



Dear Assignment / News / Business Section Editor

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

(HONG KONG, 9 February 2015) — A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants reprimanded Ip Yu Chak (membership number A05441) and SHINEWING (HK) CPA Limited (corporate practice number M203) (collectively "respondents") on 6 January 2015 for their failure or neglect to observe, maintain or otherwise apply a professional standard issued by the Institute, and ordered them to pay a penalty of HK\$35,000 to the Institute. In addition, the respondents were ordered to pay costs of the disciplinary proceedings of the Institute and the costs of the Financial Reporting Council ("**FRC**") of HK\$45,628 and HK\$84,066.80 respectively.

The corporate practice audited the financial statements of **a listed company in Hong Kong** for the year ended 31 December 2008 ("**2008 Financial Statements**") and expressed an unmodified auditor's opinion. Ip was the engagement director of the audit engagement.

The Institute's Professional Standards Monitoring Panel identified possible auditing deficiencies in the 2008 Financial Statements in relation to the non-recognition of impairment losses on certain available-for-sale investments that were carried at fair values based on their quoted market prices, which were significantly below their costs. The matter was referred to the FRC for investigation. The FRC completed its investigation in March 2013 and concluded that the respondents did not comply with professional standards in respect of the audit of the 2008 Financial Statements. After considering the information available, the Institute lodged a complaint against the respondents under section 34(1)(a)(vi) of the Professional Accountants Ordinance.

The respondents admitted the complaint against them. The Disciplinary Committee found that the respondents failed or neglected to observe, maintain or otherwise apply Hong Kong Standard on Auditing 230 "*Audit Documentation*" for failure to prepare audit documentation that provides a sufficient and appropriate record of the objective analysis undertaken to support the basis of the concurrence with the listed company's accounting treatment of the impairment losses recorded in the investment revaluation reserves.

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 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.

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 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名執業會計師及一執業法團作出紀律處分

(香港，二零一五年二月九日) — 香港會計師公會轄下一紀律委員會於二零一五年一月六日就葉汝澤先生(會員編號: A05441)及信永中和(香港)會計師事務所有限公司(執業法團編號: M203) (「答辯人」)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，並命令他們須繳付罰款三萬五千港元予公會。此外，答辯人須支付公會紀律程序及財務匯報局的費用，分別為港幣四萬五千六百二十八元及港幣八萬四千零六十六元八角。

該執業法團為一間香港上市公司審核截至2008年12月31日的財務報表，並對該財務報表發出無保留意見的核數師報告。葉先生為該審計項目的執業董事。

公會的專業水平監察小組發現2008年財務報表中可能存在審計缺失的行為。該等行為與該上市公司沒有確認某些可供出售投資的減值虧損有關，因為該等可供出售投資的公平值(根據市場報價去計量)顯著地低於其成本。公會把有關事宜轉介財務匯報局作出調查。調查於2013年3月完成，財務匯報局的結論是答辯人在審核2008年財務報表時沒有遵守專業準則。公會經考慮所得資料，根據《專業會計師條例》第34(1)(a)(vi)條對答辯人作出投訴。

答辯人承認投訴中的指控屬實。由於他們沒有擬備充分和適當的審計文件記錄，以支持他們對同意該上市公司對於在投資重估儲備記錄減值虧損的會計處理方法進行客觀分析，紀律委員會裁定答辯人沒有或忽略遵守、維持或以其他方式應用公會Hong Kong Standard on Auditing 230 "Audit Documentation"專業準則。

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。

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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) and 34(1A) of the Professional Accountants Ordinance (Cap.50) (the “**PAO**”) and referred to the Disciplinary Committee under Section 33(3) of the PAO

