



## **HKICPA takes disciplinary action against a corporate practice and a certified public accountant (practising)**

(HONG KONG, 27 June 2018) A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants reprimanded Baker Tilly Hong Kong Limited (M0154) ("BTHK") and Mr. Au Yiu Kwan (F04855) (collectively "Respondents") on 24 May 2018 for their failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. The Committee ordered BTHK and Au to pay penalties of HK\$250,000 and HK\$100,000 respectively. In addition, the Respondents were ordered to pay costs of HK\$156,669.90 which include the costs of the Financial Reporting Council ("FRC").

BTHK audited the financial statements of a Hong Kong listed company, EganaGoldfeil (Holdings) Limited and its subsidiaries for the year ended 31 May 2006 ("2006 Financial Statements"). Au was the director who had substantial involvement in the audit of the 2006 Financial Statements.

The Institute received a referral from the FRC about auditing irregularities in relation to the audit of the 2006 Financial Statements in respect of certain sales and purchase transactions and the impairment assessment of (i) intangible assets; (ii) available-for-sale financial assets; (iii) other receivables; and (iv) promissory notes.

After considering the information available, the Institute lodged complaints against the Respondents under sections 34(1)(a)(vi) of the Professional Accountants Ordinance (Cap 50).

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

- i) BTHK was in breach of Hong Kong Standard on Auditing ("HKSA") 200, HKSA 240, HKSA 500, HKSA 540, HKSA 545, HKSA 550 and HKSA 620;
- ii) BTHK was also in breach of Hong Kong Standard on Quality Control 1 for failing to have adequate policies and procedures to ensure an independent engagement quality control reviewer had been appointed and/or an objective engagement quality control review had been performed; and
- iii) Au failed to diligently carry out the audit of 2006 Financial Statements in accordance with sections 100.4(c) and 130.1 of the Code of Ethics for Professional Accountants.

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.

## 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 42,000 members and 18,000 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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## 香港會計師公會對一間執業法團及一名執業會計師作出紀律處分

(香港，二零一八年六月二十七日) 香港會計師公會轄下紀律委員會，於二零一八年五月二十四日就天職香港會計師事務所有限公司(「天職」，執業法團編號：M0154)及歐耀均先生(會員編號：F04855)(統稱為「答辯人」)沒有或忽略遵守、維持或以其他方式應用公會頒佈的專業準則，對他們作出譴責。紀律委員會同時命令天職及歐先生分別須繳付罰款 250,000 港元及 100,000 港元。此外，答辯人須繳付公會及財務匯報局(「財匯局」)的費用共 156,669.90 港元。

天職曾審核一間香港上市公司聯洲國際集團有限公司及其附屬公司截至二零零六年五月三十一日止年度的財務報表。歐先生作為天職的董事，參與該二零零六年度財務報表的大量審核工作。

公會收到財匯局的轉介，指該二零零六年度財務報表出現審計違規，當中涉及若干買賣交易及對(i)無形資產；(ii)可供出售金融資產；(iii)其他應收款項；及(iv)本票的減值評估。

公會經考慮所得資料後，根據香港法例第 50 章《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。紀律委員會的裁決如下：

- i) 天職違反了 Hong Kong Standard on Auditing (「HKSA」) 200、HKSA 240、HKSA 500、HKSA 540、HKSA 545、HKSA 550 及 HKSA 620；
- ii) 天職因沒有完備的政策和程序以確保任命獨立的項目質量控制覆核人及/或進行客觀的質量控制覆核，故亦被裁定違反了 Hong Kong Standard on Quality Control 1；及
- iii) 歐先生於該二零零六年度財務報表的審核上，未有盡職遵守 Code of Ethics for Professional Accountants 第 100.4(c)條及第 130.1 條的規定。

