



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.

– End –

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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致：編採主任／新聞／財經版編輯

香港會計師公會對一間會計師事務所及兩名會計師作出紀律處分

(香港，二零一五年四月十七日) — 香港會計師公會轄下紀律委員會於二零一五年四月十日就安永會計師事務所(「安永」)(事務所編號：0422)、郭智達先生(會員編號：F00769)及黃日輝先生(會員編號：A04118)沒有或忽略遵守、維持或以其他方式應用公會頒布的專業準則，對三名答辯人作出譴責。委員會並命令安永須繳付罰款二十萬港元而郭先生和黃先生各須繳付罰款十萬港元予公會。此外，三名答辯人須支付公會紀律程序及財務匯報局(「財匯局」)調查的部份費用合共一百三十五萬一千零七十一港元。

安永審核一間公司及它的附屬公司截至1997、1998及1999年1月31日的綜合財務報表。郭先生為該三個年度的審計項目合夥人，而黃先生為該項目的1997年度 engagement principal及1998和1999年度 second partner。該公司在香港上市至2003年。繼債權人向法庭作出呈請後，公司於2000年在香港及百慕達(其註冊國家)進行臨時清盤。財匯局在稍後期間跟進事件並對有關的審計展開調查。

公會於2011年7月收到財匯局的資料，指安永對上述綜合財務報表內兩個土地項目的產權、入賬和披露及就編制綜合財務報表而入賬的一些會計分錄所進行的審計過程中，違反了專業準則。公會經考慮所得資料，根據《專業會計師條例》第34(1)(a)(vi)條對三名答辯人作出投訴。

三名答辯人承認投訴中的指控屬實。紀律委員會裁定他們沒有或忽略遵守、維持或以其他方式應用公會頒布適用於1998和1999年的專業準則 Statement of Auditing Standards (「SAS」) 400 Audit Evidence、SAS 230 Documentation及SAS 200 Audit Planning 及適用於1997年的相應專業準則。紀律委員會同時裁定三名答辯人在進行專業工作時沒有妥當地考慮到作為會計師應遵從的專業準則，因此違反了 Professional Ethics Statement 1.200。

經考慮有關情況後，紀律委員會根據《專業會計師條例》第35(1)條向三名答辯人作出上述的命令。

根據《專業會計師條例》，如答辯人不服紀律委員會對他們作出的命令，可於命令文本送達後30天內向上訴法庭提出上訴。

紀律委員會的書面判決可於公會網頁內 Compliance 部份查閱，網頁為 <http://www.hkicpa.org.hk>。

公會的紀律程序是根據《專業會計師條例》第V部份，由五位成員組成的紀律委員會執行。每個紀律委員會的大多數成員，即包括主席在內的三名成員，是由香港特別行政區行政長官從業外人士組成的紀律小組中選派委任，另外兩名成員由專業會計師出任。

除非負責的紀律委員會因公平理由認為不恰當，否則紀律聆訊一般以公開形式進行。紀律聆訊的時間表可於公會網頁查閱。如當事人不服紀律委員會的裁判，可向上訴法庭提出上訴，上訴法庭可確定、修改或推翻紀律委員會的裁判。

紀律委員會有權向公會會員、執業會計師事務所會員及註冊學生作出處分。紀律處分範圍包括永久或有限期地將違規者從會計師註冊紀錄冊中除名或吊銷其執業證書、對其作出譴責、下令罰款不多於五十萬港元，以及支付紀律程序的費用。

— 完 —

關於香港會計師公會

香港會計師公會是香港唯一獲法例授權負責專業會計師註冊兼頒授執業證書的組織，會員人數超過三萬八千，註冊學生人數逾一萬八千。公會會員可採用「會計師」稱銜（英文為 **certified public accountant**，簡稱 **CPA**）。

公會(**Hong Kong Institute of Certified Public Accountants**)於一九七三年一月一日成立，當時的英文名稱為 **Hong Kong Society of Accountants**。

