



Hong Kong Institute of Certified Public Accountants takes disciplinary action against a certified public accountant, a certified public accountant (practising) and a corporate practice

(HONG KONG, 7 July 2020) A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants reprimanded Mr. Fung Pui Cheung, certified public accountant (F01100), Mr. Lee Ping Kai, certified public accountant (practising) (F03719) and Pan-China (H.K.) CPA Limited (M0268) (collectively “Respondents”) on 22 May 2020 for their failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. The Committee also ordered that Fung, Lee and Pan-China pay a penalty of HK\$220,000, HK\$150,000 and HK\$400,000, respectively, and they jointly pay costs of the Institute and the Financial Reporting Council (“FRC”) totalling HK\$234,018.

Pan-China expressed unmodified auditor’s opinions on the consolidated financial statements of Richly Field China Development Limited, a Hong Kong listed company, and its subsidiaries (collectively “Group”) for the years ended 31 March 2011 and 2012. Fung was the engagement director in 2011 and Lee was the engagement director in 2012.

The Institute received a referral from the FRC about irregularities in the audits. The Group had agreed with a state-owned entity in China to undertake a construction project which was initially set to be completed by September 2011. From September 2011, the Group signed several revised agreements with the entity which extended the construction period and redefined the scope of work. The Group recognised the consideration received as deposit in advance, which was a liability, in the 2011 and 2012 financial statements.

In their audits, the Respondents relied on site inspections and management representations to conclude that the construction project was in an early stage and the cost incurred was immaterial. They did not obtain and review relevant survey reports, which were necessary for assessing the progress of the project. As a result, they failed to properly evaluate whether the construction project was accounted for in the financial statements in compliance with the requirements of Hong Kong Accounting Standard 11 *Construction Contracts*.

Separately, the Group engaged a financial consultancy firm for advisory service in 2010. In the financial statements, the cost of the service was recognized based on the amount paid rather than the amount accrued. In addition, the recognized cost was wholly capitalized in assets and no part of it was included in expenses. The Respondents failed to critically assess whether the Group’s approach to accounting for the cost of the advisory service complied with applicable accounting requirements.

In addition, the Group engaged two entities to assist in its investment activities in 2011, and made significant advances to those entities outside the normal course of business. In their audit, Fung and Pan-China failed to maintain adequate professional scepticism by

understanding the business rationale of the advances, and critically assessing whether the Group and the entities were related parties and whether the advances were recoverable.

After considering the information available, the Institute lodged a complaint under section 34(1)(a)(vi) of the Professional Accountants Ordinance (Cap 50).

The Respondents admitted the complaint against them. The Disciplinary Committee found as follows:

- (i) Fung and Pan-China failed or neglected to observe, maintain or otherwise apply the following professional standards:
 - Hong Kong Standard on Auditing (“HKSA”) 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*;
 - HKSA 240 *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*;
 - HKSA 500 *Audit Evidence*; and
 - HKSA 550 *Related Parties*.

- (ii) Lee and Pan-China failed or neglected to observe, maintain or otherwise apply the following professional standards:
 - HKSA 200;
 - HKSA 500; and
 - HKSA 705 *Modifications to the Opinion in the Independent Auditor’s Report*.

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. The Committee considered that the breaches were serious and warranted a deterrent sanction to convey the message that they would not be condoned. The Committee also considered that the disciplinary records of Fung and Pan-China indicated their repeated failures to comply with professional standards issued by the Institute.

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 45,000 members and 19,000 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:

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

Ms Rachel So
Head of Corporate Communications and Member Services
Phone: 2287-7085
Email: rachelso@hkicpa.org.hk



香港會計師公會對一名會計師、一名執業會計師及一間執業法團作出紀律處分

(香港，二零二零年七月七日) 香港會計師公會轄下一紀律委員會，於二零二零年五月二十二日就會計師馮培漳先生(會員編號：F01100)、執業會計師李炳佳先生(會員編號：F03719)及天健(香港)會計師事務所有限公司(「天健」；執業法團編號：M0268)(統稱「答辯人」)沒有或忽略遵守、維持或以其他方式應用公會頒佈的專業準則，對他們予以譴責。紀律委員會同時命令馮先生、李先生及天健須分別繳付罰款 220,000 港元、150,000 港元及 400,000 港元，以及共同繳付公會和財務匯報局(「財匯局」)的費用合共 234,018 港元。

