



Dear Assignment / News / Business Section Editor

## **Hong Kong Institute of Certified Public Accountants takes disciplinary action against a certified public accountant (practising) and a firm of certified public accountants**

(HONG KONG, 27 June 2014) — A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants reprimanded Wong Yat Fai (membership number A04118) and Ernst & Young (firm number 0422) on 17 June 2014 for their failure or neglect to observe, maintain or otherwise apply a professional standard issued by the Institute, and ordered Wong and Ernst & Young to pay a penalty of HK\$35,000 and HK\$50,000 respectively to the Institute. In addition, they were ordered to pay costs of the disciplinary proceedings of HK\$550,000.

Ernst & Young was the reporting accountant for the listing of a company in Hong Kong in June 2002. It also issued an unmodified auditors' report on the company's financial statements for the year ended 31 December 2002. Wong was the engagement partner. In June 2003, the shares of the company were suspended from trading and the ICAC carried out investigations into the company for suspected irregularities. In September 2004, two members of the company's top management were convicted in the District Court for conspiring to use false business documents. The company was delisted by the Stock Exchange of Hong Kong in 2005.

An Investigation Committee was set up under the Professional Accountants Ordinance to investigate the work carried out by Ernst & Young as the company's reporting accountant and auditor. Upon investigation and having considered the information available, the Investigation Committee lodged a complaint against Wong and Ernst & Young under section 34(1)(a)(vi) of the ordinance.

The Disciplinary Committee found, on the admission by Wong and Ernst & Young, that they failed or neglected to observe, maintain or otherwise apply Statement of Auditing Standards 230 "*Documentation*" in their audit of the company's financial statements for the year ended 31 December 2002. They did not document in the working papers the audit procedures adopted for maintaining control over the external confirmation exercise and for reaching an audit conclusion regarding the existence and valuation of deferred development cost of a project amounting to HK\$40 million.

Having taken into account the circumstances of the case, the Disciplinary Committee made the above order against Wong and Ernst & Young under section 35(1) of the ordinance.

Under the ordinance, if Wong and Ernst & Young are aggrieved by the order, they may give notice of an appeal to the Court of Appeal within 30 days after they are served the order.

The order and findings of the Disciplinary Committee are available at the Institute's website under the "Compliance" section at [www.hkicpa.org.hk](http://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.

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### **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 37,000 members and 17,000 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名執業會計師及一間會計師事務所作出紀律處分

(香港，二零一四年六月二十七日) — 香港會計師公會轄下一紀律委員會於二零一四年六月十七日就黃日輝先生 (會員編號：A04118)及安永會計師事務所(事務所編號：0422)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，對他們作出譴責，並命令黃先生及安永會計師事務所須分別繳付罰款三萬五千港元及五萬港元予公會。此外，他們亦須支付紀律程序的費用共五十五萬港元。

安永會計師事務所為一間公司於2002年6月在香港上市的申報會計師，並就該公司截至2002年12月31日的財務報表發出無保留意見的核數師報告。黃先生為項目合夥人。在2003年6月期間，該公司的股票暫停買賣，而廉政公署亦就該公司的涉嫌不當行為展開調查。公司的兩位最高管理層成員於2004年9月被區域法院裁定串謀使用虛假商業文件罪名成立。公司於2005年被香港聯交所除牌。

公會按《專業會計師條例》成立一個調查委員會調查安永會計師事務所作為該公司的申報會計師及核數師所執行的工作。經調查後及考慮所得的資料，調查委員會根據條例第34(1)(a)(vi)條對黃先生及安永會計師事務所作出投訴。

黃先生及安永會計師事務所承認指控屬實，紀律委員會裁定他們於審核該公司2002年12月31日的財務報表時沒有或忽略遵守、維持或以其他方式應用公會的專業準則 "Statement of Auditing Standard 230 Documentation"。他們沒有在工作底稿紀錄部份審計步驟，該等步驟是用以控制對外確認通函的程序及支持對一項四千萬港元的遞延開發成本的存在和估值作出的審計結論。

