

IN THE MATTER OF

A Complaint made under section 34(1A) of  
the Professional Accountants Ordinance  
(Cap.50)

BETWEEN

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

And

Pan-China (H.K.) CPA Limited (M0268)      1<sup>st</sup> RESPONDENT  
Fung Pui Cheung (F01100)      2<sup>nd</sup> RESPONDENT  
Wong Ho Yuen, Gary (F01794)      3<sup>rd</sup> RESPONDENT

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

Members:      Mr. CHAN, Raymond (Chairman)  
                    Mr. CHAN, Kam Hon  
                    Mr. AU YEUNG, Wai Lun, Kelvin  
                    Mr. HO, Kam Wing, Richard  
                    Mr. PHENIX, Paul Anthony

---

**ORDER AND REASONS FOR DECISION**

---

1. This is the complaint made by the Registrar of the Hong Kong Institute of Certified Public Accountants ("**the Institute**") against Pan-China (H.K.) CPA Limited, a corporate practice ("**the 1<sup>st</sup> Respondent**") Mr. Fung Pui Cheung, a practising certified public accountant ("**the 2<sup>nd</sup> Respondent**") and Mr. Wong Ho Yuen, Gary, a practising certified public accountant

**(“the 3<sup>rd</sup> Respondent”)** (collectively known as **“the Respondents”**)

2. By a letter dated 14 June 2017 to the Council of the Institute (**“the Complaint”**), the Registrar (**“the Complainant”**) complained that the Respondents failed or neglected to observe, maintain or otherwise apply professional standards under sections 34(1AA), 34(1)(a)(vi) and that the 1<sup>st</sup> Respondent was guilty of professional misconduct under section 34(1)(a)(viii) of the Professional Accountants Ordinance (**“PAO”**).
3. On 13 July 2017, the Respondents confirmed their admission of the complaints against them and they did not dispute the facts as set out in the Complaint. The parties jointly proposed that the steps set out in paragraphs 17 to 30 of the Disciplinary Committee Proceedings Rules (the **“Rules”**).
4. In view of the Respondents’ admission, the Committee acceded to the parties’ joint application to dispense with the steps set out in paragraphs 17 to 30 of the Rules and directed the parties to make written submissions on sanctions and costs.
5. On 1 June 2018, the Complainant made his submissions on sanctions and costs.
6. On 4 and 6 June 2018, the 1<sup>st</sup> and the 2<sup>nd</sup> Respondents respectively informed the Committee that they had no further submissions to make. The 3<sup>rd</sup> Respondent provided his submissions on sanctions and costs on 4 June 2018 and on 19 June 2018 the 3<sup>rd</sup> Respondent applied for leave to file his observation on the Complainant’s submissions on sanctions. His application was acceded. On 21 June 2018, the Committee directed that the 3<sup>rd</sup> Respondent file his observation in 14 days and then the Complainant provide his response in 14 days thereafter. On 5 July 2018, the 3<sup>rd</sup> Respondent filed his observations on the Complainant’s submissions on sanctions and costs. The Complainant filed his response on the 3<sup>rd</sup> Respondent’s submissions thereafter on the same date. On 17 July 2018, the Complainant forwarded a copy of the letter from the 2<sup>nd</sup> Respondent dated 9 July 2018 for the Committee’s consideration.

## **Background**

7. China Yunnan Tin Minerals Group Company Limited (now known as GT Group Holdings Limited) (“Company”) was incorporated in Hong Kong and its shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (stock code: 00263).
8. The 1<sup>st</sup> Respondent audited the financial statements of the Company and its subsidiaries (collectively “Group”) for the year ended 31 December 2010 (“2010 Financial Statements”). The 2<sup>nd</sup> Respondent was the engagement director who signed the auditor’s report dated 31 March 2011 and the 3<sup>rd</sup> Respondent was the engagement quality control reviewer (“EQCR”).
9. The 2010 Financial Statements were stated to have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Institute. In the auditor’s report on the 2010 Financial Statements, the 1<sup>st</sup> Respondent expressed an unmodified opinion and stated that the audit was conducted in accordance with the Hong Kong Standards on Auditing (“HKSA”) issued by the Institute.
10. On 15 September 2016, the Financial Reporting Council (“FRC”) referred to the Institute a report of the Audit Investigation Board (“AIB”) dated 29 August 2016 pursuant to section 9(f) of the FRC Ordinance, Cap. 588.
11. The AIB found auditing irregularities in relation to 1<sup>st</sup> Respondent’s audit in respect of the mining right and goodwill reported on the 2010 Financial Statements.
12. The 2010 Financial Statements included the carrying amounts of mining right and goodwill of HK\$567 million and HK\$129 million respectively. The mining right represents the mining right license of a magnetite iron ore mine situated in the PRC. The goodwill arose from the Group’s acquisition of a group of subsidiaries in 2009 which held the mining right license.
13. Both the mining right and the goodwill were the principal assets of the

Group. The aggregate value of these assets represented 50% of the Group's net assets as at 31 December 2010.

