



Dear Assignment / News / Business Section Editor

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

(HONG KONG, 14 February 2014) — A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountant reprimanded Lau Yuk Chu Peter (membership number F01339) on 27 January 2014 for his failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. In addition, Lau was ordered to pay the costs of the disciplinary proceedings of HK\$25,887.

Lau is the sole proprietor of Peter Y.C. Lau & Co. The Institute received information that, in auditing the financial statements of a private company, Lau did not obtain sufficient audit evidence that dividends and rental expense recorded as paid were actually paid. The Institute also found that Lau had not obtained sufficient audit evidence that the company met the criteria for adopting section 141D of the Companies Ordinance and the Small and Medium-sized Entity Financial Reporting Standard for preparing the financial statements. After considering information available, the Institute lodged a complaint against Lau under section 34(1)(a)(vi) of the Professional Accountants Ordinance.

Lau admitted the complaint against him. The Disciplinary Committee found that Lau failed or neglected to observe, maintain or otherwise apply professional standards issued by the Institute, namely Hong Kong Standard on Auditing 250 "*Consideration of Laws and Regulations in an Audit of Financial Statements*" and Hong Kong Standard on Auditing 500 "*Audit Evidence*".

Having taken into account the circumstances of the case, the Disciplinary Committee made the above order against Lau under section 35(1) of the ordinance.

Under the ordinance, if Lau is aggrieved by the order, he may give notice of an appeal to the Court of Appeal within 30 days after he is served the order.

The order and findings of the Disciplinary Committee are available at the Institute's website under the "Compliance" section at [www.hkicpa.org.hk](http://www.hkicpa.org.hk).

Disciplinary proceedings of the Institute are conducted in accordance with Part V of the ordinance by a five-member Disciplinary Committee. The majority (three members) of each committee, including the chairman, are non-accountants chosen from a panel 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 feels 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 include temporary or permanent removal from membership or cancellation of a practising certificate, a reprimand, a penalty of up to \$500,000, and payment of costs and expenses of the proceedings.

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### **About the Hong Kong Institute of Certified Public Accountants**

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 36,000 members and more than 17,000 registered students. Members of the Institute are entitled to the description *certified public accountant* and to the designation 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.

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

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致：編採主任／新聞／財經版編輯

## 香港會計師公會對一名執業會計師作出紀律處分

(香港，二零一四年二月十四日) — 香港會計師公會轄下一紀律委員會於二零一四年一月二十七日就劉玉珠先生(會員編號：F01339)沒有或忽略遵守、維持或以其他方式應用公會頒布的專業準則，對劉先生作出譴責。此外，劉先生須支付紀律程序的費用港幣二萬五千八百八十七元。

劉先生為劉玉珠會計師事務所的獨資經營者。公會早前接獲資料，指劉先生在審核一間私人公司的財務報表時，沒有取得足夠的審計證據以核實報表所示的已付股息及租金支出確實已支付。公會並發現劉先生沒有取得足夠的審計證據以核實該公司已符合可採納《公司條例》141D條及《中小型財務企業財務報告準則》有關的條件，以編制財務報表。公會經考慮所得資料，根據《專業會計師條例》第34(1)(a)(vi)條對劉先生作出投訴。

劉先生承認投訴中的指控屬實。紀律委員會裁定劉先生沒有或忽略遵守、維持或以其他方式應用公會的專業準則 – Hong Kong Standard on Auditing 250 "Consideration of Laws and Regulations in an Audit of Financial Statements" 及 Hong Kong Standard on Auditing 500 "Audit Evidence"。

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)條向劉先生作出上述的命令。

根據《專業會計師條例》，如劉先生不服紀律委員會對他作出的命令，可於命令文本送達後30天內向上訴法庭提出上訴。

紀律委員會的書面判決可於公會網頁內Compliance部份查閱，網頁為 <http://www.hkicpa.org.hk>。

公會的紀律程序是根據《專業會計師條例》第V部份，由五位成員組成的紀律委員會執行。每個紀律委員會的大多數成員，即包括主席在內的三名成員，是由香港特別行政區行政長官從業外人士組成的紀律小組中選派委任，另外兩名成員由專業會計師出任。

