

IN THE MATTER OF

Complaints made under Section 34(1)(a) of the Professional Accountants Ordinance (Cap.50) (“the 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

Mr. Lo Wai On
Membership No. F01642 RESPONDENT

Before a Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants (“the Institute”)

Members: Mr. Chan Yiu Chong Christopher (Chairman)
Professor Lam Kit Chun Joanna
Ms. Yuen Shuk Kam Nicole
Mr. Pang Wai Hang Arthur
Mr. Tsang Chi Wai

REASONS FOR ORDER

1. This is a complaint made by the Complainant against the Respondent, a certified public accountant (practising). Section 34(1)(a)(vi) of the PAO applied to the Respondent.
2. On 21 September 2010, the Complainant received a letter from the Securities and Futures Commission (“SFC”) raising a concern that W.O. Lo & Co. (firm number 0596) (the “Firm”) had breached one or more of subparagraphs (iv) to (x) of section 34(1)(a) of the PAO. In support of its allegations, the SFC provided the complainant with a report and supporting documentation that identified apparent substandard work by the Firm in the course of its audit of the draft consolidated financial statements of the Mountbatten Corporation (“Mountbatten”) and its subsidiaries of the year ended 31 December 2009.

3. A Disciplinary Committee (“DC”) was constituted to deal with the complaint. The DC notes the Agreed Facts submitted by the Parties on 6 November 2012. The gists of the Agreed Facts are as follows:-
 - (a) Mountbatten is an unlisted company incorporated in the Cayman Islands with a principal business activity of investment holding and securities trading. Mountbatten’s major asset, comprising 98% of its total assets, was its 22.11% shareholding interest in Mulpha International Berhad (“Mulpha”), a company listed on the Malaysian Stock Exchange. Mountbatten held its investment in Mulpha through its wholly owned subsidiary, Nautical Investments Limited. In 2010 Mountbatten made an application for rights issue. The application was withdrawn after the SFC raised certain concerns over the draft financial statements.
 - (b) The Financial Statements for Mountbatten had disclosed that the carrying value of Mountbatten’s interest in Mulpha International Berhad amounted to US\$146 million and the fair value of the interest was US\$35 million, and that no provision for impairment was made since “management considers that the value in use based on discounted future cash flow of the associate [Mulpha] is higher than the carrying amount and the fair value of the associate”.
 - (c) The issue involved in this complaint, being valuation of Mountbatten’s equity interest in Mulpha, represented 98% of the net assets of Mountbatten group. Being the auditor of Mountbatten, the Respondent being the sole proprietor of the Firm concluded that “[b]ased on the audit evidence obtained, we conclude that the impairment test is properly and satisfactorily performed and the value of [Mulpha] is fairly [sic] stated in the financial statements.”
 - (d) The working papers also record that fact that the Firm had questioned the valuer’s proposed method to calculate the discounted cash flow. The working papers do not record how the Firm had reconciled its concerns regarding the valuer’s proposed method to calculate the discounted cash flow. There is no evidence in the working papers that the Firm had considered whether management had deducted Mulpha’s debt from the enterprise value calculated by the valuer to obtain the equity value. The Firm subsequently advised the complainant that such deduction had not been made because the Mulpha’s debt could be offset with the amount of cash and cash equivalent that Mulpha held. However, this explanation had not been documented in the working papers.
4. The Respondent admitted the Second and the Amended Third Complaints against him. He did not dispute the facts as set out in the Agreed Facts. The parties agreed that the steps set out in paragraphs 17 to 30 of the Disciplinary Committee Proceedings Rules be dispensed with. This enabled the DC to dispense the Procedural Timetable and adopt a speedy procedure. Such admission is cost-saving as well as indicative of the Respondent’s regret for the misconduct.

5. By a letter dated 13 November 2012 addressed to the Complainant and the Respondent, the Clerk to the 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 considering the proper order 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 Respondents' personal circumstances, and the conduct of the Complainant and the Respondents throughout the proceedings.
7. The DC orders that:-
 - (i) the Respondent be reprimanded under Section 35(1)(b) of the PAO;
 - (ii) the Respondent do pay a penalty of HK\$25,000.00 under Section 35(1)(c) of the PAO; and
 - (iii) the Respondent do pay the costs and expenses of and incidental to the proceedings of the Complainant in the sum of HK\$75,000.00 under Section 35(1)(iii) of the PAO.

Dated the 15th day of February 2013

Mr. Chan Yiu Chong Christopher
Chairman of the Disciplinary Committee

Professor Lam Kit Chun Joanna
Member of the Disciplinary Committee

Mr. Pang Wai Hang Arthur
Member of the Disciplinary Committee

Ms. Yuen Shuk Kam Nicole
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ORDER

Upon reading the complaint against MR. LO WAI ON, a certified public accountant (practising), as set out in a letter from the Registrar of the Hong Kong Institute of Certified Public Accountants ("the Complainant") dated 9 July 2012, the Amended Third complaint and the Statement of Agreed Facts submitted by the Parties on 6 November 2012, the written submission of the Parties dated 3 January 2013, and the relevant documents, the Disciplinary Committee is satisfied by the admission of the Respondent and evidence adduced before it that the following complaints are proved:

1. Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he had failed or neglected to observe, maintain or otherwise apply a professional standard namely the applicable Hong Kong Standard of Auditing 230 "Audit Documentation" in respect of the Respondent's failure to document his evaluation of the appropriateness of Norton Appraisal Limited's valuation dated 24 June 2010.

2. In breach of section 34(1)(a)(vi) of the PAO, the Respondent failed or neglected to observe or otherwise apply a professional standard namely the applicable Hong Kong Standard of Auditing 230 "Audit Documentation" in respect of the Respondent's failure to document the reason for not deducting Mulpha's debt of RM1,482,353,000 from Norton Appraisal Limited's valuation of the enterprise value of Mulpha.

IT IS ORDERED that:-

1. the Respondent be reprimanded under Section 35(1)(b) of the PAO;
2. the Respondent do pay a penalty of HK\$25,000.00 under Section 35(1)(c) of the PAO; and
3. the Respondent do pay the costs and expenses of and incidental to the proceedings of the Complainant in the sum of HK\$75,000.00 under Section 35(1)(iii) of the PAO.

Dated the 15th day of February 2013

Mr. Chan Yiu Chong Christopher
Chairman of the Disciplinary Committee

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