



Dear Assignment / News / Business Section Editor

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

(HONG KONG, 21 June 2017) — A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants reprimanded Pan-China (H.K.) CPA Limited (corporate practice number M268), Tsang Chiu Keung (membership number A25104) and Chan Kin Wai (membership number A24477) on 17 May 2017 for their failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. The Committee further ordered Pan-China to pay a penalty of HK\$80,000, Tsang to pay a penalty of HK\$50,000 and Chan to pay a penalty of HK\$60,000. In addition, the three respondents were ordered to pay costs and expenses of disciplinary proceedings of the Institute and the Financial Reporting Council ("FRC") in the total sum of HK\$125,385.30, to be shared equally by them.

Pan-China audited the financial statements of a Hong Kong listed company and its subsidiaries for the years ended 31 December 2010 and 31 December 2011 and expressed an unmodified auditor's opinion for each of the two years. Tsang was an engagement director who signed the audit reports and Chan was the engagement quality control reviewer ("EQCR") for the 2011 audit.

The Institute received a referral from the FRC about non-compliance with professional standards in the audit work conducted by Pan-China concerning impairment assessment of the company's interests in two natural resource extraction and mining projects included in the financial statements. After considering the information available, the Institute lodged complaints under section 34(1)(a)(vi) of the Professional Accountants Ordinance (Cap 50).

The respondents admitted the complaints against them. The Disciplinary Committee found that:

- (1) Pan-China and Tsang were in breach of auditing standards as a result of deficiencies in the audit procedures performed during the 2010 and 2011 engagements, and their failure to ensure the EQCR for the 2010 audit had sufficient and appropriate experience and authority;
- (2) Pan-China and Tsang were in breach of the Fundamental Principle of *Professional Competence and Due Care* in the Code of Ethics for Professional Accountants as a result of the significant deficiencies found in the 2010 and 2011 audits; and
- (3) Chan was in breach of Hong Kong Standard on Auditing 220 for failing to adequately perform the engagement quality control review in the 2011 audit.

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 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 the 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.

– End –

### **About the Hong Kong Institute of Certified Public Accountants**

The Hong Kong Institute of CPAs is the only body authorized by law to register and grant practising certificates to certified public accountants in Hong Kong. The Institute has more than 40,000 members and 20,000 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執業法團及兩名執業會計師作出紀律處分

(香港，二零一七年六月二十一日) — 香港會計師公會轄下一紀律委員會，於二零一七年五月十七日就天健(香港)會計師事務所有限公司(執業法團編號: M268)、曾昭強先生(會員編號: A25104)及陳健偉先生(會員編號: A24477)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。委員會又指今天健須繳付罰款港幣八萬元、曾先生須繳付罰款港幣五萬元，及陳先生須繳付罰款港幣六萬元。此外，三名答辯人須均等分擔公會紀律程序及財務匯報局(「財匯局」)的費用共港幣十二萬五千三百八十五元三角。

天健審核一間香港上市公司及其附屬公司截至 2010 年 12 月 31 日及 2011 年 12 月 31 日的財務報表，並分別在該兩個年度發出了無保留意見的核數師報告。曾先生為該兩個年度的審計項目的執業董事，並簽署了有關的核數師報告，而陳先生為 2011 年度審計的項目質量控制覆核人員(「EQCR」)。

公會收到財匯局的轉介，指天健對該公司在財務報表內反映的兩個天然資源提取及開採項目利益的減值評估所進行的審計工作有違專業準則。公會經考慮所得的資料，根據《專業會計師條例》(第 50 章) 第 34(1)(a)(vi)條對三名答辯人作出投訴。