天健曾就香港上市公司裕田中國發展有限公司及其附屬公司(統稱「該集團」)截至二零一一年及二零一二年三月三十一日止年度的綜合財務報表發表無保留的核數師意見。馮先生及李先生分別是二零一一年及二零一二年審計項目的執業董事。

公會收到財匯局的轉介，指有關審計項目有違規情況。該集團曾與內地一間國有企業協議開展一項建築項目，原本預計於二零一一年九月完工。由二零一一年九月起，該集團與該國有企業簽訂數份修訂協議以延長項目的建築期及重新界定工程範圍。該集團在二零一一年及二零一二年的財務報表內將已收取的工程付款確認為負債中的預收訂金。

進行審計時，答辯人基於現場視察及管理層的聲明，作出有關建築項目處於初期階段及尚未引致重大成本的結論。他們沒有獲取及審閱評估項目進度所需的測量報告。因此，他們沒有適當地評估該建築項目是否按照 Hong Kong Accounting Standard 第 11 號「Construction Contracts」的規定列入財務報表。

該集團另於二零一零年聘用了一間財務諮詢公司提供顧問服務。但有關服務費在財務報表以已支付數額而非應計數額確認。此外，該集團將已確認的服務費全數資本化為資產，當中沒有任何部份列為開支。答辯人沒有嚴謹地評估該集團的顧問服務費入賬方式是否遵從相關會計規定。

另外，該集團聘用了兩間公司協助其於二零一一年進行投資，並在正常業務範圍以外向該兩間公司預付了大額款項。在審計中，馮先生及天健沒有以應有的專業懷疑態度了解該等預付款項的商業理由，亦沒有嚴謹地評估該集團及該兩間公司是否屬關連人士以及有關預付款項可否收回。

公會考慮所得資料後，根據香港法例第 50 章《專業會計師條例》第 34(1)(a)(vi)條作出投訴。

答辯人承認投訴屬實。紀律委員會裁定：

- (i) 馮先生及天健沒有或忽略遵守、維持或以其他方式應用以下的專業準則：
- Hong Kong Standard on Auditing (「HKSA」) 200 「Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing」；
 - HKSA 240 「The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements」；
 - HKSA 500 「Audit Evidence」；及
 - HKSA 550 「Related Parties」。
- (ii) 李先生及天健沒有或忽略遵守、維持或以其他方式應用以下的專業準則：
- HKSA 200；
 - HKSA 500；及
 - HKSA 705 「Modifications to the Opinion in the Independent Auditor's Report」。

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)條向答辯人作出上述命令。委員會考慮到此個案違規的性質嚴重，因此認為有必要作出具阻嚇力的懲處以示該等違規行為不能容忍。委員會亦指馮先生及天健的紀律處分記錄顯示他們屢次違反公會頒佈的專業準則。

香港會計師公會的紀律處分程序

香港會計師公會致力維持會計界的最高專業和道德標準。公會根據香港法例第 50 章《專業會計師條例》及紀律委員會訴訟程序規則，成立獨立的紀律委員會，處理理事會轉介的投訴個案。委員會一旦證明對公會會員、執業會計師事務所會員或註冊學生的檢控屬實，將會作出適當懲處。若答辯人未有提出上訴，紀律委員會的裁判將會向外公佈。

詳情請參閱：

<http://www.hkicpa.org.hk/en/standards-and-regulations/compliance/disciplinary/>

- 完 -

關於香港會計師公會

香港會計師公會是根據《專業會計師條例》成立的法定機構，負責培訓、發展和監管本港的會計專業。公會會員超過 45,000 名，學生人數逾 19,000。

公會開辦專業資格課程，確保會計師的入職質素，同時頒佈財務報告、審計及專業操守的準則，以鞏固香港作為國際金融中心的領導地位。

CPA 會計師是一個獲國際認可的頂尖專業資格。公會是全球會計聯盟及國際會計師聯合會的成員之一，積極推動國際專業發展。

香港會計師公會聯絡資料：

何玉淳女士

公共關係經理

直線電話：2287-7002

電子郵箱：gemmaho@hkickpa.org.hk

蘇煥娟女士

企業傳訊及會員事務主管

直線電話：2287-7085

電子郵箱：rachelso@hkickpa.org.hk

IN THE MATTER OF

A Complaint made under section 34(1A) of the Professional
Accountants Ordinance (Cap. 50)

