



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 corporate practice and two certified public accountants (practising)

(HONG KONG, 2 August 2019) A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants reprimanded HLB Hodgson Impey Cheng Limited (M0402) (HLB), Mr. Yu Chi Fat, certified public accountant (practising) (F06857) and Mr. Shek Lui, certified public accountant (practising) (F06628) on 24 June 2019 for their failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. The Committee further ordered the three respondents to jointly pay a penalty of HK\$60,000 and costs of the Institute and the Financial Reporting Council (FRC) totalling HK\$117,055.40.

HLB audited the consolidated financial statements of HVM Digital China Group Limited (formerly known as China 3D Digital Entertainment Limited), a Hong Kong listed company, and its subsidiaries for the year ended 30 June 2013. Yu was the engagement director and Shek was the engagement quality control reviewer (EQCR) of the audit.

The Institute received a referral from the FRC about irregularities in the audit. There was impairment of the company's available-for-sale listed investment as a result of a significant decline in fair value shown by a drop in the investee's quoted market price. The company did not record an impairment loss on the investment, contrary to Hong Kong Accounting Standard 39 *Financial Instruments: Recognition and Measurement*. In their audit, the respondents compared the investment cost to the value of the company's share of the investee's net assets, instead of its quoted market price, and concluded that no impairment loss was required to be recorded. As a result, they failed to report the non-compliance in the auditor's report.

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

The respondents admitted the complaint against them. The Disciplinary Committee found that:

- (i) HLB was in breach of Hong Kong Standard on Auditing (HKSA) 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* and HKSA 700 *Forming an Opinion and Reporting on Financial Statements*; and
- (ii) Yu and Shek were in breach of 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 director 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 that the breaches were mitigated by a diversity in practices regarding the application of the relevant accounting standard and the fact that the respondents had obtained independent professional valuations of the investment.

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.

Hong Kong Institute of CPAs' contact information:

Ms Gemma Ho
Public Relations Manager
Phone: 2287-7002
Email: gemmaho@hkicpa.org.hk

Ms Rachel So
Head of Corporate Communications and Member Services
Phone: 2287-7085
Email: rachelso@hkicpa.org.hk