



HKICPA takes disciplinary action against a certified public accountant (practising)

(HONG KONG, 1 March 2018) — On 23 January 2018, a Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants ordered cancellation of the practising certificate of Tso Yin Yee (membership number F06765) from 6 March 2018 with no issuance of a practising certificate to her for 16 months. In addition, Tso was ordered to pay the costs of disciplinary proceedings of HK\$38,665.

Tso is the sole proprietor of Integrity CPA Limited (formerly known as ADGS (CPA) Limited) ("**Practice**") and is responsible for the Practice's quality control system and the quality of its assurance engagements. When carrying out a practice review, the reviewer found that the Practice failed to establish and maintain an effective system of quality control. Additionally, the reviewer found significant deficiencies in the Practice's audit and assurance engagements.

After considering the information available, the Institute lodged a complaint against Tso under sections 34(1)(a)(vi) and 34(1)(a)(viii) of the Professional Accountants Ordinance.

Tso admitted the complaint against her.

The Disciplinary Committee found that Tso failed or neglected to observe, maintain or otherwise apply a number of professional standards. The Committee further found that Tso was guilty of professional misconduct, as the Practice lacked an effective quality control system and commitment to the quality of its audit and assurance engagements and Tso failed to comply with the fundamental principle of integrity. The Committee also noted that significant public interest was at stake in the compliance audit of a regulated company and the sanction should reflect this.

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

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 the Hong Kong Institute of Certified Public Accountants

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 more than 42,000 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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香港會計師公會對一名執業會計師作出紀律處分

(香港，二零一八年三月一日) 香港會計師公會轄下一紀律委員會，於二零一八年一月二十三日命令由二零一八年三月六日起吊銷曹燕儀小姐(會員編號：F06765)的執業證書，並在16個月內不向其另發執業證書。此外，曹小姐須支付紀律程序費用38,665港元。

曹小姐是卓譽會計師事務所有限公司的獨資經營人，負責該事務所的品質監控系統及核證項目質素。在公會進行執業審核期間，審核人員發現該會計師事務所未有制訂及維持有效的品質監控系統。此外，審核人員還發現該事務所的核數與核證項目中有重大不足之處。

公會經考慮所得資料後，根據《專業會計師條例》第34(1)(a)(vi)條及第34(1)(a)(viii)條對曹小姐作出投訴。

曹小姐承認投訴中的指控屬實。

紀律委員會裁定曹小姐沒有或忽略遵守、維持或以其他方式應用多項專業準則。紀律委員會亦因該會計師事務所缺乏有效的品質監控系統、未有保持核數及核證項目應有的質素、以及曹小姐沒有遵守專業誠信的基本原則，進一步裁定曹小姐犯有專業上的失當行為。紀律委員會指出，受監管公司的合規審核涉及重大公眾利益，懲處須反映有關重要性。

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)條向曹小姐作出上述命令。

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/>

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、發展和監管香港的會計專業。公會會員超過42,000名，學生人數逾18,000。

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。

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3. On 9 March 2017, the Respondent signed a confirmation whereby she admitted to all the complaints made against her and confirmed that she did not dispute the facts as set out in the Complaint. By letter dated 10 March 2017, the parties jointly proposed that the steps set out in rules 17 to 30 of the Disciplinary Committee Proceedings Rules (“**Rules**”) be dispensed with.
4. In view of the Respondent’s admission, the Disciplinary Committee (“**Committee**”) constituted to deal with this matter under section 33(3) of the PAO agreed to the parties’ joint proposal to dispense with the steps set out in rules 17 to 30 of the Rules in light of the admission made by the Respondent. The Committee further directed the parties to make written submissions on sanctions and costs. Neither the Complainant nor the Respondent requested for a hearing.
5. The Complainant and Respondent provided their written submissions on sanctions and costs on 14 June 2017 and 10 August 2017 respectively.

