



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 a certified public accountant and a firm

(HONG KONG, 25 July 2019) The Hong Kong Institute of Certified Public Accountants has taken regulatory action against Mr. Lie Kong Sang, certified public accountant (F03235) and PricewaterhouseCoopers (PwC) (0034) (collectively, Respondents) for their failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute.

PwC audited the consolidated financial statements of Modern Beauty Salon Holdings Limited, a Hong Kong listed company, and its subsidiaries (collectively, Group) for the years ended 31 March 2006 to 2009 and expressed unmodified auditor's opinions. Lie was the engagement partner in those audits.

The Group entered into prepaid service contracts with customers and recognized the unutilized portion of prepayments as revenue when customers changed the service type or transferred the unutilized service treatments to other customers before contract expiry, where the underlying service treatments had not yet been delivered. This was contrary to Hong Kong Accounting Standard 18 *Revenue*. The Respondents failed to design and perform procedures to appropriately test that revenue recognition in relation to change in services or transfer of prepaid contracts was in compliance with the relevant accounting standard, and failed to document their evaluation of management's discussion with the Group's legal advisors concerning the legal and contractual position of prepaid contracts.

The Institute concluded that Lie and PwC were in breach of Hong Kong Standard on Auditing (HKSA) 230 *Audit Documentation*, HKSA 330 *The Auditor's Procedures in Response to Assessed Risks* and HKSA 500 *Audit Evidence*.

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. Lie and PwC each pay an administrative penalty of HK\$50,000, and jointly pay costs of the Institute and the Financial Reporting Council totalling HK\$117,599.

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.

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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.

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