



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

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

(HONG KONG, 21 June 2021) A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants reprimanded Mr. Ng Ka Hong, certified public accountant (practising) (F07043) on 11 May 2021 for his failure or neglect to observe, maintain or otherwise apply a professional standard issued by the Institute. In addition, Ng was ordered to pay a penalty of HK\$150,000 and costs of the Institute and the Financial Reporting Council ("FRC") totalling HK\$100,222.

Ng was the engagement quality control reviewer ("EQCR") for a corporate practice's audit of the consolidated financial statements of China E-Learning Group Limited (currently known as China E-Information Technology Group Limited), a Hong Kong listed company, and its subsidiaries (collectively "Group") for the year ended 31 December 2014. The corporate practice, which has now been de-registered, expressed an unmodified auditor's opinion on the consolidated financial statements of the Group and on the company's balance sheet.

The Institute received a referral from the FRC about deficiencies in the audit. The audit team failed to obtain sufficient audit evidence to support that there was no impairment of significant amounts due by certain subsidiaries included in the company's balance sheet. In addition, the audit team failed to perform proper audit procedures in respect of two convertible bonds issued by the Group during the year to settle certain existing liabilities. As EQCR, Ng failed to adequately evaluate the audit team's judgements and conclusions reached in those areas.

After considering the information available, the Institute lodged a complaint against Ng under section 34(1)(a)(vi) of the Professional Accountants Ordinance (Cap. 50) ("PAO").

Ng admitted the complaint against him. The Disciplinary Committee found that Ng failed or neglected to observe, maintain or otherwise apply Hong Kong Standard on Auditing 220 *Quality Control for an Audit of Financial Statements*.

Having taken into account the impact of Ng's audit deficiencies on the reputation of the profession, the fact that Ng committed similar deficiencies in case after case, and the public interest involved, the Disciplinary Committee made the above order against Ng under section 35(1) of the PAO.

### 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 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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## 香港會計師公會對一名執業會計師作出紀律處分

(香港，二零二一年六月二十一日) 香港會計師公會轄下紀律委員會，於二零二一年五月十一日就執業會計師吳家康先生(會員編號：F07043)沒有或忽略遵守、維持或以其他方式應用公會頒佈的專業準則，對他予以譴責。此外，吳先生須繳付罰款 150,000 港元以及公會及財務匯報局(「財匯局」)費用共 100,222 港元。

吳先生曾於一家執業法團審計香港上市公司中國網絡教育集團有限公司(現稱中國網絡信息科技集團有限公司)及其附屬公司(統稱「該集團」)截至二零一四年十二月三十一日止年度綜合財務報表的項目中，擔任質量控制覆核人。該執業法團(現已撤銷註冊)就該集團的綜合財務報表及該公司的資產負債表發表無保留的核數師報告。

公會收到財匯局的轉介，指該審計項目有違規情況。審計團隊未有獲取足夠的審計憑證，以證明該公司資產負債表內數項應收附屬公司的重大款項沒有減值。此外，審計團隊未有就該集團年內用作償還現有負債而發行的兩張可換股債券進行適當的審計程序。作為質量控制覆核人，吳先生沒有充分評估審計團隊在上述方面作出的重大判斷及結論。

公會經考慮所得資料後，根據香港法例第 50 章《專業會計師條例》第 34(1)(a)(vi)條對吳先生作出投訴。

吳先生承認投訴中的指控屬實。紀律委員會裁定吳先生沒有或忽略遵守、維持或以其他方式應用 Hong Kong Standard on Auditing 220「Quality Control for an Audit of Financial Statements」。

經考慮吳先生的審計缺失對會計專業聲譽的影響、其屢犯類似缺失，以及此個案涉及公眾利益，紀律委員會根據《專業會計師條例》第 35(1)條向吳先生作出上述命令。

### 香港會計師公會的紀律處分程序

香港會計師公會致力維持會計界的最高專業和道德標準。公會根據香港法例第 50 章《專業會計師條例》及紀律委員會訴訟程序規則，成立獨立的紀律委員會，處理理事會轉介的投訴個案。委員會一旦證明對公會會員、執業會計師事務所會員或註冊學生的檢控屬實，將會作出適當懲處。若答辯人未有提出上訴，紀律委員會的裁判將會向外公佈。

