



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

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

(HONG KONG, 3 September 2019) A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants (“the Institute”) reprimanded Mr. Chan Bing Chung, certified public accountant (A17643) and Miss Chan Wai Ling, certified public accountant (practising) (A03188) on 25 July 2019 for their failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. The Committee ordered that a practising certificate shall not be issued to Mr. Chan for two years with effect from 5 January 2019, backdated to follow a previous disciplinary order restricting his ability to hold a certificate. The Committee also ordered that Miss Chan pay a penalty of HK\$50,000. Further, the Committee ordered Mr. Chan and Miss Chan to pay costs of the Institute of HK\$80,568.50 and HK\$25,648.50 respectively, and they equally share the costs of the Financial Reporting Council (“FRC”) of HK\$20,095.60.

Mr. Chan was the sole proprietor of a firm, JP Union & Co., which is now de-registered. The firm audited the consolidated financial statements of South Sea Petroleum Holdings Limited, a Hong Kong listed company, and its subsidiaries (collectively “Group”) for the year ended 31 December 2013 and expressed an unmodified auditor’s opinion. Miss Chan was the engagement quality control reviewer (“EQCR”) of the audit.

The Institute received a referral from the FRC about audit irregularities. The Group entered into a transaction to sell graphite ore which allowed the buyer to settle the payment by interest-free instalments over a period of 10 years. Such a deferred payment arrangement constituted a financing transaction under Hong Kong Accounting Standard 18 *Revenue*. Notwithstanding this, the Group recognized the revenue and trade receivable of the transaction at invoiced amount without taking into account the discounting effect of the transaction.

In their audit, the respondents failed to identify non-compliance with the relevant accounting standard resulting from the Group’s treatment of the transaction. Mr. Chan failed to communicate to the audit committee his views on the qualitative aspects of the transaction, which involved significant judgement and estimation. Furthermore, Miss Chan performed certain audit work and reported her work to Mr. Chan. This impacted her independence as the EQCR.

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

Miss Chan admitted the complaint against her while Mr. Chan denied the complaint. The Disciplinary Committee found as follows:

- (i) Mr. Chan 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 260 *Communication with Those Charged with Governance*;
  - HKSA 540 *Auditing Accounting Estimates Including Fair Value Accounting Estimates, and Related Disclosures*; and
  - HKSA 700 *Forming an Opinion and Reporting on Financial Statements*.
- (ii) Both Mr. Chan and Miss Chan failed or neglected to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*, and the fundamental principle of Professional Competence and Due Care in sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants in conducting their duties as engagement partner and EQCR respectively.

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. The Committee noted Mr. Chan's submissions pertaining to this case showed his clear lack of understanding of the relevant accounting requirements and the role of an EQCR. The Committee further considered the fact that Mr. Chan had a past disciplinary record in relation to a listed company's audit was an indication of his continuing lack of professional competence.

#### 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 more than 44,000 members and 17,100 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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