



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 firm and two certified public accountants (practising)

(HONG KONG, 16 May 2018) A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants reprimanded HLB Hodgson Impey Cheng (firm number 0495), Cheng Chung Ching, Raymond, certified public accountant (practising) (membership number F04820) and Lai Tak Shing, Jonathan, certified public accountant (practising) (membership number F05358) on 6 April 2018. The Committee further ordered HLB, Cheng and Lai to pay penalties of HK\$400,000, HK\$300,000 and HK\$300,000 respectively. Further, the respondents were ordered to pay jointly and severally HK\$3,000,000 towards costs of the disciplinary proceedings.

HLB was the auditor of Tiffit Securities (Hong Kong) Limited (now in liquidation), a corporation engaged in securities dealing under the Securities and Futures Ordinance (Cap. 571) and the preceding Securities Ordinance (Cap. 333). HLB issued compliance reports on Tiffit for the years ended 31 March 2003, 2004 and 2005 pursuant to the requirements of those ordinances. Cheng was the engagement partner for the 2003 reporting engagement. Lai was the engagement partner for the 2004 and 2005 reporting engagements.

In 2006, the Securities and Futures Commission discovered that Tiffit had misappropriated client assets. As a result of this finding, the Commission referred the matter to the Institute, which set up an Investigation Committee under the Professional Accountants Ordinance (Cap. 50) (PAO) to investigate the respondents' compliance-reporting on Tiffit for the three years. In November 2009, the Investigation Committee submitted its report to the Council of the Institute, noting that the respondents would have a case to answer.

The Investigation Committee's findings and conclusions suggested that HLB's underlying policies, internal controls and procedures were either inadequate in the circumstances or were inadequately enforced. In light of the above and findings set out in the report of the Investigation Committee, 12 complaints were submitted and lodged against the respondents under section 42C(1) of the PAO.

In 2010, the respondents sought to challenge the Institute's decision rejecting the respondents' complaints about the conduct of the Investigation Committee, including objections to the membership of the Investigation Committee and the Institute's decision refusing to reconstitute a different Investigation Committee (HCAL 5/2010) by way of judicial review. After failing before the Court of First Instance and the Court of Appeal (CACV 192/2010), the respondents applied to the Court of Final Appeal. On 26 July 2013, the Court of Final Appeal handed down its judgment in favour of the Institute (FACV 8/2012).

Subsequently, HLB issued a writ (HCA 2107/2015, the Writ Action) against the Investigation Committee members personally, alleging that the Investigation Committee members were in breach of their duty to the respondents by "*knowingly and/or maliciously submitting a false and/or inaccurate and/or negligently prepared Report*". The writ was never served on the Investigation Committee members but was sent by HLB's solicitors to the Council. The Writ Action was subsequently discontinued.

Following a contested hearing, the Disciplinary Committee found that all 12 complaints were established against the respective respondents, in that the respondents failed to:

- (a) obtain sufficient knowledge and understanding of the factors, and plan and conduct adequate test work, in relation to anomalies in certain client accounts of Tiffit, and document matters which were important in providing evidence to support their opinion;
- (b) obtain sufficient appropriate evidence on which to base their opinion regarding Tiffit's compliance with relevant statutory requirements pertaining to the handling of client money and securities, and document matters which were significant in providing evidence to support the unqualified opinions; and
- (c) obtain sufficient appropriate evidence on which to base their conclusion that adequate records in respect of securities held on behalf of clients were maintained by Tiffit under statutory requirements and document matters which were significant in providing evidence to support their conclusion.

As a result, the Committee found that:

- (1) HLB and Cheng failed or neglected to observe, maintain or otherwise apply professional standards under section 34(1)(a)(vi) of the PAO, namely Standard on Assurance Engagements 200 "*High Level Assurance Engagements*" (SAE 200), in relation to the compliance reporting work for the year ended 31 March 2003; and
- (2) HLB and Lai failed or neglected to observe, maintain or otherwise apply professional standards under section 34(1)(a)(vi) of the PAO, namely SAE 200 and Hong Kong Standard on Assurance Engagements 3000 "*Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*", in relation to the compliance reporting work for the years ended 31 March 2004 and 2005.

The Committee was of the view that the respondents had failed to appreciate where and how they failed in meeting the professional standards in their work conducted for Tiffit and the negative implications on the profession as a whole.

In arriving at its decisions, the Committee noted the Institute's submissions regarding the respondents' conduct in the course of the investigation including the late introduction of additional documents despite more than sufficient opportunity for the respondents to rely on them for years during the investigation period, and their highly obstructive behaviour in the course of the investigation. More specifically, they noted steps taken by the respondents included the issue of the Writ Action. These acts of the respondents were in the view of the Committee unreasonable and disrespectful to the Council's decisions on

the investigation proceedings and unwarranted. Notwithstanding the above, the Committee did not take these into account in deciding sanctions but took the respondents' conduct into account in its decision on costs.

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/>

- End -

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.

Hong Kong Institute of CPAs' contact information:

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

Terry Lee
Director, Marketing and Communications
Phone: 2287-7209
Email: terrylee@hkicpa.org.hk