



Hong Kong Institute of  
Certified Public Accountants  
香港會計師公會

Dear Assignment/News/Business Section Editor

## **Hong Kong Institute of Certified Public Accountants takes disciplinary action against one certified public accountant (practicing)**

(HONG KONG, 5 November 2015) - A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants reprimanded Lui King Man (membership number A02719 ) on 21 September 2015 for his failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute, and ordered him to pay a penalty of HK\$50,000 to the Institute. In addition, Lui was ordered to pay costs of the disciplinary proceedings in the amount of HK\$19,437.

Lui is the sole proprietor of KM. Lui & Co which issued an unmodified auditor's report on the financial statements of a private company that contained material misstatements relating to bank borrowings and related party transactions. After considering the information available, the Institute lodged a complaint against Lui under section 34(1)(a)(vi) of the Professional Accountants Ordinance.

Lui admitted the complaint against him. The Disciplinary Committee found that Lui had failed or neglected to observe, maintain or otherwise apply a professional standard, namely paragraphs 10, 11, 12 and/or 17 of Hong Kong Standard on Auditing 700.

Having taken into account the circumstances of the case, the Disciplinary Committee made the above order against Lui under section 35(1) of the ordinance.

Under the ordinance, if Lui is aggrieved by the order, he may give notice of an appeal to the Court of Appeal within 30 days after he is 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. Three members of each committee, including a chairman, are non-accountants chosen from a panel appointed by the Chief Executive of the HKSAR, and the other two are CPAs.

Disciplinary hearings are held in public unless the Disciplinary Committee directs otherwise in the interest 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.

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 practicing 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 nearly 39,000 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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Hong Kong Institute of  
Certified Public Accountants  
香港會計師公會

致：編採主任／新聞／財經版編輯

## 香港會計師公會對一名會計師作出紀律處分

(香港，二零一五年十一月五日) — 香港會計師公會轄下一紀律委員會於二零一五年九月二十一日就呂敬文先生(會員編號：A02719) 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，對呂先生作出譴責，並命令他須繳付罰款五萬港元予公會。此外，呂先生須支付紀律程序的費用一萬九千四百三十七港元。

呂先生是呂敬文會計師事務所的獨資經營者，並就一間私人公司的財務報表發出了無修正意見的核數報告，但該財務報表中有關銀行借貸及關聯交易出現重大錯誤陳述。公會經考慮所得的資料，根據《專業會計師條例》第34(1)(a)(vi)條對呂先生作出投訴。

呂先生承認投訴中的指控屬實。紀律委員會裁定呂先生沒有或忽略遵守、維持或以其他方式應用公會的Hong Kong Standard of Auditing 700 第10、11、12及17段。

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)條向呂先生作出上述的命令。

根據《專業會計師條例》，如呂先生不服紀律委員會對他作出的命令，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 部分查閱，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，是從業外人士組成的紀律小組中選派，該紀律小組的成員是由香港特別行政區行政長官委任的；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，會員人數接近三萬九千，註冊學生人數超過一萬八千。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 COMPLAINANT  
Institute of Certified Public  
Accountants

AND

Mr. Lui King Man RESPONDENT  
(Membership No. A02719)

Members: Ms. CHARLTON, Julia Frances (Chairman)  
Ms. WONG, Hung Hung, Maura  
Ms. WONG, Tze Ling  
Mr. CHEUNG, Yat Ming  
Mr. TANG, Chak Yei

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**ORDER**

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Upon reading the complaint against MR. LUI KING MAN, a certified public accountant (practising) as set out in a letter from the Registrar of the Institute (“the Complainant”) dated 29 August 2014, the written submissions of the Complainant dated 23 June 2015 and the Respondent dated 15 June 2015, and other relevant documents, the Disciplinary Committee is satisfied by the admission of the Respondent and the evidence adduced before it that the following complaint is proved: Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply a professional standard namely paragraphs 10, 11, 12 and/or 17 of Hong Kong Standard of Auditing 700 for failure to form an appropriate audit opinion in respect of **World Hope Development Limited** in the financial statements for the year ended 31 March 2010.

1. The Disciplinary Committee ORDERS that:-

- a. the Respondent be reprimanded under section 35(1)(b) of the PAO;
- b. the Respondent do pay a penalty of HK\$50,000 under section 35(1)(c) of the PAO;
- c. the Respondent do pay the costs and expenses of and incidental to the proceedings of the Complainant in the sum of HK\$ HK\$19,437 under section 35(1)(iii) of the PAO.

