



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/>

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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.

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