詳情請參閱：

<http://www.hkicpa.org.hk/en/standards-and-regulations/compliance/disciplinary/>

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## 關於香港會計師公會

香港會計師公會是根據《專業會計師條例》成立的法定機構，負責培訓、發展和監管本港的會計專業。公會會員逾 46,000 名，學生人數逾 16,000。

公會開辦專業資格課程，確保會計師的入職質素，同時頒佈財務報告、審計及專業操守的準則，以鞏固香港作為國際金融中心的領導地位。

CPA 會計師是一個獲國際認可的頂尖專業資格。公會是全球會計聯盟及國際會計師聯合會的成員之一，積極推動國際專業發展。

### 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(1A) of the Professional  
Accounts Ordinance, Cap. 50

BETWEEN

The Registrar of the Hong Kong Institute of  
Certified Public Accounts

COMPLAINANT

AND

Ng Ka Hong (F07043)

RESPONDENT

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REASONS FOR SANCTIONS & ORDER

1. The Respondent faces a complaint brought against him by the Registrar of the Hong Kong Institute of Certified Public Accountants under s.34(1)(a)(vi) of the Professional Accountants Ordinance (“PAO”) for failure and/or neglect to observe, maintain or otherwise apply a professional standard when carrying out his engagement quality control review for the audit of the financial statements of a client.
2. By a letter dated 22 December 2020, the parties jointly informed the Committee that the Respondent had admitted the complaint against him. They also suggested that it is no longer necessary for the parties to follow

the steps set out in paragraphs 17 to 30 of the Disciplinary Committee Proceedings Rules.

3. The Notice of Commencement of Proceedings was issued on 15 January 2021. Having considered the parties aforesaid joint letter and the Respondent's admission of the complaint, the Committee approved the parties' proposal and directed that they made submissions on sanctions by 11 February 2021.
4. The Complainant provided the written submissions on sanction and costs on 10 February 2021. The Respondent elected not to make any submissions.

#### The Facts leading up to the Complaint

5. The audit in issue was performed by McMillan Woods SG CPA, a firm which had ceased practice and was re-registered on 1 December 2018, ("the Firm") for a company listed with the GEM Board of the Hong Kong Stock Exchange ("Listco") for the year ended 31 December 2014.
6. The financial statements were said to be prepared in accordance with Hong Kong Financial Reporting Standards, and the auditor's report stated that the audit was conducted in accordance with Hong Kong Standards on Auditing.
7. In the auditor's report issued for the said audit, the firm expressed an unmodified auditor's opinion on the Listco's financial statements and its balance sheet for the year ended 31 December 2014.

8. The Respondent was the engagement quality control reviewer (“EQCR”) of the said audit.
9. At the material time, the Listco and its subsidiaries (collectively called “the Group”) were principally engaged in the provision of internet platform for education on Chinese medicine and other advisory and training programs.
10. According to the complaint admitted by the Respondent, the said audit has fallen below the professional standard in 2 respects :
  - (a) the engagement team of the Firm had failed to obtain sufficient appropriate audit evidence to assess the impairment of the amounts due to the Listco from its subsidiaries (“Issue 1”);
  - (b) The engagement team of the Firm had further failed to properly evaluate the fair value of 2 convertible notes (“CNs”) issued by the Listco for a total principal amount of HK\$83.2 million for the purpose of fully settling certain existing liabilities of the Group, and the carrying amount of the extinguished liabilities to see if they had been appropriately calculated and recognized in the income statement of the Listco (“Issue 2”).
11. Dealing with Issue 1 first. As at 31 December 2014, the Listco had significant amounts (HK\$133.9 million) due from subsidiaries which amounted to 34.5% of the Listco’s net assets of HK\$388.1 million.