B. BACKGROUND

6. The Respondent is the sole proprietor and engagement partner of Integrity CPA Limited (corporate practice no. S0391) (formerly known as ADGS (CPA) Limited) (the “**Practice**”). The Practice engages a subcontractor to perform all its audit work.
7. As sole proprietor and engagement partner of the Practice, the Respondent is responsible for the Practice’s quality control system and the quality of assurance engagements.
8. As a reminder of the Institute’s expectations on compliance with the basic requirements of Hong Kong Standard on Quality Control 1 (“**HKSQC 1**”), a letter was issued to all practising members in April 2014 advising that the Complainant would take strong action against practices that fail to take steps to implement procedures to address the requirements of HKSQC1 (the “**April 2014 Letter**”). The letter further stated that if a practice is found to have made no or little attempt or effort to address those requirements, such behaviour would be viewed as serious professional misconduct.
9. The Practice was notified in January 2015 that it had been selected for practice review, a quality assurance programme conducted by the Institute’s Quality Assurance Department (the “**Reviewer**”). The April 2014 Letter was attached to this notification. The Reviewer carried out the practice review on the Practice in April 2015 and reported the results to the Complainant. This was the first practice review conducted on the Practice.
10. The engagements selected for practice review included:
 - 10.1. The audit and compliance reporting (the “**Compliance Report**”) of an insurance broker “Client S” for the year ended 30 June 2014; and

- 10.2. The audit of a private entity “Client U” for the year ended 31 March 2014.
11. In addition, the audit engagements for “Client G” and “Client SFA” for, respectively, the year ended 31 March 2014 and 31 December 2013 were selected for the purpose of reviewing the effectiveness of the Practice’s quality control system.
12. The Reviewer found that the Respondent did not in fact carry out any compliance work to support the conclusions stated in the Compliance Report of Client S. In addition, serious deficiencies in relation to the Practice’s quality control system and the engagements of Client S and Client U were identified. This raised significant concerns over the professional conduct and integrity of the Respondent. Based on the practice review findings, the Institute wrote to the Practice on 5 October 2015 to seek its explanations.
13. The Complainant considered the Reviewer’s report and the Respondent’s explanations and found the results of the review were unsatisfactory. The Complainant took the view that the deficiencies identified in the Practice’s quality control system and in the audit and assurance engagements of Client S and Client U show a serious lack of commitment to audit quality and also raise concerns about the professional conduct and integrity of the Respondent. The Complainant considered such failure constituted serious professional misconduct and decided to raise a complaint against the Respondent.

C. THE COMPLAINANT’S CASE

14. The Complainant filed 10 complaints against the Respondent, as follows:-

Complaint 1

- 14.1. Section 34(1)(a)(vi) of the PAO applies to the Respondent in that she failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraphs 33 and/or 42 Hong Kong Standard on Assurance Engagements 3000 (“**HKSAE 3000**”) in that she did not obtain sufficient appropriate evidence and/or adequately document matters that were significant in providing evidence to support the conclusion that Client S complied with the relevant rules of the Insurance Companies Ordinance (Cap. 41) (“**ICO**”) for the year ended 30 June 2014.

Complaint 2

- 14.2. Section 34(1)(a)(vi) of the PAO applies to the Respondent in that she had failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraphs 100.5(a) and 110.2 of the

Code of Ethics for Professional Accountants (“Code”) in respect of the false or misleading statements she gave in the Compliance Report.

Complaint 3

- 14.3. Section 34(1)(a)(vi) of the PAO applies to the Respondent for having failed or neglected to observe, maintain or otherwise apply a professional standard namely, HKSQC 1, in that being the sole proprietor responsible for the Practice’s quality control system, her Practice had not implemented adequate quality control policies and procedures in respect of client acceptance and continuance, confidentiality of engagement documentation, file assembly procedures, monitoring process, human resources and engagement performance.

Complaint 4

- 14.4. Section 34(1)(a)(vi) of the PAO applies to the Respondent in that she had failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraph 410.52 of the Code in that she had failed to perform audit procedures to consider the matters of which the preceding auditor of Client G had qualified their opinion before accepting the engagement.

Complaint 5

- 14.5. Section 34(1)(a)(vi) of the PAO applies to the Respondent in that she had failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraphs 100.5(d) and 140.1 of the Code in that she had failed to ensure confidentiality of engagement documentation.

Complaint 6

- 14.6. Section 34(1)(a)(vi) of the PAO applies to the Respondent in that she had failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraphs 16 and 17 of Hong Kong Standard on Auditing 220 (“HKSA 220”) in that she had failed to ensure that the Practice’s review policies and procedures are complied with, and that sufficient appropriate audit evidence had been obtained to support the audit conclusions.

