



## **Hong Kong Institute of Certified Public Accountants takes disciplinary action against two certified public accountants (practising) and a corporate practice**

(HONG KONG, 20 May 2022) A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants reprimanded Mr. Cheng Hong Cheung, certified public accountant (practising) (A05783), Mr. Chan Shek Chi, certified public accountant (practising) (A22613) and Cheng & Cheng Limited (M0035) (collectively “Respondents”) on 1 April 2022 for their failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. In addition, the Committee ordered Cheng, Chan and Cheng & Cheng Limited to pay penalties of HK\$100,000, HK\$80,000 and HK\$200,000 respectively, and to jointly pay the costs of the Institute and the Financial Reporting Council (“FRC”) totalling HK\$805,616.

Cheng & Cheng Limited expressed an unmodified auditor’s opinion on the consolidated financial statements of a Hong Kong listed company, First China Financial Network Holdings Limited (currently known as Sinofortune Financial Holdings Limited) (“Company”), and its subsidiaries (collectively “Group”) for the year ended 31 December 2014. Cheng was the engagement director and Chan was the engagement quality control reviewer of the audit.

The Institute received a referral from the FRC about deficiencies in the audit. In 2014, the Group acquired a business that manufactured smart card devices for schools in Mainland China, and settled part of the purchase consideration by issuing the Company’s shares. Some of those shares were held in escrow and would be released to the vendors upon an agreed profit target being met. The Group recognised certain software and customer relationships acquired as intangible assets.

In the audit, the Respondents failed to identify the Group’s incorrect accounting for the shares held in escrow as equity, when they should have been accounted for as a liability under Hong Kong Accounting Standard 32 *Financial Instruments: Presentation*. Furthermore, the Respondents failed to perform sufficient audit procedures to assess sales forecasts and certain other assumptions that supported the valuing of the shares and intangible assets.

After considering the information available, the Institute lodged a complaint against the Respondents under section 34(1)(a)(vi) of the Professional Accountants Ordinance (Cap. 50).

The Respondents admitted the complaint against them. The Disciplinary Committee found that Cheng and Cheng & Cheng Limited failed or neglected to observe, maintain or otherwise apply:

- Hong Kong Standard on Auditing (“HKSA”) 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in accordance with Hong Kong Standards on Auditing*;
- HKSA 500 *Audit Evidence*;
- HKSA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*; and
- HKSA 620 *Using the Work of an Auditor’s Expert*.

The Committee also found that Chan failed or neglected to observe, maintain or otherwise apply HKSA 220 Quality Control for an Audit of Financial Statements.

Having taken into account the circumstances of the case, the Disciplinary Committee made the above order against the Respondents under section 35(1) of the Ordinance.

#### About HKICPA Disciplinary Process

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) enforces the highest professional and ethical standards in the accounting profession. Governed by the Professional Accountants Ordinance (Cap. 50) and the Disciplinary Committee Proceedings Rules, an independent Disciplinary Committee is convened to deal with a complaint referred by Council. If the charges against a member, member practice or registered student are proven, the Committee will make disciplinary orders setting out the sanctions it considers appropriate. Subject to any appeal by the respondent, the order and findings of the Disciplinary Committee will be published.

For more information, please see:

<http://www.hkicpa.org.hk/en/standards-and-regulations/compliance/disciplinary/>

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## **About HKICPA**

The Hong Kong Institute of Certified Public Accountants ("HKICPA") is the statutory body established by the Professional Accountants Ordinance responsible for the professional training, development and regulation of certified public accountants in Hong Kong. The Institute has over 46,000 members and 17,000 registered students.

Our qualification programme assures the quality of entry into the profession, and we promulgate financial reporting, auditing and ethical standards that safeguard Hong Kong's leadership as an international financial centre.

The CPA designation is a top qualification recognised globally. The Institute is a member of and actively contributes to the work of the Global Accounting Alliance and International Federation of Accountants.

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