



Dear Assignment/News/Business Section Editor

Hong Kong Institute of Certified Public Accountants takes disciplinary action against one certified public accountant (practicing)

(HONG KONG, 27 October 2015) - A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants reprimanded Lam Kin Leung (membership number A19358) on 18 September 2015 for his failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. He was ordered to pay a penalty of HK\$50,000 to the Institute and to pay costs of the disciplinary proceedings of HK\$28,696.

Lam is the sole proprietor of K.L. Lam & Co. (the "Practice") which had been selected for practice review. The reviewer found that the Practice failed to establish, maintain and document an effective system of quality control. The reviewer also identified a number of deficiencies in an audit engagement. In addition, Lam was found to have provided false or misleading answers in the electronic self-assessment questionnaire which were submitted to the reviewer.

After considering the information available, the Institute lodged complaints against Lam under section 34(1)(a)(vi) and 34(1)(a)(viii) of the Professional Accountants Ordinance.

Lam admitted the complaints against him. The Disciplinary Committee found that Lam has been guilty of serious professional misconduct and had failed or neglected to observe, maintain or otherwise apply a number of professional standards.

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

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

Disciplinary hearings are held in public unless the Disciplinary Committee directs otherwise in the interest 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.

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 practicing certificate, a reprimand, a penalty of up to \$500,000, and payment of costs and expenses of the proceedings.

- End -

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 nearly 39,000 members and more than 18,000 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.

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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，二零一五年十月二十七日) — 香港會計師公會轄下紀律委員會於二零一五年九月十八日就林健良先生(會員編號：A19358) 沒有或忽略遵守、維持或以其他方式應用公會頒布的专业準則，對林先生作出譴責，並命令他須繳付罰款五萬港元予公會。此外，林先生須支付紀律程序的費用二萬八千六百九十六港元。

林先生是林健良會計師事務所(「執業單位」)的獨資經營者，其執業單位被挑選進行執業審查。審查者發現執業單位未能建立、保持及記錄一個有效的質量控制系統。審查者並發現該執業單位在一項審計工作上有多項不足。此外，林先生被發現在電子自我評估問卷中向審查者提供了錯誤及誤導的答案。

公會經考慮所得的資料，根據《專業會計師條例》第34(1)(a)(vi)及34(1)(a)(viii)條對林先生作出投訴。

林先生承認投訴中的指控屬實。紀律委員會裁定林先生犯下嚴重的專業失當行為，並沒有或忽略遵守、維持或以其他方式應用公會的多項專業準則。

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)條向林先生作出上述的命令。根據《專業會計師條例》，如林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 部分查閱，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，是從業外人士組成的紀律小組中選派，該紀律小組的成員是由香港特別行政區行政長官委任的；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。

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，會員人數接近三萬九千，註冊學生人數超過一萬八千。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。

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- (3) The Respondent was asked certain questions before and during the Review concerning one subcontractor and file selection, and he gave materially false or misleading answers to the reviewer, Ms. Chan (the “**Reviewer**”).
- (4) The Review included a detailed review of the audit engagement of E Company (“**E**”) for the year ended 30 April 2012, for which the Practice has issued a clean audit report. The Review discovered numerous audit deficiencies in that audit, as well as a number of other deficiencies in the system, policies and procedures of the Practice in different areas.
- (5) The Respondent has filled in an EQS electronic questionnaire concerning quality control policies and procedures of the Practice on 31 July 2012 (the “**EQS Questionnaire**”). In the light of the findings revealed by the Review, some of the answers in the EQS Questionnaire relating to the Practice's policies and procedures are materially false.
- (6) The draft practice review report was sent to the Respondent for his comments, which he responded by letter dated 8 September 2014. The practice review report was finalized after considering the Respondent's response and dated 7 October 2014.

Complaint 1

- (7) Section 34(1)(a)(vi) of the Professional Accountants Ordinance, Cap. 50, Laws of Hong Kong (“**PAO**”) applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply professional standards as provided in the Code of Ethics for Professional Accountants (“**COE**”) 110.1 and 110.2, as a result of his materially false or misleading, or alternatively reckless statements to the Reviewer during the Review that he did not know whether a “ Mr. Ng” was the same person as a subcontractor used by the Practice called “ Mr. C.W.Ng”, when in truth he knew they were in fact the same person.