公會根據《專業會計師條例》履行職責，以公眾利益為依歸。其職能廣泛，包括開辦專業資格課程(**Qualification Programme**)以確保會計師的入職質素，以及頒布香港的財務報告、審計及專業操守準則。此外，公會亦負責在香港監管和推動優良而有效的會計實務，以鞏固香港作為國際金融中心的領導地位。

香港會計師公會是全球會計聯盟 (**Global Accounting Alliance, GAA**) 的成員之一。全球會計聯盟於二零零五年成立，聯合了全球頂尖的專業會計團體，推動優質服務，並積極與各地監管機構、政府及關連人士就國際重要議題共同合作。

香港會計師公會聯絡資料

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IN THE MATTER OF

A complaint made under section 34(1)(a) of the Professional Accountants Ordinance (Cap 50)

BETWEEN

The Registrar of the Hong Kong
Institute of Certified Public Accountants

COMPLAINANT

AND

Ernst & Young (firm no. 0422)
Mr. Kwok Chee Tack (F00769)
Mr. Wong Yat Fai (A04118)

1st RESPONDENT
2nd RESPONDENT
3rd RESPONDENT

Members: Miss LO, Jane Curzon (Chairman)
Miss LEE, Wai Yan, Susanna
Mr. PONG, Po Lam, Paul
Ms. CHUA, Suk Lin, Ivy
Mr. NG, Chi Keung, Victor

DECISIONS AND REASONS

1. This is a complaint made by the Registrar of the Hong Kong Institute of Certified Public Accountants ("**the Complainant**") against the Respondents, namely, a firm of certified public accountants (practising) registered with the Complainant, and two certified accountants under Section 34(1)(a)(vi) of the Professional Accountants Ordinance (Cap 50) ("**PAO**").
2. On 5 November 2009, the Financial Reporting Council directed the Audit Investigation Board ("**AIB**") in accordance with section 23(1)(b) of the Financial Reporting Council Ordinance to investigate the audits of the accounts of Akai Holdings Limited ("**Akai**") and its subsidiaries ("**Akai**

Group") for the years ended 31 January 1997 to 1999.

3. In July 2011, having adopted the AIB's Report that the 1st Respondent had, in respect of the accounts of the Akai Group for the years ended 31 January 1997 to 1999, failed or neglected to apply certain applicable professional standards within the meaning of section 34(1)(a)(vi) of the PAO, the Financial Reporting Council referred the matter to the Council of the HKICPA.
4. The particulars of the complaint are set out in a letter from the Complainant dated 28 November 2013 ("the Complaint") to the Council to the HKICPA.
5. On 27 October 2014, the Disciplinary Committee (the "Committee") approved the parties' joint application by letter dated 9 October 2014 to consolidate the complaints set out in the Complaint into the First to Fourth Amended Complaints set out in the Representative of the Complainant's letter dated 30 September 2014 to the Clerk of this Committee ("the Amended Complaint").
6. The Amended Complaint relates to the audits of the accounts of Akai Group and are summarised as follows:

First Amended Complaint

- (a) In respect of the audit of the accounts of the Akai Group for the years ended 31 January 1997, 31 January 1998 and 31 January 1999, section 34(1)(a)(vi) of the PAO applies to each of the Respondents in that:
 - i) as regards for the year ended 31 January 1997, each of the Respondents failed or neglected to observe, maintain or otherwise apply Paragraph 7 of Statement 3.101 by failing to obtain relevant and reliable audit evidence sufficient to enable it/he to draw reasonable conclusions; and
 - ii) as regards the years ended 31 January 1998 and/or 31 January 1999, each of the Respondents failed or neglected to observe,

maintain or otherwise apply Paragraph 2 of SAS 400 by failing to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base it/his audit opinion.