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)條向黃先生及安永會計師事務所作出上述的命令。

根據《專業會計師條例》，如黃先生及安永會計師事務所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。

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## 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，會員人數超過三萬七千，註冊學生人數逾一萬七千。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) ("PAO") and referred to the Disciplinary Committee under section 33(3) of the PAO

BETWEEN

An Investigation Committee of the Hong Kong Institute of Certified Public Accountants

COMPLAINANT

AND

Mr. Wong Yat Fai  
(Membership No. A04118)

FIRST  
RESPONDENT

Ernst & Young  
(Firm No. 0422)

SECOND  
RESPONDENT

Members: Ms. Ismail Roxanne SC (Chairman)  
Ms. Carver Anne Rosamunde  
Ms. Lee Wai Yan Susanna  
Mr. Fulton James Taylor  
Mr. Fung Ying Wai Wilson

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**ORDER AND REASONS FOR DECISION**

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1. This is a complaint made by an Investigation Committee of the Hong Kong Institute of Certified Public Accountants ("**the Institute**") as Complainant against the Respondents, Mr. Wong Yat Fai, a certified public accountant (practising) and Ernst & Young, a firm of certified public accountants. Section 34(1)(a)(vi) of the PAO applied to the Respondents.
2. The complaints as set out in a letter dated 10 January 2013 ("**Complaints**") from the Investigation Committee of the Institute to the Registrar of the Institute were as follows:-
  - (a) First Complaint - Section 34(1)(a)(vi) of the PAO applies to the Respondent in that they failed or neglected to observe, maintain or otherwise apply Statement of Auditing Standards ("**SAS**") 402.5 because, when performing the external confirmation procedures on the

Global Trend Group's suppliers overseas and banks in mainland China, they failed to maintain control over the preparation and sending of the confirmation requests and the responses to those requests.

- (b) Second Complaint - As an alternative to the First Complaint, section 34(1)(a)(vi) of the PAO applies to the Respondents in that they failed or neglected to observe, maintain or otherwise apply SAS 230.1 because they failed to document the procedures adopted for the purposes of maintaining control over the preparation and sending of the confirmation requests and the responses to those requests which were important in providing evidence to support their audit opinion.
  - (c) Third Complaint - Section 34(1)(a)(vi) of the PAO applies to the Respondents in that they failed or neglected to observe, maintain or otherwise apply SAS 400.1 because they did not obtain sufficient appropriate evidence on which they could reasonably draw their unqualified conclusion regarding the existence and valuation of the deferred development cost of the IVSS project amounting to HK\$40,857,000 at 31 December 2002.
  - (d) Fourth Complaint - As an alternative to the Third Complaint, section 34(1)(a)(vi) of the PAO applies to the Respondents in that they failed or neglected to observe, maintain or otherwise apply SAS 230.1 because they failed to document those procedures they followed when reaching their unqualified conclusion regarding the existence and valuation of the deferred development cost of the IVSS project amounting to HK\$40,857,000 at 31 December 2002 which were important in providing evidence to support their audit opinion.
3. On 23 October 2013, the Disciplinary Committee issued a Notice of Commencement of Proceedings, enclosing a procedural timetable and a full set of the complaint documents to the parties.
4. The parties made a joint request for variation of procedures to the disciplinary proceedings on 4 December 2013. The Respondents admit the Second Complaint and the Fourth Complaint aforementioned. They do not dispute the facts as set out in the Respondents' admitted facts attached to the letter dated 4 December 2013. The background leading to the complaints were as follows:
- (a) Global Trend Intelligent Technologies Limited (" Global Trend ") was registered in the Cayman Islands on 14 August 2001 and listed on the Main Board of the Stock Exchange of Hong Kong on 28 June 2002 (Stock Code 691). It was principally engaged in (i) the provision of advisory and management services and the distribution of hardware and software for intelligent building projects in the PRC; and (ii) the trading of intelligent building equipment, software and accessories in the PRC.

