



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

(HONG KONG, 30 December 2020) A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants reprimanded Mr. Kwok Kam Piu, certified public accountant (practising) (A16997) on 20 November 2020 for his failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. In addition, Kwok was ordered to pay a penalty of HK\$50,000 and costs of disciplinary proceedings of HK\$116,962.

Kwok issued an unmodified auditor's report on a private company's financial statements for the years ended 30 April 2017 and 30 April 2018. In carrying out the audits, Kwok failed to obtain sufficient appropriate evidence regarding the company's balances with its directors and shareholders and on management fee expense. In addition, he did not perform adequate risk assessment on related party transactions, and he failed to identify management fees paid to a director-controlled entity as a related party transaction. Further, Kwok failed to prepare adequate documentation of audit procedures performed on a material amount of dividends paid. These audit deficiencies demonstrated Kwok's failure to exercise adequate professional skepticism, maintain the required level of professional knowledge and skill, and act diligently and in accordance with applicable professional standards.

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

Kwok admitted the complaints against him. The Disciplinary Committee found that Kwok was in breach of Hong Kong Standard on Auditing ("HKSA") 230 *Audit Documentation*, HKSA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, HKSA 500 *Audit Evidence*, HKSA 550 *Related Parties*, and 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*.

Having taken into account the circumstances of the case, the Disciplinary Committee made the above order against Kwok 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 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，二零二零年十二月三十日) 香港會計師公會轄下紀律委員會，於二零二零年十一月二十日就執業會計師郭錦標先生(會員編號：A16997)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，郭先生須繳付罰款 50,000 港元及紀律程序費用 116,962 港元。

郭先生就一間私人公司截至二零一七年四月三十日及二零一八年四月三十日止兩個年度的財務報表發表了無保留意見的核數師報告。在審計過程中，郭先生未有就該公司與董事及股東的結餘及管理費開支取得充足適當的憑證。另外，他未有對關聯方交易進行充分的風險評估，亦沒有識別出支付予一家董事控制實體的管理費屬關聯方交易。此外，郭先生在審計一項大額已付股息時未有編備完備的審核記錄。上述審計缺失，反映郭先生欠缺充分的專業懷疑態度，同時沒有維持應有的專業知識及技能水平，並且沒有盡職遵守適當的專業準則。

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) 條對郭先生作出投訴。

郭先生承認投訴中的指控屬實。紀律委員會裁定郭先生違反了 Hong Kong Standard on Auditing (「HKSA」) 230 「Audit Documentation」、HKSA 240 「The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements」、HKSA 500 「Audit Evidence」、HKSA 550 「Related Parties」及 Code of Ethics for Professional Accountants 內第 100.5(c) 及 130.1 條有關「Professional Competence and Due Care」的基本原則。

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)條向郭先生作出上述命令。

### 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 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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IN THE MATTER OF

A Complaint made under section 34(1A) of the Professional Accountants Ordinance (Cap. 50) (the “PAO”)

BETWEEN

The Registrar of the Hong Kong Institute  
of Certified Public Accountants

COMPLAINANT

AND

Kwok Kam Piu (A16997)

RESPONDENT

Before a Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants

Members: Mr. DAWES Victor (Chairman)  
Ms. LO Fung Yee, Daphne  
Ms. YANG Elizabeth Ling  
Miss FUNG Suet Ngan, Gladys  
Mr. SHEN Ka Yip, Timothy

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### ORDER AND REASONS FOR DECISION

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1. This is a complaint made by the Registrar (the “**Complainant**”) of the Hong Kong Institute of Certified Public Accountants (the “**Institute**”) against Kwok Kam Piu, a practising certified public accountant (the “**Respondent**”).
2. The particulars of the Complaint as set out in a letter from the Registrar to the Council of the Institute dated 28 April 2020 (the “**Complaint**”) are as follows:

### BACKGROUND

- (1) In 2017, the Respondent was appointed as the auditor of **King Honour Holdings Limited (“Company”)**, the principal activity of which was property investment holding. He issued an unmodified auditor’s report on the Company’s financial statements for the year ended 30 April 2017 (“**2017 FS**”) on 29 December 2017, and on the Company’s financial statements for the year ended 30 April 2018 (“**2018 FS**”) on 20

September 2018. The two sets of financial statements were prepared in accordance with SME-FRS<sup>1</sup>. The audits were conducted in accordance with HKSA<sup>2</sup> and with reference to PN 900 (Revised)<sup>3</sup>.

