



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

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

(HONG KONG, 30 July 2019) A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants reprimanded **Mr. Woo Yuen Fai**, certified public accountant (practising) (A35065) on 18 June 2019 for his failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. In addition, Woo was ordered to pay a penalty of HK\$70,000 and costs of the disciplinary proceedings of HK\$42,960.

**Woo was the engagement quality control reviewer in an audit carried out by UC CPA (Practising) Limited** on the consolidated financial statements of **South Sea Petroleum Holdings Limited**, a Hong Kong listed company, and its subsidiaries for the year ended 31 December 2015. The audit was selected for review in 2016 as part of the Institute's practice review.

The practice reviewer identified significant **audit deficiencies in the areas of impairment assessment of investment property and prepayments of production expenses. The two areas were material.** Woo failed to perform an effective engagement quality control review of them to evaluate the significant judgements made and conclusions reached by the audit team.

After considering the information available, the Institute lodged a complaint against Woo under section 34(1)(a)(vi) of the Professional Accountants Ordinance, Cap 50.

**Woo admitted the complaint against him. The Disciplinary Committee found that Woo was in breach of Hong Kong Standard on Auditing 220 *Quality Control for an Audit of Financial Statements*.**

Having taken into account the circumstances of the case, the Disciplinary Committee made the above order against Woo 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 44,000 members and 17,100 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.

## **Hong Kong Institute of CPAs' contact information:**

Ms Gemma Ho  
Public Relations Manager  
Phone: 2287-7002  
Email: [gemmaho@hkicpa.org.hk](mailto:gemmaho@hkicpa.org.hk)

Ms Rachel So  
Head of Corporate Communications and Member Services  
Phone: 2287-7085  
Email: [rachelso@hkicpa.org.hk](mailto:rachelso@hkicpa.org.hk)



## 香港會計師公會對一名執業會計師作出紀律處分

(香港，二零一九年七月三十日) 香港會計師公會轄下紀律委員會，於二零一九年六月十八日就執業會計師胡遠輝先生(會員編號：A35065)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作出譴責。此外，紀律委員會命令胡先生須繳付罰款 70,000 港元及紀律程序費用 42,960 港元。

聯禾執業會計師有限公司曾為香港上市公司南海石油控股有限公司及其附屬公司截至二零一五年十二月三十一日止年度的綜合財務報表進行審計，胡先生為該項目的質量控制覆核人。該審計項目於二零一六年被公會挑選進行執業審核。

執業審核人員發現投資物業減值評估及生產費用預付款項兩個重要範疇上有嚴重的審計缺失。胡先生沒有為審計項目執行有效的質量控制覆核，以評估審計團隊所作出的重要判斷及結論。

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)對胡先生作出投訴。

胡先生承認投訴中的指控屬實。紀律委員會裁定胡先生違反了 Hong Kong Standard on Auditing 220「Quality Control for an Audit of Financial Statements」。

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)條向胡先生作出上述命令。

### 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 44,000 名，學生人數逾 17,100。

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。

**香港會計師公會聯絡資料：**

何玉淳女士

公共關係經理

直線電話：2287-7002

電子郵箱：[gemmaho@hkickpa.org.hk](mailto:gemmaho@hkickpa.org.hk)

蘇煥娟女士

企業傳訊及會員事務主管

直線電話：2287-7085

電子郵箱：[rachelso@hkickpa.org.hk](mailto:rachelso@hkickpa.org.hk)

IN THE MATTER OF

A Complaint made under section 34(1A) of the Professional Accountants Ordinance (Cap. 50) (the "**PAO**")

BETWEEN

The Registrar of the Hong Kong Institute of Certified Public Accountants	COMPLAINANT
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AND

Mr. Woo Yuen Fai (Membership no. A35065)	RESPONDENT
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Before a Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants

Members: Ms. KOO Kar Chun, Anna (Chairman)  
 Mr. CHAN Raymond  
 Ms. DOE Julianne Pearl  
 Ms. CHUA Suk Lin, Ivy  
 Mr. WOO King Hang

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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**") as Complainant against Mr. Woo Yuen Fai, a practising certified public accountant (the "**Respondent**"). Section 34(1)(a)(vi) of the PAO applied to the Respondent.
2. The particulars of the Complaint as set out in a letter from the Registrar to the Council of the Institute dated 10 October 2018 (the "**Complaint**") are as follows.