12. As the Group's net assets were in the region of HK\$312.9 million (as at 31 December 2014), this indicated that some of the Group's subsidiaries might be in a net liability position.
13. The amounts were mainly due from 4 subsidiaries, namely New Beida Business StudyNet Group Limited ("**New Beida**") of HK\$51.7 million, Best Boom Enterprises Limited ("**Best Boom**") of HK\$43.6 million, Beijing Hua Tuo Education Technology Company Limited ("**Beijing Hua Tuo**") of HK\$29.1 million and China E-Learning (Hong Kong) Limited ("**CELHK**") of HK\$9.2 million. There was no subsequent settlement from these subsidiaries as documented in the audit workpapers.
14. The engagement team identified the impairment on amounts due from subsidiaries as a key audit issue in the entity-level financial statements of the Company, which was considered to involve significant judgement about the ability of the subsidiaries to repay. But the engagement team concurred with Listco's Management that no impairment would be made for these amounts at the entity-level financial statements.
15. For New Beida and Beijing Hua Tuo, the engagement team documented its understanding from management that New Beida was searching opportunities for mergers and acquisitions, and it would develop a new business through its direct subsidiary (Beijing Hua Tuo) to generate cash flow. The engagement team also documented it had reviewed a memorandum of understanding in this respect.



16. For Best Boom, the engagement team documented management’s explanation that a subsidiary contributed profit of over HK\$9 million to the Group in the past three years, and the engagement team “believed” that Best Boom could require that subsidiary to declare dividend.
17. For CELHK, the engagement team understood from management that it had provided management services to the Group but no related management fee had been charged by CELHK. Management would consider booking such fees in the books and if so, CELHK would have net cash inflow and be able to make repayment.
18. The engagement team further said it understood from management that the abovementioned subsidiaries acted as “special purpose vehicles” within the Group for future M&A purposes. The team considered the recoverability of the amounts due should be considered from a “single economic entity” perspective, and that the Company would be able to allocate funds within the Group to satisfy any intercompany indebtedness. The team thus considered there was no objective evidence of impairment and therefore concurred that no impairment loss be recognised.
19. But as mentioned in paragraphs 11 and 12 above, the Listco’s net assets were larger than the Group’s net assets and this would indicate that some of the Company’s subsidiaries might be in net liability positions.
20. In addition the Group incurred losses for the years 2013 (HK\$86.1 million) and 2014 (HK\$47.4 million), and the net cash flows from operating activities

deteriorated from a net cash inflow of HK\$24.2 million in 2013 to a net cash outflow of HK\$53.0 million in 2014.

21. Also, the fact that there was no subsequent settlement of the amounts due from subsidiaries should have raised doubts as to the recoverability of those amounts, from the Company's perspective.
22. All these would have indicated possible impairment of the amounts due, and would require the auditor to perform further procedures to confirm whether there was in fact impairment of the receivables.
23. Just as importantly, the engagement team had not evaluated the financial positions of the subsidiaries in question. Also, evidence obtained by the engagement team in this connection was largely limited to management's representations which the team had not obtained any corroborative evidence to substantiate or verify. The engagement team had not evaluated the nature and status of any of the purported M&A projects and/or management fee arrangements, and how such projects and arrangements would generate sufficient cash flows for the subsidiaries to repay the Company.
24. There is no evidence of the engagement team performing an evaluation of management's claim that it could allocate funds within the Group to enable the subsidiaries to repay the amounts due, including how the fund allocation would be conducted and how such an exercise would impact the cash position of each subsidiary and its ability to repay the amount due.

25. On the basis of the aforesaid, there can be no question that the Firm had obtained sufficient appropriate audit evidence to assess the impairment of the amounts due from the Listco's subsidiaries. The failure on Issue 1 is obvious and disturbing.
26. Turning to Issue 2. During the year, the Listco issued two convertible notes (CN2016 and CN2016A) with a total principal amount of HK\$83.2 million to fully settle certain existing liabilities of the Group carried at HK\$83.2 million. The two CNs were fully converted as at the year-end date.
27. The engagement team identified the risk of material misstatement of the CNs as high and they involved judgement and estimates but concurred with the Listco's Management on the way they were being dealt with in the Financial Statements.
28. Management engaged a valuation expert ("**Management Expert**") to perform valuations of the two CNs on the date of issuance, but it did not fully adopt the valuations as calculated by the expert.
29. Management determined that the total fair value of the two CNs at initial recognition was HK\$83.2 million, being the same as the carrying amount of the liabilities extinguished. The two CNs were recognised at HK\$82.3 million after deduction of total issuance costs of HK\$0.9 million (see consolidated statement of cash flow of the Financial Statements).