BETWEEN

The Registrar of the Hong Kong Institute of COMPLAINANT
Certified Public Accountants

AND

Mr. FUNG Pui Cheung (F01100) 1ST RESPONDENT
Mr. LEE Ping Kai (F03719) 2ND RESPONDENT
Pan-China (H.K.) CPA Limited (M0268) 3RD RESPONDENT

Before a Disciplinary Committee of the Hong Kong Institute of Certified
Public Accountants

Members: Ms. CHAN Ka Man, Margaret (Chairman)
 Ms. CHAN Wai Kam, Caroline
 Mr. FUNG Wei Lung, Brian
 Mr. LI Peter Po-ting

ORDER AND REASONS FOR DECISION

1. This is a complaint made by the Registrar of the Hong Kong Institute of Certified Public Accountants (“**the Institute**”) against Mr. Fung Pui Cheung (“**1st Respondent**”), Mr. Lee Ping Kai (“**2nd Respondent**”) and Pan-China (H.K.) CPA Limited (“**3rd Respondent**”), a corporate practice (collectively the “**Respondents**”).
2. On 23 August 2019, the Complainant submitted a complaint (“**the Complaint**”) to the Council of the Institute on the basis that the Respondents failed or neglected to observe, maintain or otherwise apply professional standards under section 34(1)(a)(vi) of the Professional Accountants Ordinance (“**PAO**”). The particulars of the Complaint as set out therein are as follows:

Background

3. The Complaint concerned auditing irregularities in the consolidated financial statements of Richly Field China Development Limited (“**Company**”) and its subsidiaries (“**the Group**”) for the years ended 31 March 2011 (“**2011 Financial Statements**”) and 31 March 2012 (“**2012 Financial Statements**”), both of which were audited by the 3rd Respondent, whilst the 1st Respondent and 2nd Respondent were respectively the engagement director for the audit of the 2011 Financial Statements (“**2011 Audit**”) and 2012 Financial Statements (“**2012 Audit**”).
4. The Company was incorporated in the Cayman Islands and re-located to Bermuda with limited liability with its shares listed on the Main Board of the Stock Exchange of Hong Kong Limited (stock code: 00313). The Company’s principal activities included property development, property management, building construction and maintenance.

5. The 2011 and 2012 Financial Statements were stated to have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Institute. In the auditor's report of the 2011 and 2012 Financial Statements, it was stated that the respective audit was conducted in accordance with the Hong Kong Standards on Auditing (“HKSA”).
6. The 3rd Respondent expressed an unmodified opinion in the auditor’s report on the 2011 Financial Statements, and an unmodified opinion on the 2012 Financial Statements with an emphasis of matter paragraph relating to the material uncertainty on the Group’s ability to continue as a going concern.
7. In the 2012 Financial Statements, retrospective restatements were made to correct the errors in the 2011 Financial Statements, namely:
 - (1) Understatement of consultancy fee; and
 - (2) Improper classification of an advance to a related company.
8. In the Company’s financial statements for the year ended 31 March 2013, which was audited by another auditor, retrospective restatements were made to correct errors in respect of:
 - (1) Understatement of construction revenue and the associated costs reported in the 2011 and 2012 Financial Statements; and
 - (2) Improper capitalization of consultancy fee reported in the 2011 and 2012 Financial Statements.
9. Upon investigation by the Audit Investigation Board (“AIB”) of the Financial Reporting Council (“FRC”), irregularities were found in the audit procedures performed by the 3rd Respondent in the 2011 and 2012 Audits on (i) a construction agreement for a PRC construction project

and (ii) a consultancy service agreement in respect of the PRC construction project. The AIB also found irregularities in the 3rd Respondent's audit procedures on the advances made by the Company to certain third parties.

10. On 9 November 2018, the FRC referred to the Institute a report of the AIB pursuant to section 9(f) of the FRC Ordinance, Cap.588.

The Complaints

Complaint 1: Against 1st Respondent and 3rd Respondent

11. Section 34(1)(a)(vi) applies to the 1st Respondent and, through section 34(1AA) of the PAO, applies to the 3rd Respondent, that they failed or neglected to observe, maintain or otherwise apply professional standards in respect of the 2011 Audit.