Complaint 7

- 14.7. Section 34(1)(a)(vi) of the PAO applies to the Respondent in that she had failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraph 6 of the Hong Kong Standard on Auditing 500 (“HKSA 500”) in that she had failed to design and/or perform audit procedures that are appropriate for the purpose of

obtaining sufficient appropriate audit evidence in relation to the audit of the financial statements of Client S for the year ended 30 June 2014.

Complaint 8

- 14.8. Section 34(1)(a)(vi) of the PAO applies to the Respondent in that she had failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraph 6 of the HKSA 500 in that she had failed to design and/or perform audit procedures that are appropriate for the purpose of obtaining sufficient appropriate audit evidence in relation to the audit of the financial statements of Client U for the year ended 31 March 2014.

Complaint 9

- 14.9. Section 34(1)(a)(vi) of the PAO applies to the Respondent in that she had failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraph 5 of the Hong Kong Standard on Auditing 230 (“**HKSA 230**”) in that she had failed to adequately document the evidence obtained and procedures performed in relation to the audit of the financial statements of Client S for the year ended 30 June 2014.

Complaint 10

- 14.10. Section 34(1)(a)(viii) of the PAO applies to the Respondent in that she has been guilty of professional misconduct as a result of her failure to comply with multiple professional standards in relation to audit deficiencies, fundamental principle of integrity and quality control policies and procedures.

D. FACTS AND CIRCUMSTANCES IN SUPPORT OF THE COMPLAINTS

D1. Complaints 1 and 2 – Breach of HKSAE 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” (Revised March 2014) and Paragraphs 100.5(a) and 110 of the Code

15. Paragraphs 33 and 42 of HKSAE 3000 require an auditor to obtain sufficient appropriate evidence and document matters that are significant for providing evidence to support his conclusion in an assurance engagement other than an audit or review of historical financial statements.
16. Paragraphs 100.5(a) and 110.2 of the Code require a professional accountant to be straightforward and not knowingly be associated with information which contains false or misleading statements.
17. The Compliance Report certified that the company had complied with certain minimum requirements specified by the Insurance Authority under s.70(2) of the

ICO for the year ended 30 June 2014. In particular, the Compliance Report stated, inter alia:

“We conducted our engagement in accordance with [HKSAE 3000] and with reference to Practice Note 810.1 “Insurance Brokers-Compliance with the Minimum Requirements Specified by the Insurance Authority under Sections 69(2) and 70(2) of the Insurance Companies Ordinance (“PN 810.1”) ...”

“We have planned and performed such procedures as we considered necessary, with reference to the procedures recommended in PN810.1, which include reviewing, on a test basis, evidence obtained from the Company regarding the Company’s compliance with the minimum requirements specified by the IA under section 70(2) of the Ordinance for the year ended 30 June 2014...”

18. However, there was no documentation or evidence showing that any work had been carried out by the Practice under PN810.1 to support the conclusion that Client S complied with the minimum requirements specified under s.70(2) of the ICO.
19. Further, certain statements in the Compliance Report, in particular those excerpted in paragraph 17 above, are false or misleading. Those statements mean or would reasonably convey to a reader the meaning that all or substantively all of the procedures under PN810.1 had been carried out. In fact, no procedure (or only those procedures which overlapped with the audit of the financial statements for the same period) had been carried out. In the premises, those statements are false or misleading and the Respondent had made these statements knowingly, in breach of paragraphs 100.5(1) and 110.2 of the Code.

D2. Complaints 3 to 6 – Deficiencies in the Practice’s Quality Control System

20. The HKSQC 1 “*Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*” requires all firms of professional accountants, including corporate practices, to establish and maintain an adequate system of quality control which meets the requirements under the standard.
21. The Reviewer found that the Practice suffered from a series of quality control deficiencies. Given the Respondent’s role as sole proprietor and engagement partner of the Practice, the following quality control deficiencies of the Practice demonstrate that the Respondent had failed to comply with HKSQC 1, the Code and paragraphs 16 and 17 of HKSA 220 (set out at paragraphs 21.17-21.18 below).