三名答辯人承認投訴中的指控屬實。紀律委員會的裁決如下：

- (1) 天健和曾先生違反了審計準則，因他們在 2010 及 2011 年度審計中進行的審計程序有缺失，及沒有確保 2010 年度審計中的 EQCR 具備充足及適當的經驗及權限；
- (2) 天健和曾先生違反了 Code of Ethics for Professional Accountants 內的 Fundamental Principle of Professional Competence and Due Care，因他們在 2010 及 2011 年度審計中犯下重大缺失；及
- (3) 陳先生違反了 Hong Kong Standard on Auditing 220，因他在 2011 年度審計中沒有充分地履行項目的質量控制覆核工作。

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裁決。

根據《專業會計師條例》，如答辯人不服紀律委員會對他作出的裁決，可於裁決文本送達後 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，網址為 <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，是選自業外人士組成的紀律小組，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決。

紀律委員會有權向公會會員、執業會計師事務所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員名冊中除名或吊銷其執業證書、對其作出譴責、下令罰款不多於五十萬港元，以及支付紀律程序的費用。

— 完 —

## 關於香港會計師公會

香港會計師公會是香港唯一獲法例授權負責專業會計師註冊兼頒授執業證書的組織，會員人數超過四萬，註冊學生人數逾二萬。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) 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

Pan-China (HK) CPA Limited FIRST  
Corporate Practice No. M268 RESPONDENT

Mr. Tsang Chiu Keung SECOND  
Membership No. A25104 RESPONDENT

Mr. Chan Kin Wai THIRD  
Membership No. A24477 RESPONDENT

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

Members: Ms. Lee Wai Yan Susanna (Chairman)

Ms. Cheng Wei Yan Vena

Ms. Tsui Pui Man Winnie

Mr. Guen Kin Shing Melvin

Mr. Chan Wai Man Raymond

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**ORDER & 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**") against Pan-China (HK) CPA Limited, a corporate practice, Mr. Tsang Chiu Keung, a certified public accountant (practising) and Mr. Chan Kin Wai, a certified public accountant (practising) (collectively the "**Respondents**"). Section 34(1)(a)(vi) of the Professional Accountants Ordinance ("**PAO**") applied to the Respondents.
2. The Complaints as set out in a letter dated 1 September 2016 (the "**Complaint**") are as follows:-

## Background

- (1) The Financial Reporting Council referred to the Institute a report of its Audit Investigation Board dated 19 August 2015 ("**AIB Report**") concerning the audits carried out by Pan China on the financial statements of a listed company, **Polyard Petroleum International Group Limited** ("**Company**") and its subsidiaries ("**Group**") for each of the years ended 31 December 2010 ("**2010 Audit**") and 31 December 2011 ("**2011 Audit**"). A copy of the Report is at **Attachment 1** to the Complaint Letter.
- (2) Pan China issued an unmodified audit report on the Group's financial statements for each of the two years. The audit reports were dated 21 March 2011 and 27 March 2012 respectively.
- (3) The Company's audited financial statements for the two years included two assets, namely an oil and gas project (Block M) in Brunei acquired in 2007 ("**Brunei Oil Project**") and a coal mining project in the Philippines acquired in 2008 ("**San Miguel Coal Mine Project**"), which were included respectively in the interests in a jointly controlled entity ("**JCE**") and interests in an associated company ("**Associate**").
- (4) For the purpose of impairment assessments, the Company engaged **an independent professional valuer** to provide valuations on the Brunei Oil Project and the San Miguel Coal Mine Project.
- (5) Pan China placed reliance on the above valuations in the audit of the impairment assessments of the Group's interests in the JCE and the Associate during the course of the 2010 and 2011 Audits.
- (6) The AIB Report found that Pan China, Tsang as the engagement director for the 2010 and 2011 Audits, and Chan as the engagement quality control reviewer ("**EQCR**") for the 2011 Audit, had violated section 34(1)(a)(vi) of the Professional Accountants Ordinance ("**PAO**") in that:
  - (a) Pan China and Tsang were in breach of a number of Hong Kong Standards on Auditing ("**HKSAs**") in conducting the impairment assessment of the interests in the JCE and Associate;
  - (b) Pan China and Tsang were in breach of the Code of Ethics for Professional Accountants ("**COE**") in failing to perform the audits with competence and due care in light of the findings in (a) above; and
  - (c) Chan was in breach of HKSA 220 (Clarified) *Quality Control for an Audit of Financial Statements* in conducting his review as an EQCR in the 2011 Audit.