BETWEEN

The Registrar of the Hong Kong Institute of Certified Public Accountants

COMPLAINANT

AND

Mr. Ip Yu Chak
Membership No. A05441

FIRST
RESPONDENT

SHINEWING (HK) CPA Limited
Corporate Practice No. M203

SECOND
RESPONDENT

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

Members: Mr. Ko Ming Tung Edward (Chairman)
Mr. Liu Che Ning
Ms. Wong Hung Hung Maura
Mr. Pak Chi Hoi Dick
Mr. Yeung Kai Cheung Patrick

ORDER & 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. Ip Yu Chak, a certified public accountant as the First Respondent; and SHINEWING (HK) CPA Limited, a corporate practice. Section 34(1)(a)(vi) of the PAO applied to the Respondents.
2. The particulars of the Complaint as set out in a letter dated 27 June 2014 (the “**Complaint**”) from the Registrar to the Council of the Institute for consideration of referring the Complaint to the Disciplinary Panels, are as follows:-

BACKGROUND

- (1) China Water Industry Group Limited (the "**Company**") is incorporated in the Cayman Islands and its shares are listed on the Main Board (Stock Code: 01129) of The Stock Exchange of Hong Kong Limited.
- (2) The financial statements for the Company and its subsidiaries (the "**Group**") for the years ended 31 December 2008 (the "2008 Financial Statements") and 2009 (the "**2009 Financial Statements**") were stated to have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants .
- (3) ShineWing audited the 2008 and the 2009 Financial Statements. ShineWing's audit reports for the 2008 and 2009 Financial Statements (signed and dated 27 April 2009 and 28 April 2010, respectively), stated that the audits were conducted in accordance with the Hong Kong Standards on Auditing. Mr. Ip was stated to be the director responsible for the performance of the audit engagements.
- (4) The consolidated profit / (loss) of the Group stated in the 2008 and 2009 Financial Statements was HK\$58.8 million and HK\$(342.5) million, respectively. The consolidated net assets of the Group stated in the 2008 and 2009 Financial Statements were HK\$710.9 million and HK\$1,343.5 million respectively.
- (5) ShineWing expressed an unmodified opinion on the 2008 Financial Statements. In respect of the 2009 Financial Statements, ShineWing disclaimed its opinion on the basis that the fundamental uncertainty relating to the adoption of the going concern basis in preparing the 2009 Financial Statements was significant.
- (6) The Institute's Professional Standards Monitoring Panel had identified possible auditing irregularities in the 2008 Financial Statements in relation to the non-recognition of impairment losses on certain available-for-sale investments that had been carried at fair values based on their quoted market prices, which were significantly below their costs.
- (7) In February 2012, the Council of the Institute, in accordance with the Memorandum of Understanding between the Financial Reporting Council ("**FRC**") and the Institute remitted the matter to the FRC for its further investigation.
- (8) Having considered all the information before it, the FRC, on 23 March 2012, directed the Audit Investigation Board ("**AIB**") in accordance with section 23(3)(b) of the FRC Ordinance, to investigate the possible auditing irregularity and the question of whether or not there is such an irregularity in relation to ShineWing's audit of the 2008 Financial Statements and the 2009 Financial Statements in respect of the recognition of impairment losses on available-for-sale investments in the 2008 Financial Statements and the recognition of gains

and losses on disposal of available-for-sale investments in the 2009 Financial Statements, respectively.

- (9) On 18 September 2012, the AIB sent its draft investigation report to ShineWing for its comments. ShineWing's response contained in a letter dated 11 December 2012 from King & Wood Mallesons ("**KWM**"), lawyers engaged to represent ShineWing in the AIB's investigations, was included in the AIB's investigation report (the "**Investigation Report**") that was adopted by the FRC on 7 March 2013.
- (10) On 11 March 2013, the FRC referred the Investigation Report together with annexures to the Institute pursuant to section 9(f) of the FRC Ordinance .
- (11) In making the referral, the FRC considered that ShineWing had failed or neglected to observe, maintain or otherwise apply professional standards under section 34(1)(a)(vi) of the Professional Accountants Ordinance, Cap 50 (the "PAO").