**BACKGROUND**

- (1) As part of the Institute's practice review on audit quality, the reviewer selected the audit of the consolidated financial statements of "South Sea Petroleum Holdings Limited" (Stock Code: 76) and its subsidiaries (collectively "**Client A**") for the year ended 31 December 2015 for inspection ("**Client A 2015 Financial Statements**").

- (2) The auditor, UC CPA (Practising) Limited (corporate practice no.: S0267) (the "**Practice**"), issued an unmodified opinion on the Client A 2015 Financial Statements on 31 March 2016.
- (3) The Respondent was the engagement quality control reviewer ("**EQCR**") of the audit of Client A 2015 Financial Statements.
- (4) The practice reviewer issued a Reviewer's Report on the Practice on 21 July 2017 and reported inter alia, a number of deficiencies in relation to the audit of Client A 2015 Financial Statements.
- (5) The Practice Review Committee considered that the Respondent did not perform an effective engagement quality control ("**EQC**") review, especially in the areas of impairment assessment of investment property ("**IP**") and prepayments, where significant audit deficiencies have been identified by the reviewer.
- (6) On the basis of the above, the Registrar believed that section 34(1)(a)(vi) of the PAO applied to the Respondent and submitted the facts outlined above to the Council for a referral to the Disciplinary Panels as a complaint, pursuant to section 34(1A) of the PAO.

## **THE COMPLAINT**

- (7) 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 in relation to his work as the EQCR in the audit of Client A 2015 Financial Statements.

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

- (8) In accordance with paragraph 20 of Hong Kong Standard on Auditing 220 *Quality Control for an Audit of Financial Statements* ("**HKSA 220**"), an EQCR is required to perform an objective evaluation of the significant judgments made and conclusions reached by the engagement team in formulating the auditor's report.
- (9) This evaluation shall involve: (1) discussion of significant matters with the engagement partner; (2) review of the financial statements and the proposed auditor's report; (3) review of selected audit documentation relating to significant judgments made and conclusions reached by the engagement team; and (4) evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate.

- (10) The practice review found non-compliances with a number of professional standards in the audit of Client A 2015 Financial Statements indicating a deficient audit methodology. In particular, the auditor failed to design and perform adequate procedures for the purpose of obtaining sufficient appropriate audit evidence in two audit areas namely, impairment assessment of IP and prepayments of film production expenses.
- (11) In relation to the IP, the carrying amount of the IP was material to the 2015 Financial Statements at US\$5.2 million. This carrying amount was higher than its market value by at least US\$1 million which was estimated by an independent valuer engaged by Client A. However, no provision for impairment had been made.
- (12) There was insufficient audit evidence obtained to ascertain that a proper impairment assessment had been performed when:
  - (a) The IP's carrying amount was higher than its market value at the year-end, which would normally indicate that there was impairment; and
  - (b) Client A supported that no impairment was necessary as the carrying amount was lower than the future minimum lease payments receivable; but there was also no evidence of any audit procedures performed on the minimum lease payments receivable amount.
- (13) In relation to the prepayments of film production expenses, the carrying amount of the prepayments of film production expenses was material at US\$18 million.
- (14) There was no evidence that the engagement team had performed any audit procedures to ascertain that future economic benefits had been established to support that those expenses could be recorded as prepayments.
- (15) As both the IP and prepayments of film production expenses were material and involved judgement, an EQCR would be required to review the audit documentation relating to these matters and evaluate the judgements and conclusions reached by the audit team.
- (16) The lack of audit evidence to support the IP and prepayments as described above show that the Respondent failed to perform an effective EQC review of these two audit areas.
- (17) In a meeting with the reviewer held on 11 August 2017, the Respondent explained how the EQC review was performed. Subsequently, the Respondent also provided information to the reviewer to show his scope of work which were not originally included in the audit working papers. The Respondent explained that:

- (a) He had several meetings with the audit team including the engagement director to understand the audit progress. The audit team had reported to him some issues identified during the audit; e.g. how management assessed impairment of the IP at year-end. The Respondent admitted there was no documentation of the discussion.
  - (b) He sighted copies of lease agreements and contracts related to filmmaking provided by the audit team during his discussions about the (i) change in use of the IP; and (ii) recognition of filmmaking costs as prepayments.
  - (c) He completed and signed off on the EQC Review Worksheet ("EQCR Worksheet") to support that his EQC review was satisfactorily performed before the release of the audit report of Client A.
- (18) The reviewer considered that the information provided by the Respondent did not demonstrate an adequate and effective EQCR review:
- (a) Besides the EQCR Worksheet and what seemed to be a working copy of financial information marked with a few casting and editing marks, there was no other documentation of the procedures he performed as the EQCR located in the audit working papers.
  - (b) In the EQCR Worksheet, the Respondent answered "yes" to almost all of the questions as to whether the related procedures had been performed, without further remarks nor cross-reference to other working papers.
- (19) In his response to the practice reviewer's findings, the Respondent represented that he had reviewed working papers related to significant audit matters which were used to form the audit opinion, performed relevant procedures though not demonstrated on paper, and discussed with the audit team as to the impairment test on the IP and prepayments. He also stated that the audit team had provided sufficient evidence to him to ensure that there was no material impairment problem.
- (20) Given the lack of evidence showing that adequate audit procedures had been performed to evaluate the IP impairment assessment and prepayments, it was not clear how the Respondent could conduct an effective and objective evaluation of the significant judgments made by the audit team in this respect.
- (21) Furthermore, there was nothing in the EQCR Worksheet to demonstrate how the Respondent had evaluated the significant audit areas and came to the conclusion that the work done and judgments made by the audit team were appropriate.
- (22) On the basis of the above, the Respondent failed to carry out an EQC review with due care to effectively evaluate the significant judgments made and conclusions reached by the audit team, in breach of paragraph 20 of HKSA 220.



- (23) As HKSA 220 is a professional standard referred to in the PAO, section 34(1)(a)(vi) of the PAO applies to the Respondent in this respect.

### **THE PROCEEDINGS**

3. By letter signed by the parties dated 21 November 2018, the Respondent admitted the Complaint against him, and the parties requested 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 with the parties' request to dispense with the steps set out in Rules 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. Neither the Complainant nor the Respondent requested for a hearing.
5. The Complaint was found proven on the basis of the admission made by the Respondent.
6. The Complainant and Respondent filed their written submissions on sanctions and costs on 29 March 2019.
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 Complaint, the Respondent's personal circumstances, and the conduct of the Complainant and the Respondent throughout the proceedings.

### **SANCTIONS AND COSTS**

8. The Disciplinary Committee orders that:-
  - 1) the Respondent be reprimanded under Section 35(1)(b) of the PAO;
  - 2) the Respondent pay a penalty of HK\$70,000 under Section 35(1)(c) of the PAO; and
  - 3) the Respondent do pay the costs and expenses of and incidental to the proceedings of the Complainant, including the costs of the Disciplinary Committee, in the sum of HK\$42,960 under Section 35(1)(iii) of the PAO.

Dated the 18th day of June 2019

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Ms. KOO Kar Chun, Anna  
(Chairman)

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Mr. CHAN Raymond  
(Member)

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Ms. CHUA Suk Lin, Ivy  
(Member)

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Ms. DOE Julianne Pearl  
(Member)

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Mr. WOO King Hang  
(Member)