Client acceptance and continuance - breach of paragraphs 26-28 HKSQC 1 and paragraph 410.52 of the Code (in support of Complaints 3 and 4)

- 21.1. According to paragraphs 26 to 28 of HKSQC 1, a practice is required to establish policies and procedures for client acceptance and continuance which enable the practice to obtain information necessary in the circumstances before accepting an engagement with a new client or when deciding whether to continue an engagement with an existing client.
- 21.2. Paragraph 410.52 of the Code requires an auditor to consider whether limitations on the scope of his work are likely to be imposed by the client when deciding whether to accept an audit appointment or reappointment as auditor.
- 21.3. The Reviewer found that the Practice did not carry out client acceptance and continuance procedures before accepting an engagement with a new or existing client.
- 21.4. Further, although the preceding auditor of Client G had qualified its opinion on the audit matters relating to the limitation of scope on the cost of measurement of inventories and the going concern of Client G, the Practice did not perform any procedures to consider these matters before accepting the engagement of Client G.

Confidentiality – breach of paragraph 46 of HKSQC 1 and paragraphs 100.5(d) and 140.1 of the Code (in support of Complaints 3 and 5)

- 21.5. Paragraphs 46 of HKSQC 1 requires all practices to establish policies and procedures to maintain, amongst other things, confidentiality of engagement documentation.
- 21.6. Paragraphs 100.5(d) and 140.1 of the Code require a professional accountant to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, he or she shall not disclose any such information to third parties without proper and specific authority.
- 21.7. The Practice failed to establish effective policies and procedures to ensure confidentiality of its engagement documentation. During the review, the Reviewer identified (1) bank confirmation replies for all the reviewed engagements addressed to and received by another CPA firm; (2) a stock report issued by the said CPA firm in respect of Client G's inventory was included in the Practice's working papers of Client G. The Respondent did not dispute these findings and explained that these incidents may have been caused by the mistakes made by its subcontractor, which also provided audit services for the other said CPA firm.

File assembly – paragraphs 45 and A54 of HKSQC 1 (in support of Complaint 3)

- 21.8. Paragraph 45 of HKSQC 1 states that a practice is required to 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.
- 21.9. Paragraph A54 of HKSQC 1 states that a time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.
- 21.10. The Practice did not complete the assembly of final engagement files within 60 days after the issuance of auditor's reports. The auditor's reports of Client U and Client G were issued in December 2014 and in May 2014 respectively. However, certain audit working papers of Client U and Client G (which were not originally included in the audit files) were shown to the Reviewer during the review in April 2015, well beyond 60 days of the issuance of the auditor's reports.

Monitoring – Paragraph 48, A64 to A68 of HKSQC 1 (in support of Complaint 3)

- 21.11. Paragraph 48 of HKSQC 1 requires all practices to establish a monitoring process designed to provide the practice with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate and operating effectively. Further guidance is provided in A64-A68 of HKSQC 1.
- 21.12. The Practice had conducted monitoring review on the engagement of Client S for the year ended 30 June 2013. A number of deficiencies were found in the engagement of Client S for the year ended 30 June 2014, as well as the prior year of engagement. This indicated that the Practice's monitoring review was ineffective.
- 21.13. The Practice has failed to establish a monitoring process to reasonably assure that the policies and procedures relating to the system of quality control are relevant, adequate and operating effectively.

Human Resources – Paragraph 31 of HKSQC 1 (in support of Complaint 3)

- 21.14. Paragraph 31 of HKSQC 1 requires all practices to establish policies and procedures to assign appropriate personnel with the necessary competence, and capabilities 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.

- 21.15. The Practice failed to establish policies and procedures to assign appropriate personnel with the necessary competence and capabilities to perform engagements or issue appropriate reports in accordance with professional standards and applicable legal and regulatory requirements. In particular, there was no evidence that the Practice had performed procedures to assess whether the audit team members, which in this case were outsourced to a subcontractor, had the relevant technical knowledge and expertise to carry out the audit work for the Practice.

Engagement Performance – Paragraph 32 HKSQC 1, Paragraphs 16 and 17 HKSA 220, HKSA 315, HKSA 240, HKSA 560, HKSA 570 and HKSA 320 (in support of Complaints 3 and 6)

- 21.16. Paragraph 32 of HKSQC 1 requires a practice to establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partner issued reports that are appropriate in the circumstances.