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命令。

### 香港會計師公會的紀律處分程序

香港會計師公會致力維持會計界的最高專業和道德標準。公會根據香港法例第 50 章《專業會計師條例》及紀律委員會訴訟程序規則，成立獨立的紀律委員會，處理理事會轉介的

投訴個案。委員會一旦證明對公會會員、執業會計師事務所會員或註冊學生的檢控屬實，將會作出適當懲處。若答辯人未有提出上訴，紀律委員會的裁判將會向外公佈。

詳情請參閱：

<http://www.hkicpa.org.hk/en/standards-and-regulations/compliance/disciplinary/>

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## 關於香港會計師公會

香港會計師公會是根據《專業會計師條例》成立的法定機構，負責培訓、發展和監管本港的會計專業。公會會員超過 42,000 名，學生人數逾 18,000。

公會開辦專業資格課程，確保會計師的入職質素，同時頒佈財務報告、審計及專業操守的準則，以鞏固香港作為國際金融中心的領導地位。

CPA 會計師是一個獲國際認可的頂尖專業資格。公會是全球會計聯盟及國際會計師聯合會的成員之一，積極推動國際專業發展。

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IN THE MATTER OF

A Complaint made under Section 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

Baker Tilly Hong Kong Limited                      FIRST  
Corporate Practice No. M0154                      RESPONDENT

Au Yiu Kwan                      SECOND  
Membership No. F04855                      RESPONDENT

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

Members: Mr. WONG Wing Yan, Kenneth (Chairman)  
Miss LEE Wai Fun  
Mr. ESPINA Anthony Joseph  
Ms. LEUNG Chi Ying

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**ORDER AND 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 Baker Tilly Hong Kong Limited, a corporate practice (the "First Respondent") and Mr. Au Yiu Kwan, certified public accountant (practising) (the "Second Respondent").
2. The particulars of the Complaint as set out in a letter dated 27 April 2017 (subsequently amended on 7 December 2017) (the "Complaint") are as follows:-

**Background**

- (1) EganaGoldpfeil (Holdings) Limited ("Company") was incorporated in Cayman Islands and its shares were previously listed on the Main Board of the Stock

Exchange of Hong Kong Limited. The trading of the Company's shares was suspended on 12 September 2007. The Company was wound up by a court order in May 2011 and subsequently delisted on 4 January 2012.

- (2) Baker Tilly Hong Kong Limited ("**BTHK**") audited the financial statements of the Company and its subsidiaries (collectively "**Group**") for the years ended 31 May 2006 ("**2006 Financial Statements**") and 31 May 2007 ("**2007 Financial Statements**"). Mr. Au Yiu Kwan ("**Au**") is a former director of BTHK who was substantially involved in the audit of the 2006 Financial Statements<sup>1</sup> based on the totality of facts available (the "**2006 Audit Team**").
- (3) The 2006 and 2007 Financial Statements were stated to have been prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants. The auditor's reports on these financial statements issued by BTHK stated that the audits were conducted in accordance with the Hong Kong Standards on Auditing ("**HKSA**") issued by the Institute.
- (4) BTHK expressed an unmodified opinion in the auditor's report on the 2006 Financial Statements dated 21 September 2006.
- (5) The 2007 Financial Statements were audited by a different team of BTHK (the "**2007 Audit Team**"). In the auditor's report on the 2007 Financial Statements dated 26 October 2007, BTHK did not express an opinion on whether the financial statements gave a true and fair view in accordance with HKFRS. One of the reasons was that BTHK were unable to obtain the necessary information to satisfy themselves that certain sales transactions of the Group's trading operations, their related costs and gross profit, or the appropriate provision made for the associated outstanding balances were fairly stated. Similar sales transactions existed in the 2006 Financial Statements.
- (6) In addition, in the 2007 Financial Statements, the Company recognized significant amounts of impairment losses on intangible assets, available-for-sale financial assets, other receivables and promissory notes.
- (7) On 20 July 2016, the Financial Reporting Council ("**FRC**") referred to the Institute a report of the Audit Investigation Board ("**AIB**") dated 2 June 2016 pursuant to section 9(f) of the FRC Ordinance, Cap.588.
- (8) The AIB found auditing irregularities in relation to BTHK's 2006 audit in respect of certain sales and purchase transactions and the impairment assessment of the following assets:
  - (i) intangible assets;
  - (ii) available-for-sale financial assets;
  - (iii) other receivables; and
  - (iv) promissory notes.

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<sup>1</sup> Mr. Chan Cheuk Chi is a former director of BTHK who issued the auditor's report as the engagement director for the 2006 audit. He is currently not a certified public accountant.