## **THE COMPLAINTS**

### **First Complaint**

14. Section 34(1)(a)(vi) as applied by section 34 (1AA) of the PAO applies to the 1<sup>st</sup> Respondent in that it failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraphs 9, 12 and/or 13 of HKSA 620 "*Using the Work of an Auditor's Expert*" in the audit of the 2010 Financial Statements.

### **Second Complaint**

15. Section 34(1)(a)(vi) as applied by section 34 (1AA) of the PAO applies to the 1<sup>st</sup> Respondent in that it failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraphs 6 and/or 8 of HKSA 500 "*Audit Evidence*" in the audit of the 2010 Financial Statements.

### **Third Complaint**

16. Section 34(1)(a)(vi) of the PAO applies to the 2<sup>nd</sup> Respondent in that, as the engagement director responsible for the 2010 audit, he failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraphs 9, 12 and/or 13 of HKSA 620 "*Using the Work of an Auditor's Expert*" in the audit of the 2010 Financial Statements.

### **Fourth Complaint**

17. Section 34(1)(a)(vi) of the PAO applies to the 2<sup>nd</sup> Respondent in that, as the engagement director responsible for the 2010 audit, he failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraphs 6 and/or 8 of HKSA 500 "*Audit Evidence*" in the audit of the 2010 Financial Statements.

#### Fifth Complaint

18. Section 34(1)(a)(vi) as applied by section 34 (1AA) of the PAO applies to the 1<sup>st</sup> Respondent in that it failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraph 8 of HKSA 230 “*Audit Documentation*” in the audit of the 2010 Financial Statements.

#### Sixth Complaint

19. Section 34(1)(a)(vi) of the PAO applies to the 2<sup>nd</sup> Respondent in that, as the engagement director responsible for the 2010 audit, he failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraph 8 of HKSA 230 “*Audit Documentation*” in the audit of the 2010 Financial Statements.

#### Seventh Complaint

20. Section 34(1)(a)(vi) of the PAO applies to the 2<sup>nd</sup> Respondent for having failed or neglected to observe, maintain or otherwise apply a professional standard namely, sections 100.5 (c) and 130.1 of the *Code of Ethics for Professional Accountants* (“COE”) for failure to diligently carry out the audit of the 2010 Financial Statements, in accordance with the relevant technical and professional standards.

#### Eighth Complaint

21. Section 34(1)(a)(vi) of the PAO applies to the 3<sup>rd</sup> Respondent for having failed or neglected to observe, maintain or otherwise apply a professional standard namely, sections 100.5 (c) and 130.1 of the COE for failure to diligently carry out an adequate engagement quality control review in the audit of the 2010 Financial Statements, in accordance with the paragraphs 20 and 21 of HKSA 220 “*Quality Control for an Audit of Financial Statements*”.

#### Ninth Complaint

22. Section 34 (1)(a)(viii) as applied by section 34 (1AA) of the PAO applies to the 1<sup>st</sup> Respondent for having been guilty of professional misconduct as

a result of its systemic failure to comply with professional standards.

## **SUMMARY OF PRINCIPAL ISSUES**

### **IN RESPECT OF THE FIRST TO SEVENTH COMPLAINTS**

23. The Company had engaged two independent professional valuers to assess the fair value of the mining right (“Valuer A”) and the value in use of the acquired group of subsidiaries associated with the goodwill (“Valuer B”) as at 31 December 2010.
24. In the audit of the 2010 Financial Statements, the 1<sup>st</sup> Respondent had engaged an independent valuer (“Auditor’s Valuer”) as an expert to review and evaluate the work of Valuer A and Valuer B.
25. However, the Auditor’s Valuer was unable to complete their assignment before the 1<sup>st</sup> Respondent signed its auditor’s report because of unresolved issues pertaining to the valuation methodology and parameters used by Valuer A and Valuer B. Eventually, about three months after the audit report was issued, the Auditor’s Valuer did issue an estimated valuation range of which the lower end of the values were below those suggested by Valuer A and Valuer B. In addition, that valuation report was heavily qualified because of the outstanding unresolved issues.
26. In its explanation to the AIB, the 1<sup>st</sup> Respondent explained that it had:
  - a. Received verbal assurance from the Auditor’s Valuer that the final valuation amount would not be lower than the figures reached by Valuer A and Valuer B; and
  - b. Carried out its own evaluation of the work done by Valuer A and Valuer B.
27. This was wholly unsatisfactory as verbal confirmation should not be regarded as sufficient audit evidence in this case. Further, the working papers did not clearly address how the verbal confirmation could have resolved the specific issues raised by the Auditor’s Valuer.