## Relevant Professional Accountants Ordinance (Cap. 50) ("**PAO**") provisions and professional standards

- (7) Section 34 of the PAO

*"(1) A complaint that-*

*(a) a certified public accountant-*

*...*

*(vi) failed or neglected to observe, maintain or otherwise apply a professional standard;*

*...*

*shall be made to the Registrar who shall submit the complaint to the Council which may, in its discretion but subject to section 32D(7), refer the complaint to the Disciplinary Panels.*

*... "*

(8) Section 34(1A) of the PAO

*"Where the Registrar has reason to believe that subsection (1)(a) ... applies to a certified public accountant or a corporate practice, he shall submit the facts to the Council which may, in its discretion, refer the complaint to the Disciplinary Panels."*

(9) The following professional standards are relevant:

- (a) HKSA 200 (Clarified) *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing;*
- (b) HKSA 220 (Clarified) *Quality Control for an Audit of Financial Statements;*
- (c) HKSA 500 (Clarified) *Audit Evidence;*
- (d) HKSA 540 (Clarified) *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures;*
- (e) HKSA 620 (Clarified) *Using the Work of an Auditor's Expert;* and
- (f) COE sections 100.5 and 130

(10) Relevant extracts of the above HKSAs and COE are set out at **Attachment 2** to the Complaint Letter.

***Complaint 1***

- (11) Section 34(1)(a)(vi) of the PAO applies to Pan China and Tsang in that they failed or neglected to observe, maintain or otherwise apply one or more auditing standards, namely HKSAs 200, 500, 540 and 620, as a result of deficiencies in the audit procedures they performed during the 2010 Audit in relation to impairment assessment of the interest in the JCE and the Associate.

***Complaint 2***

- (12) Section 34(1)(a)(vi) of the PAO applies to Pan China and Tsang in that they failed or neglected to observe, maintain or otherwise apply one or more auditing standards, namely HKSAs 200, 500, 540 and 620, as a result of deficiencies in the audit procedures they performed during the 2011 Audit in relation to impairment assessment of the interest in the JCE and the Associate.

**Facts and circumstances in support of Complaints 1 and 2**

- (13) The carrying values of the Brunei Oil Project and San Miguel Coal Mine Project were determined by professional valuers. For the Brunei Oil Project, there were significant impairment losses recognized in the years up to 2010 and the losses recognized were reversed in 2011. For the San Miguel Coal Mine Project, there were significant impairment losses recognized in 2009 and the losses recognized were reversed in 2010



and 2011. Details are as follows:

	2011	2010	2009
	HK\$'000	HK\$'000	HK\$'000
<b><i>Interest in Jointly Controlled Entities</i></b>			
<b><u>Brunei Oil Project (or JCE)</u></b>			
At the beginning of the year	866,382	858,151	856,118
Additional investments	1,940	49,367	23,604
<b>Impairment loss recognized</b>	-	<b>(41,136)</b>	(21,571)
<b>Reversal of impairment loss</b>	<b>215,077</b>	-	-
At the end of the year	<u>1,083,399</u>	<u>866,382</u>	<u>858,151</u>
	2011	2010	2009
	HK\$'000	HK\$'000	HK\$'000
<b><i>Interest in an Associate</i></b>			
<b><u>San Miguel Coal Mine Project (or Associate)</u></b>			
At the beginning of the year	74,478	47,645	81,915
Share of loss of associate	(2)	(10)	(5)
<b>Impairment loss written back / (recognized)</b>	<b>7,422</b>	<b>26,843</b>	(34,265)
At the end of the year	<u>81,898</u>	<u>74,478</u>	<u>47,645</u>

(14) Disclosures in the Company's annual reports suggested that there were delays in the projects:

- (a) Brunei Oil Project – It was initially expected to commence production in 2007. However, the expected commencement dates were delayed to 2010 as disclosed in the 2008 and 2009 annual reports and were not even specified in the 2010 and 2011 annual reports.
- (b) San Miguel Coal Mine Project – The 2009, 2010 and 2011 annual reports disclosed that there was delay of construction of a road that gave access to the mining area due to heavy rain, flood and environment protection issues.