- (b) The Second Respondent, a firm of certified public accountants (practising) registered with the Institute (Firm No. 0422), was the reporting accountant in respect of Global Trend's IPO. The Second Respondent issued an unqualified Accountants' Report dated 18 June 2002 for the purposes of Global Trend's IPO. The responsible engagement partner was the First Respondent. The Second Respondent was also appointed auditor in respect of Global Trend's financial statements for the year ended 31 December 2002 ("2002 Financial Statements").
- (c) On about 1 April 2003 during the course of the audit of the 2002 Financial Statements, an anonymous letter dated 31 March 2003 was sent to the Second Respondent, copied to the Commercial Crime Bureau and the Independent Commission Against Corruption (the "ICAC"). The anonymous letter alleged that the First Respondent and another staff member of the Second Respondent had committed certain irregularities during Global Trend's IPO process. In response, the Second Respondent established a special task force to look into the matter. After undertaking specific procedures, the task force concluded that the allegations set out in the anonymous letter could not be substantiated. The Second Respondent proceeded with the audit of the 2002 Financial Statements with Mr. Wong as the engagement partner. On 28 April 2003, the Second Respondent issued an unqualified audit report in relation to the 2002 Financial Statements.
- (d) On 1 September 2004, following Investigations by the ICAC, the Chairman and an executive director of Global Trend were convicted in the District Court of conspiring to use false business documents in connection with Global Trend. The Financial Controller of Global Trend, Mr. L, and other employees were granted immunity from prosecution in return for giving evidence.
- (e) The shares of Global Trend were suspended from trading since 9 June 2003. Global Trend was delisted in March 2005.
- (f) On 10 June 2003, the Council of the Institute resolved to set up an Investigation Committee (the "IC") to look into the work performed in relation to Global Trend by the Second Respondent and the conduct of Mr. L, who was a Certified Public Accountant. The initial directions to the IC related to the IPO. The directions were subsequently extended in December 2008 to include the audit of the 2002 Financial Statements. In December 2011, Mr. L admitted to a disciplinary committee that he had been guilty of dishonourable conduct.

- (g) On 15 November 2011, the IC issued a report of its findings in relation to the Respondents, "Report of the Investigation Committee relating to Global Trend Intelligent Technologies Limited (in so far as it concerns Ernst & Young and its engagement partner)" (the "IC Report"). In the IC Report, the IC concluded that, were complaints to be made against the Respondents under section 34(1)(a)(vi) of the Professional Accountants Ordinance (the "PAO") that they failed or neglected to observe, maintain or otherwise apply a professional standard, EYHK and Mr. Wong would each have a case to answer.
  - (h) The IC, however, did not find that any member of EYHK had been involved in the irregularities perpetrated in relation to Global Trend's IPO process and the 2002 Financial Statements.
  - (i) The working papers regarding the 2002 audit were seized by the ICAC to assist with their investigations. The Second Respondent asserted that some of the working papers were missing from the audit files returned to the firm by the ICAC. A letter from EYHK to the IC dated 16 February 2011 indicated that the ICAC made no formal response to EYHK's request for the missing working papers. As a result, there is an issue whether the IC did have a full set of the working papers when preparing the IC Report although the IC was not aware that the potentially missing working papers would have affected the evidential basis on which its findings and conclusions were made.
5. As agreed by the parties, the Disciplinary Committee sets out its direction on 14 February 2014 that:
- a) The First and Third Complaints (which are not admitted) will remain on the Institute's record and are not to be proceeded with unless any of the Respondents at any time withdraw their admissions in respect of the respective alternative complaints.
  - b) in respect of the Second and Fourth Complaints,
    - i) the Disciplinary Committee agrees to the parties' proposal to dispense with the steps as set out in Rules 17 to 30 of the DCPR in light of the admissions made by the Respondents.
    - ii) the Disciplinary Committee agrees to waive steps 1 to 7 of the Procedural Timetable dated 23 October 2013.
    - iii) the Complainant and the Respondents are to make written submissions to the Disciplinary Committee as to the sanctions and costs which should be imposed by the Disciplinary Committee pursuant to Rule 31 of the Disciplinary Committee Proceedings Rules.



