



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 Ms. Kwee Wei, certified public accountant (practising) (A15101), Ms. Wong Sau Ling, certified public accountant (practising) (F02782) and KPMG (0035) (collectively “Respondents”) for their failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute.

KPMG audited the consolidated financial statements of Modern Beauty Salon Holdings Limited, a Hong Kong listed company (“Company”) and its subsidiaries for the years ended 31 March 2014 to 2017. Kwee was the engagement partner and Wong was the engagement quality control reviewer.

In 2012, 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 initial audit for 2014, the Respondents concurred with the opening balances pertaining to the convertible note and failed to properly evaluate whether that accounting treatment complied with the requirements of Hong Kong Accounting Standard 32 *Financial Instruments: Presentation*. In 2017, the convertible note matured and part of it had to be settled by cash. The Company then reassessed the initial accounting treatment of the note, and after discussion with the Respondents, made prior year adjustments regarding the note.

The Institute concluded as follows:

- (i) Kwee and KPMG 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 500 (Clarified) *Audit Evidence*; and
  - HKSA 510 (Clarified) *Initial Audit Engagements – Opening Balances*.

- (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. Kwee, Wong and KPMG jointly pay an administrative penalty of HK\$35,000 and costs of the Institute and the Financial Reporting Council totalling HK\$62,828.

### **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](http://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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