(15) Delays in the projects could have a significant impact on assessment of the valuation of the projects. There were time limitations imposed by the relevant governments / local authorities to explore and operate the oil field / coal mine as noted below:

- (a) Brunei Oil Project – exploration of Block M expired on 27 August 2012 (i.e. 6 years from 28 August 2006), which was only 5 months subsequent to the 2011 audit report, and production of oil and/or gas would be allowed for a period of 24 years<sup>1</sup>.
- (b) San Miguel Coal Mine Project – exploration of the coal mine expired on 16 November 2010 and development of the coal mine would be allowed for a period of five years<sup>2</sup>.

(16) The Company's interests in the projects were material to the Group's financial position:

<sup>1</sup> Disclosed in page 18 of the Company's circular dated 6 August 2007. (Annex 1F of Attachment 1)

<sup>2</sup> Disclosed in page 174 of the Company's circular dated 31 October 2008. (Annex 1G of Attachment 1)



	31 December 2011	31 December 2010
<u>Group</u>		
Total assets	HK\$1,532,798,000	HK\$983,113,000
Net assets	HK\$1,372,482,000	HK\$662,337,000
<u>Brunei Oil Project</u>		
Interest	HK\$1,083,339,000	HK\$866,382,000
% of Group's total assets	71%	88%
% of Group's net assets	79%	131%
<u>San Miguel Coal Mine Project</u>		
Interest	HK\$81,898,000	HK\$74,478,000
% of Group's total assets	5.3%	7.5%
% of Group's net assets	6%	12%

- (17) According to the working papers for the 2010 and 2011 Audits, the valuation reports were reviewed by the auditor. The basis of valuation was value in use and the method applied was the income approach. The key assumptions were set out in sections 3.1.2.4 and 4.1.2.2 of the AIB Report (**Attachment 1**). The audit work performed in assessing the work of the valuers was set out in sections 3.1.3 and 4.1.3 of the AIB Report.

#### Brunei Oil Project

- (18) For the Brunei Oil Project, Pan China placed reliance on 2010 and 2011 valuations done by an independent professional valuer in the audit of impairment assessment. The valuations were based on estimates and assumptions provided by the management of the Company, including the production plan and schedules and forecasted expenditures. Pan China failed to perform necessary procedures to obtain sufficient appropriate audit evidence on these estimates and assumptions.
- (19) Details of AIB's findings are set out in section 3 of the AIB Report. A summary is as follows.

#### *Brunei Oil Project – forecast production plan and schedule*

- (20) With regard to the 2010 valuation, Pan China failed to obtain sufficient appropriate evidence to evaluate the reasonableness of the forecast production plan and schedule to ensure that the Company and the valuer had duly considered the effect of deferral in production, when there were clear indications of production deferral as follows:
- Anticipated commencement of production in the third quarter of 2010, as stated in the Company's 2009 annual report, did not take place in 2010;
  - Three wells were still in the exploration stage in 2010;
  - The Company was required, under a production sharing agreement, to submit various plans when a significant accumulation of crude oil or natural gas was identified or the discovered petroleum field became commercial, but no such plans were submitted in 2010;
  - No feasibility study was prepared for the oil and gas project; and
  - The expenditure incurred for the oil and gas project in 2010 of HK\$2 million

was substantially less than the forecast expenditure of US\$12 million.