- (9) In their representations to both the FRC and the Institute, BTHK asserted that they had carried out their responsibilities to provide an appropriate supervisory framework for audits conducted by its personnel. The actual conduct and quality control of an audit under the relevant auditing standards were the responsibility of the engagement director and the engagement quality control reviewer ("EQCR"). BTHK should not be responsible for the audit deficiencies as alleged in the AIB report.
- (10) In addition, BTHK submitted to the FRC that Au undertook the partner's role to review the audit documentation and to supervise the engagement team. It was a practising director, Mr. Chan Cheuk Chi ("Mr. Chan"), who undertook the role of EQCR and signed the auditor's report for the 2006 Financial Statements.
- (11) According to Au, he was only responsible for reviewing the audit files prepared by the engagement team before the files were submitted to Mr. Chan for review and sign off as the engagement partner. There was no EQCR in the 2006 audit.

## THE COMPLAINTS

### *First Complaint*

- (12) Section 34(1)(a)(vi) of the PAO applies to BTHK in that, as the auditor of the 2006 Financial Statements, they failed or neglected to observe, maintain or otherwise apply the following professional standards in the audit:
- (a) Paragraph 6 of HKSA 200 *"Objectives and General Principles Governing an Audit of Financial Statements"*; and/or
  - (b) Paragraph 24 of HKSA 240 *"The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements"*; and/or
  - (c) Paragraph 2 of HKSA 500 *"Audit Evidence"*; and/or
  - (d) Paragraphs 2, 8, 10 and 19 of HKSA 540 *"Audit of Accounting Estimates"*; and/or
  - (e) Paragraph 3 of HKSA 545 *"Auditing Fair Value Measurements and Disclosures"*; and/or
  - (f) Paragraph 2 of HKSA 550 *"Related Parties"*; and/or
  - (g) Paragraph 12 of HKSA 620 *"Using the Work of an Expert"*.

### *Second Complaint*

- (13) Section 34(1)(a)(vi) of the PAO applies to Au for having failed or neglected to observe, maintain or otherwise apply a professional standard namely, section 100.4(c) as elaborated in section 130.1 of the Code of Ethics for Professional Accountants ("COE") for failure to diligently carry out the audit of the 2006

Financial Statements, in accordance with the relevant technical and professional standards.

### *Third Complaint*

- (14) Section 34(1)(a)(vi) of the PAO applies to BTHK in that they failed or neglected to observe, maintain or otherwise apply Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" ("HKSQC 1") because the policies and procedures to ensure an independent EQCR had been appointed and/or an objective engagement quality control review had been performed in the audit of a listed entity were inadequate.

## **SUMMARY OF PRINCIPAL ISSUES**

### *In respect of First Complaint*

- (15) It was found that some of the transactions in the 2006 Financial Statements contain indent sales and purchase transactions ("re-invoicing" transactions) that are similar in nature to those which were the subject matter of qualification by the 2007 Audit Team as stated in their auditor's report on the 2007 Financial Statements.
- (16) The 2006 working papers show that the 2006 Audit Team had failed to exercise sufficient professional skepticism and perform adequate procedures to obtain sufficient appropriate audit evidence to ascertain whether the associated sales recognition was in compliance with HKAS 18 "Revenue".
- (17) The 2007 Financial Statements disclosed that the Group had recognized impairment losses on the following assets:
- (i) intangible assets;
  - (ii) available-for-sale financial assets;
  - (iii) other receivables; and
  - (iv) promissory notes.
- (18) The impairment losses on intangible assets of HK\$215.3 million recognized in the 2007 Financial Statements included the carrying amounts of trademarks, goodwill and know-how in the aggregate amount of HK\$210.7 million as at 31 May 2006.
- (19) The impairment losses on available-for-sale financial assets of HK\$206.4 million recognized in the 2007 Financial Statements included investments with an aggregate carrying amount of HK\$206.4 million as at 31 May 2006.
- (20) The impairment losses on other receivables of HK\$265.7 million recognized in the 2007 Financial Statements included escrow monies paid for a proposed investment amounted to HK\$111.5 million as at 31 May 2006.



