



Hong Kong Institute of Certified Public Accountants settles regulatory proceedings involving two certified public accountants

(HONG KONG, 24 June 2021) The Hong Kong Institute of Certified Public Accountants has settled regulatory proceedings concerning alleged non-compliance with its professional standards involving two certified public accountants, namely Mr. Jimmy Siu who is a practising CPA, and Mr. Yip Kai Yin.

The complaint concerns audit deficiencies identified in a practice review conducted on Elite Partners CPA Limited. The Practice Review Committee of the Institute raised a complaint pertaining to the audit of the consolidated financial statements of a Hong Kong listed entity and its subsidiaries for the year ended 30 June 2017, on which Elite issued an unmodified opinion. The entity was principally engaged in manufacturing and sales of chemical products, although some of the production lines had been intermittently suspended since 2012. Mr. Siu was the engagement director and Mr. Yip was the engagement quality control reviewer of the audit. Although there is no evidence to suggest that the deficiencies below resulted in the wrong audit opinion, the Committee found that:

1. The entity's financial statements included material amounts of construction-in-progress, and plant and machinery. In assessing impairment of these assets, Mr. Siu failed to obtain sufficient appropriate audit evidence on certain judgemental areas, including assessment of the underlying assumptions and data used by the independent valuer engaged by the entity.
2. Mr. Siu also failed to perform adequate audit procedures in relation to other material items in the financial statements including bonds payable, government grants repayable, contingent liabilities in relation to a litigation, exchange reserve, and deferred income taxes.
3. The auditor's report disclosed a material uncertainty related to going concern, and the entity's financial statements contained disclosures pertaining to this matter. However, Mr. Siu failed to obtain sufficient appropriate audit evidence to support his conclusion on the appropriateness of the entity's use of the going concern basis of accounting in the preparation of the financial statements.
4. In response to the practice review findings, Elite submitted certain documentation to the Institute which had not been included as part of the audit file. Elite also claimed that certain audit procedures had been performed. However, they were not documented in the audit working papers.

5. Financial statements disclosure of the principal amount of corporate bonds issued after the year end could not be reconciled to the audit working papers, demonstrating Mr. Siu's lack of sufficient due care and diligence.

Mr. Yip failed to perform an effective engagement quality control review in that he did not identify any of the irregularities in 1 and 3 above. He also did not perform an effective, objective evaluation of the significant judgements and conclusions made by the audit team.

As a result of the above:

- (a) Mr. Siu failed or neglected to observe, maintain or otherwise apply the following professional standards:
 - Hong Kong Standard on Auditing ("HKSA") 230 *Audit Documentation*
 - HKSA 500 *Audit Evidence*
 - HKSA 570 (Revised) *Going Concern*
 - the fundamental principle of Professional Competence and Due Care in sections 100.5(c), 130.1 and 130.4 of the *Code of Ethics for Professional Accountants* ("Code of Ethics").
- (b) Mr. Yip failed or neglected to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*, and the fundamental principle of Professional Competence and Due Care in sections 100.5(c) and 130.1 of the Code of Ethics.

Settlement agreement

The Council of the Institute has agreed with Mr. Siu and Mr. Yip that:

1. Mr. Siu and Mr. Yip acknowledge the facts of the case and areas of non-compliance with professional standards;
2. The Institute will cease regulatory proceedings against Mr. Siu and Mr. Yip;
3. Mr. Siu and Mr. Yip be reprimanded; and
4. Mr. Siu and Mr. Yip jointly pay a financial penalty to the Institute of HK\$300,000 and make a contribution to the costs of the Institute in the amount of HK\$200,000.

The Council considers that dealing with the matter by way of this settlement will achieve an appropriate resolution without incurring additional expenses and tying up resources in disciplinary proceedings. Therefore, it has agreed to withdraw the complaint.

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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 over 46,000 members and 16,000 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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