- (2) A number of audit deficiencies were identified in respect of the Respondent's audits of the Company's 2017 FS and 2018 FS. As a result, four complaints have been raised.

## **THE COMPLAINTS**

### Complaint 1

- (3) 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 in relation to the amount due from a director in the audits of the financial statements of King Honour Holdings Limited for the years ended 30 April 2017 and 2018.

### Complaint 2

- (4) 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 in relation to (i) dividend paid, (ii) amount due to shareholders, and (iii) management fees paid in the audit of the financial statements of King Honour Holdings Limited for the year ended 30 April 2018.

### Complaint 3

- (5) 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 in relation to the maintenance of professional skepticism and/or properly respond to risks of material misstatements in the audits of the financial statements of King Honour Holdings Limited for the years ended 30 April 2017 and 30 April 2018.

### Complaint 4

- (6) Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply a professional standard for his failure to maintain professional knowledge and skill at a level required, and act diligently and in accordance with applicable professional standards, to ensure his clients received competent professional services in relation to the 2017 and 2018 audits for King Honour Holdings Limited.

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<sup>1</sup> Hong Kong Small and Medium-sized Entity Financial Reporting Standard

<sup>2</sup> Hong Kong Standards on Auditing

<sup>3</sup> Practice Note 900 (Revised) *Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard*

## FACTS AND CIRCUMSTANCES IN SUPPORT OF THE COMPLAINT 1

- (7) The Company adopted a mode of operation under which a controlling shareholder-cum-director (“MD”) used his personal bank account to manage the Company’s receipts and disbursements. The net effect of those transactions was recorded as a “net movement” in the “Due from director” account in the Company’s books, which showed a year-end balance of HK\$2.3 million (receivable) in 2017 and HK\$3.2 million (receivable) in 2018.
- (8) In the 2017 and 2018 audits, the Respondent performed inadequate work with respect to the “Due from director” balances, which were above materiality, determined at 1% of net assets value of approximately HK\$40,000 for the 2017 audit and HK\$16,000 for the 2018 audit.
- (9) Based on the audit working papers, the procedures performed in 2017 were limited to casting and checking the balance to the ledger; whereas in the 2018 audit, the procedures performed were limited to casting and obtaining an audit confirmation from the MD confirming the year-end balance of the “Due from director” account.
- (10) Given the potential for management override by the MD over recording of the balance he owed the Company, a reasonable auditor would have been expected to perform additional testing. However, there is no evidence of any work performed on the validity of “net movement” amounting to HK\$291,098 in 2017 and HK\$891,354 in 2018, which represented the net effect of all transactions going through the MD’s personal bank account.
- (11) The Respondent submitted that he had checked the receipts to the MD’s personal bank book and the net movement, but there is no evidence of the performance of this purported procedure in the working papers. Further, a rather stable revenue stream from rental income would be expected based on the Company’s mode of operations. However, there is nothing in the audit working papers to suggest that the Respondent was alerted to a three-fold increase in the “net movement” amount in 2018. The audit working papers simply offer no trace of any procedures performed by the Respondent in respect of the “net movement” amounts in 2017 and 2018.
- (12) On the above basis, it is said that the Respondent failed to:
  - (a) perform adequate procedures to obtain sufficient appropriate evidence with respect to the accuracy of the due from director balance as recorded in the 2017 FS and 2018 FS, in breach of paragraph 6 of HKSA 500; and/or
  - (b) perform adequate risk assessment associated with related party relationships and transactions, in breach of paragraphs 18 and 19 of HKSA 550.

- (13) As HKSAs are professional standards referred to in the PAO, section 34(1)(a)(vi) applies to the Respondent in this respect.