Complaint 2

- (8) Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply professional standards as provided in the COE 110.1 and 110.2, as a result of his materially false or misleading, or alternatively reckless statements to the Reviewer before and/or during the Review that the audit engagement of E for the year ended 30 April 2013 was not yet completed and hence unavailable for review, when in truth the engagement was completed and should have been available for review.

Relevant Professional Standards

(9) COE provides, inter alia:-

“110.1 The principle of integrity imposes an obligation on all professional accountants to be straightforward and honest in all professional and business relationships. Integrity also implies fair dealing and truthfulness.

110.2 A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the professional accountant believes that the information:

- (a) Contains a materially false and misleading statement;*
- (b) Contains statements or information furnished recklessly;.....*

When a professional accountant becomes aware that the accountant has been associated with such information, the accountant shall take steps to be disassociated from that information.”

Facts and Circumstances in support of Complaints 1-2

- (10) On Complaint 1, the Practice had used a subcontractor called Mr. C.W. Ng (“**Mr. C**”) in some of the audits, including an audit client called eS (Hong Kong) Limited (“**eS**”). During the Review on 9 June 2014, the Reviewer noticed from the company searches of eS that its company secretary was someone named “Mr. Ng” and its company secretary’s email address was c.ng@eS.com. There was suspicion whether this “Mr. Ng” was the same person as Mr. C, so the Reviewer asked the Respondent about it. Respondent initially said he did not know if they were the same person, and that he would contact Mr. C to ask him about it.
- (11) The next day, 10 June 2014, Respondent said he was still unable to contact Mr. C. Reviewer discovered that eS’s payroll documents also indicated payment of wages to someone by that name. There was also an email from Mr. C to the Respondent on 28 July 2013, which disclosed Mr.C’s title as the Vice-president Finance of eS.
- (12) Eventually, on the same day, Respondent admitted to the Reviewer that “Mr. Ng” was in fact the same person as Mr. C. The Respondent had known about this fact all along, but gave the false statements that he did not know and needed to find out. Alternatively he was reckless in making those statements.

- (13) Regarding Complaint 2, the Reviewer telephoned the Respondent in early June 2014 to discuss the file selection for the Review. Respondent told the Reviewer that the audit engagement of E for the most recent year, 2013, had not yet been completed. Thus in the email of 4 June 2014 sent by the Reviewer to the Respondent to list out the preliminary selection of files for review, only the audit of E for the year 2012 was requested but not the one for the year 2013. (At that stage, the Reviewer was under the impression from the client list provided by the Respondent that the year-end date was 31 December, so the request was for the audit for the year ended 31 December 2012. In fact the year-end date was 30 April, so what the Reviewer requested and reviewed in detail was the audit for the year ended 30 April 2012 (the “**2012 Audit**”). The audit for the year ended 30 April 2013 (the “**2013 Audit**”) was not available according to the Respondent, as detailed below.)
- (14) During the Review on 9 June 2014, when briefing the Reviewer on the background and risk areas of E's 2012 Audit engagement, Respondent said that the 2013 Audit was not completed yet. When reviewing the 2012 Audit, there was a discussion with the Respondent about the issue of provisions (for maintenance), during which Respondent said the issue of provisions was still unsettled with the audit client in the 2013 Audit.
- (15) However, after the Respondent admitted on 10 June 2014 that the subcontractor Mr. C was the same person as “Mr. Ng”, in the morning of the next day he also admitted that the 2013 Audit for E had already been completed, and the audit report was dated 27 May 2014. Therefore the audit report should have been available during early June when file selection was discussed. The Respondent knew about this all along in making the false statements. Alternatively he was reckless in making those statements.
- (16) After the Respondent admitted the truth regarding the 2 matters above concerning Mr. C and the 2013 Audit of E, he said to the Reviewer something to the effect that he was not used to telling lies, in particular to tell one lie to cover another lie, so he finally decided to come clean and admitted the truth.
- (17) In the Respondent's letter dated 8 September 2014, the Respondent admitted (in relation to the Mr. C matter) that he “...acted stupidly without thinking the consequence as this was bound to be discovered....”, and that “...the only explanation I can think of is I was under undue stress as that time [sic]”.

Complaint 3

- (18) Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply professional standards as provided in the COE 110.1 and 110.2, as a result of his answer in the EQS Questionnaire that the Practice had “modify the HKICPA publication “A Guide to Quality Control” to suit [the] practice's circumstances”, when that answer was materially false or misleading because no modification was made by the Practice.

Complaint 4

(19) Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply professional standards as provided in the COE 110.1 and 110.2, as a result of his answer in the EQS Questionnaire that an EQCR had been carried out on audit engagements, when that answer was materially false or misleading, or alternatively reckless, because the Practice in fact had not carried out any EQCR on any audit engagements.