- 21.17. Paragraph 16 of HKSA 220 “*Quality Control for an Audit of Financial Statements*” requires the audit engagement partner to take responsibility for reviews being performed in accordance with the firm’s review policies and procedures.

- 21.18. Paragraph 17 of HKSA 220 requires that an audit engagement partner should, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached before issuing the auditor’s report.

- 21.19. The Practice’s audit work and documentation did not meet the requirements of a number of auditing standards. In particular, the Practice’s audit programs and audit working papers of the two selected audit engagements, Client S and Client U, did not show any evidence that the Practice had properly carried out the following audit procedures:-

21.19.1. Obtain an understanding of the entities’ internal controls relevant to the audits and evaluating the design of those controls to determine whether they have been properly implemented in the period under audit;

21.19.2. Obtain information for use in identifying and assessing the risks of material misstatement due to fraud and performing audit procedures, including inquiries of management and journal entry testing to address the risks of management override of controls;

- 21.19.3. Perform subsequent event review procedures to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified;
 - 21.19.4. Perform audit procedures to assess the appropriateness of management's use of the going concern assumption in the preparation of the financial statements; and
 - 21.19.5. Perform audit procedures to establish performance materiality applicable for determining the nature, timing and extent of audit procedures.
22. The findings above, as well as the findings set out in Part D3 and Part D4 below, demonstrated that (i) the Practice did not establish policies and procedures that were effective to ensure the audit engagements performed were in accordance with the relevant auditing standards and (ii) the Respondent, as the engagement partner, did not carry out any robust review for assessing whether sufficient appropriate audit evidence had been obtained to support the conclusions reached before issuing the auditor's report.

D3. Complaints 7 and 8 – Breach of HKSA 500

23. Paragraph 6 of HKSA 500 requires an auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.
24. A review of working papers of Client S and Client U indicated that the Practice failed to design and perform appropriate audit procedures to obtain sufficient appropriate audit evidence. This raised considerable doubts as to whether the Practice had obtained sufficient appropriate audit evidence such that a reasonable conclusion could be drawn on the relevant accounts.

Audit of Client S

25. The audit working papers of Client S did not show any evidence that the Practice had properly carried out the following audit procedures: -
- 25.1. Perform a cut-off test on commission income. The Practice had only checked the invoices of the commission income and the payment vouchers of salaries expenses without obtaining sufficient appropriate audit evidence by inspecting other supporting documents e.g. insurance policy and the staff employment records; and
 - 25.2. Perform audit work on trade receivables to ascertain that the receivable balance was properly recorded as at 30 June 2014.

Audit of Client U

26. The audit working papers of Client U did not show any evidence that the Practice had properly carried out the following audit procedures: -
- 26.1. Perform procedures to verify the validity of sales and purchase transactions by inspecting third-party evidence (e.g. shipping documents);
 - 26.2. Perform adequate procedures to ascertain that there was no understatement of the amounts due to related companies of approximately HK\$940 million as at 31 March 2014; and
 - 26.3. Perform audit work on significant accounts, namely, (i) an exchange gain of approximately HK\$3.9 million, (ii) bank charges of approximately HK\$21.8 million, (iii) transportation expenses of approximately HK\$4 million, and (iv) finance cost of approximately HK\$15 million.
27. The working papers indicated that Client U had an investment in a subsidiary of HK\$2.5 million as at 31 March 2014 and the net asset value of the subsidiary as at 31 December 2013 was approximately HK\$1.7 million. Although the net assets value of the subsidiary was lower than the investment amount, there was no evidence that the Practice performed procedures to determine whether an impairment loss should be recognized.
28. The working papers also indicated that Client U had amounts due from directors of approximately HK\$103 million and amounts due from related companies of approximately HK\$830 million as at 31 March 2014. There was no evidence that the Practice had performed impairment assessment on these significant accounts at the end of the reporting period.
29. The Practice had failed to obtain sufficient appropriate audit evidence to support its conclusion that the accounting treatment of an investment adopted by Client U was appropriate. The working papers indicated that the directors of Client U were holding the shares of a company on behalf of Client U and the relevant investment amount was included in amounts due from directors in the financial statements as at 31 March 2014. However, evidence obtained by the Practice showed that Client U had direct ownership of the investment company.

