC of the decision made by its Professional Conduct Committee (the “Committee”). The Committee is of the view that the auditor failed or neglected to observe, maintain or apply Statement of Auditing Standards 230 *Documentation* during the audit of the Relevant Financial Statements. The failure arose from the circumstances where the auditor did not adequately document the audit work and evidence in support of their conclusion regarding the recoverability of an amount receivable and the valuation of certain property, plant and equipment. The Committee considered, on the other hand, that the deficiencies in this case are not of such significance as would be expected to affect the validity of the unqualified audit opinion

expressed by the auditor on the Relevant Financial Statements. Accordingly, it is considered that the matter is not of sufficient gravity to warrant disciplinary actions.

The Committee has issued a “Disapproval Letter” to the auditor and the engagement director advising them to exercise due care and to have proper regard to the legal and professional obligations expected of them as a practice of certified public accountants and a practicing certified public accountant respectively, in conducting their professional work.

The Investigation Report is published on the website of the FRC (www.frc.org.hk) on 26 June 2009.