Second Amended Complaint

- (b) In respect of the audit of the accounts of the Akai Group for the years ended 31 January 1997, 31 January 1998 and 31 January 1999, section 34(1)(a)(vi) of the PAO applies to each of the Respondents in that:
- i) as regards the year ended 31 January 1997, it/he failed or neglected to observe, maintain or otherwise apply Paragraph 4 of Statement 3.101 by failing to adequately record its/his work; and
 - ii) as regards the years ended 31 January 1998 and 31 January 1999, it/he failed or neglected to observe, maintain or otherwise apply paragraphs 2, 5, and/or 6 of SAS 230 by failing to document matters which were important in providing evidence to support the audit opinion, to prepare working papers which were sufficiently complete and detailed to provide an overall understanding of the audit to another experienced auditor, and to record in working papers the planning, nature, timing and extent of the audit procedures performed, the results thereof, and the conclusions drawn from the audit evidence.

Third Amended Complaint

- (c) In respect of the audit of the accounts of the Akai Group for the years ended 31 January 1997, 31 January 1998 and 31 January 1999, section 34(1)(a)(vi) of the PAO applies to each of the Respondents in that:
- i) as regards the year ended 31 January 1997, it/he failed or neglected to observe, maintain or otherwise apply Paragraph 4 of Statement 3.101 by failing to adequately plan its/his work; and

- ii) as regards the years ended 31 January 1998 and/or 31 January 1999, it/he failed or neglected to observe, maintain or otherwise apply Paragraph 2 of SAS 200 by failing to plan the audit work so that the audit would be performed in an effective manner.

Fourth Amended Complaint

- (d) In respect of the audit of the accounts of the Akai Group for the years ended 31 January 1997, 31 January 1998 and/or 31 January 1999, section 34(1)(a)(vi) of the PAO applies to each of the Respondents in that each of the Respondents failed or neglected to observe, maintain or otherwise apply Paragraph 2 of Statement 1.200 by failing to carry out it/his professional work with a proper regard for the technical and professional standards expected of it/him as a member of the Hong Kong Society of Accountants (as the Institute then was).
7. Each of the Respondents' has admitted (a) the Amended Complaint and (b) the facts set out in the Respondents' Admitted Facts dated 30 September 2014 ("**the Admitted Facts**"). The relevant Admitted Facts are as follows:
- (a) Akai was incorporated in Bermuda and listed on the main board of The Stock Exchange of Hong Kong Limited. Akai was placed into provisional liquidation in Hong Kong on 23 August 2000 and in Bermuda on 29 September 2000. Subsequently Akai was placed in liquidation.
 - (b) The accounts of the Akai Group for the years ended 31 January 1997, 1998 and 1999 were stated to be prepared in accordance with accounting principles generally accepted in Hong Kong. The 1st Respondent was the auditor of the accounts. The 1st Respondent's auditors reports stated that the audits were conducted in accordance with the Statements of Auditing Standards issued by the HKICPA (formerly the Hong Kong Society of Accountants). The audit opinions expressed by the 1st Respondent on the accounts for those years were unqualified.

- (c) The 2nd Respondent was the Engagement Partner for the 1997, 1998 and 1999 audits.
- (d) The 3rd Respondent joined the Akai audit team as a senior manager in or around 1992. He then became the Engagement Principal for the 1994 -1997 audits and the Second Partner for the 1998 and 1999 audits. The number of hours recorded by the 3rd Respondent to the Akai audits in 1997, 1998 and 1999 were, respectively, 412 hours, 343 hours and 273 hours.

Audit Area 1 ("Japanese Land")

- (e) Included in the accounts of 1997, 1998 and 1999 as "land and buildings" was an item said to be parcels of land located in Japan valued at US\$121 million ("**Japanese Land**"), which comprised two consolidation journal entries made in a prior year by (i) reclassifying a long-standing entry from "investment in land interests" to "land" and (ii) making a debit to fixed assets and a credit to reserves. However, there was no sufficient documentation in relation to Akai's basis of the prior year consolidation entry of debiting land and crediting reserves. There was not sufficient audit evidence or documentation to ascertain that Akai Group was the legal owner of those pieces of land, or had beneficial interest in the Japanese Land. The Respondents concurred with Akai that the Japanese Land to be treated as "land and buildings" in those accounts despite not having sufficient evidence or documentation to substantiate such categorization. There was also not sufficient audit evidence for the Respondents' concurrence with Akai's non-disclosure of additional information in the notes to the accounts for 1997, 1998 and 1999 to explain the nature of the beneficial interest in the Japanese Land.
- (f) Further, despite having an independent professional valuation valuing the carrying amount of the Japanese Land having been reduced as at 31 January 1998, the Respondents concurred with Akai for not making any adjustments to its accounts for the year ended 31 January 1998.

