



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 firm

(HONG KONG, 20 December 2019) The Hong Kong Institute of Certified Public Accountants has taken regulatory action against Mr. Yam Tak Fai, Ronald, certified public accountant (practising) (F02910), Mr. Wong Wo Cheung, certified public accountant (practising) (A09961) and RSM Hong Kong (1140) (collectively “Respondents”) for their failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute.

RSM Hong Kong (formerly known as RSM Nelson Wheeler) audited the consolidated financial statements of Modern Beauty Salon Holdings Limited, a Hong Kong listed company (“Company”), and its subsidiaries (collectively “Group”) for the years ended 31 March 2010 to 2012 and expressed unmodified auditor’s opinions. Yam was the engagement partner and Wong was the engagement quality control reviewer.

The Financial Reporting Council investigated the audits and noted audit irregularities concerning revenue recognition and a convertible note.

The audit irregularities concerning revenue recognition related to the 2010 to 2012 audits. The Group recognized the unutilized portion of prepaid service contracts as revenue when customers changed contracts before expiry, and the underlying service treatments had not yet been delivered. This was contrary to Hong Kong Accounting Standard (“HKAS”) 18 *Revenue*.

In the 2010 and 2011 audits, the Respondents failed to consider the risk of material misstatement in relation to change in services or transfer of unutilized prepaid contracts, and failed to plan and perform audit procedures to test those transactions and the relevant internal controls. In the 2012 audit, the Respondents identified the accounting non-compliance and, through audit tests performed, calculated the expected misstatements in the deferred revenue balance and the corresponding amount of revenue recognized in the financial statements. Management determined an amount based on the Respondents’ calculation, and adjusted the financial statements accordingly. However, the Respondents failed to justify that the management’s adjusted amount was sufficiently precise to correct the misstatements in the financial statements.

The irregularity concerning the convertible note related to the 2012 audit. The Company issued a convertible note to its controlling shareholder and chairperson as consideration of a business combination. The terms of the note contained contingent settlement provisions which would obligate the Company to redeem the unconverted outstanding balance of the note in cash when certain events occurred. Notwithstanding this, the Company recognized its contractual obligation to pay interest for the note as a financial

liability and the residual balance as an item in equity, whereas it should have comprised embedded derivative financial instruments and a financial liability.

In their audit, the Respondents failed to properly evaluate those contingent settlement provisions against the requirements of HKAS 32 *Financial Instruments: Presentation*, and prepare sufficient audit documentation to support their conclusion on the classification of the convertible note.

The Institute concluded as follows:

- (i) Yam and RSM failed or neglected to observe, maintain or otherwise apply the following professional standards:
 - Hong Kong Standard on Auditing (“HKSA”) 200 (Clarified) *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*;
 - HKSA 230 (Clarified) *Audit Documentation*;
 - HKSA 330 (Clarified) *The Auditor’s Responses to Assessed Risks*;
 - HKSA 500 (Clarified) *Audit Evidence*; and
 - HKSA 530 (Clarified) *Audit Sampling*.
- (ii) Wong failed or neglected to observe, maintain or otherwise apply HKSA 220 (Clarified) *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. Yam, Wong and RSM pay an administrative penalty of HK\$40,000, HK\$10,000 and HK\$50,000, respectively, and they jointly pay costs of the Institute and the Financial Reporting Council totalling HK\$283,748.

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 44,000 members and 18,000 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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