



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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

(HONG KONG, 8 June 2020) The Hong Kong Institute of Certified Public Accountants has taken regulatory action against Mr. Li Wing Sum, Steven, certified public accountant (practising) (F01698), Mr. Tong Yat Hung, certified public accountant (practising) (A01188) and Cheng & Cheng Limited (M0035) (collectively, “Respondents”) for their failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute.

Cheng & Cheng was the auditor which expressed an unmodified auditor’s opinion on the consolidated financial statements of Natural Dairy (NZ) Holdings Limited, a Hong Kong listed company (“Company”) and its subsidiaries (collectively, “Group”) for the year ended 31 May 2012. Li was the engagement director and Tong was the engagement quality control reviewer.

In 2010, the Company acquired an equity interest in a foreign company which held several dairy farms in New Zealand. Consideration for the investment was settled with convertible notes issued by the Company. Subsequently, the local authority in New Zealand refused the Company’s application for retrospective consent for the acquisition. Following this, in the 2011/12 fiscal year, the Group changed its business model to operating a dairy business on leased farmlands, amending the terms of the consideration, and appointing a manager for the dairy operations.

In their audit, the Respondents failed to perform sufficient appropriate procedures to address the risks of material misstatement associated with the investment, and assess the impact of the changed business model on the ownership and valuation of the investment. In addition, the Respondents failed to obtain adequate evidence of the valuations in relation to the investment and convertible notes issued pursuant to the amended terms of acquisition, and the appropriate accounting treatment of securities issued in consideration for the manager’s services.

Further, there were deficiencies in the procedures carried out by the Respondents to verify the Group’s sales revenue and assess possible impairment of the Company’s interests in subsidiaries.

The Institute concluded as follows:

- (i) Li and Cheng & Cheng failed or neglected to observe, maintain or otherwise apply the following professional standards:

- 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 300 *Planning an Audit of Financial Statements*;
 - HKSA 330 *The Auditor’s Responses to Assessed Risks*;
 - HKSA 500 *Audit Evidence*;
 - HKSA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*;
 - HKSA 620 *Using the Work of an Auditor’s Expert*; and
 - HKSA 700 *Forming an Opinion and Reporting on Financial Statements*.
- (ii) Tong failed or neglected to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*.

Regulatory action

Based on the foregoing and in lieu of further proceedings, the Council of the Hong Kong Institute of Certified Public Accountants concluded that the following should resolve the complaint:

1. The Respondents acknowledge the facts of the case and their non-compliance with the relevant professional standards;
2. they be reprimanded; and
3. each of the Respondents pay an administrative penalty of HK\$50,000 and they jointly pay costs of the Institute and the Financial Reporting Council totalling HK\$53,078.

About Resolution by Agreement

In order to better serve the interests of the public and the profession, the Hong Kong Institute of Certified Public Accountants ("HKICPA") ensures complaints are dealt with in an effective and transparent manner. In accordance with Council powers outlined in the Professional Accountants Ordinance, a Resolution by Agreement ("RBA") may be offered in uncontested cases considered to be moderate after taking into account the nature and gravity of the complaint, past disciplinary records of the respondent and any aggravating or mitigating circumstances. An RBA will not be offered in cases involving complaints of dishonesty, which are handled through a separate disciplinary process.

The RBA includes a mandatory public censure which entails publication of the name of the respondent, facts of the case and areas of non-compliance with professional standards. Information on the Institute's complaint handling process and guidelines for Resolutions by Agreement are available at the Institute website under the "Compliance" section at www.hkicpa.org.hk.

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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 more than 46,000 members and 19,000 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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