除非負責的紀律委員會因公平理由認為不恰當，否則紀律聆訊一般以公開形式進行。紀律聆訊的時間表可於公會網頁查閱。如當事人不服紀律委員會的裁判，可向上訴法庭提出上訴，上訴法庭可確定、修改或推翻紀律委員會的裁判。

紀律委員會有權向公會會員、執業會計師事務所會員及註冊學生作出處分。紀律處分範圍包括永久或有限期地將違規者從會計師註冊紀錄冊中除名或吊銷其執業證書、對其作出譴責、下令罰款不多於五十萬港元，以及支付紀律程序的費用。

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## 關於香港會計師公會

香港會計師公會是香港唯一獲法例授權負責專業會計師註冊兼頒授執業證書的組織，會員人數超過三萬六千，註冊學生人數逾一萬七千。公會會員可採用「會計師」稱銜（英文為 **certified public accountant**，簡稱 **CPA**）。

公會(**Hong Kong Institute of Certified Public Accountants**)於一九七三年一月一日成立，當時的英文名稱為 **Hong Kong Society of Accountants**。

公會根據《專業會計師條例》履行職責，以公眾利益為依歸。其職能廣泛，包括開辦專業資格課程(**Qualification Programme**)以確保會計師的入職質素，以及頒布香港的財務報告、審計及專業操守準則。此外，公會亦負責在香港監管和推動優良而有效的會計實務，以鞏固香港作為國際金融中心的領導地位。

香港會計師公會是全球會計聯盟 (**Global Accounting Alliance**，**GAA**) 的成員之一。全球會計聯盟於二零零五年成立，聯合了全球頂尖的專業會計團體，推動優質服務，並積極與各地監管機構、政府及關連人士就國際重要議題共同合作。

## 香港會計師公會聯絡資料

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IN THE MATTER OF

A Complaint made under section 34(1)(a) and section 34(1A) of the Professional Accountants Ordinance (Cap. 50) ("PAO") and referred to the Disciplinary Committee under section 33(3) of the PAO

BETWEEN

The Registrar of the Hong Kong  
Institute of Certified Public  
Accountants

COMPLAINANT

AND

Lau Yuk Chu, Peter (Membership no.: F01339)

RESPONDENT

Members: Mr. Simon Young Ngai Man (Chairman)  
Miss Jane Curzon Lo  
Mr. Alfred Ngai Tak Sing  
Mr. Arthur Pang Wai Hang  
Mr. Victor Ng Chi Keung

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**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 the Respondent, who is a certified public accountant (practising). Section 34(1)(a)(vi) of the PAO applied to the Respondent.
2. The particulars of the Complaint as set out in a letter dated 4 June 2013 ("the Complaint") from the Registrar of the Institute to the Council of the Institute for consideration of the Complaint for referral to the Disciplinary Panels were substantively as follows:-
  - 2.1 In May 2012, a Mr. L [xx] ("Mr. L"), who is a shareholder and director of a private company ("Company") lodged a complaint against the Respondent alleging that he did not properly conduct the audit on the financial statements of the Company for the period ended 31 March 2011 ("Financial Statements").

- 2.2 Mr. L discovered that certain items had not properly been reported in the Financial Statements. It was also observed that the Financial Statements did not comply with the Small and Medium-sized Entity Financial Reporting Framework ("SME FRF"), and the Company did not satisfy the criteria set out in section 141D of the Companies Ordinance for it to adopt the Small and Medium-sized Entity Financial Reporting Standard ("SME FRS").

