



Dear Assignment / News / Business Section Editor

Hong Kong Institute of Certified Public Accountants takes regulatory action against a certified public accountant (practising) and a firm

(Hong Kong, 15 September 2016) - The Hong Kong Institute of Certified Public Accountants has undertaken regulatory action against Hui Kin Fai, Stephen, a certified public accountant (practising) (membership number A09754) and Ernst & Young (firm number 0422) for their failure or neglect to observe, maintain or otherwise apply a professional standard issued by the Institute.

In November 2014, Ernst & Young issued an unqualified review report on the interim accounts of a Hong Kong listed company and its subsidiaries. Hui was the engagement partner. The interim accounts recorded the company's disposal of its interests in a foreign hotel operation. There was an accounting error of failing to reclassify the cumulative exchange reserve relating to the disposed operation from equity to profit and loss. The error materially understated the gain on disposal and was a breach of Hong Kong Accounting Standard 21. In June 2015, the company published an announcement of the accounting error and the revised financial information. Adjustment was also made in the audited financial statements of the group for the year ended 31 March 2015.

The Institute concluded that Ernst & Young and Hui were in breach of paragraphs 6 and 19 of Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* for failing to perform the review procedures with an attitude of professional skepticism, which led to their failure to identify the accounting error in the interim accounts.

Regulatory action

Based on the foregoing and in lieu of further proceedings, the Council concluded that the following should resolve the complaint:

1. Ernst & Young and Hui acknowledge the facts of the case and their non-compliance with the relevant professional standard;
2. They be reprimanded; and
3. They jointly pay an administrative penalty of HK\$30,000 and costs of HK\$10,000.

In accordance with Council powers outlined in the Professional Accountants Ordinance and as a part of the regulatory process to handle complaints, a Resolution by Agreement (RBA) may be offered to respondents in cases considered to be moderate after taking into account factors including, but not limited to, the nature and seriousness of a complaint,

past disciplinary records of the respondents and any aggravating or mitigating circumstances. An RBA will not be offered in cases involving complaints of dishonesty.

Information on the Institute's complaint handling process and guidelines for Resolution is available at the Institute website under the "Compliance" section at www.hkicpa.org.hk.

- End -

About the Hong Kong Institute of Certified Public Accountants

The Hong Kong Institute of CPAs is the only body authorized by law to register and grant practising certificates to certified public accountants in Hong Kong. The Institute has more than 40,000 members and more than 18,000 registered students. Members of the Institute are entitled to the description *certified public accountant* and to the designation CPA.

The Hong Kong Institute of CPAs evolved from the Hong Kong Society of Accountants, which was established on 1 January 1973.

The Institute operates under the Professional Accountants Ordinance and works in the public interest. The Institute has wide-ranging responsibilities, including assuring the quality of entry into the profession through its postgraduate qualification programme and promulgating financial reporting, auditing and ethical standards in Hong Kong. The Institute has responsibility for regulating and promoting efficient accounting practices in Hong Kong to safeguard its leadership as an international financial centre.

The Hong Kong Institute of CPAs is a member of the Global Accounting Alliance – an alliance of the world's leading professional accountancy bodies, which was formed in 2005. The GAA promotes quality services, collaborates on important international issues and works with national regulators, governments and stakeholders.

Hong Kong Institute of CPAs' contact information:

Stella To
Head of Corporate Communications
Phone: 2287 7209
Mobile: 9027 7323
Email: stella@hkicpa.org.hk