Complaint 5

(20) Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply professional standards as provided in the COE 110.1 and 110.2, as a result of his answer in the EQS Questionnaire that the Practice had new client and engagement acceptance policies and procedures, when that answer was materially false or misleading because the Practice in fact had not adopted or applied such policies or procedures for its audit engagements up to the completion date of the EQS Questionnaire.

Complaint 6

(21) Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply professional standards as provided in the COE 110.1 and 110.2, as a result of his answer in the EQS Questionnaire that the Practice had policies and procedures for audit teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been issued, when that answer was materially false or misleading because the Practice in fact did not have such policies or procedures.

Complaint 7

(22) Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply professional standards as provided in the COE 110.1 and 110.2, as a result of his answer in the EQS Questionnaire that the Practice had not engaged any individual(s), firm(s), corporate practice(s) or other party(ies) which are not its staff or its network firm's staff to perform any audit or assurance engagement work, when that answer was materially false or misleading because the Practice had in fact engaged subcontractors in audit engagements before and/or after the completion date of the EQS Questionnaire.

Facts and circumstances in support of Complaints 3-7

(23) In the EQS Questionnaire of the Practice filled in by the Respondent, he provided (inter alia) the following answers:-

- (a) In response to question 1(d) which asked "how were quality control policies and procedures developed", the answer was that the Practice had "modify the HKICPA publication "A Guide to Quality Control" to suit [his] practice's circumstances";
- (b) In response to question 3(b) which asked "has an EQCR been carried out on any engagements", the answer was "yes";
- (c) In response to question 7 which asked "does your practice have new client and engagement acceptance policies and procedures", the answer was "yes";
- (d) In response to question 8 which asked "does your practice have policies and procedures for audit teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been issued", the answer was "yes";
- (e) In response to question 9(a) which asked "has your practice engaged any individual(s), firm(s), corporate practice(s) or other party(ies) which are not your staff or your network firm's staff to perform any audit or assurance engagement work for your practice?", the answer was "no".

(24) The above answers were materially false or misleading because:-

- (a) For question 1(d), the Practice in fact did not modify the HKICPA publication "A Guide to Quality Control" to suit [his] practice's circumstances. This was admitted by the Respondent to the Reviewer during the Review;
- (b) For question 7, no new client and engagement acceptance policies or procedures were adopted or applied for the audit engagements of the Practice on or before the completion date of the EQS Questionnaire. This was admitted by the Respondent to the Reviewer during the Review;
- (c) For question 8, the Practice in fact did not have any policies or procedures for audit teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been issued. This was admitted by the Respondent to the Reviewer during the Review;
- (d) For question 9(a), the Practice had in fact engaged subcontractors – including Mr. C, Ms. Yuen ("Yuen") and others – in audit engagements before and/or after the completion date of the EQS Questionnaire.

(25) The answer for question 3(b) is also materially false or misleading, or alternatively reckless, because the Practice in fact had not carried out any EQCR on any audit engagement. This was admitted by the Respondent to the Reviewer during the Review.

Complaint 8

(26) Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply professional standards as provided in the COE 290.4, 290.6 and 290.134, as a result of his engagement of Yuen as a subcontractor in E's 2012 Audit and 2013 Audit engagements, even though Yuen had been a director of E throughout the audit periods (for the years ended 30 April 2012 and 2013) and during the audit engagements.

Complaint 9

(27) Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply professional standards as provided in the COE 290.4, 290.6 and 290.134, as a result of his engagement of Mr. C as a subcontractor in eS's audit engagement for the year ended 31 December 2012, even though Mr. C was the Vice-President Finance of eS during the audit period (for the year ended 31 December 2012) and the audit engagement, as well as its company secretary as from January 2013, during the audit engagement.

Relevant Professional Standards

(28) COE provides, inter alia:-

"290.4 In the case of audit engagements, it is in the public interest and, therefore, required by this Code of Ethics, that members of audit teams, firms and network firms shall be independent of audit clients.

290.6 Independence comprises:

.....

Independence in Appearance

The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit team's, integrity, objectivity or professional skepticism has been comprised.

290.134 Familiarity or intimidation threats may be created if a director or officer of the audit client, or an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, has been a member of the audit team or partner of the firm."