D4. Complaint 9 – Breach of HKSA 230

30. Paragraph 5 HKSA 230 requires an auditor to prepare documentation that provides sufficient and appropriate record of the basis for the auditor's report.
31. The Practice failed to prepare adequate documentation for the basis of the auditor's report for Client S. The working papers indicated that the Practice had

performed a vouching test on the following significant accounts, but there was no documentation of the details of the samples selected for the alleged testing:-

- 31.1. Brokerage income of approximately HK\$ 4.9 million;
- 31.2. Cost of sales of approximately HK\$ 4.5 million;
- 31.3. Administrative expenses of approximately HK\$835,000; and
- 31.4. Commission income of approximately HK\$316,000.

D5. *Complaint 10 – Professional Misconduct*

- 32. Paragraph 16 of HKSQC 1 requires a practice to establish and maintain a system of quality control that includes policies and procedures that address, amongst other things, acceptance and continuance of client relationships and specific engagements, human resources, engagement performance and monitoring.
- 33. The findings detailed above demonstrate multiple failures on the part of the Practice to comply with the basic requirements of HKSQC 1 in respect of client acceptance and continuance, confidentiality, file assembly, monitoring, human resources, engagement performance, as well as breaches of a wide range of professional standards in respect of the audits of Client U and Client S, covering audit deficiencies, and quality control policies and procedures. In particular, the fact that the Respondent had issued the Compliance Report without carrying out any actual work to support its conclusion amounts to a breach of the principle of integrity. Such failures and breaches amount to serious professional misconduct.

D6. *Conclusion*

- 34. The Committee finds the Complaint proved on the basis of the Respondent's admissions. Based on the above, it is plain that the Practice lacked an effective quality control system and commitment to the quality of its audit and assurance engagements. It is also clear that the Respondent had failed to comply with the fundamental principle of integrity. These multiple non-compliances by the Respondent amount to serious professional misconduct.

E. SANCTION AND COSTS

- 35. The Committee notes that it has a wide discretion on the sanctions it might impose and is not bound by the decision of a previous committee. Each case is fact specific.
- 36. Nevertheless, to assist the Committee in exercising its discretion, the Complainant has referred to a number of past decisions with similar features to the current case, namely, Proceedings No. D-15-1049P (1 June 2017), D-14-

0929P (29 December 2015) and D-12-0660P (21 November 2014). These decisions involved breaches of HKSQC 1 for repeated failures to implement adequate quality control policies and procedures, as well as the failure to obtain adequate appropriate audit evidence and/or audit documentation. The respondents in these cases were found by the disciplinary committees to have failed to comply with professional standards and the failures were considered serious. All of these cases resulted in the cancellation of the respective respondent's practising certificates for 12 to 18 months.

37. In addition, the Complainant drew the Committee's attention to Proceedings No. D-15-1121H (9 June 2017) where the respondents were found to have committed professional misconduct due to the serious lack of work performed to support the unqualified auditor's reports. There was a serious lack of documentation of the audit work which raised considerable doubt as to whether the respondents had obtained sufficient appropriate audit evidence and prepared adequate documentation to support the unqualified audit opinions issued. In that case, the practising certificate of the 1st respondent, who was the sole proprietor of the audit firm who issued the auditor's report, was cancelled and ordered not to be issued for 12 months.
38. The Complainant submitted that a cancellation of the Respondent's practising certificate, for such period as the Committee deemed fit, would be appropriate in the circumstances of this case.
39. As to costs, the Complainant submitted that the Respondent should pay the costs and expenses of and incidental to the proceedings of the Institute (including the costs and expenses of the Committee), as it was the Respondent's own conduct that brought on the disciplinary proceedings under PAO.
40. The Respondent did not object to a cancellation of her practising certificate or to the payment of costs and expenses as set out in the Statement of Costs attached to the Complainant's submissions. However, the Respondent proposed that her practising certificate should not be issued for 3 months and a penalty of HK\$20,000 should be imposed.
41. In support of her submissions, the Respondent highlighted a number of factors for the Committee's consideration, including:-
 - 41.1. She admitted all 10 complaints at an early stage, demonstrating her remorse, recognition of her wrongdoings and timely atonement;
 - 41.2. Her early co-operation saved time and costs;
 - 41.3. She did not have any prior disciplinary record despite many years of practice;
 - 41.4. No direct harm had been caused to the Respondent's clients and no complaints were received from them;

- 41.5. There was no intentional fraud on her part, only inadvertent mistake and lack of action caused by the relocation of her office and her involvement in certain listing projects;
- 41.6. She has, since 9 November 2015, taken reasonable steps to correct the wrongdoings;
- 41.7. The Practice is small with approximately 70 clients and most of them are small trading companies; and
- 41.8. She undertook to maintain a high standard of audit work and attend more CDP courses of the Institute to achieve a high standard of accounting work, as well as to devote her best efforts to address all relevant non-compliances in the future.