SUMMARY OF PRINCIPAL ISSUES

- (12) The principal issues relate to ShineWing's concurrence of the Group's decision not to treat a significant decline in the fair values below their costs of the Group's investments in two quoted equity instruments, measured by reference to their published prices in an active market as objective evidence of impairment, in the 2008 Financial Statements. **The cumulative decline in fair values of the subject investments, totaling HK\$71.7 million, had been recognised in equity and was not removed to be recognised in profit or loss in the 2008 Financial Statements.**
- (13) Paragraph 67 of the then Hong Kong Accounting Standard 39 Financial Instruments: Recognition and Measurement (December 2008) ("**HKAS 39**") requires that when there exists objective evidence of impairment, any cumulative loss that had been recognised directly in equity should be removed from equity and recognised in profit or loss even though the financial asset had not been derecognised.
- (14) Had the impairment losses been recognised in accordance with HKAS 39.67 in the 2008 Financial Statements, **the stated profit of HK\$58.8 million would have had to change to a loss of HK\$12.9 million.**
- (15) The principal issues are explained in the AIB Report, which should be referred to for full details. The issues and evidence will be further addressed in the Complainant's Case to be filed pursuant to the Disciplinary Committee Proceedings Rules.

- (16) The Respondents' audit documentation was not sufficient to enable an experienced auditor to understand the results of the audit procedures and the audit evidence obtained. The deficiencies in the working papers of the Respondents included:
- (a) Draft valuation report on which the Respondents relied to conclude that the intrinsic values of the available-for-sale financial assets were close to the purchase cost per share had been neither signed nor dated ;
 - (b) Working papers indicated Respondents' acceptance that the intrinsic value of an investee dropped "while there was no major change in the management and operation of the subject company"; however, they failed to document how they came to this conclusion given the disposal of a business segment and resignation of the chairman.
 - (c) Respondents failed to document how they considered potentially unfavorable operation information about one of the investees in determining that the decline in fair value was a result of the global financial crisis.

THE COMPLAINT

- (17) Section 34(1)(a)(vi) of the PAO applies to the Respondents in that they have failed or neglected to observe, maintain or otherwise apply a professional standard namely paragraphs 2 and/or 9 and/or 18 of Hong Kong Standard on Auditing 230 Audit Documentation (Issued February 2006) in that they failed to prepare audit documentation that provides a sufficient and appropriate record of the objective analysis undertaken to support the basis of their concurrence with the Group's accounting treatment of the impairment losses of HK\$71.7 million recorded in the Group's investment revaluation reserves.
- 3. The Respondents admitted the Complaint against them. They did not dispute the facts as set out in the Complaint. On 22 July 2014, the parties agreed that the steps set out in paragraphs 17 to 30 of the Disciplinary Committee Proceedings Rules be dispensed with.
 - 4. On 7 November 2014, the Disciplinary Committee informed the parties that they should make written submissions to the Disciplinary Committee on sanctions and costs.
 - 5. In considering the proper order to be made in this case, the Disciplinary Committee has had regard to all the aforesaid matters, including the particulars in support of the Complaint, the Respondent's personal circumstances, and the conduct of the parties throughout the proceedings.

6. The Disciplinary Committee orders that:-
- (1) Both the First and Second Respondent be reprimanded under Section 35(1)(b) of the PAO;
 - (2) the Respondents do pay a penalty of HK\$35,000 under Section 35(1)(c) of the PAO. The penalty shall be shared by the Respondents equally; and
 - (3) the Respondents do pay the costs and expenses of and incidental to the proceedings of the Complainant and the Financial Reporting Council in the total sum of HK\$45,628 and HK\$84,066.80 under section 35(1)(iii) and section 35(1)(d)(ii) of the PAO respectively. The costs and expenses shall be shared equally by the Respondents.

Dated the 6th day of January 2015