Facts and Circumstances in support of Complaints 8-9

(29) According to the Respondent, Yuen was appointed as a director in E 10 years ago (Respondent's letter dated 8 September 2014). Despite the appointment creating a threat to independence, the Respondent still engaged Yuen as a subcontractor in the 2012 Audit and 2013 Audit of E.

- (30) As for Mr. C, he was the Vice-President Finance of eS during the audit period (for the year ended 31 December 2012) as well as its company secretary as from January 2013. He was therefore acting in both capacities during the audit engagement of eS for the year 2012. He was an "officer" - or a senior management personnel - under the provisions of the COE.
- (31) In the Respondent's letter of 8 September 2014, the Respondent defended the aforesaid engagements on the bases that Yuen's role as a director was only nominal, to sign documents when 2 signatures from directors were required. As for Mr. C, the Respondent agreed that the role as Vice-President Finance would likely present a threat to independence, but suggested that the threat was offset by the fact that a disclaimer report was issued. The Respondent considered that the independence threat posed by appointment of company secretary was only "minimum".
- (32) None of these justifications are valid. Yuen and Mr. C could not and should not have been engaged as subcontractors under the provisions of the COE.

Complaint 10

- (33) Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply professional standards as provided in Hong Kong Standard on Quality Control ("HKSQC") 1, as a result of his failure to establish, maintain and document a system of quality control that includes policies and procedures covering, inter alia, acceptance and continuance of client relationships and specific engagements, human resources, completion of final engagement files and monitoring.

Relevant Professional Standards

- (34) HKSQC 1 Quality Control for Firms that perform Audits and Reviews of Financial Statements, and other Assurance and related Services Engagements provides, inter alia:-

"26. The firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm:

- (a) *Is competent to perform the engagement and has the capabilities, including time and resources, to do so;*
 (b) *Can comply with relevant ethical requirements.....*

29. The firm shall establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to:

(a) *Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and*

(b) *Enable the firm or engagement partners to issue reports that are appropriate in the circumstances.*

45. The firm shall establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized.

48. The firm shall establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively...."

Facts and Circumstances in support of Complaint 10

(35) The Respondent has failed to implement and document any policies or procedures on quality control, including the areas covered by aforesaid paragraphs 26, 29, 45 and 48 of HKSQC 1. The only exception is the one-off implementation of policies implementation of policies or procedures regarding the acceptance and continuance of client relationships and audit engagement for the 2012 Audit of E referred to above.

(36) The Respondent admitted the lack of such policies or procedures to the Reviewer during the Review.

Complaint 11

(37) Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply professional standards as provided in Hong Kong Standards on Auditing ("HKSA") 220, as a result of his failure to implement or follow any policies or procedures regarding the acceptance and continuance of client relationships and audit engagements.

Relevant Professional Standards

(38) HKSA 220 provides, inter alia:-

"12. The engagement partner shall be satisfied that appropriate procedures regarding the acceptance and continuance or client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate."

Facts and Circumstances in support of Complaint 11

- (39) With one exception, the Respondent has failed to implement or follow any policies or procedures regarding the acceptance and continuance of client relationships and audit engagements for his other audit engagements, as required by paragraph 12 of HKSA 220. The exception was the 2012 Audit of E, in which such policies were implemented. Regarding the 2013 Audit of E, the relevant engagement acceptance/continuance risk tolerance worksheet was only completed by sub-contractor Yuen on day 2 of the Review (viz. 10 June 2014), after the completion of the audit engagement and signing of the audit report dated 27 May 2014.
- (40) The Respondent admitted to this lack of implementation of policies and procedures to the Reviewer during the Review.

Complaint 12

- (41) Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply professional standards as provided in HKSA 300 and/or HKSA 315, as a result of his failure to develop an audit plan that includes a description of the nature, timing and extent of the planned risk assessment procedures, and/or to obtain an understanding of the internal controls relevant to the audit and/or to perform risk assessment procedures.

Relevant Professional Standards

- (42) HKSA 300 Planning an Audit of Financial Statements provides, inter alia:-

"9. The auditor shall develop an audit plan that shall include a description of:

(a) The nature, timing and extent of planned risk assessment procedures, as determined under HKSA 315.

.....

11. The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work."

- (43) HKSA 315 Identifying and Assessing the risks of Material Misstatement through understanding the Entity and its Environment provides, inter alia:-

"5. The auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion level. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion.

6. The risk assessment procedures shall include the following:

.....

(b) Analytical procedures.

.....

