



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

Hong Kong Institute of Certified Public Accountants takes regulatory action against a corporate practice

(HONG KONG, 28 May 2021) The Hong Kong Institute of Certified Public Accountants has taken regulatory action against Cheng & Cheng Limited, a corporate practice (M0035), for its failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute.

Cheng & Cheng audited the financial statements of a private company for the years ended 30 June 2015 and 30 June 2016. The engagement director of the audits ceased to be a member of the Institute in 2020.

For the 2015 financial year, Cheng & Cheng issued an unmodified auditor's report on the financial statements initially prepared by the company. These financial statements were later replaced by a revised set of financial statements, on which Cheng & Cheng issued a modified auditor's report. In conducting the audit procedures supporting the auditor's report on the initial financial statements, Cheng & Cheng failed to obtain sufficient evidence to support the accounting treatment of a revenue item, and to properly enquire about the existence of significant related party transactions. In addition, in reporting on the revised financial statements, Cheng & Cheng failed to draw attention to the changes made to the financial statements and to the initial auditor's report issued.

For the 2016 financial year, a wrong set of the company's financial statements were initially printed, and Cheng & Cheng carelessly allowed them to be issued with the practice's unmodified auditor's report attached. After discovery of the mistake shortly afterwards, a set of correct financial statements with attachment of a modified auditor's report of Cheng & Cheng was issued in replacement of the initial financial statements.

For both of the years, Cheng & Cheng failed to take appropriate action to prevent reliance on the initial auditor's report that had been replaced, when management had not acted adequately to this effect.

The Institute concluded that Cheng & Cheng failed or neglected to observe, maintain or otherwise apply the following professional standards:

- Hong Kong Standard on Auditing ("HKSA") 500 *Audit Evidence*;
- HKSA 550 *Related Parties*;
- HKSA 560 *Subsequent Events*; and
- the fundamental principle of Professional Competence and Due Care in sections 100.5(c) and 130 of the Code of Ethics for Professional Accountants.

Regulatory action

Based on the foregoing and in lieu of further proceedings, the Council of the Hong Kong Institute of Certified Public Accountants concluded that the following should resolve the complaint:

1. Cheng & Cheng acknowledge the facts of the case and areas of non-compliance with professional standards;
2. Cheng & Cheng be reprimanded; and
3. Cheng & Cheng pay an administrative penalty of HK\$50,000 and costs of the Institute of HK\$15,000.

About Resolution by Agreement

In order to better serve the interests of the public and the profession, the Hong Kong Institute of Certified Public Accountants ("HKICPA") ensures complaints are dealt with in an effective and transparent manner. In accordance with Council powers outlined in the Professional Accountants Ordinance, a Resolution by Agreement ("RBA") may be offered in uncontested cases considered to be moderate after taking into account the nature and gravity of the complaint, past disciplinary records of the respondent and any aggravating or mitigating circumstances. An RBA will not be offered in cases involving complaints of dishonesty, which are handled through a separate disciplinary process.

The RBA includes a mandatory public censure which entails publication of the name of the respondent, facts of the case and areas of non-compliance with professional standards. Information on the Institute's complaint handling process and guidelines for Resolutions by Agreement are available at the Institute website under the "Compliance" section at www.hkicpa.org.hk.

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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 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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