Complaint 2: Against 2nd Respondent and 3rd Respondent

12. Section 34(1)(a)(vi) applies to the 2nd Respondent and, through section 34(1AA) of the PAO, applies to the 3rd Respondent, that they failed or neglected to observe, maintain or otherwise apply professional standards in respect of the 2012 Audit.

Facts and Circumstances in Support of Complaint 1

The Construction Agreement

13. The Company had entered into a construction agreement (“**Construction Agreement**”) with a state-owned entity to provide construction services

for some of the infrastructure and supporting facilities (“**PRC Project**”) relating to the outlets and ancillary residential project in Changsha, Hunan Province, the PRC. The Construction Agreement was at a total consideration of RMB 251.5 million. The construction was to be carried out from 18 March 2010 to 17 September 2011.

14. As at 31 March 2011, the consideration received by the Company for the PRC Project amounted to RMB 218 million (equivalent to approximately HK\$258.8 million). This amount was included in other payables as deposit received in advance for the PRC Project as at 31 March 2011, representing 28% of the consolidated net assets of the Group.
15. The working papers show that the risk of material misstatement in relation to the deposit received for the PRC Project was assessed as high. During the 2011 Audit, the auditor performed site inspection and concluded that the construction work for the PRC Project had not yet begun. The auditor accepted the management's representations that only an insignificant amount of work had been performed and the cost incurred in 2011 for the PRC Project was immaterial.
16. According to the Construction Agreement, the scope of the construction covered the earth work and the drainage work which could not be easily identified by observation through site inspection.
17. However, apart from the site observation and the reliance on management's representations, there was no evidence that the auditor had performed other audit procedures, for instance, obtaining a survey report for the PRC Project or engaging an expert to assess the progress of the construction.

18. Further, the relevant terms of the Construction Agreement showed that the PRC Project was planned to be carried out during 18 March 2010 to 17 September 2011 such that the agreement would have had run two-thirds of its expected duration as at 31 March 2011. If the PRC Project was still in the early stage by then, the auditor should have considered and assessed (i) whether the Company was able to complete the PRC Project within the contract period; and (ii) the implication of any delay in completing the PRC Project (e.g. liquidated damages and the like). Yet, the auditor failed to carry out this critical assessment to ensure that the Construction Agreement was properly accounted for in the 2011 Financial Statements.

19. As such, the auditor failed to perform sufficient procedures to support the conclusion that the Company had complied with Hong Kong Accounting Standard (“HKAS”) 11 “Construction Contracts” in respect of the recognition of profit or loss relating to the Construction Agreement. As a result, the auditor failed to obtain reasonable assurance that the 2011 Financial Statements were free from material misstatement. The 3rd Respondent and 1st Respondent are considered to have failed to comply with paragraph 11 of HKSA 200 and paragraph 6 of HKSA 500.

Consultancy Service Agreement

20. The Company had engaged a consultancy firm to provide financial consultancy service to the Group during the period from 1 June 2010 to 15 October 2010 at a consideration of RMB 20 million (equivalent to approximately HK\$23.7 million) (“**Consultancy Service Agreement**”).

21. The working papers show that the Company had recorded a late accounting adjustment in respect of a consultancy fee payment of RMB

5 million (HK\$5.8 million) that was capitalized in the 2011 Financial Statements. That amount represented the consultancy fee paid by the Company during 2011.

22. Since this late adjustment was an unusual (non-recurrent) entry recorded by the Company near the end of the reporting period, the auditor should have performed proper audit procedures to test the appropriateness of the entry by reviewing the Consultancy Service Agreement and the relevant terms and conditions in accordance with paragraphs 32 and A43 of HKSA 240.
23. However, there was no evidence that the auditor had performed audit procedures on this unusual entry. In its representation to the AIB, the auditor stated that the Consultancy Service Agreement was not selected for review as the amount of HK\$5.8 million recognized in the 2011 Financial Statements was not material.
24. Nonetheless, it is not an acceptable explanation because the minutes of the directors' meeting showed that the Company's directors had approved the consultancy service engagement in May 2010. Had the auditor diligently inspected the directors' meeting minutes, they would have been aware of the consultancy service, including the contracted amount of HK\$23.7 million (audit materiality being HK\$15.5 million) and the whole service was completed in the year ended 31 March 2011 (service period was up to 15 October 2010).
25. Further, the auditor would have realized that the Company's treatment on the subject consultancy fee did not comply with HKAS 1 (Revised) "Presentation of Financial Statements" as it did not recognize the consultancy fee on an accrual basis. According to the working papers,

the Company recognized the consultancy fee to the extent of payment made but omitted to account for the remaining unpaid balance of RMB 15 million (equivalent to approximately HK\$17.9 million) despite the consultancy service was completed in October 2010.