12. *The auditor shall obtain an understanding of internal control relevant to the audit. Although most controls relevant to the audit are likely to relate to financial reporting, not all controls that relate to financial reporting are relevant to the audit. It is a matter of the auditor's professional judgement whether a control, individually or in combination with others, is relevant to the audit.*

13. *When obtaining an understanding of controls that are relevant to the audit, the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel."*

Facts and Circumstances in support of Complaint 12

- (44) With one exception, the Respondent has failed to implement or follow any policies or procedures regarding audit planning as required under HKSA 300 or other procedures as required under HKSA 315 for his other audit engagements. The exception was the 2012 Audit of E, where such policies or procedures were implemented. As regarding the 2013 Audit of E, the relevant audit planning and/or other procedures under HKSA 315 (such as completion of the Planning Memorandum, Materiality Summary, variance analysis etc) were only completed by sub-contractor Yuen on day 2 of the Review (viz. 10 June 2014), after the completion of the audit engagement and signing of the audit report dated 27 May 2014.
- (45) The Respondent admitted to this lack of implementation of policies and procedures to the Reviewer during the Review.

Complaint 13

- (46) Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply professional standards as provided in HKSA 500, as a result of his failure to obtain sufficient appropriate audit evidence in the 2012 Audit of E.

Relevant Professional Standards

- (47) HKSA 500 Audit Evidence provides, inter alia:-

"6. The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence."

Facts and Circumstances in support of Complaint 13

- (48) In the 2012 Audit of E, no or no adequate audit procedures were carried out in the following areas for the purpose of obtaining sufficient appropriate audit evidence:-
- (a) No evaluation of the recoverability of amount due from subsidiaries in the sum of \$16.7 million;

- (b) No evaluation of the recoverability of amount due from the ultimate holding company in the sum of \$2.3 million;
- (c) No evaluation of the recoverability of an account receivable of \$1.05 million (representing 20% of the total accounts receivable) other than relying on client's representation that the amount was recoverable and compiling several breakdowns (audit working papers ("AWP") p158);
- (d) No adequate audit work was done to verify the existence of inventories in the sum of \$0.99 million at the year-end date other than obtaining a stock certificate from the management (AWP pp156-7);
- (e) No audit work was done on the mandatory provident fund contributions in the sum of \$0.76 million;
- (f) No adequate audit work was done on the salaries and allowance of \$23.4 million except for the directors' salary of \$1.2 million (AWP pp258-9);
- (g) No adequate audit work was done on the rent and rates of \$3.5 million except for obtaining a breakdown of the sum (AWP p260);
- (h) No adequate audit work was done on the sales (\$16.6 million) and purchases (\$5.6 million) other than computing a brief one-page gross profit ratios for the current and previous years without commentary or analysis (AWP p255);
- (i) No adequate work was done for the consultancy fee received (\$8.6 million) and consultancy fee paid (\$5.7 million) other than computing a brief one-page gross profit ratios for the current and previous years without commentary or analysis (AWP p255);
- (j) No adequate audit work was done on the computation of the provision for maintenance for the year (\$2.08 million) – although schedules for the computation were compiled, there was no verification of the completeness and/or reliability of the schedules (AWP pp201-9);
- (k) No adequate audit work was done on the computation of maintenance fee receipt in advance (\$9.8 million) – although schedules for the computation were compiled, there was no verification of the completeness and/or reliability of the schedules (AWP pp200-209).

Complaint 14

- (49) Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply professional standards as provided in Hong Kong Accounting Standards ("HKAS") 37 and/or HKSA 705 in the 2012 Audit of E, as a result of his failure to review and/or adjust the provision for maintenance as at 30 April 2012 to reflect the current best estimate of the provision, and/or to evaluate whether to modify the audit opinion as a result of any necessary change in the provision for maintenance.

Relevant Professional Standards

- (50) HKAS 37 Provisions, Contingent Liabilities and Contingent Assets provides, inter alia:-

"Reliable Estimate of the Obligation

25. The use of estimates is an essential part of the preparation of financial statements and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other items in the statement of financial position. Except in extremely rare cases, an entity will be able to determine a range of possible outcomes and can therefore make an estimate of the obligation that is sufficiently reliable to use in recognizing a provision.

59. Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed. (original emphasis)"

- (51) HKSA 705 Modifications to the Opinion in the Independent Auditor's Report provides, inter alia:-

"6. The auditor shall modify the opinion in the auditor's report when:

(a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or

(b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement."