30. In the initial recognition, management adopted only the Management Expert's calculation of the fair value of the debt component as HK\$72.4 million (less issuance costs of HK\$0.8 million), but not the fair value of the embedded derivative component and the total fair value of the CNs as determined by the Management Expert (ie. HK\$27.5 million & HK\$99.9 million respectively). Management then deducted the recognised value of the debt component from the total recognised value of the two CNs to arrive at the recognised residual value of the equity component.
31. Also, curiously, while the CNs were recognised at the amount calculated by management per above (HK\$82.3 million), note 30 to the Financial Statements stated their respective fair values at issuance dates as those calculated by the Management Expert (i.e. HK\$53.1 million and HK\$46.8 million, totalling HK\$99.9 million). This discrepancy was not explained in the Financial Statements.
32. In concurring with management's initial recognition, the engagement team considered the following :
- (a) the extinguishment constituted an orderly transaction, and if the extinguished liabilities were to be settled by cash then HK\$83.2 million of cash would be paid. Therefore such an amount would represent the fair value of the two CNs;
  - (b) the embedded derivatives as identified in the Management Expert's valuation should not be included in the debt component, as the derivatives were "*closely related*" to the debt host contracts;

(c) the fair value of HK\$99.9 million as disclosed in the Financial Statements “*was not a good place for disclosure*” and the engagement team had “*an inadvertent oversight*” in this matter.

33. But, clearly, the engagement team had failed to sufficiently evaluate the initial recognition of fair value of the two CNs and the disclosure of them in the Financial Statements, and consequently whether any profit or loss on extinguishment of liabilities had been appropriately recognised.

34. The engagement team failed to adequately evaluate the appropriateness of management’s equating the fair value of the two CNs to the carrying amount of the liabilities extinguished (i.e. HK\$83.2 million) when :

(a) there was no evidence to support that the extinguishment of liabilities was indeed an “orderly transaction” as defined under HKFRS 13 *Fair Value Measurement*. An orderly transaction is defined as one which assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving assets or liabilities; it is not a forced transaction (eg a forced liquidation or distress sale);

(b) as a result of (a) above, there would be a question of whether the carrying amount of the liabilities appropriately represented the fair value of the CNs;

- (c) the fair value of the two CNs thus recognised was the same as their principal amount, which was highly unusual given the existence of the equity-conversion and optional early-redemption features of the CNs; and
- (d) the Management Expert had determined the total fair value of the two CNs differently at HK\$99.9 million.

- 35. Also, the engagement team failed to sufficiently challenge management's selective adoption of the valuation by the Management Expert by only taking account of the fair value of the liability component of the two CNs as calculated by the Management Expert, and disregarding the fair value of the embedded derivative component (i.e. the call option) of the CNs.
- 36. In this respect, management's calculations apparently did not take account of the fair value of the embedded derivative at all, which is in breach of Hong Kong Accounting Standard 39 *Financial Instruments: Recognition and Measurement*. This observation applies regardless of whether the derivative was "closely related" to the host contract in terms of economic characteristics and risks and so should be accounted for with the host contract, or the derivative was not "closely related" to the host contract and should be accounted for separately.
- 37. Indeed, the engagement team had failed to properly evaluate the work of the Management Expert in determining the fair value of the CNs (which was partly adopted by management in recognising the CNs in the Financial Statements. In this regard, there is no evidence that the engagement team had assessed whether the valuation by the Management Expert had been correctly

performed, in particular, as regards the treatment of the embedded call option and the absence of residual equity value for the CNs in the valuation.

38. And, of course, the engagement team failed also to identify the discrepancy between the fair value at which the CNs were recognised in the Financial Statements disclosure and the CN's fair value per the Management Expert.
39. As a result of the above deficiencies in the audit of the two CNs, the engagement team failed to properly evaluate whether any difference between the fair value of the CNs and the carrying amount of extinguished liabilities had been appropriately calculated and recognised in the income statement. The Firm's failure on Issue 2 is likewise obvious and significant.

#### The Respondent's Role as EQCR

40. In the audit, the Respondent signed off an "Engagement Quality Control Review Worksheet" which signified that he, as the EQCR was satisfied that the auditor's report could be released on the basis that there was adequate audit work and documentation on significant financial statements areas and management estimates, and that significant matters had been addressed and resolved.
41. However, in light of the audit deficiencies discussed above, it is clear that the Respondent had not properly performed his engagement quality control review by adequately challenging the judgments made, and conclusions reached, on the abovementioned significant judgemental issues by the

engagement team. As a result, he failed to comply with paragraph 20 of HKSA 220 *Quality Control for an Audit of Financial Statements*.