42. In considering the proper order to be made in this case, the Committee has had regard to all the aforesaid matters, including the particulars in support of the Complaint, the submissions made by the parties, the Respondent's personal circumstances, the conduct of the Respondent throughout the proceedings, as well as the previous decisions cited by the Complainant. The Committee considered, in particular, the following facts and matters specific to this case:

- 42.1. The Respondent faced a large number of complaints involving multiple failures on her part to comply with a wide range of professional standards, involving (i) a breach of the fundamental principle of integrity in relation to the compliance audit of a regulated company (Complaints 1 and 2), (ii) serious quality control deficiencies leading to breaches of various ethical requirements including client acceptance and confidentiality of client information (Complaints 3 to 5), (iii) audit deficiencies in respect of audit evidence and documentation (Complaints 6 to 9) and (iv) professional misconduct (Complaint 10).
- 42.2. Of particular significance is the Respondent's own admission that no work at all had been carried out to support her opinion before issuing the Compliance Report to certify that Client S, a regulated insurance broker, had complied with certain minimum requirements under the ICO. The Committee takes a serious view of this matter. By issuing the Compliance Report when no work had been performed to support her opinion, the Respondent had knowingly or recklessly provided false or misleading certification that the minimum requirements under the ICO had been satisfied, in breach of the fundamental principle of integrity to be straightforward and honest in all professional and business relationships under paragraph 100.5 of the Code.
- 42.3. None of the respondents in the previous decisions cited by the Complainant had knowingly or recklessly associated themselves with false or misleading statements.

- 42.4. The Respondent has no prior disciplinary record and has sought to ameliorate her breaches by an early admission at the outset, which has shortened these proceedings and led to a considerable saving of time and costs.
- 42.5. While we note that the personal circumstances claimed by the Respondent, including the fact that her office relocation and involvement in listing projects may, in some way, explain her conduct, we do not consider these to be compelling mitigation factors and can in no way provide an excuse for her professional misconduct in this case, which was on any view serious.
- 42.6. Although the Respondent submitted that no direct harm had been caused to her clients, there can be no doubt that significant public interest was at stake in the compliance audit of a regulated company, and the sanction should reflect this. In considering whether and if so the length of time the Respondent's practising certificate should be cancelled, we have taken into account the serious and multiple nature of the failures and deficiencies identified, as well as the breach of the fundamental principle of integrity on the part of the Respondent as detailed above.
- 42.7. In our view, a deterrent sanction is appropriate in the circumstances of this case to provide a salutary reminder to the Respondent and the accountancy profession in general that lax quality control and issuance of a compliance report without having undertaken any work will not be tolerated by the Institute. This is necessary to protect the public interest at stake as identified above, maintain public confidence in the integrity and competence of the profession, as well as to send a strong message that a breach of the fundamental principle of integrity under the Code will be viewed seriously by the Committee.
- 42.8. We are satisfied that the costs and expenses set out in the Statement of Costs dated 14 June 2017 in the total sum of HK\$38,665 were reasonably and necessarily incurred.
43. Accordingly, the Committee makes the following orders: -
- 43.1. The practising certificate issued to the Respondent be cancelled under s.35(1)(da) of the PAO and it shall take effect on the 42nd day from the date of this order;
- 43.2. A practising certificate shall not be issued to the Respondent for 16 months commencing from the 42nd day after the date of this order under s.35(1)(d)(b) of the PAO;
- 43.3. The Respondent do pay the costs and expenses of and incidental to the proceedings of the Complainant (including the costs of the Committee) in the sum of HK\$38,665 under s.35(1)(iii) of PAO.

Dated the 23rd day of January 2018