## **FACTS AND CIRCUMSTANCES IN SUPPORT OF COMPLAINT 2**

### *Dividend paid*

- (14) A dividend paid of HK\$7.2 million was recorded in the 2018 FS. The 2018 working papers included a copy of the Company's resolution regarding the declaration of the dividend. A remark in the relevant working paper indicated that the dividends were "prepaid" by the MD to the shareholders on 20 May 2009, 17 January 2014 and 22 January 2015. Payment of the dividend was recorded by crediting the MD's due from director account and debiting equity.
- (15) The Respondent represented that he had verified the prepayments of the dividend by the MD by checking to the MD's personal bank account records. However, such audit procedure was not documented in the relevant audit working papers.
- (16) There is also no documentation in the audit working papers of audit confirmations requested or obtained from shareholders regarding their receipt of dividend payments from the MD. In his email dated 10 October 2019, the Respondent represented to the Institute that he was still waiting to receive the confirmations from the shareholders. Then in April 2020, the Respondent provided the confirmation replies from four shareholders, claiming that he had received two of those confirmations in August 2018 (before the auditor's report for the 2018 FS was signed off); and the other two in October 2019.
- (17) The Respondent explained that he had not referred to the two confirmations received in August 2018 because they were included in the old documents which were transferred from his home to the mini warehouse in January 2019; and he only retrieved them from the warehouse in October 2019. Further, the Respondent admitted that he omitted the procedure related to obtaining confirmations in the working papers.
- (18) Based on the above, with respect to the dividend paid which was a material amount in the 2018 FS, the Respondent failed to prepare adequate audit documentation in breach of paragraph 8 of HKSA 230.

### *Amount due to shareholders*

- (19) The 2018 FS included amounts due to shareholders totalling HK\$16.7 million, which arose out of reclassification of balances as stated in the 2017 FS. The working papers include a leadsheet showing audit confirmation request was made to five shareholders regarding their individual balances. Of the five confirmation requests, the Respondent



received three positive confirmations. One shareholder did not respond, while another returned the confirmation form without confirming his balance. For the latter two confirmations, the Respondent did not perform alternative procedures on the balances due to these two shareholders, e.g. by contacting the respective shareholders directly by other means to resolve the issue. The unconfirmed balances represented HK\$4.1 million (25%) of the total due to shareholders amount at 2018 year-end.

*Management fees paid*

- (20) The 2018 FS included a prior year adjustment (“PYA”) with respect to management fees paid of HK\$6 million. The fees were paid to the MD’s own company for services rendered to the Company from 2000 to 2017, which constituted related party transactions. Apart from obtaining a confirmation from the MD confirming the year-end balance due from him regarding his director’s account, the Respondent did not perform any procedures to verify the validity or existence of the management fees recorded in the PYA, e.g. checking to relevant contract/agreement and/or directors’ resolution.
- (21) The Respondent’s failure to properly identify the management fees paid as related party transactions was a breach of paragraphs 15, 18, and 21 of HKSA 550.
- (22) As a result of the deficiencies noted in (19) and (20) above, the Respondent failed to obtain sufficient appropriate audit evidence in accordance with paragraph 6 of HKSA 500 with respect to the amount due to shareholders and the management fees, both of which were material items, as recorded in the 2018 FS.
- (23) As HKSAs are professional standards referred to in the PAO, section 34(1)(a)(vi) applies to the Respondent in this respect.

**FACTS AND CIRCUMSTANCES IN SUPPORT OF COMPLAINT 3**

- (24) The breaches as set out in Complaints 1 and 2 above also pointed to the Respondent’s failure to adequately consider increased fraud risks arising from potential management override, as explained in paragraphs (25) to (27) below.
- (25) The Respondent documented in the 2017 working papers that there was little scope for management override. In the 2018 working papers, he noted the potential for management override given the MD’s role as the managing director and major shareholder. The Company’s mode of operations did not change in 2018, nor the MD’s role. Hence, the Respondent seemed to have reached inconsistent conclusions on his assessment of management override in 2017 and 2018 based on the same set of circumstances. The Respondent rightly pointed out the risk of management override in his 2018 audit. Therefore, his 2017 assessment

was not correct or appropriate. For both years, the Respondent did not identify significant fraud risk due to the “straightforward nature of client’s operations”.