Facts and Circumstances in support of Complaint 14

- (52) E was principally engaged in the trading of and providing maintenance and consultancy services for computer software and hardware. In relation to the item of provision for maintenance, E only needed to purchase the latest 3 versions of the software from the US supplier since the last update by their customers in order to fulfill their maintenance obligations to the customers. However in the 2012 Audit, the provision for maintenance as at 30 April 2012 of \$20.9 million included provisions for all previous versions of the software not yet provided to customers rather than the latest 3 versions. The Respondent was aware of this fact and had already advised that some provision previously made should have been written back, but this matter was not properly followed up. Neither was the audit report modified in any way.
- (53) As a result, the provision for maintenance is not a correct or best estimate, and there was a failure to review at the end of the reporting period the adjustments needed to reflect the current best estimates, in breach of paragraphs 25 and 59 of HKAS 37. Consequently there is a potential misstatement in the financial statements, and the

Respondent should have evaluated whether to modify the audit opinion in accordance with HKSA 705.

Complaint 15

(54) Section 34(1)(a)(viii) of the PAO applies to the Respondent in that he has been guilty of serious professional misconduct as a result of his failure to observe, maintain or otherwise apply multiple professional standards under the aforesaid Complaints 1-14.

Facts and Circumstances in support of Complaint 15

- (55) In the event that the Respondent is found liable for breach of multiple professional standards under the aforesaid Complaints 1-14 (or anyone of them in case he is not liable for breach of all 14 Complaints), he is also guilty of serious professional misconduct. The professional standards being breached are numerous as well as wide-ranging, covering audit deficiencies, ethical requirements, policies and procedures and quality control. It gives rise to serious doubts concerning the quality of audit or other assurance work carried out by the Respondent and the Practice.
3. On 27 February 2015, the Respondent admitted the complaints against him. He did not dispute the facts as set out in the complaints. Indeed, it is to be noted that he admitted to some of his errors earlier in September 2014, although he perhaps did not accept the significance of such errors at that time. The parties agreed that the steps set out in paragraphs 17 to 30 of the Disciplinary Committee Proceedings Rules ("DCPR") be dispensed with.
 4. On 12 May 2015, the Disciplinary Committee agreed to the parties' joint application to dispense with the steps set out in Rule 17 to 30 of the DCPR in light of the admission made by the Respondent and the Disciplinary Committee directed the parties to make written submissions on sanctions and costs. On 16 July 2015, the Respondent, at the request of the Disciplinary Committee, provided additional information concerning the number of CPD hours he had attended between 2012 and 2014, the nature of the revenue of his sole proprietorship for the 18 months ended 31 December 2014 and how he handled the audit engagements in which there were independence issues.
 5. In considering the proper order to be made in this case, the Disciplinary Committee has had regard to all the aforesaid matters, including the particulars in support of the Complaints, the Respondent's personal circumstances, and the conduct of the Complainant and the Respondent throughout the proceedings.
 6. The majority of the Disciplinary Committee identified the following mitigating and aggravating factors:
 - a. Complaints 1-7: Mitigating factors: early admission; no harm caused to others; no previous disciplinary record; the facts relating to Complaints 1-2 indicate acting under stress and a temporary lapse of judgment rather than a deliberate intention to mislead. Whilst any lack of integrity or dishonesty in a professional, even momentarily, is a serious matter for an accountancy professional, the case is at the less serious end of the spectrum.

- b. Complaints 8-9: Mitigating factors: admission of complaints (albeit no immediate admission); no harm caused to others; no previous disciplinary record.
- c. Complaints 10-11: Mitigating factors: early admission; no harm caused to others; no previous disciplinary record.
- d. Complaints 12-14 range from inadequate administrative policies to inadequate audit work. Aggravating feature: a risk of harm to client in respect of Complaint 14. Mitigating: early admission; no previous disciplinary record.
- e. Complaint 15 of serious professional misconduct on basis of Complaints 1-14. Aggravating feature: a large number of non-compliances. Mitigating factors: early admission; no evidence of harm to anyone; no previous disciplinary record; some remedial steps taken (i.e. further education); resignation from subject clients.

7. With one dissenting view, the Disciplinary Committee orders that:-

- (1) the Respondent be reprimanded under Section 35(1)(b) of the PAO;
- (2) the Respondent pay a penalty of HK\$50,000 under Section 35(1)(c) of the PAO;
- (3) the Respondent do pay the costs and expenses of and incidental to the proceedings of the Complainant in the sum of HK\$28,696 under Section 35(1)(iii) of the PAO.

Dated the 18th day of September 2015