6. The Respondents filed joint submissions dated 21 March 2014. The Complainant filed submissions dated 24 March 2014.
7. The Respondents rely by way of mitigation on their admission of the complaints, the “relatively minor” nature of the admitted complaints, the improved documentation mechanism within EY and submit that the sanction should be a reprimand, and if there is any penalty it should be imposed on EY alone as Mr. Wong has endured significant pressure and strain as a result of the investigation and complaint. They also express remorse.
8. In asserting that the admitted complaints are relatively minor in nature, the Respondents also assert that, whilst they accept there were breaches of SAS 230.1 for failing to document certain audit procedures, they should be judged by the prevailing practice of auditors in 2003 rather than the practice at the time of the IC investigation in 2011 or today. It is asserted that it was not common practice among auditing firms in 2003 to record the finer aspects of the procedures applied for conducting the external confirmation process. There is no evidence to support the Respondents’ assertions of the prevailing practice in 2003. In any event, it is no answer to a finding of inadequate compliance with a professional standard to barely assert that other auditing firms were similarly culpable. The Disciplinary Committee agrees with the Complainant that documentation is an important part of the audit process, as it serves to explain the procedures performed and their outcome.
9. The Disciplinary Committee has regard to the fact that the auditing deficiencies were in respect of the financial statements of a listed company. Further, EY gave an unqualified audit report on 28 April 2003, but the trading of the shares was suspended on 9 June 2003, and members of management were convicted on 1 September 2004 of conspiracy to use false business documents. There is no suggestion of the Respondents having been involved in any dishonest activities of the company’s management. However, it is precisely because of the potential for such dishonest activities by management that compliance with proper auditing procedures is so important, particularly in the context of public companies. No information is provided to the Disciplinary Committee as to the extent to which proper auditing documentation by the Respondents might have disclosed the company’s irregularities, nor the extent of any losses suffered by reason of the unqualified audit report. In the absence of such information, the Disciplinary Committee does not treat the unqualified auditing report in the context of dishonest management activities as an aggravating factor, but in the context, it does not regard the admitted auditing deficiencies as “minor”.

10. The Respondents assert that EY has over the years reviewed and improved its auditing practices, including the introduction of an electronic audit tool in 2007-2008 for better planned and structured audit documentation, and such improved practices have helped to address the inadequacies identified in the admitted complaints. This is noted.
11. The Respondents assert that they (particularly Mr. Wong) have endured significant strain and pressure as a result of the investigation and complaint. No further detail is provided. The Disciplinary Committee acknowledges that dealing with an investigation and/or complaint is always likely to be stressful. However, where the investigation and complaint are justified (as evidenced by the admissions), a certain amount of strain and pressure inherent in the proceedings which follow is to be expected and is self-inflicted. This cannot alone be regarded as a mitigating factor.
12. Mr. Wong has no prior disciplinary record.
13. The Disciplinary Committee notes that the Second Respondent does not have a clear disciplinary record, but was the subject of an order on 18 March 2014, which order and the reasons for decision have been supplied at the request of the Disciplinary Committee. That case concerned the failure to apply different professional standards in the preparation and issuance of accounts and the audit of financial statements, in concurring with the wrong calculation of EPS. (In that matter, the individual practitioner respondent had already been sanctioned by the Second Respondent, and this may have been relevant when the relevant disciplinary committee in that case decided to order a penalty against only the Second Respondent).
14. The purpose of ordering a penalty is to serve as a deterrent, not compensation. There is no reason in this case why a deterrent is not appropriate for both Respondents. The amount of penalty required to serve as a deterrent may well differ between respondents.
15. The Disciplinary Committee further notes that the Respondents do not oppose the costs order sought by the Complainant in respect of the costs of the investigation and the disciplinary proceedings.
16. In considering the proper order to be made in this case, the DC has had regard to all the aforesaid matters, including the particulars in support of the Complaint, the parties' submissions on sanctions and costs and their conduct throughout the proceedings.

17. The Disciplinary Committee ORDERS that:-

- (a) the First Respondent and the Second Respondent be reprimanded under section 35(1)(b) of the PAO;
- (b) the First Respondent pay a penalty of HK\$35,000 under section 35(1)(c) of the PAO;
- (c) the Second Respondent pay a penalty of HK\$50,000 under section 35(1)(c) of the PAO;
- (d) the Respondents do pay the costs and expenses of and incidental to the proceedings of the Complainant in the sum of HK\$550,000 under section 35(1)(iii) of the PAO.

Dated the 17<sup>th</sup> day of June 2014