#### First Complaint

- 2.3 It is required by paragraph 16 of SME-FRF that *"A company incorporated under the Companies Ordinance qualifies for reporting under the SME-FRF if it satisfies the criteria set out in section 141D of that Ordinance. Compliance with the SME-FRF and SME-FRS is necessary in order for financial statements to give a "true and correct" view when a Hong Kong incorporated company prepares its financial statements in accordance with section 141D of the Companies Ordinance"*.
- 2.4 Section 141D(1) of the Companies Ordinance provides that *"Where all the shareholders of a private company agree in writing that this section shall apply with respect to a financial year of that company-..."*. (underline added)
- 2.5 In the relevant audit report dated 11 November 2011, the Respondent expressed that *"In our opinion, the financial statements have been properly prepared ... in accordance with the SME-FRS...the balance sheet together with the notes thereon is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs as at 31<sup>st</sup> March, 2011..."*.
- 2.6 It was also stated in note 11 of the Financial Statements that *"All shareholders of the Company have agreed that Section 141D of the Companies Ordinance shall apply with respect to the financial year ended 31<sup>st</sup> March, 2011."* (underline added)
- 2.7 Audit documentation in the working papers shows that written consent was only given by 5 out of 6 shareholders of the Company to apply section 141D in the preparation of the Financial Statements. Documentation shows that consent of Mr. L, who is also a shareholder, was not inspected.
- 2.8 The Respondent confirmed that written consent of only 5 out of 6 shareholders was obtained and that Mr. L had not signed a written consent form in this regard. He admitted that *"audit work did not satisfy the criteria set out in section 141D of the Companies Ordinance"*.
- 2.9 The Respondent should have been aware that Mr. L's written consent was not obtained. The Respondent should have considered modifying the audit opinion in accordance with HKSA 705 "Modifications to the opinion in the independent auditor's report".

- 2.10 In light of an unmodified audit opinion expressed by the Respondent, he was in breach of HKSA 250 in that he failed to obtain sufficient audit evidence regarding the Company's compliance with SME-FRF and section 141D of the Companies Ordinance in order to adopt SME-FRS in preparing the Financial Statements.

## Second Complaint

### Understatement of \$2,640,000 dividend payable that was treated as paid

- 2.11 It was disclosed in note 10 of the Financial Statements that final dividend declared (HK\$220.0 per share) totaling \$2,640,000 was paid during the period ended 31 March 2011.
- 2.12 The audit working papers show that:
- (a) There were unpresented cheques as at 31 March 2011 (not yet cleared by the bank) in relation to the dividend declared and they were sent on 30 March 2011.
  - (b) \$2,640,000 was settled by six cheques (numbered 429708, 429709, 429710, 429711, 429712, and 429729) drawn by the Company, that were only cleared in February and March 2012.
  - (c) One of the cheques drawn (numbered 429729) was used to draw a bank cashier order of \$440,000 in favour of Mr. L.
- 2.13 The Respondent should have identified in the course of conducting relevant audit procedures in about October and November 2011 (i.e. six months after cheque issue date) that unpresented cheques as at 31 March 2011 would become stale cheques and would generally not be processed by the drawing banks in Hong Kong. Hence, those six cheques cleared in February and March 2012 would have been drawn after the year end date of 31 March 2011.
- 2.14 Another documentation that "*all 1<sup>st</sup> batch cheques were released on 30 March 2011*" (underline added) also suggests that the six cheques numbered 429708, 429709, 429710, 429711, 429712, and 429729 mentioned above were the "2<sup>nd</sup> batch" of cheques drawn.
- 2.15 As it is clear that the shareholders only cashed in their dividends in February / March 2012, the dividend declared of \$2,640,000 would therefore remain unsettled when audit work was concluded on 11 November 2011 (i.e. date of audit report).
- 2.16 The working papers do not show that sufficient audit work was conducted to satisfy the Respondent that dividend declared was indeed paid before the conclusion of the audit on 11 November 2011. On the contrary, they show that the following audit evidence was not obtained:
- (a) inspection of the stale cheque copies or stubs (i.e. cheques released on 30 March 2011 but were still unpresented on 11 November 2011);

- (b) recording of the stale cheque numbers;
  - (c) inspection of documents showing shareholders' receipt of the stale cheques;
  - (d) confirmation by Mr. L of receipt of his dividend entitlement of \$440,000; and
  - (e) confirmation by the other five shareholders of receipt of their dividend entitlement of \$440,000 each (confirmations returned from them showing there was no amount due to them were only requested in June 2012, after the conclusion of the audit on 11 November 2011);
  - (f) the subsequent settlement of \$2,640,000 (settlement of \$2,640,000 in February and March 2012 could not have been checked at the time of the audit conducted in October and November 2011); and
  - (g) the auditor's consideration of the appropriateness of reclassifying dividend paid to dividend payable regarding the stale cheques upon an understanding documented in the working papers that "*The 5 brothers / sisters must listen to elder brother L [xx] permission to present the cheques though resolution was passed in the board minutes and quarterly meeting*".
- 2.17 Although incorrect classification of dividend paid and payable does not affect the amount of net assets of the Financial Statements, the understatement of dividend payable and cash and bank balance of \$2,640,000 is material to the Financial Statements which show that profit for the period was \$3,259,964, net assets were \$631,964, cash and bank balance was \$1,443,829 and total liabilities were \$1,171,462.
- 2.18 In the circumstances, the Respondent was in breach of HKSA 500 in that he failed to obtain sufficient audit evidence to agree that dividend declared of \$2,640,000 was paid (when in fact it was only settled almost one year subsequent to 31 March 2011).