Dated the 21st day of September 2015

IN THE MATTER OF

A Complaint made under section 34(1)(a) and 34(1A) of the Professional Accountants Ordinance (Cap. 50) ("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. Lui King Man (Membership No. A02719) RESPONDENT

Members: Ms. CHARLTON, Julia Frances (Chairman)  
Ms. WONG, Hung Hung, Maura  
Ms. WONG, Tze Ling  
Mr. CHEUNG, Yat Ming  
Mr. TANG, Chak Yei

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**REASONS FOR DECISION**

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1. This is a complaint made by the Registrar of the Hong Kong Institute of Certified Public Accountants (the "Institute") as Complainant against the Respondent, Mr. Lui King Man, a certified public accountant (practising). Section 34(1)(a)(vi) of the PAO applied to the Respondent.
2. The particulars of the Complaint as set out in a letter dated 29 August 2014 (the "Complaint") from the Registrar of the Institute to the Council of the Institute for consideration of the Complaint for referral to the Disciplinary Panels were as follows:-

**BACKGROUND**

- a. The Respondent is the sole proprietor of KM. Lui & Co. (Firm no. 0715) (the "Firm").
- b. On 30 March 2011, the Firm issued an auditor's report on the financial statements of World Hope Development Limited (the "Company") for the year ended 31 March 2010 (the "Financial Statements"). The Financial Statements were stated to have been prepared in accordance with the Hong Kong Financial Reporting

Standards (the “HKFRS”) for Private Entities and requirements of the Hong Kong Companies Ordinance (the “CO”)<sup>1</sup>.

- c. The auditor’s report stated that the Financial Statements give a true and fair view of the state of the Company’s affairs as at 31 March 2010 and of its loss and cash flows for the year then ended in accordance with HKFRS for Private Entities and have been properly prepared in accordance with the CO.

### **RELEVANT PROFESSIONAL STANDARDS**

3. The HKFRS for Private Entities provides the following:

“2.20 An essential characteristic to a liability is that the entity has a present obligation to act or perform in a particular way. The obligation may be either a legal obligation or a constructive obligation...”

“2.39 An entity shall recognize a liability in the statement of financial position when (a) the entity has an obligation at the end of the reporting period as a result of a past event, (b) it is probable that the entity will be required to transfer resources embodying economic benefits in settlement, and (c) the settlement amount can be measured reliably.”

“33.2 A related party is a person or entity that is related to the entity that is preparing its financial statements (the reporting entity). (a) A person or a close member of that person’s family is related to a reporting entity if that person: (i) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity...”

“33.9 If an entity has related party transactions, it shall disclose the nature of the related party relationship as well as information about the transactions...”

4. The Hong Kong Standards on Auditing (the “HKSA”) 700 - *Forming An Opinion And Reporting On Financial Statements* further states:

“10 The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.”

“11 In order to form that Opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account (b) the auditor’s conclusion, in accordance with HKSA 450, whether uncorrected misstatements are material, individually or in aggregate”

“12 The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity’s accounting practices, including indicators of possible bias in management’s judgments.”

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<sup>1</sup> Predecessor Hong Kong Companies Ordinance (Cap. 32)



“17 If the auditor (b) is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor shall modify the opinion in the auditor's report in accordance with HKSA 705.”

**THE COMPLAINT**

5. Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply a professional standard, namely paragraphs 10, 11, 12 and/or 17 of HKSA 700 for failure to form an appropriate audit opinion in respect of the Company's material misstatement on bank borrowings and related party transactions in the Financial Statements.

**FACTS AND CIRCUMSTANCES IN SUPPORT OF THE COMPLAINT**

6. The Firm's working papers included an audit confirmation issued by Nanyang Commercial Bank (the "NCB") indicating that the Company had six outstanding loans drawn from the bank as of 31 March 201. However, the Financial Statements only reported two out of six of the NCB bank loans.
7. According to the Firm's working papers, the year end balances of the four bank loans from NCB (the "Four Bank Loans") which were not reported in the Financial Statements are listed below.