26. The above evidence demonstrated that the auditor had failed to perform sufficient procedures to ascertain that the subject consultancy fee was properly accounted for in the 2011 Financial Statements and thus failed to obtain reasonable assurance that the 2011 Financial Statements were free from material misstatements.
27. Based on the above, the 3rd Respondent and the 1st Respondent failed to comply with paragraphs 32 and A43 of HKSA 240, paragraph 11 of HKSA 200 and paragraph 6 of HKSA 500.

Advances to Third Parties

28. During the year ended 31 March 2011, the Company made advances to two entities (i.e. Agent A and Agent B) which were engaged to identify investment opportunities of property development projects in the PRC. As at 31 March 2011, advances were made to the said entities totalling RMB 72.2 million (equivalent to approximately HK\$86 million), representing 9.3% of the Group's consolidated net assets.
29. The terms of the loan agreements for the advances show that the advance to Agent A was interest-free provided that Agent A could successfully refer investment opportunities to the Company. The advance to Agent B however was interest-bearing and subject to a condition that Agent B was required to provide a feasibility study report and a report on investment estimate for the potential investment project to the Company by a certain

date.

30. Making advances to the two entities for the provision of service (sourcing investment opportunities) was an unusual practice and outside the normal course of the Company's business. The unusual nature and the amounts involved in the arrangements should heighten the need for professional skepticism and the auditor should have obtained an understanding of the business rationale of the arrangements. They should have also questioned the reasons for providing such a significant amount of money to these entities as a loan (as opposed to paying an agreed service fee) and the Company's relationship with these two entities especially given the more favourable terms afforded to Agent A.
31. The auditor reviewed the loan agreements with Agents A and B. In its representation to AIB, the auditor stated that they had attempted to perform company search on Agent A but to no avail as the registration details of the companies in Hainan area were restricted at the relevant time. Therefore, they requested the Company's management to provide them with a report with details of the entities' directors and shareholders generated from the website of Hainan Province Administration Bureau for Industry and Commerce.
32. However, the report from the Hainan Province authority, as provided by the Company's management, did not contain details of entities' directors and shareholders. Nevertheless, the auditor accepted the information and did not perform further procedures to ascertain the relationship between the Company and the entities. Based on the abovementioned documents provided by the Company and management's representations, the 3rd Respondent concluded that Agent A and Agent B were independent to the Group.

33. The above evidence indicated that the auditor had failed to critically assess the Company's relationship with the entities when inspecting the loan agreements. They also failed to perform other procedures to obtain independent and corroborative evidence to support their conclusion that the entities were not related parties.
34. In addition, whilst they had obtained a credit assessment report for Agent B, there was no evidence that the auditor had performed procedures to evaluate the recoverability of the advance to Agent A as at year end date.
35. Based on the above, the 3rd Respondent and the 1st Respondent failed to comply with paragraph 6 of HKSA 500 and paragraph 15 of HKSA 550 in evaluating the relationship between the Group and the advanced entities and the recoverability of the advance to Agent A in the 2011 Audit.

Facts and Circumstances in Support of Complaint 2

Construction Agreement

36. As at 31 March 2012, the consideration received by the Company for the PRC Project amounted to RMB 218 million (equivalent to approximately HK\$271.6 million), representing 32% of the Group's consolidated net assets. Such amount included in other payables as deposit received in advance for the PRC Project as at 31 March 2012.
37. The working papers show that the risk of material misstatement in relation to the deposit received for the PRC Project was assessed as high. However, the auditor had performed site inspection and continued to rely

on the management's representations that the construction work for the PRC Project was still at the early stage and the cost incurred for the PRC Project was insignificant as at 31 March 2012.

