



Dear Assignment / News / Business Section Editor

Court dismisses a certified public accountant (practising)'s appeal against a disciplinary order of Hong Kong Institute of CPAs

(HONG KONG, 2 December 2010) — On 30 November 2010, the Court of Appeal dismissed an appeal lodged by Ng Kay Lam (membership number A02682) against an order made by a Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants.

The Disciplinary Committee made the order on 24 December 2009, reprimanding Ng and ordering him to pay to the Institute a penalty of HK\$50,000 due to his failure or neglect to observe, maintain or otherwise apply a professional standard issued by the Institute. The Disciplinary Committee further ordered Ng to pay to the Institute HK\$140,000 towards the costs of the disciplinary proceedings.

Ng is the sole proprietor of a firm of certified public accountants, K.L. Ng & Company. The Institute received information indicating that, in the firm's audit of the financial statements of a private company, Linfoot (Asia Pacific) Limited, the audit work was carried out by Ng's part-time employee who also prepared those financial statements and acted as the company secretary of the company. This seriously compromised the independence of the audit. After considering the information available, the Institute lodged a complaint against Ng under section 34(1A) of the Professional Accountants Ordinance and a Disciplinary Committee was constituted to deal with the complaint in June 2008.

The Disciplinary Committee found on the evidence that Ng failed or neglected to observe, maintain or otherwise apply the Institute's Statement 1.203 "Professional Ethics – Integrity, Objectivity and Independence." Having taken into account the circumstances of the case, the Disciplinary Committee made the above order against Ng under section 35(1) of the Professional Accountants Ordinance. Ng appealed against the order to the Court of Appeal in January 2010 and the matter was heard by the Court on 17 November 2010.

In dismissing the appeal, the Court of Appeal stressed the importance of independence in an audit conducted in compliance of the Companies Ordinance. The Court noted that, in this case where the person conducting the audit had himself prepared the financial statements that were the subject matter of the audit, the perceived conflict of interest is obvious.

Findings of the Disciplinary Committee are available at the Institute's website under the "Compliance" section at www.hkicpa.org.hk.

Disciplinary proceedings of the Institute are conducted in accordance with Part V of the ordinance by five-member Disciplinary Committee. The majority (three members) of each committee, including the chairman, are non-accountants chosen from a panel of lay persons appointed by the Chief Executive of the HKSAR, and the other two members are CPAs.

Disciplinary hearings are held in public unless the Disciplinary Committee directs otherwise in the interests of justice. A hearing schedule is available at the Institute's website. A CPA who is aggrieved by an order made by a Disciplinary Committee may appeal to the Court of Appeal, which may confirm, vary or reverse the order.

The Disciplinary Committees have the power to sanction members, member practices and registered students. Sanctions may include temporary or permanent removal from membership or cancellation of a practising certificate, a reprimand, a penalty of no more than \$500,000, and payment of costs and expenses of the proceedings.

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Note to editors

About the Hong Kong Institute of CPAs

The Hong Kong Institute of CPAs is the only body authorized by law to register and grant practising certificates to certified public accountants in Hong Kong. The Institute has more than 30,000 members and 14,000 registered students. Members of the Institute are entitled to the description *certified public accountant* and to the designation of *CPA*.

The Hong Kong Institute of CPAs evolved from the Hong Kong Society of Accountants, which was established on 1 January 1973.

The Institute operates under the Professional Accountants Ordinance and works in the public interest. The Institute has wide-ranging responsibilities, including assuring the quality of entry into the profession through its postgraduate qualification programme and promulgating financial reporting, auditing and ethical standards in Hong Kong. The Institute has responsibility for regulating and promoting efficient accounting practices in Hong Kong to safeguard its leadership as an international financial centre.

The Hong Kong Institute of CPAs is a member of the Global Accounting Alliance – an alliance of the world's leading professional accountancy bodies, which was formed in 2005. The GAA promotes quality services, collaborates on important international issues and works with national regulators, governments and stakeholders.

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