



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

(HONG KONG, 23 September 2021) A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants reprimanded KPMG (0035), Ms. Yu Yuk Ping, June, certified public accountant (A27591) and Ms. Yu Wai Sum, certified public accountant (practising) (A18931) (respectively “1st, 2nd and 3rd Respondents”) on 12 August 2021 for their failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. In addition, the Committee ordered the 1st, 2nd and 3rd Respondents to pay penalties of HK\$500,000, HK\$300,000 and HK\$200,000 respectively, and to pay costs of the Institute and the Financial Reporting Council (“FRC”) totalling HK\$5,000,000.

The 1st Respondent was the reporting accountant for the Hong Kong initial public offering of China Forestry Holdings Co., Ltd. (“Company”) in 2009, and in that capacity, audited the financial information of the Company and its subsidiaries (together “Group”) for the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2009 (“IPO Engagement”). After the listing, the 1st Respondent audited the Group’s financial statements for the year ended 31 December 2009 (“2009 Audit”). Unmodified opinions were expressed in the accountant’s report of the IPO Engagement and the auditor’s report of the 2009 Audit. The 2nd and 3rd Respondents were the engagement partners for the IPO Engagement and the 2009 Audit respectively.

The Group was engaged in purchasing and planting forests, managing and harvesting forests, and selling harvested logs. It owned plantation assets in certain provinces of the People’s Republic of China.

The Institute received a referral from the FRC about audit irregularities in the IPO Engagement and the 2009 Audit, alleging that the audit team did not exercise sufficient professional scepticism in conducting audit procedures in a number of areas. As a result, there were deficiencies in the evidence obtained and documentation compiled in the IPO Engagement in respect of the reliability of logging permits, existence of certain customers, completeness of sales, occurrence and completeness of expenses for logging activities, existence and ownership of the plantation assets, and effectiveness of the Group’s controls over cash and cash equivalents. For the 2009 audit, deficiencies were found in the evidence obtained on the completeness of sales, and existence and ownership of the plantation assets.

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

The Disciplinary Committee found as follows:

- (i) The 1<sup>st</sup> and 2<sup>nd</sup> Respondents failed or neglected to observe, maintain or otherwise apply the following professional standards in the IPO Engagement:
- Hong Kong Standard on Auditing (“HKSA”) 200 *Objective and General Principles Governing an Audit of Financial Statements*;
  - HKSA 230 *Audit Documentation*;
  - HKSA 240 *The Auditor’s Responsibilities to Consider Fraud in an Audit of Financial Statements*;
  - HKSA 500 *Audit Evidence*;
  - HKSA 505 *External Confirmations*;
  - HKSA 520 *Analytical Procedures*; and
  - HKSA 530 *Audit Sampling and Other Means of Testing*.
- (ii) The 1<sup>st</sup> and 3<sup>rd</sup> Respondents failed or neglected to observe, maintain or otherwise apply the following professional standards in the 2009 Audit:
- HKSA 500 *Audit Evidence*;
  - HKSA 505 *External Confirmations*; and
  - HKSA 530 *Audit Sampling and Other Means of Testing*.

Having taken into account the circumstances of the case, the Disciplinary Committee considered that the breaches were not intentional, reckless or for improper motive. They noted that the sanctions should be proportionate to the nature of the failure, with the aim to protect public interest. The committee also noted the 1<sup>st</sup> Respondent’s disciplinary history and the 2<sup>nd</sup> and 3<sup>rd</sup> Respondents’ clear disciplinary records, and that the cost of HK\$ 5 million, as agreed by all the parties, was reasonable in light of the scale of the investigation and the amount of documents involved. Accordingly, the 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 over 46,000 members and 17,000 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.

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

Dr Wendy Lam  
Director of Corporate Communications  
Phone: 2287-7209  
Email: [wendylam@hki CPA.org.hk](mailto:wendylam@hki CPA.org.hk)