



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

(HONG KONG, 24 August 2018) A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants reprimanded Kwok Chee Tack, CPA (membership number F00769), Wong Kam Man, Kevin, CPA (practising) (membership number F01750) and Ernst & Young (firm number 0422) ("EY") on 18 July 2018 for their failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. Further, the Committee ordered Kwok, Wong and EY to pay penalties of HK\$200,000, HK\$100,000 and HK\$400,000 respectively. In addition, the respondents were ordered to pay costs of the disciplinary proceedings in the sum of HK\$1,527,416.

During the years 1997 to 2002, EY was the reporting accountant of three companies for the listing of their shares in Hong Kong. The companies, which were under common ownership, were Gold Wo International Holdings Limited ("Gold Wo"), Fu Cheong International Holdings Limited ("Fu Cheong") and Yue Fung International Group Holding Limited ("Yue Fung").

EY was also the auditor of these companies. Wong was the engagement partner of the Gold Wo engagements and Kwok was the engagement partner of the Fu Cheong and Yue Fung engagements.

EY expressed unmodified opinions in the accountants' reports for the three companies. It also expressed unmodified auditor's opinions on the consolidated financial statements of Gold Wo and its subsidiaries for accounting periods ended in the years from 2000 to 2002, of Fu Cheong and its subsidiaries for accounting periods ended in the years 2000 and 2001, and of Yue Fung and its subsidiaries for accounting periods ended in the years from 1999 to 2002.

In response to the 2002 arrests of persons connected with the three companies, the Institute instigated three investigations under the Professional Accountants Ordinance (Cap. 50) ("PAO") into the conduct of the relevant CPAs and CPA practices in connection with the accountant's reports and audit engagements. The investigations were put on hold while the Independent Commission Against Corruption carried out criminal investigations into certain CPAs' involvement in fraudulent activities with regard to the three companies.

Relevant criminal proceedings were concluded in 2010. Various individuals, including some members of the companies' management, were found guilty of conspiring with others to defraud stakeholders by falsifying financial records and documents.

In 2010, the three Investigation Committees were reorganised into a single committee and the investigation proceeded. In November 2015, the Investigation Committee

submitted its reports to the Council of the Institute, noting that the respondents would have a case to answer.

In light of the findings set out in the reports of the Investigation Committee, complaints were lodged against the respondents under section 42C(1) of the PAO.

The Disciplinary Committee found, in relation to the Gold Wo engagements, that:

- (i) Wong and EY were in breach of Statement of Auditing Standards ("SAS") 100 *Objective and General Principles Governing an Audit of Financial Statements*, SAS 200 *Planning*, SAS 230 *Audit Documentation* and SAS 400 *Audit Evidence* for their deficient audit work in the areas of sales and receipts for sales, purchases and related cash disbursements, and long-term investments.
- (ii) Wong and EY were in breach of Statement 1.200 Professional Ethics – *Explanatory Foreword* and Statement 3.340 Auditing Guideline – *Prospectuses and the reporting accountant* for their failure to adequately review the preceding auditors' work for 1998 and 1999, to document the work performed as part of the review and to perform relevant analytical procedures.

The Committee found, in relation to the Fu Cheong engagements, that:

- (i) Kwok and EY were in breach of SAS 100, SAS 200, SAS 230 and SAS 400 for their deficient audit work in the areas of sales and receipts for sales, and purchases and related cash disbursements.
- (ii) Kwok and EY were in breach of Statement 1.200 Professional Ethics and Statement 3.340 Auditing Guideline for their failure to adequately review the preceding auditors' work for 1998 and 1999, to document the work performed as part of the review and to perform relevant analytical procedures.

The Committee found, in relation to the Yue Fung engagements, that Kwok and EY were in breach of SAS 230 and SAS 400 for their deficient audit work in the areas of sales and sales receipts.

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 PAO.

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 42,000 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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