28. If the 1<sup>st</sup> Respondent had intended to rely on the work of the Auditor's Valuer as audit evidence, it should have applied HKSA 620 to evaluate the adequacy of the work of the Auditor's Valuer and its competence, capabilities and objectivity, particularly in the light of their difficulty to resolve the specific issues they had identified.
29. Furthermore, the 1<sup>st</sup> Respondent should have applied HKSA 500 to design and perform audit procedures for obtaining sufficient appropriate audit evidence to support its opinion in respect of the mining right and goodwill.
30. In fact, by its own actions and explanations to the AIB, it would appear that the 1<sup>st</sup> Respondent had misunderstood the requirements imposed upon them by HKSA 620 and HKSA 500:
- a. As noted in the AIB report, there was no evidence that the 1<sup>st</sup> Respondent had carried out any assessment of the Auditor's Valuer or their work, as required under HKSA 620; and/or
  - b. There was no evidence that the 1<sup>st</sup> Respondent had properly assessed the appropriateness of the valuations by Valuer A and Valuer B including the relevance and reasonableness of certain significant assumptions and data they had relied upon, given the queries raised by the Auditor's Valuer; in accordance with HKSA 620 and HKSA 500.
31. Based on the above, the 1<sup>st</sup> Respondent and the 2<sup>nd</sup> Respondent are considered to have failed to:
- a. perform audit procedures to evaluate the work of the Auditor's Valuer, in accordance with paragraphs 9, 12 and/or 13 of HKSA 620; and
  - b. apply paragraph A48 of HKSA 500 to evaluate the appropriateness of the work of Valuer A and Valuer B, and failed to obtain sufficient appropriate audit evidence to support its opinion in respect of the carrying amounts of mining right and goodwill, in accordance with paragraphs 6 and/or 8 of HKSA 500.

32. In its representation to the AIB regarding the above-mentioned findings, the 1<sup>st</sup> Respondent provided additional information regarding the discounted cash flow projection of the mining right and the audit procedures it had performed on such information.
33. The AIB regarded such information and the audit procedures performed as an important piece of audit evidence which should have been documented in the audit working papers. Therefore, the 1<sup>st</sup> and the 2<sup>nd</sup> Respondents failed to comply with paragraph 8 of HKSA 230.
34. The significant audit deficiencies found as noted above show that the 2<sup>nd</sup> Respondent, as the engagement director who signed the auditor's report of the 2010 Financial Statements, failed to carry out the audit diligently in accordance with the applicable technical and professional standards. Consequently, the 2<sup>nd</sup> Respondent failed to comply with sections 100.5(c) and 130.1 of the COE.

#### IN RESPECT OF THE EIGHTH COMPLAINT

35. In view of the significance of the mining right and goodwill to the 2010 Financial Statements, it is not unreasonable to expect that the EQCR would have carried out an appropriate evaluation of the audit work done on these accounts when performing the engagement quality control review.
36. The working papers do not show that the 3<sup>rd</sup> Respondent, as the EQCR, had identified any audit deficiencies with respect to the work of Valuer A and Valuer B and the Auditor's Valuer.
37. Had the 3<sup>rd</sup> Respondent diligently performed an adequate engagement quality control review in accordance with HKSA 220, he would have been expected to identify and question the non-compliances with aforementioned HKSAs in the 2010 audit. Upon determining that the 2<sup>nd</sup> Respondent had exercised adequate professional judgment in dealing with the mining right and goodwill, the 3<sup>rd</sup> Respondent should have documented his understanding and conclusion on these issues in the working papers. There is no evidence that the 3<sup>rd</sup> Respondent had properly considered the matters.



38. Therefore, the 3<sup>rd</sup> Respondent is considered to have failed to diligently carry out an adequate engagement quality control review according to paragraphs 20 and 21 of HKSA 220, in accordance with sections 100.5(c) and 130.1 of the COE.

IN RESPECT OF THE NINTH COMPLAINT

39. An auditor should conduct an audit with an attitude of professional skepticism which entails making critical assessments of the validity of audit evidence. An attitude of professional skepticism is necessary throughout the audit process for the auditor to reduce the risk of using inappropriate assumptions in determining the nature, timing and extent of the audit procedures and evaluating the results thereof. Accordingly, the auditor should not be satisfied with less-than-persuasive audit evidence as basis for its audit opinion such as accepting oral representations without other corroborative evidence.
40. The above findings show that the 1<sup>st</sup> Respondent had been careless, if not reckless, in accepting the risk associated with relying on a verbal confirmation allegedly made by the Auditor's Valuer as audit evidence to support its conclusion on the Group's principal assets. They had done so in spite of the unresolved issues raised by the Auditor's Valuer on those assets before the date of the auditor's report.
41. The opinions expressed by the Auditor's Valuer dated 20 July 2011, about three months after the auditor's report date, was clear in stating that they were unable to conclude on the reasonableness and acceptability of the valuations issued by Valuer A and Valuer B because they had not received the necessary information. This demonstrated that the 1<sup>st</sup> Respondent had unreasonably accepted high audit risk in relying on verbal opinions as evidence in auditing significant assets of a listed company which has high public interest.
42. Furthermore, the deficiencies identified in this case are not an isolated incident but a demonstration of the 1<sup>st</sup> Respondent's systemic failure to comply with professional standards.
43. The 1<sup>st</sup> Respondent had been the subject of two other AIB reports