#### The Respondent's Disciplinary Records

42. The Respondent has 2 previous records. The case **D-19-1520C** (October 2020) is a recent disciplinary decision involving the Respondent himself. The decision involves exactly the same kind of issues as that of the present case, namely impairment assessment, and the accounting treatment of CNs including failure to recognize their correct fair values. In that case the impairment assessment of an investment in an associate was inadequately performed, in the determination of the recoverable amount in relation to the investment, and the assumptions and significant data used in the underlying management forecast. For the CNs, there were inadequate assessment of the accounting treatment, the fair value of a call option embedded, and the appropriateness of the discount rate used. The Respondent therefore failed to perform the review adequately, in breach of §20 & 21 of HKSA 220, and he also failed to maintain his professional competence under the COE. He was reprimanded and a penalty of HK\$120,000 was imposed.
43. Apart from the case of D-19-1520C referred to above, the Respondent has another regulatory record in **C-19-1513F** (January 2020) in which the complaint against him was resolved through Resolution by Agreement (“RBA”). That case concerned deficiencies in the impairment assessment and the valuation of biological assets, and the Respondent was also the EQCR. For impairment assessment of the intangible assets, the engagement team did not perform audit procedures to assess the relevance and reasonableness of the valuation method, key input data and assumptions used in the valuation.



As for the valuation of biological assets, the engagement team did not perform adequate audit procedures to evaluate the relevance and reasonableness of the key assumptions and data used in the valuation, and assess the competence, capabilities and objectivity of the consultant and research company before relying on the data they provided for the valuation. The Respondent was again in breach of §20 of HKSA 220, for which he was reprimanded and paid a penalty of HK\$20,000.

### The Sanctions

44. In considering the question of sanctions, one of the key factors must be the damage the Respondent's failure has done to the integrity and reputation of the profession. As stated by the Disciplinary Committee in the Reason for Decision given in the Respondent's last case (D-19-1520C) :

*“30 ... It is important that public confidence in the accounting profession be maintained and any sanctions imposed by the Committee should aim to ensure that high standards of the Profession and maintained”.*

45. We echoed the sentiment expressed therein. And in our view there are clearly merits in what the Complainant has said in paragraph 11 of their submission's on sanctions :

*“11. The fact that the Respondent was committing the same or similar mistakes in case after case is worrying. All of his regulatory cases, including the present one, concern listed audits and public interest is involved. The repeated offences and the public interest are material factors in which the*

*Committee should consider increasing the level of sanctions so as to send a clear message both to the Respondent and the wider profession and the public that the highest standard is expected from members of the profession practising public accountancy.”*

(Note: As both the present case and the RBA Case C-19-1513F concern audits for the year ended 31 December 2014, whereas D-19-1520C concerns an audit for the year ended 31 December 2017, the Respondent was, strictly speaking, not a “repeat offender” and is not treated as such).

46. Taking into account the nature of the complaint, the Respondent’s previous disciplinary records, and the public interest at stake, we have come to the decision that the following sanctions are called for in the circumstances of the case :

- (a) the Respondent be reprimanded under s.35(1)(b), of the PAO;
- (b) the Respondent pay a penalty of HK\$150,000 under s.35(1)(c) of the PAO.

And we so order.

### Costs

47. In the absence of any special reason to the contrary, we consider that costs should follow the event. Accordingly we further order the Respondent to pay

the cost and expenses of and incidental to the proceedings of the Complainant in the sum of HK\$100,222.

The above shall take effect on the 42<sup>nd</sup> day from the date of this Order.

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Mr. Newman Wong  
Chairman  
Disciplinary Panel A

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Mr. Conrad Chan  
Member  
Disciplinary Panel A

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Ms. Fung Suet Ngan Gladys  
Member  
Disciplinary Panel B

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Ms. Lau Yuk Kuen  
Member  
Disciplinary Panel A

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Mr. So Kwok Kay  
Member  
Disciplinary Panel B

Dated 11 May 2021