- (21) The impairment losses on promissory notes of HK\$736.3 million recognized in the 2007 Financial Statements included promissory notes brought forward from 2006. At 31 May 2006, the carrying amount of the outstanding promissory notes held by the Group amounted to HK\$986.3 million.
- (22) The 2006 audit working papers show that the audit procedures performed on the above assets were inadequate for the purpose of obtaining sufficient appropriate audit evidence to support whether impairment losses should have been recognized in the 2006 Financial Statements.
- (23) Based on the above, the Institute concurred with the AIB report that in its audit of the 2006 Financial Statements, BTHK failed to comply with the following HKSAs:
- (a) Paragraph 6 of HKSA 200; and/or
  - (b) Paragraph 24 of HKSA 240; and/or
  - (c) Paragraph 2 of HKSA 500; and/or
  - (d) Paragraphs 2, 8, 10 and 19 of HKSA 540; and/or
  - (e) Paragraph 3 of HKSA 545; and/or
  - (f) Paragraph 2 of HKSA 550; and/or
  - (g) Paragraph 12 of HKSA 620.

*In respect of Second Complaint*

- (24) Au denied that he was the engagement partner responsible for the audit of the 2006 Financial Statements. Au claimed that he worked under the supervision of Mr. Chan who signed the auditor's report.
- (25) Notwithstanding, Au admitted that he was also responsible for reviewing the audit files prepared by the engagement team and the working papers show evidence of his reviews.
- (26) There is no evidence of any review by Mr. Chan in the working papers and in the "Audit Planning Memorandum". By contrast, Mr. Au had signed on the "Audit Planning Memorandum" to indicate his approval and his initial could also be found in the working papers. In BTHK's submission to the FRC, they confirmed that Au undertook the partner's role to review the audit documentation and to supervise the 2006 Audit Team.
- (27) As a senior member of the 2006 Audit Team who played a substantial role in the audit of the 2006 Financial Statements, Au failed to ensure that sufficient appropriate audit procedures had been carried out and sufficient evidence had been obtained in accordance with the aforementioned HKSAs. Consequently, Au failed to act diligently in accordance with section 100.4(c) as elaborated in section 130.1 of the COE.

### In respect of Third Complaint

- (28) Paragraph 3 of HKSQC 1 requires a practice to have a system of quality control designed to provide it with reasonable assurance that the practice and its personnel comply with professional standards, and that reports issued by the practice or engagement partners/directors are appropriate in the circumstances.
- (29) Paragraph 60 of HKSQC 1 further states that a practice should establish policies and procedures requiring an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. Such policies and procedures should require an engagement quality control review for all audits of financial statements of listed entities.
- (30) The working papers do not show any documentation in relation to the work performed by the EQCR for the 2006 audit. According to BTHK, the engagement partner who signed the auditor's report for the 2006 Financial Statements undertook the role of EQCR for the 2006 audit. If the roles of engagement partner and the EQCR were performed by the same individual as indicated by BTHK, it raised doubts as to whether the EQCR could provide an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in the auditor's report. However, as opposed to BTHK, Au claimed that there was no EQCR being appointed in the 2006 audit.
- (31) In view of the contradictory claims between BTHK and Au, it also raised serious doubt as to whether BTHK's system of quality control could have provided any reasonable assurance that the practice and its personnel would comply with professional standards or that the auditor's reports issued would be appropriate. The lack of documentary evidence regarding the work of EQCR indicated that BTHK failed to establish an effective policy to ensure an engagement quality control review on the Company had been performed.
- (32) Based on the above, it is considered that BTHK failed to comply with paragraphs 3 and 60 of HKSQC 1.

### **The Proceedings**

3. By letters dated 7 December 2017, the First Respondent admitted the First and Third Complaints against it and the Second Respondent admitted the Second Complaint against him. The Parties agreed that the steps set out in Rules 17 to 30 of the Disciplinary Committee Proceedings Rules ("DCPR") be dispensed with.
4. By letter from the Clerk to the Disciplinary Committee (under the direction of the Disciplinary Committee) to the parties dated 27 December 2017, the parties were informed that the Disciplinary Committee had approved their joint

application to dispense with the steps set out in Rules 17 to 30 of the DCPR in light of the admission made by the Respondents and directed the parties to make written submissions on sanctions and costs by 24 January 2018.