- (21) With regard to the 2011 valuation, Pan China again failed to obtain sufficient appropriate evidence to evaluate the reasonableness of the forecast production plan and schedule to ensure that the Company and the valuer had duly considered the effect of deferral in production, when there were clear indications of production deferral and expiry of the exploration period in the near future as follows:
- (a) Production did not take place in 2011 contrary to the anticipation in 2010, and drilling of the remaining three wells had not commenced; and
  - (b) The exploration period would expire within four months from the date when the 2011 financial statements were authorised for issue.
- (22) The above shows that Pan China failed to critically evaluate the status of the project, the reasonableness of the production plan and schedule which are critical to the valuation of the Brunei Oil Project, and hence the interests in the JCE. There were non-compliances with §15 of HKSA 200, and/or §§6, 8, 9 of HKSA 500, and/or §18 of HKSA 540, and/or §7 of HKSA 620.

*Brunei Oil Project – forecast field cost*

- (23) There was no evidence in the audit working papers supporting that Pan China had obtained corroborative evidence to support the reasonableness of the assumption that the forecast field costs would not be affected by other market price adjustments throughout the forecast periods. There were non-compliances with §§6 and 9 of HKSA500, and/or §18 of HKSA540.
- (24) The production projections for the 2010 and 2011 valuations were prepared by the chief operating officer. Pan China did not assess whether any safeguards were imposed by the Company to reduce possible threats to the objectivity of the chief operating officer in accordance with paragraphs 8, A37 and A41 of HKSA 500.

San Miguel Coal Mine Project

- (25) For the San Miguel Coal Mine Project, Pan China placed reliance on 2010 and 2011 valuations done by an independent professional valuer in the audit of impairment assessment. The valuations were based on estimates and assumptions provided by the management of the Company, including the coal production schedule which was prepared by the project engineer of the Associate and the forecast of revenue and costs. Pan China failed to perform necessary procedures to obtain sufficient appropriate audit evidence on these estimates and assumptions.
- (26) Details of AIB's findings are set out in section 4 of the AIB Report. A summary is as follows.

*San Miguel Coal Mine Project – forecast production plan and schedule*

- (27) With regard to the 2010 valuation, Pan China failed to:
- (a) ascertain the progress of a road construction and to challenge the reliability of the production schedule prepared by management when there were circumstances indicating production deferral, including the fact that no production took place in 2010 contrary to previous year's expectation and a suspension of road construction; and

- (b) obtain sufficient appropriate evidence to ensure the effect of deferral in production had been duly considered by the Company and the valuer.

(28) With regard to the 2011 valuation, Pan China again failed to:

- (a) ascertain the status of government approval and progress of road construction, and to challenge the reliability of the production schedule prepared by management when there were circumstances indicating production deferral as follows: (i) no production took place in 2010 contrary to previous year's expectation; (ii) the Company was still working on applications for certain permits essential for enabling production to proceed further; and (iii) road construction was resumed but suspended again, pending approval from government; and
- (b) obtain sufficient appropriate evidence to ensure the effect of deferral in production had been duly considered by the Company and the valuer.

(29) The above shows that Pan China failed to adequately evaluate the reasonableness of the production plan and schedule which are critical to the valuation of the San Miguel Coal Mine Project, and hence the interest in the Associate. There were non-compliances with §15 of HKSA 200, and/or §§6, 8, 9 of HKSA 500, and/or §18 of HKSA 540, and/or §7 of HKSA 620.

*San Miguel Coal Mine Project – forecast revenue*

(30) With regard to the 2010 and 2011 valuations, Pan China failed to:

- (a) obtain an explanation to ascertain why the contracted coal price was significantly higher than the market price;
- (b) obtain sufficient appropriate audit evidence to evaluate whether a sales contract – which provided audit evidence of the contracted price but was only effective for one year – would be renewed, and whether applying a price which was contracted by the Company and a third party for one year only, to the remaining period of the cash flow projections up to 2018 was reasonable;
- (c) obtain an explanation to ascertain whether the production plan could fulfill the obligation under the contract given that the contract was entered into before the commencement of production, and the forecast production volume was much less than the contracted amount; and
- (d) assess whether the repeated delays in coal production had any impact on the execution of the sales contract.

