



## Hong Kong Institute of Certified Public Accountants settles regulatory proceedings involving a corporate practice and two certified public accountants (practising)

(HONG KONG, 3 February 2021) The Hong Kong Institute of Certified Public Accountants has settled regulatory proceedings concerning alleged non-compliance of its professional standards involving Elite Partners CPA Limited (Elite) and two certified public accountants (practising), namely Mr. Chan Wai Nam, William (Mr. Chan) and Mr. Edmund Siu (Mr. Siu).

The complaint concerns Elite's audit of the consolidated financial statements of a Hong Kong listed entity, China Household Holdings Limited, and its subsidiaries (Group) for the year ended 31 December 2013, on which Elite issued an unmodified opinion. Mr. Chan was the engagement director and Mr. Siu was the engagement quality control reviewer.

The Financial Reporting Council (FRC) had referred its findings on the audit to the Institute. The Group's financial statements included a material amount of exploration and evaluation assets, which were a new line of business for the Group. Those assets represented a mineral mining operation in China, for which the Group had only obtained exploration right for the mine but the official approvals for exploitation were pending. **Elite failed to obtain sufficient evidence and prepare adequate documentation in assessing management's valuation of the assets, including their assumptions and methodology used in the relevant profit forecasts, notwithstanding that the project had been delayed for many years and there was an indication of a declining market for the minerals to be mined.**

In 2013, the listed entity acquired a group of companies that provided virtual design and online trading services. As consideration for the acquisition, the listed entity issued convertible bonds which would be adjusted in each of the next three years with regard to a profit guarantee. **Elite adopted inappropriate or inconsistent approaches in assessing management's valuation of the convertible bonds and profit guarantee which adopted a different measurement date for the bonds and was materially different from an earlier independent valuation obtained by management. Elite also failed to adequately document audit procedures carried out on an intangible asset, being an online trading platform, which was acquired in the acquisition.**

As a result of the above:

- (a) Elite and Mr. Chan failed or neglected to observe, maintain or otherwise apply the following professional standards:
- Hong Kong Standard on Auditing (HKSA) 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*
  - HKSA 230 *Audit Documentation*
  - HKSA 500 *Audit Evidence*

- HKSA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

- (b) Mr. Siu failed or neglected to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*.
- (c) Mr. Chan and Mr. Siu failed or neglected to observe, maintain or otherwise apply the fundamental principle of Professional Competence and Due Care in sections 100.5(c) and 130.1 of the *Code of Ethics for Professional Accountants*.

### **Settlement agreement**

The Council of the Institute has agreed with Elite, Mr. Chan and Mr. Siu that

1. Elite, Mr. Chan and Mr. Siu acknowledge the facts of the case and areas of non-compliance with professional standards;
2. The Institute will cease regulatory proceedings against Elite, Mr. Chan and Mr. Siu;
3. Elite, Mr. Chan and Mr. Siu be reprimanded; and
4. Elite, Mr. Chan and Mr. Siu jointly pay a financial penalty to the Institute of HK\$250,000 and make a contribution to the costs of the Institute and the FRC in the amount of HK\$314,493.98.

The Council considers that dealing with the matter by way of this settlement will achieve an appropriate resolution without incurring additional expenses and tying up resources in disciplinary proceedings.

The Disciplinary Committee, to which the complaint had been referred, was advised of the terms of the settlement agreement and agreed to the complaint being withdrawn.

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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 18,000 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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