Audit Area 2 ("The German Land")

- (g) Another item included in the accounts for 1997, 1998 and 1999 as "land and buildings" was an item said to be parcels of land located in Germany with an aggregate value of US\$80 million that the Akai Group purportedly acquired when they acquired one of its subsidiary companies ("The German Land"). In fact some of parcels of land that formed The German Land had already been sold by a company not belonged to Akai Group prior to 1997. The Respondents concurred with Akai such treatment to be included into the accounts despite:
- i) not having sufficient audit evidence and documentation to ascertain the legal title or beneficial interest of The German Land; and
 - ii) not having sufficient audit evidence to recognize The German Land as "lands and buildings".

There was also not sufficient audit evidence for the Respondents' concurrence with Akai's non-disclosure of additional information in the notes to the accounts for 1997, 1998 and 1999 to explain the nature of the beneficial interest in The German Land.

- (h) The Respondents also failed to plan the audit adequately and thereafter failed to document adequately the procedures performed in relation to the tracing of the ownership of The German Land.

Audit Area 3 (General ledger review / Bank balance confirmation procedures / 26 Late Adjustments)

- (i) In the years 1997, 1998 and 1999, Akai had a number of accounts that had a nil balance as at 31 January 1997, 1998 and 1999. However, if scrutinized, the Respondents should have discovered that those accounts had significant movements during the year and those movements ought to have been investigated. The Respondents did not investigate those movements, nor did the Respondents devise a proper audit plan to detect those

movements.

- (j) In the years 1997, 1998 and 1999, Akai had a number of bank accounts that had a nil balance as at 31 January 1997, 1998 and 1999. There was no documentation on the commercial reasons behind not closing down those bank accounts with zero year-end balances, especially those with a zero year-end balance for two consecutive years, nor was there any documentation on the reasons for no further testing of those bank accounts, such as sending bank balance confirmation.
- (k) For the year ended 31 January 1997, the auditor of a sub-group of Akai Group expressed qualified opinion on Akai reporting package which had incorporated 26 Late Adjustments. The 26 Late Adjustments mainly related to two advances from the sub-group to Akai Group of approximately HK\$84 million and HK\$122 million which the remittance had been done without instructions. The Respondent failed to obtain sufficient audit evidence to verify the nature and validity of the 26 Late Adjustments, and was there insufficient documentation of the evidence obtained and procedure performed in relation to the 26 Late Adjustments.

Audit Planning

- (l) The planning of the audits for 1997, 1998 and 1999 was inadequate as the Respondents did not sufficiently address the risks associated with the nature of the interests in the German and Japanese Lands and with the special treasury function of Akai.

Audits in general

- (m) The Respondents have also failed to, or did not sufficiently carry out its/his professional work with a proper regards for the technical and professional standards expected of it/him as a member of the HKICPA in respect of those accounts.
8. On 27 October 2014, the Committee agreed to dispense with further written submissions and the hearing on the substantive allegations in

light of the admissions made by the Respondents and the Admitted Facts.

9. On 18 December 2014, the Committee was invited by the parties to direct the Respondents to pay a sum of HK\$1,351,071 to the Complainant pursuant to s.35 PAO on the basis that it reflects the costs of the Complainant, the costs of the AIB's investigation, the costs of the Clerk and disbursements. The Committee agrees to the parties' assessment and orders accordingly.