	<u>Outstanding balance at year end (HK\$)</u>
Loan 1	1,403,680.17
Loan 2	1,510,740.51
Loan 3	1,546,427.27
Loan 4	731,557.23
<b>Total</b>	<b>5,192,405.18</b>

8. The balances had been verified by relevant bank audit confirmations. The Four Bank Loans were secured by mortgaged properties.
9. The working papers documented the names of the individual beneficiary owners of the mortgaged properties which were verified to the Land Registry records. These individual owners included the Company's director and his family members.
10. The working papers clearly indicated that the Firm is aware of the Four Bank Loans not being reported in the Financial Statements.
11. The Four Bank Loans are material to the Financial Statements as the aggregate loan balance of HK\$5,192,405 exceeds the Company's total assets and net assets of HK\$3,961,567 and HK\$479,999, respectively.

12. The Four Bank Loans were drawn under the Company's name and accordingly, the Company had obligations to repay these loans. As such, the Four Bank Loans should be reported in the Financial Statements as liabilities in accordance with section 2 of the HKFRS for Private Entities.
13. The Four Bank Loans are then lent to the director and his family members for financing of their properties. A director is key management personnel and his family members are "related parties" as defined in section 33 of the HKFRS for Private Entities.
14. Under section 161B of the CO<sup>2</sup>, loans to directors of a company and persons who are connected to a director of a company should be disclosed in the Financial Statements. Therefore, the Four Bank Loans should be disclosed in the Financial Statements in accordance with section 33 of the HKFRS for Private Entities and section 161B of the CO.

#### **DECISION OF THIS COMMITTEE**

15. Based on the above, the Financial Statements contained incorrect amounts and material non-compliance with HKFRS for Private Entities and the CO. The auditors did not obtain reasonable assurance that the Financial Statements as a whole are free of material misstatement.
16. Had the Firm appropriately evaluated the conclusions drawn from the audit evidence obtained relating to the Four Bank Loans, it should come to the conclusion that the Financial Statements had not been prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework and were not free of material misstatements. Accordingly, the Firm should have modified its opinion in respect of the Company's failure to report the Four Bank Loans, in accordance with paragraphs 10, 11, 12 and/or 17 of HKSA 700.
17. In the circumstances, section 34(1)(a)(vi) of the PAO applies to the Respondent.
18. By a signed confirmation dated 24 September 2014, the Respondent admitted the Complaint against him. He did not dispute the facts as set out in the Complaint. The parties had also made a joint application to the Disciplinary Committee and they agreed that the steps set out in rules 17 to 30 of the Disciplinary Committee Proceedings Rules be dispensed with.
19. On 4 June 2015, 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. The parties were requested to make written submissions to the Disciplinary Committee on sanctions and costs and that the Disciplinary Committee would not hold a hearing on sanctions and costs unless otherwise requested by the parties.
20. Undoubtedly, the breach committed by the Respondent is very serious. In his letter to the Institute dated 11 August 2014, the Respondent submitted, inter alia, that due to his focus "*on the real intention and usage of the concerned mortgage loans, and also the agreement made between the shareholders for the accounting of these loans while neglecting the formal contractual relationship between the bank and the Company. In this regards, I might make a misjudgment on these accounting treatment and in consequence, leading to the non-compliance with the relevant Professional Standards and failure for modifying the audit opinion*". The Disciplinary Committee is of the view that none of the above constitutes an acceptable mitigating factor.

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<sup>2</sup> Section 161B of the predecessor Hong Kong Companies Ordinance (Cap. 32)

21. However, the Disciplinary Committee accepted a mitigating factor in the present case is the Respondent's admission to the Complaint, thereby saving further costs and expenses of the Institute and the Disciplinary Committee.

**SANCTIONS AND ORDER**

22. 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 breach, the parties' submissions on sanctions and costs and their conduct throughout the proceedings.
23. In relation to costs, the Disciplinary Committee considers that the costs and expenses totalling HK\$19,437 as assessed in the Complainant's Statement of Costs dated 23 June 2015 are reasonable and therefore should be allowed.
24. The Disciplinary Committee ORDERS that:-
- a. the Respondent be reprimanded under section 35(1)(b) of the PAO;
  - b. the Respondent do pay a penalty of HK\$50,000 under section 35(1)(c) of the PAO;
  - c. the Respondent do pay the costs and expenses of and incidental to the proceedings of the Complainant in the sum of HK\$19,437 under section 35(1)(iii) of the PAO.

Dated the 21st day of September 2015