

IN THE MATTER OF

A Complaint made under Section 34(1) and 34(1A) of the Professional Accountants Ordinance (Cap.50) ("the PAO") and referred to the Disciplinary Committee under Section 33(3) of the PAO

BETWEEN

The Registrar of the Hong Kong Institute of Certified Public Accountants COMPLAINANT

AND

Lew Victor Robert  
(Membership no.: F02670)

So Kwok Keung Keith  
(Membership no.: F01702)

East Asia Sentinel Limited  
(Corporate Practice No. M0032)

} RESPONDENTS

Before a Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants

Members:                    Mr. Wai Siu Chung Dominic (Chairman)  
                                  Mr. Chan Fung Cheung Wilson  
                                  Ms. Margaret Choi  
                                  Mr. Chan Kin Man Eddie  
                                  Mr. Tang Kwai Chang Alfred

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**ORDER & REASONS FOR DECISION**

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1. This is a complaint made by the Registrar of the Hong Kong Institute of Certified Public Accountants (the "**Institute**") against Lew Victor Robert, CPA (practising) ("**Lew**"), So Kwok Keung Keith, CPA (practising) ("**So**"), and East Asia Sentinel Limited ("**East Asia**") (collectively the "**Respondents**").

**THE COMPLAINT**

2. The relevant details of the complaint as set out in a letter dated 17 May 2018 from the Registrar to the Council of the Institute (the "**Complaint Letter**") are as follows:-

## BACKGROUND

- (1) South East Group Limited (now known as China Minsheng Drawin Technology Group Limited) ("**Company**") was incorporated in Bermuda and its shares are listed on the Main Board (stock code: 726) of the Stock Exchange of Hong Kong.
- (2) The principal activities of the Company and its subsidiaries (collectively "**Group**") included, inter alia, investment holding, and property development. The Group's consolidated financial statements for the year ended 31 March 2009 ("**2009 Financial Statements**") were prepared under the Hong Kong Financial Reporting Standards.
- (3) East Asia was the auditor of the Company and issued an unmodified opinion on the 2009 Financial Statements on 8 July 2009. Lew was the engagement director and So was the engagement quality control reviewer ("**EQCR**") of the audit.
- (4) In the Company's 2015 financial statements audited by another CPA, prior period adjustments relating to recognition of impairment loss on the significant decline in the fair value of two listed available-for-sale investments ("**AFS Investments**") were recorded.
- (5) On 12 May 2017, the Financial Reporting Council referred to the Institute a report of the Audit Investigation Board ("**AIB Report**") (Appendix A) concerning the 2009 Financial Statements, which identified irregularities in East Asia's work relating to its failure to detect the Company's non-compliance with HKAS 39 in 2009 in view of the significant decline in the fair value of the AFS Investments.

## SUMMARY OF PRINCIPAL ISSUES

- (6) In the 2009 Financial Statements, the Company failed to recognize the significant decline in the fair value of the AFS Investments as an impairment loss. As such, the Company failed to recognize the impairment loss in accordance with paragraphs 58, 61 and 67 of HKAS 39.
- (7) East Asia concurred with management's assessment and did not treat the decline as objective evidence of impairment. The decline in fair value was material to the 2009 Financial Statements.
- (8) East Asia had not sufficiently evaluated the Company's impairment assessment of the AFS Investments in forming their auditor's opinion. As such, East Asia failed to comply with paragraph 11 of HKSA 700 "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements".
- (9) East Asia considered that the decline in fair value did not constitute an impairment loss. However, they acknowledged that there was inadequate documentation of their evaluation and basis of conclusion that there was no objective evidence of impairment; and thereby failed to comply with paragraph 9 of HKSA 230 "Audit Documentation".

- (10) As engagement director, Lew failed to carry out his work with professional competence and due care in accordance with sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants (the "Code").
- (11) As the EQCR, So failed to carry out an adequate review in respect of the above mentioned area in accordance with paragraph 38 of HKSA 220 "Quality Control for Audits of Historical Financial Information". He also failed to act diligently in accordance with sections 100.5(c) and 130.1 of the Code.
- (12) The principal issues are explained in the AIB Report, which should be referred to for details. The issues and evidence may be further addressed in the Complainant's Case to be filed pursuant to the Disciplinary Committee Proceedings Rules.