Understatement of \$643,120 rental expense payable that was treated as paid

- 2.19 It was disclosed in note 4 of the Financial Statements that rent and rates expense of \$1,706,601 was incurred during the period ended 31 March 2011.
- 2.20 The working papers show that:
- (a) \$1,706,601 comprised rental expenses of \$1,656,000 (\$36,000 + \$1,200,000 + \$420,000) and rates of \$50,601 (\$47,640 + \$2,961) for three properties, two of which were co-owned by Mr. L and some of the Company's other shareholders.
  - (b) Only \$1,012,880 (comprising 5 cheques presented in September 2011 of cheque numbers 429158, 429159, 429160, 429161, 429162) out of \$1,656,000 (comprising a total of 12 cheques issued as of 31



March 2011) was settled prior to the conclusion of the audit on 11 November 2011. The remaining amount of \$643,120 included rent payable due to Mr. L of \$457,000 and was only settled in February and March 2012.

- 2.21 In respect of audit work on rental payment, it was documented that:
- (a) "27/3/2012" was the subsequent clearing date for the rent of \$444,400 marked as "L [xx]" i.e. Mr. L; and
  - (b) "*rent paid checked to BIR 57 for the year ended 31/3/3011 portion*".
- 2.22 Furthermore, the audit work on rental payment above regarding the subsequent clearing of the cheques could not have been performed at the time when the audit was concluded in November 2011 because:
- (a) a cheque cleared on 27 March 2012 was unlikely to have been issued on or before the year end date of 31 March 2011 (which would have become a stale cheque 6 months after issuance);
  - (b) clearance of the cheque on 27 March 2012 could not have been checked at the time of the audit in November 2011; and
  - (c) the returns contained in the working papers were received by the Inland Revenue Department on 19 December 2011, after the audit report date of 11 November 2011.
- 2.23 The working papers do not show sufficient audit work conducted to satisfy the Respondent that rental expenses were indeed paid before the conclusion of the audit on 11 November 2011. On the contrary, it shows that the following audit evidence was not obtained:
- (a) inspection of the stale cheque copies or stubs amounting to \$643,120 (i.e. cheques released on 30 March 2011 but were still not presented on 11 November 2011);
  - (b) recording of the stale cheque numbers;
  - (c) inspection of documents showing shareholders' receipt of the stale cheques;
  - (d) confirmation by Mr. L of receipt of his share of rental payment of \$457,000; and
  - (e) confirmation by the other shareholders of receipt of the other rental payments (confirmations returned from them showing that there was no amount due to them were only requested in June 2012, after the conclusion of the audit on 11 November 2011);
  - (f) checking subsequent settlement of \$643,120 (settlement of \$643,120 in February and March 2012 could not have been made at the time of the audit conducted in October and November 2011); and

(g) enquiry of the status of the rental payment in respect of the stale cheques.

2.24 Although incorrect classification of rental expense paid and payable does not affect the amount of net assets of the Financial Statements, the understatement of accrued expense payable and cash and bank balance of \$643,120 is material to the Financial Statements which show that profit for the period was \$3,259,964, net assets were \$631,964, cash and bank balance was \$1,443,829 and total liabilities were \$1,171,462.

In the circumstances, the Respondent was in breach of HKSA 500 in that he failed to obtain sufficient audit evidence to agree that rental expenses of \$643,120 were paid (when in fact they were only settled almost one year subsequent to 31 March 2011).