concerning audit irregularities of listed companies regarding valuation of mining assets and was disciplined in both cases.

44. The first case (D12-0733P) concerned the audit of a listed company in 2010. The 1<sup>st</sup> Respondent failed to perform appropriate audit procedures and failed to prepare adequate audit documentation in respect of their assessment on valuations of two mining assets.
45. The second case (D15-1095F) concerned two years of audits of a listed company in 2010 and 2011. The 1<sup>st</sup> Respondent placed reliance on valuations of two significant mining projects performed by an independent professional valuer engaged by the subject company. However, deficiencies were found in the audit procedures performed by the 1<sup>st</sup> Respondent in relation to the mining projects valuations.
46. The above suggest a pattern of incompetence in relation to this practice's assessment of valuations of significant assets held by listed companies that amount to professional misconduct.

#### **DECISION AND ORDER**

47. The Committee notes that it has a wide discretion on the sanctions it might impose. Each case is fact sensitive and the Committee is not bound by the decision of the previous committees.
48. The Committee takes consideration of the various cases referred by the Complainant. The Committee considers that the nature of the Respondents' failures in this case involved a possible misleading of the investing public in the Company. The Committee further considers that the public are entitled to expect that practicing accountants and corporate entities discharge their duties and carry out their work to the highest standards of probity, independence and competence. If public confidence is shaken then the price to be paid by the entire accountancy profession is very high.
49. Therefore, the Committee believes that it is important that public confidence in the accountancy profession is maintained and that any sanctions imposed by the Committee should also act as deterrence to others that non-compliance by accountancy professionals to the high

standards expected of them would be viewed seriously and would exact suitably severe sanctions.

50. The Committee also takes consideration of the Respondents' submissions but notes that the past history of non-compliances by the 1<sup>st</sup> Respondent should not be ignored. The repeated non-compliances of the 1<sup>st</sup> Respondent on more than one occasion appears to suggest that there was a persistent failure by the 1<sup>st</sup> Respondent to adhere to professional standards in its works.
51. The Committee further takes consideration of the 2<sup>nd</sup> and 3<sup>rd</sup> Respondents' submissions and notes that there is no past disciplinary record for the 2<sup>nd</sup> and 3<sup>rd</sup> Respondents.
52. Having considered all relevant facts of the Complaint, the parties' submissions, the Respondents' conduct throughout the proceedings and their personal circumstances, the Committee considers that a financial penalty of **HK\$250,000** as sanction against the 1<sup>st</sup> Respondent and **HK\$50,000** as sanction against the 2<sup>nd</sup> Respondent and **HK\$50,000** as sanction against the 3<sup>rd</sup> Respondent are appropriate.
53. It is also considered that reprimand against all Respondents will be a proper sanction to signify the Committee's disapproval of their conduct.
54. As for costs, the Committee considers that the sum of **HK\$124,914.10** was incurred reasonably and should be borne by the Respondents.
55. The Committee makes the following order:
  - i) The Respondents be reprimanded under section 35 (1)(b) of the PAO;
  - ii) The 1<sup>st</sup> Respondent do pay a penalty of **HK\$250,000** pursuant to section 35 (1)(c) of the PAO;
  - iii) The 2<sup>nd</sup> Respondent do pay a penalty of **HK\$50,000** pursuant to section 35 (1)(c) of the PAO;

- iv) The 3<sup>rd</sup> Respondent do pay a penalty of **HK\$50,000** pursuant to section 35 (1)(c) of the PAO;
- v) The Respondents do pay the costs and expenses in relation to or incidental to the investigation incurred by the FRC in the sum of **HK\$66,415.10** under section 35 (1)(d)(ii) of the PAO and the costs and expenses of and incidental to the proceedings of the Complainant in total sum of **HK\$58,499** under section 35 (1)(iii) of the PAO.

Dated the 24<sup>th</sup> day of December 2018

---

Mr. CHAN, Raymond

Chairman

---

Mr. CHAN, Kam Hon

Member

---

Mr. AU YEUNG, Wai Lun, Kelvin

Member

---

Mr. HO, Kam Wing, Richard

Member

---

Mr. PHENIX, Paul Anthony

Member