



Dear Assignment / News / Business Section Editor

Hong Kong Institute of Certified Public Accountants takes disciplinary action against a firm of certified public accountants and two certified public accountants

(HONG KONG, 17 April 2015) — A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants reprimanded Ernst & Young (firm number 0422), Kwok Chee Tack (membership number F00769) and Wong Yat Fai (membership number A04118) (collectively "respondents") on 10 April 2015 for their failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. The Committee further ordered that Ernst & Young pay a penalty of HK\$200,000, and each of Kwok and Wong pay a penalty of HK\$100,000, to the Institute. In addition, the respondents were ordered to pay part of the costs of the disciplinary proceedings of the Institute and Financial Reporting Council ("FRC") investigation amounting to HK\$1,351,071.

Ernst & Young audited the consolidated financial statements of a company and its subsidiaries for the years ended 31 January 1997, 1998 and 1999. Kwok was the audit engagement partner for the three years, and Wong was the engagement principal in 1997 and second partner in 1998 and 1999. The company was listed in Hong Kong until 2003. Following creditors' petitions to the court, the company was placed in provisional liquidation in 2000 in Hong Kong and Bermuda, its country of incorporation. The FRC subsequently followed up the matter by starting an investigation into the audits.

In July 2011, the Institute received information from the FRC about non-compliance with professional standards in the audit work carried out by Ernst & Young on the title, recognition and presentation of two items of land included in the abovementioned consolidated financial statements, and on a number of accounting journal entries recorded during the preparation of the financial statements. After considering the information available, the Institute lodged complaints against the respondents under section 34(1)(a)(vi) of the Professional Accountants Ordinance.

The respondents admitted the complaints against them. The Disciplinary Committee found that the respondents failed or neglected to observe, maintain or otherwise apply Statement of Auditing Standards ("SAS") 400 *Audit Evidence*, SAS 230 *Documentation* and SAS 200 *Audit Planning* applying in 1998 and 1999 and the corresponding standards applying in 1997. The Committee also found that the respondents failed to carry out professional work with a proper regard for the technical and professional standards expected of them as certified public accountants and they were thereby in breach of Professional Ethics Statement 1.200.

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.

Under the ordinance, if the respondents are aggrieved by the order, they may give notice of an appeal to the Court of Appeal within 30 days after the order is served.

The order and findings of the Disciplinary Committee are available at the Institute's website under the "Compliance" section at www.hkicpa.org.hk.

Disciplinary proceedings of the Institute are conducted in accordance with Part V of the ordinance by a five-member Disciplinary Committee. The majority (three members) of each committee, including the chairman, are non-accountants chosen from a panel appointed by the Chief Executive of the HKSAR, and the other two members are CPAs.

Disciplinary hearings are held in public unless the Disciplinary Committee directs otherwise in the interests of justice. A hearing schedule is available at the Institute's website. A CPA who feels aggrieved by an order made by a Disciplinary Committee may appeal to the Court of Appeal, which may confirm, vary or reverse the order.

The Disciplinary Committees have the power to sanction members, member practices and registered students. Sanctions include temporary or permanent removal from membership or cancellation of a practising certificate, a reprimand, a penalty of up to \$500,000, and payment of costs and expenses of the proceedings.

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About the Hong Kong Institute of Certified Public Accountants

The Hong Kong Institute of CPAs is the only body authorized by law to register and grant practising certificates to certified public accountants in Hong Kong. The Institute has more than 38,000 members and more than 18,000 registered students. Members of the Institute are entitled to the description *certified public accountant* and to the designation CPA.

The Hong Kong Institute of CPAs evolved from the Hong Kong Society of Accountants, which was established on 1 January 1973.

The Institute operates under the Professional Accountants Ordinance and works in the public interest. The Institute has wide-ranging responsibilities, including assuring the quality of entry into the profession through its postgraduate qualification programme and promulgating financial reporting, auditing and ethical standards in Hong Kong. The Institute has responsibility for regulating and promoting efficient accounting practices in Hong Kong to safeguard its leadership as an international financial centre.

The Hong Kong Institute of CPAs is a member of the Global Accounting Alliance – an alliance of the world's leading professional accountancy bodies, which was formed in 2005. The GAA promotes quality services, collaborates on important international issues and works with national regulators, governments and stakeholders.

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