- (26) Based on the above, the Respondent did not perform a proper fraud risk assessment in the 2017 and 2018 audits considering the following circumstances:
- (a) the “unusual” arrangement of the MD’s using his personal bank account for Company transactions;
  - (b) the lack of documentary evidence to support the MD’s “dividend prepayments” to shareholders in past years; and
  - (c) the lack of documentary evidence to support the validity of the management fees paid to the MD’s own company.
- (27) Under the circumstances, the conclusion of “no significant fraud risk” would be inappropriate in his 2017 and/or 2018 audits, and demonstrated the Respondent’s failure to:
- (a) maintain professional skepticism throughout the audit(s), recognizing the possibility that a material misstatement due to fraud could exist, in accordance with paragraph 12 of HKSA 240; and/or
  - (b) design and perform further audit procedures which nature, timing and extent were responsive to the assessed risks of material misstatement due to fraud at the assertion level, including risks of management override, in accordance with paragraphs 31 to 33 of HKSA 240.
- (28) As HKSAs are professional standards referred to in the PAO, section 34(1)(a)(vi) applies to the Respondent in this respect.

#### **FACTS AND CIRCUMSTANCES IN SUPPORT OF COMPLAINT 4**

- (29) Based on the above significant audit deficiencies as identified in Complaints 1 to 3, serious doubts exist in regards to whether the Respondent had maintained professional knowledge and skill at the level required to ensure that his clients received competent professional service; and acted diligently in accordance with applicable technical and professional standards when performing the audits, as required under 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 (“Code”).
- (30) As the Code is a professional standard referred to in the PAO, section 34(1)(a)(vi) applies to the Respondent in this respect.

## THE PROCEEDINGS

3. By a letter signed by the parties dated 2 June 2020, the Respondent admitted the Complaint against him, and the parties requested that the steps set out in paragraphs 17 to 30 of the Disciplinary Committee Proceedings Rules (“DCPR”) be dispensed with.
4. The Disciplinary Committee agreed with the parties’ request to dispense with the steps set out in Rules 17 to 30 of the DCPR in light of the admission made by the Respondent, and directed the parties to make written submissions on sanctions and costs.
5. The complaints were all found proven on the basis of the admission made by the Respondent.
6. We have taken into account the personal circumstances of the Respondent that are set out in his submissions made on 24 August 2020. In short, the Respondent referred to the offer to conclude the matter by way of the Resolution by Agreement (“RBA”) procedure which was proposed to him on 13 December 2019 which provided for a public reprimand and payment of an administrative penalty of HK\$40,000 and the Institute’s costs of HK\$15,000. The Respondent suggested that the offer was not accepted by him by reason of his divorce, stress and unemployment. He also suggested that he was asked to admit material matters of fact in dispute which was subsequently revised. We were invited to take this matter into account.
7. He then suggested that in light of the deficiencies caused by insufficient documentation, he proposed a public reprimand and a payment of HK\$35,000.
8. We note the wide discretion given to us to determine the applicable sanctions under section 35 of the PAO. We accept the submissions of the Complainant that where there were multiple audit deficiencies which had occurred over 2 years of audit, the case falls within the “moderately serious” category as categorised in the Guideline to Disciplinary Committee for Determining Disciplinary Orders.
9. 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 Complaint, the Respondent’s personal circumstances, and the conduct of the Complainant and the Respondent throughout the proceedings.

## SANCTIONS AND COSTS

10. The Disciplinary Committee ORDERS that:-
  - (a) the Respondent be reprimanded under section 35(1)(b) of the PAO;

- (b) the Respondent do pay a penalty of HK\$50,000 under section 35(1)(c) of the PAO; and
- (c) the Respondent do pay the costs and expenses of and incidental to the proceedings of the Complainant, including the costs of the Disciplinary Committee, in the sum of HK\$116,962 under section 35(1)(iii) of the PAO.

Dated the 20th day of November 2020

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Mr. DAWES Victor  
(Chairman)

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Ms. LO Fung Yee, Daphne  
(Member)

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Miss FUNG Suet Ngan, Gladys  
(Member)

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Ms. YANG Elizabeth Ling  
(Member)

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Mr. SHEN Ka Yip, Timothy  
(Member)