10. The only issue remains to be dealt with by the Committee is the question of Sanction. On sanction, the parties have filed written submissions and have indicated that they are content to deal with the issue of sanction on paper without a hearing. We have considered the facts as set out in the Admitted Facts, all the submissions and authorities submitted by the parties, in particular the following:

1st, 2nd & 3rd Respondents

- (a) The present case does not involve dishonesty or deliberate misconduct on the part of the Respondents. In fact, the Respondents argue that the auditing of Akai was considerably more challenging at the time because internal control were overridden to perpetrate a fraud that was participated by the most senior members of Akai's management. However, in our view, it is precisely because of the potential for such dishonest activities by management that compliance with proper auditing procedures in auditing the accounts of companies is so important, particularly in the context of public companies: see *D-03-IC17H ("Global Trend Case")*.

- (b) Moreover, this case involves breaches of auditing standards in the course of performing critical, core auditing procedures, and many of these fundamental errors continued for **an extended period** of time.

- (c) Non-compliance with professional standards on listed company's financial statements concerns broader public interest and the

sanction should provide a more effective deterrent against such deficiencies for the purpose of enhancing and preserving Hong Kong's position as an international financial centre: see *Case No. D-99-IC-08-X* and *Global Trend Case*.

- (d) We accept that the Respondents were cooperative with the investigation of the FRC and have treated the present complaint and disciplinary procedures seriously. Moreover, the Respondents admitted to the Amended Complaints. Although the admissions were not made at the earliest opportunity, we take the view that time and expenses have been saved by their admissions.
- (e) Although we have jurisdiction to penalise the Respondents separately for each charge, we take the view that the charges are not separate and distinct to warrant such treatment.

1st Respondent

- (f) The 1st Respondent does not have a clean record. In the most recent case, the 1st Respondent was reprimanded, fined HK\$150,000 and ordered to pay costs of HK\$2 million.

2nd Respondent

- (g) The 2nd Respondent was first registered with the HKICPA in 1976; he became a fellow member in 1984 and was first issued a practising certificate on 20 May 1986. He is currently a retired member of the HKICPA.
- (h) The 2nd Respondent was the Engagement Partner for the audits of Akai Group accounts from 1992 to 1999. The Engagement Partner is the senior member of the audit team and is ultimately responsible for ensuring the audits had been performed adequately. He is involved in planning the audit, considering important audit issues and approving the final Senior Review Memorandum. He is the person who signs the audit opinion on behalf of the 1st Respondent.

- (i) That the Second Respondent has an unblemished disciplinary record for the years he was registered as a certified public accountant.

3rd Respondent

- (j) The 3rd Respondent is currently a practising member of the HKICPA and a partner of the 1st Respondent. He was first registered as a HKICPA member in 1988 and issued with a practising certificate on 17 February 1998.
- (k) The 3rd Respondent joined the Akai audit team as a Senior Manager in 1992; was the Engagement Principal for the 1994 - 1997 audits and the Second Partner during the 1998 and 1999 Audits.
- (l) It is evident from the 1st Respondent's billing on the 3rd Respondent's hours spent in the Akai audits for the years in question that the 3rd Respondent was heavily involved in those audits. We take the view that being a member of the HKICPA and involved in the Akai audits as a member of the HKICPA, the 3rd Respondent's duty towards adhering to the professional standards and auditing standards as laid down by the HKICPA are separate and distinct from that of other members (albeit senior or otherwise) in the audit team. Hence, we do not accept that the 3rd Respondent should not be sanctioned simply because he was not the Engagement Partner for the audits in question, or that he was merely the engagement principal in the 1997 Audit and the Second Partner in the 1998 and 1999 Audits.
- (m) Moreover, the 3rd Respondent does not have a clean disciplinary record. In the *Global Trend Case*, the 3rd Respondent was reprimanded, fined HK\$35,000 and ordered to pay costs of HK\$550,000.

11. Accordingly, in relation to all the charges, we hereby order that:

- (a) The Respondents be reprimanded;
- (b) The 1st Respondent be fined HK\$200,000

- (c) The 2nd Respondent be fined HK\$100,000;
- (d) The 3rd Respondent be fined HK\$100,000; and
- (e) The Respondents do pay a sum of HK\$1,351,071 to the Complainant pursuant to s.35 PAO as costs for the present proceedings.

Dated the 10th day of April 2015