Hence, there were non-compliances with §§6, 8, 9 of HKSA 500 and/or §18 of HKSA 540.

*San Miguel Coal Mine Project – forecast operating cost and capital expenditure*

(31) With regard to the 2010 and 2011 valuations, Pan China failed to:

- (a) obtain corroborative evidence to justify the reasonableness of management's estimation of unit cost and explanation of the correlation between coal price and unit operating cost; and
- (b) obtain sufficient appropriate evidence to evaluate the reasonableness of the forecast capital expenditure, when the expenditure incurred in 2010 and 2011 was significantly less than that forecast, and there were differences between the forecast capital expenditure used in the cash flow projections and in a feasibility study report prepared in 2008,

Hence there were non-compliances with §§6, 8, 9 of HKSA 500 and/or §18 of HKSA 540.

- (32) The production projections for the 2010 and 2011 valuations were prepared by the project engineer of the Associate. Pan China did not assess whether any safeguards were imposed by the Company to reduce possible threats to the objectivity of the chief operating officer in accordance with paragraphs 8, A37 and A41 of HKSA 500.
- (33) Based on the foregoing, Pan China and Tsang as the engagement director were in breach of the following auditing standards in conducting the 2010 and 2011 Audits:
  - HKSA 200 paragraph 15,
  - HKSA 500 paragraphs 6, 8, 9, A37, A41 and A48,
  - HKSA 540 paragraph 18, and
  - HKSA 620 paragraph 7.

### ***Complaint 3***

- (34) Section 34(1)(a)(vi) of the PAO applies to Tsang in that he failed or neglected to observe, maintain or otherwise apply paragraph 19(a) of HKSA 220 in the 2010 Audit, in that he failed to ensure that someone with sufficient and appropriate experience and authority to act as the EQCR had been appointed in that audit.

### **Facts and circumstances in support of Complaint 3**

- (35) Paragraphs 19 and 20 of HKSA 220 require an EQCR to be appointed for audits of financial statements of listed companies, who must perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report.
- (36) Paragraph 7(c) of HKSA 220 defines an "engagement quality control reviewer" to mean "*a partner, other person in the firm,.....with sufficient and appropriate experience and authority to objectively evaluate the significant judgements the engagement team made and the conclusions if reached in formulating the auditor's report.*"
- (37) Although HKSA 220 does not further elaborate on what constitutes "sufficient and appropriate experience and authority" for an EQCR, §A47 of HKSQC 1 provides some indication of what this might entail for listed audits. It states:

*"What constitutes sufficient and appropriate technical expertise, experience and*

*authority depends on the circumstances of the engagement. For example, the engagement quality control reviewer for an audit of the financial statements of a listed entity is likely to be an individual with sufficient and appropriate experience and authority to act as an audit engagement partner on audits of financial statements of listed entities."*

- (38) The review conducted by the EQCR in the 2010 Audit was deficient. The "Engagement Quality Control Review Worksheet" did not contain any reference to audit working papers that had been reviewed or any comments made by the EQCR, nor was there any reference to discussion with the engagement team on the impairment assessment of the interests in JCE and the Associate. Had the EQCR performed a diligent and competent review, she should have identified the audit deficiencies as set out above.
- (39) According to the audit planning memorandum for the 2010 Audit, the individual acting as EQCR, one Ms. Chan Ka Man ("**Ms. Chan**"), was only an assistant audit manager of Pan China at the time. According to the Institute's records, Ms. Chan qualified as a CPA in early 2008 and she had never been issued with any practising certificate from the time of her becoming a CPA to the time of the 2010 Audit.
- (40) In the above circumstances, Ms. Chan was clearly not someone with "sufficient and appropriate experience and authority" to act as EQCR. Tsang should not have assigned Ms. Chan to be the EQCR for the 2010 Audit. Such an assignment would not achieve effective audit quality control, since there was a real risk that given her inadequate experience, Ms. Chan was unable to undertake an objective evaluation of the significant judgments made by the engagement team and the conclusions reached. The audit documentation of the engagement quality control review work in the 2010 Audit, and the audit deficiencies identified above in relation to the 2010 Audit, supported that Ms. Chan as the EQCR did not adequately perform her review.
- (41) Based on the foregoing, Tsang was in breach of paragraph 19(a) of HKSA 220 in that he failed to ensure that someone with sufficient and appropriate experience and authority to act as the EQCR had been appointed for the 2010 Audit.