5. The Complainant provided his written submissions on sanctions and costs on 24 January 2018 while the Respondents provided their written submissions on sanctions and costs on 7 February 2018 after the Disciplinary Committee acceded to their request for a two-week time extension.
6. Mr. Wan Chuck Fan, David stepped down as a member of the Disciplinary Committee upon expiry of his appointment to the Disciplinary Panel A on 31 January 2018. Accordingly, Mr. Wan ceased to be a member of the Disciplinary Committee with effect from 1 February 2018. On 29 January 2018, the parties were asked if they had any objection to the disciplinary proceedings being dealt with in the absence of one member of the Disciplinary Committee. The Complainant and the Respondents confirmed in reply correspondence that they had no objection for the disciplinary proceedings to be dealt with by the remaining four members of the Disciplinary Committee.
7. 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 and the Respondents' conduct throughout the proceedings, and the respective written submissions of the Complainant and the Respondents. This Committee has taken note of the following:
  - (i) In so far as the First Respondent is concerned:
    - a) The First Complaint. The First Respondent admitted this Complaint, which concerns its failure or neglect, as auditor of the 2006 Financial Statements, to observe, maintain or otherwise apply seven auditing standards which are listed in paragraphs 2 (15) – (23) above. We agree with the Complainant's submissions that the failures arose from inadequate audit procedures performed in five audit areas which were material to the 2006 Financial Statements, and that there was also a failure to exercise sufficient professional skepticism in the audit of sales, which not only is material in amount, but has a pervasive effect in the overall 2006 Financial Statements. It is clear that insufficient appropriate audit evidence was obtained to support the First Respondent's unmodified opinion on the 2006 Financial Statements.
    - b) The Third Complaint. The First Respondent admitted this Complaint, which concerns its failure or neglect to observe, maintain or otherwise apply HKSQC 1. We agree with the the Complainant's submissions that there was no evidence that an independent engagement quality control review was carried out in the 2006 Financial Statements, as required under HKSQC 1.

- c) In general, we accept the Complainant's submissions that in view of the multiple audit deficiencies and the public interest involved (which we would like to emphasize, given the Company was then a publicly listed company), the breaches by the First Respondent in this case are serious. On the other hand, we note, and have taken into account, that subsequently, the First Respondent has taken steps to improve its system of quality control, specifically by developing and installing a new electronic audit platform and control system with a view to prevent such issues from arising again.

(ii) In so far as the Second Respondent is concerned:

- a) The Second Complaint. The Second Respondent admitted this Complaint, which concerns a failure or neglect to observe, maintain or otherwise apply the auditing standards mentioned in the First Complaint when carrying out the audit of the 2006 Financial Statements.
- b) We note that while the Second Respondent denied that he was the engagement director or the EQCR for the 2006 audit, there is no dispute that (i) he was then a director of the First Respondent and (ii) he played a substantial role in the 2006 audit in that he was responsible for reviewing the audit documentation and supervising the audit team. We agree with the Complainant's submissions that the multiple breaches of auditing standards in this case demonstrate that the level of supervision and work performed by the Second Respondent fell below the level of competency and due care as expected of a CPA who was a senior member of the audit team.

8. In light of the above matters, having considered sanctions that are commensurate with the deficiencies identified in the Complaints, the Respondents' early admission and cooperation in these proceedings, the seriousness of the case, the objective of maintaining the public reputation of the profession, the culpability of each Respondent, and the submissions respectively made by the Complainant and the Respondents, the Disciplinary Committee ORDERS that:-

- (a) the Respondents be reprimanded under Section 35(1)(b) of the PAO;
- (b) the First Respondent pay a penalty of HK\$250,000 under Section 35(1)(c) of the PAO;
- (c) the Second Respondent pay a penalty of HK\$100,000 under Section 35(1)(c) of the PAO;

- (d) the Respondents do pay jointly and severally:
- (i) the costs and expenses of and incidental to the proceedings of the Complainant and the Clerk to the Disciplinary Committee in the total sum of HK\$62,045 (being the total of (a) the Complainant's costs of HK\$56,897 and (b) the Clerk to the Disciplinary Committee's costs of HK\$5,148) under Section 35(1)(iii) of the PAO; and
  - (ii) the costs and expenses in relation to the investigation incurred by the Financial Reporting Council in the sum of HK\$94,624.90 under Section 35(1)(d)(ii) of the PAO.

Dated 24 May 2018

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Mr. WONG Wing Yan, Kenneth  
(Chairman)  
Disciplinary Panel A

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Miss LEE Wai Fun  
Disciplinary Panel A

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Mr. ESPINA Anthony Joseph  
Disciplinary Panel B

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Ms. LEUNG Chi Ying  
Disciplinary Panel B