38. In September 2011, the Company signed a supplementary agreement to extend the construction period. In July 2012, the Company reached an agreement with the state-owned entity to further redefine the scope of the work for the PRC Project and extend the construction period to 30 June 2014. With the redefinition of the working scope, the Company could have been in a position to make a reliable estimation on the work that was performed and to recognize the contract revenue and the associated cost in accordance with HKAS 11.
39. Nonetheless, the 3rd Respondent only relied on management's representations about the status of the contract without performing additional audit procedures such as engaging an expert to assess the progress and expected outcome of the construction, in order to ascertain whether the Company's recognition of the construction contract was in compliance with HKAS 11.
40. Based on the above, the auditor failed to perform sufficient procedures to support the conclusion that the Company had complied with HKAS 11 and thereby failed to obtain reasonable assurance that the 2012 Financial Statements were free from material misstatements. As a result, the 3rd Respondent and the 2nd Respondent have failed to comply with paragraph 11 of HKSA 200 and paragraph 6 of HKSA 500.
41. Besides, the working papers documented that the Company did not keep separate records for the cost incurred relating to the PRC Project. The lack of records for the PRC Project had resulted in a limitation on the

audit scope in that no audit procedures could be performed to verify the cost incurred for the PRC project.

42. As such, the auditor failed to assess the implication due to the limitation imposed by the Company and thus the 3rd Respondent and 2nd Respondent failed to comply with paragraph 6 of HKSA 705.

Consultancy Service Agreement

43. As at 31 March 2012, a consultancy fee of RMB 20 million (equivalent to approximately HK\$25 million) for the PRC Project was capitalized in investment properties and properties under development for sale. The auditor accepted the capitalization of the cost on the basis of management's representations that the consultancy fee was a direct cost attributable to the construction of the properties.
44. According to the Consultancy Service Agreement, the services provided by the consultancy firm included the provision of financial consultancy services and advice to the Company on marketing and financing strategies for the PRC Project. The nature of these costs was not directly attributable to making the assets operational in the manner intended by management. As such, part of these costs should not be capitalized in accordance with HKAS 2 "Inventories" and HKAS 16 "Property, Plant and Equipment".
45. There was no evidence that the auditor had performed procedures to critically assess whether the consultancy fee for the PRC Project was eligible for capitalization and whether the recognition of the consultancy fee was in compliance with HKAS 2 and HKAS 16. As a result, the

auditor failed to perform audit procedures to obtain sufficient appropriate audit evidence to substantiate the appropriateness of capitalization.

46. On the above basis, the 3rd Respondent and 2nd Respondent failed to comply with paragraph 11 of HKSA 200 and paragraph 6 of HKSA 500.

The Proceedings

47. By letters signed by the parties dated 11 October 2019, the parties requested that the steps set out in rules 17 to 30 of the Disciplinary Committee Proceedings Rules be dispensed with and that the complaint be disposed on the basis of the admissions made by the Respondents.
48. Based on the findings above, which are not disputed by the Respondents, and their admissions of the complaints, the Committee finds Complaint 1 proved against the 3rd Respondent and 1st Respondent and Complaint 2 proved against the 3rd Respondent and 2nd Respondent.
49. The Committee approved the parties' proposal and directed the parties to provide written submissions on sanctions and costs by 19 February 2020.
50. The Complainant submitted its written submissions on sanctions and costs on 18 February 2020 ("**Complainant's Submissions**").
51. The 2nd Respondent and 3rd Respondent by their respective letters both dated 19 February 2020 informed the Committee that they had no submission on sanctions and costs, whilst the 1st Respondent by his letter

dated 12 February 2020 referred to his previous letter dated 15 July 2019 but made no further submission.

52. On 27 February 2020, i.e. after the deadline for the parties' submissions on sanctions and costs, the 1st Respondent attempted to file his further submissions ("**1st Respondent's Further Submissions**") but did not apply for leave or offer any justification for the late submissions.
53. In consequence, on 9 March 2020 the Committee directed the Complainant to provide a written response on the 1st Respondent's Further Submissions.
54. Having considered the Complainant's submissions dated 11 March 2020 and in view of absence of explanation or justification for the late submissions from the 1st Respondent, and further to ensure the procedural fairness between the parties, leave was not granted for the 1st Respondent to file his Further Submissions out of time.
55. In the meantime, the parties expressed their no-objection to the Complaint being dealt with in the absence of one Disciplinary Committee member.