## THE COMPLAINTS

### Complaint 1: Against East Asia

- (13) Section 34(1)(a)(vi) and section 34(1AA) apply to East Asia in that it failed or neglected to observe, maintain or otherwise apply a professional standard, namely paragraph 11 of HKSA 700, for its failure to properly evaluate the Company's compliance with HKAS 39 in respect of the AFS Investments, before issuing an unmodified audit opinion on the 2009 Financial Statements.

### Complaint 2: Against East Asia

- (14) Section 34(1)(a)(vi) and section 34(1AA) apply to East Asia in that it failed or neglected to observe, maintain or otherwise apply a professional standard, namely paragraph 9 of HKSA 230, for its failure to prepare adequate documentation in relation to its evaluation of the Company's compliance with HKAS 39 in the impairment assessment of the AFS Investments in the 2009 Financial Statements.

### Complaint 3: Against Lew

- (15) Section 34(1)(a)(vi) of the PAO applies to Lew in that, as the engagement director of the audit of the 2009 Financial Statements, he failed or neglected to observe, maintain or otherwise apply a professional standard, namely sections 100.5(c) and 130.1 of the Code for his failure to carry out his work with professional competence and due care, in relation to non-compliances with paragraph 11 of HKSA 700 and paragraph 9 of HKSA 230 with respect to the impairment assessment of the AFS Investments.

### Complaint 4: Against So

- (16) Section 34(1)(a)(vi) of the PAO applies to So in that, as the EQCR of the audit of the 2009 Financial Statements, he failed or neglected to observe, maintain or otherwise apply a professional standard, namely sections 100.5(c) and 130.1 of the Code for his failure to diligently carry out the engagement quality control review in accordance with paragraph 38 of HKSA 220.

## **THE PROCEEDINGS**

3. The Respondents admitted the complaints against them. They did not dispute the facts as set out in the Complaint Letter. On 26 June 2018, the parties agreed that the steps set out in paragraphs 17 to 30 of the Disciplinary Committee Proceedings Rules ("DCPR") be dispensed with.
4. The Disciplinary Committee approved the parties' joint application to dispense with the steps set out in Rule 17 to 30 of the DCPR in light of the admission made by the Respondents and directed the parties to make written submissions on sanctions and costs.
5. The complaints were all found proven on the basis of the admission by the Respondents.
6. The Complainant and the Respondents provided their submissions on sanctions and costs on 21 and 24 September 2018 respectively.

## **FINDINGS OF THE DISCIPLINARY COMMITTEE**

7. In considering the proper order to be made in this case, the Disciplinary Committee has had regard to all the aforesaid matters, including the particulars in support of the Complaints, the Respondents' personal circumstances, and the conduct of the Respondents throughout the proceedings.

## **SANCTIONS AND COSTS**

8. The Disciplinary Committee ordered that:-
  - (a) the Respondents be reprimanded under Section 35(1)(b) of the PAO;
  - (b) the Respondents pay a penalty of HK\$55,000 under Section 35(1)(c) of the PAO, such penalty be payable jointly and severally by all of the Respondents; and
  - (c) the Respondents do pay the costs and expenses of and incidental to the proceedings of the Complainant (including the costs of the Disciplinary Committee and costs incurred by Financial Reporting Council) in the sum of HK\$104,517.80 under Section 35(1)(iii) of the PAO, such costs and expenses be borne equally between the Respondents.

The above shall take effect on the 40<sup>th</sup> day from the date of this Order.

Dated 5 November 2018

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Mr. Wai Siu Chung Dominic  
Disciplinary Panel A  
Chairman

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Mr. Chan Fung Cheung Wilson  
Disciplinary Panel A

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Mr. Chan Kin Man Eddie  
Disciplinary Panel B

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Ms. Margaret Choi  
Disciplinary Panel A

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Mr. Tang Kwai Chang Alfred  
Disciplinary Panel B