#### ***Complaint 4***

- (42) Section 34(1)(a)(vi) of the PAO applies to Chan in that he failed or neglected to observe, maintain or otherwise apply §20 of HKSA 220, as a result of his failure in the 2011 Audit to perform the engagement quality control review adequately in accordance with the requirements of that auditing standard.

#### **Facts and circumstances in support of Complaint 4**

- (43) The AIB found that the engagement quality control review conducted by the Chan in the 2011 Audit was deficient. Details are set out in section 5 of the AIB Report.
- (44) Specifically, as the Group's interests in JCE and the Associate were material, Chan was expected to carry out a review of the relevant audit working papers and assess the appropriateness of the estimates, judgements and assumptions adopted in the valuation reports. Had he performed a diligent and competent review, he should have identified the audit deficiencies as set out above.

(45) The audit documentation of the engagement quality control review work in the 2011 Audit, and the audit deficiencies identified above in relation to the 2011 Audit, clearly show that Chan as the EQCR failed to perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached, and to discuss significant matters arising during the audit engagement with the engagement director.

(46) Based on the foregoing, Chan was in breach of paragraph 20 of HKSA 220.

### ***Complaint 5***

(47) Section 34(1)(a)(vi) of the PAO applies to Pan China and Tsang in that they failed or neglected to observe, maintain or otherwise apply the Fundamental Principle of *Professional Competence and Due Care* set out in §§100.5(c) and 130 of the COE in their conduct of the 2010 and 2011 Audits.

### **Facts and circumstances in support of Complaint 5**

(48) The significant audit deficiencies found in the 2010 and 2011 Audits, as noted above, clearly show that Pan China and Tsang failed to conduct their professional work with competence and due care, in breach of §§100.5(c) and 130 of the COE.

3. The Respondents admitted the complaints against them. They did not dispute the facts as set out in the complaints. On 9 November 2016, the parties agreed that the steps set out in paragraphs 17 to 30 of the Disciplinary Committee Proceedings Rules ("**DCPR**") be dispensed with.
4. The Disciplinary Committee agreed to the parties' joint application to dispense with the steps set out in Rule 17 to 30 of the DCPR in light of the admission made by the Respondent and directed the parties to make written submissions on sanctions and costs.
5. The Complainant and Respondents provided their submissions on sanctions and costs on 1 February 2017. The complaints were all found proved on the basis of the admission by the Respondents.
6. 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 Complaints, the Respondents' personal circumstances, and the conduct of the Respondents throughout the proceedings.
7. The Disciplinary Committee, by a majority view, orders that:-
  - (a) all three Respondents be reprimanded under Section 35(1)(b) of the PAO;
  - (b) the First Respondent, Pan-China (HK) CPA Limited, pay a penalty of HK\$80,000 under Section 35(1)(c) of the PAO;

- (c) the Second Respondent, Tsang Chiu Keung, pay a penalty of HK\$50,000 under Section 35(1)(c) of the PAO;
- (d) the Third Respondent, Chan Kin Wai, pay a penalty of HK\$60,000 under Section 35(1)(c) of the PAO;
- (e) the Respondents do pay the costs and expenses of and incidental to the proceedings of the HKICPA in the sum of HK\$42,580; and that of the Financial Reporting Council in the sum of HK\$82,805.30 under Section 35(1)(iii) of the PAO. The costs and expenses shall be shared equally by the Respondents.

Dated the 17th day of May 2017