3. The Respondent admitted the Complaint against him. He did not dispute the facts as set out in the Complaint. He agreed that the steps set out in paragraphs 17 to 30 of the Disciplinary Committee Proceedings Rules be dispensed with.
4. Based on the evidence submitted by the parties and the Respondent's full admission of the facts substantiating the Complaint, the DC is satisfied that the Complaint is proved. The only remaining issue is the appropriate discretionary order to make in relation to the Respondent pursuant to the DC's disciplinary powers under section 35 of the PAO.
5. By a letter dated 17 September 2013 addressed to the Complainant and the Respondent, the Clerk to the Disciplinary Committee ("DC"), under the direction of the DC, informed the parties that they should make written submissions to the DC as to the sanctions and costs and that the DC would not hold a hearing on sanctions and costs unless otherwise requested by the parties.
6. In the Complainant's written submission dated 8 October 2013, the Complainant submitted that the Respondent should be reprimanded and invited the DC to consider whether imposing a "small sum of financial penalty" was warranted. The Complainant also sought an order for costs and expenses incurred in this case in the amount of HK\$25,887 and provided an annexure detailing the precise breakdown of this amount.
7. In the Respondent's written submission dated 31 October 2013, the Respondent expressed "regret for the misconduct". It was stated that while an attempt had been made to obtain the consent of all six shareholders, the error resulted because the audit was "not well supervised and documented". The Respondent noted that "no damage was done to the company and to any party" as a result of the misstatements in the financial records. He asked the DC to consider "imposing a mild sanction". The submission concluded by acknowledging the DC's discretion in imposing sanctions and contained no specific response to the Complainant's request for an order to pay costs and expenses.

8. In considering the proper orders to be made in this case, the DC has had regard to all the aforesaid matters, including the particulars in support of the Complaint, the gravity of the breaches including the fact that no one was put at risk of economic loss, the remorse of the Respondent as evidenced by his timely admission of responsibility, the absence of any previous proven disciplinary complaints against the Respondent, and the respective positions of the parties on the issue of sanctions.
9. The DC orders that:-
  - 1) the Respondent be reprimanded under section 35(1)(b) of the PAO; and
  - 2) the Respondent do pay the costs and expenses of and incidental to the proceedings, those being the costs and expenses of the Complainant in the sum of HK\$25,887, under section 35(1)(iii) of the PAO.

Dated the 27<sup>th</sup> day of January 2014

IN THE MATTER OF

A Complaint made under section 34(1)(a) and section 34(1A) of the Professional Accountants Ordinance (Cap. 50) ("PAO") and referred to the Disciplinary Committee under section 33(3) of the PAO

BETWEEN

The Registrar of the Hong Kong  
Institute of Certified Public  
Accountants

COMPLAINANT

AND

Lau Yuk Chu, Peter (Membership no.: F01339)      RESPONDENT

Before a Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants ("the Institute").

Members:      Mr. Simon Young Ngai Man (Chairman)  
                    Miss Jane Curzon Lo  
                    Mr. Alfred Ngai Tak Sing  
                    Mr. Arthur Pang Wai Hang  
                    Mr. Victor Ng Chi Keung

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**ORDER**

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Upon reading the complaint against Lau Yuk Chu, Peter, being a certified public accountant (practising), as set out in a letter from the Registrar of the Institute ("the Complainant") dated 4 June 2013, the written submission of the Complainant dated 8 October 2013, the written submission of the Respondent dated 31 October 2013, the Disciplinary Committee is satisfied by the admission of the Respondent and the evidence adduced before it that the following complaints are proved:

1<sup>st</sup> Complaint: Section 34(1)(a)(vi) of the PAO applies to the Respondent in that the Respondent failed or neglected to observe, maintain or otherwise apply professional standards, namely, HKSA 250 as a result of his failure to obtain, in respect of the relevant financial statements, sufficient audit evidence regarding the Company's compliance with SME-FRF and s141D of the Companies Ordinance in order to adopt SME-FRS in its preparation of the financial statements.

2<sup>nd</sup> Complaint: Section 34(1)(a)(vi) of the PAO applies to the Respondent in that the Respondent, failed or neglected to observe, maintain or otherwise apply professional standards, namely, HKSA 500 as a result of his failure to obtain sufficient audit evidence in respect of the understatement of liabilities and dividend payable and/or rental expense payable that were incorrectly treated as payments already made in the relevant financial statements.

IT IS ORDERED that:-

1. the Respondent be reprimanded under section 35(1)(b) of the PAO; and
2. the Respondent do pay the costs and expenses of and incidental to the proceedings, those being the costs and expenses of the Complainant in the sum of HK\$25,887, under section 35(1)(iii) of the PAO.

Dated the 27<sup>th</sup> day of January 2014