The Parties' Submissions

56. In the Complainant's Submissions, the Complainant brought to the Committee's attention the Respondents' prior disciplinary records:
 - (1) In D-16-1203F (December 2018), the 1st Respondent had been found guilty of breach of multiple professional standards concerning a number of significant areas in the 2010 audit of a listed company. The 1st Respondent as the engagement director

for the subject audit was reprimanded and fined HK\$50,000, having considered that it was his first-time offence. The 3rd Respondent, being the auditor of the subject audit, was also a respondent in that case for which it was reprimanded and fined HK\$250,000.

- (2) The 3rd Respondent had been found guilty of breach of professional standards in four past disciplinary cases including the aforesaid case of D-16-1203F. All four cases involved audits of listed companies with three of which concerned audits that took place in or before the audit periods in these proceedings. Based on the past disciplinary orders, the level of financial penalty against the 3rd Respondent had increased from HK\$50,000 in 2015 to HK\$250,000 in 2018.
- (3) The 2nd Respondent does not have prior disciplinary record.

57. The Complainant submits that, for the 1st Respondent and 3rd Respondent, this is a case of persistent failure to comply with professional standards, given their prior disciplinary records.
58. Further, as pointed out by the Complainant, it is noted that the complaints concerned a listed company and therefore has a high degree of public interest. The complaints also involved multiple breaches of standards and audit areas of substantial amounts.
59. As aforesaid, the 2nd Respondent and 3rd Respondent made no submission on sanctions and costs. The 1st Respondent invites the Committee to consider the facts, *inter alia*, that he is of an advanced age and he had sought not to practise since the expiry of his practising certificate on 31 December 2018.

Decision and Order

60. In determining the appropriate sanctions to be imposed, the Committee notes that it has a wide discretion on the sanctions and has borne in mind the relevant provisions in the Guideline to Disciplinary Committee for Determining Disciplinary Orders. It is further noted that the Committee is not bound by decisions of a previous committee and that it is for the Committee to determine the appropriate penalty having regard to the specific features of each case.
61. It is the Committee's view that the gravity and serious nature of the complaints warrant a deterrent sanction with a view to conveying a clear message to the Respondents and the profession in general that non-compliances by accountancy professionals should not and would not be condoned.
62. In considering the appropriate sanctions, the Committee agrees with the Complainant that the past disciplinary records of the 1st Respondent and 3rd Respondent, together with the present complaints, all concerning audits for listed companies and involving breach of multiple professional standards, show their repeated failures to comply with professional standards.
63. Having considered the aforesaid matters, including all relevant facts of the complaints, the parties' conduct throughout the proceedings including the Respondents' admissions of the complaints, the parties' submissions, the Respondents' personal circumstances and their relevant disciplinary records, the Committee takes the view that a financial penalty of HK\$220,000 as against the 1st Respondent, HK\$150,000 as

against the 2nd Respondent and HK\$400,000 as against the 3rd Respondent would be appropriate.

64. As for costs, the total sum of HK\$234,018 as per the Statement of Costs submitted by the Complainant, including costs incurred by FRC in the sum of HK\$162,824 and costs of the Clerk to the Committee in the sum HK\$6,002, is considered to be reasonably and necessarily incurred.

65. The Committee hereby orders that:

- (1) The Respondents be reprimanded under section 35(1)(b) of the PAO;
- (2) The 1st Respondent do pay a penalty of HK\$220,000 pursuant to section 35(1)(c) of the PAO;
- (3) The 2nd Respondent do pay a penalty of HK\$150,000 pursuant to section 35(1)(c) of the PAO;
- (4) The 3rd Respondent do pay a penalty of HK\$400,000 pursuant to section 35(1)(c) of the PAO; and
- (5) The Respondents do jointly and severally pay the costs and expenses in relation or incidental to the investigation incurred by the FRC in the sum of HK\$162,824 under section 35(1)(d)(ii) of the PAO and the costs and expenses of and incidental to the proceedings of the Complainant (including costs of this Committee) in the sum of HK\$71,194 under section 35(1)(iii) of the PAO.

Dated the 22nd day of May 2020.



Ms. CHAN Ka Man, Margaret
Chairman

Mr. FUNG Wei Lung, Brian
Member

Ms. CHAN Wai Kam, Caroline
Member

Mr. LI Peter Po-ting
Member