

IN THE MATTER OF

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

BETWEEN

The Practice Review Committee
of the Hong Kong Institute of
Certified Public Accountants

COMPLAINANT

AND

Mr. Ng Ka Kuen
(Membership no. A25914)

RESPONDENT

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

Members: Ms. KOO Kar Chun, Anna (Chairman)
Mr. CHAN Raymond
Ms. DOE Julianne Pearl
Ms. CHUA Suk Lin, Ivy
Mr. WOO King Hang

ORDER AND REASONS FOR DECISION

1. This is a complaint made by the Practice Review Committee of the Hong Kong Institute of Certified Public Accountants (the "**Institute**") as Complainant against Mr. Ng Ka Kuen, a practising certified public accountant (the "**Respondent**"). Section 34(1)(a)(vi) of the PAO applied to the Respondent.
2. The particulars of the Complaint as set out in a letter from the Practice Review Committee to the Registrar of the Institute dated 10 October 2018 (the "**Complaint**") are as follows:

BACKGROUND

- (1) UC CPA (Practising) Limited (corporate practice no.: S0267) (the "**Practice**") was selected for a practice review in 2016. The practice review site visit took place during the period from 20 June 2016 to 15 February 2017.

- (2) As part of the practice review, the reviewer selected the audit engagements of two companies which involve high public interest (i.e. Client A and Client B). Client A is a listed company and Client B is a regulated insurance broker.
- (3) The reviewer identified a number of deficiencies in both audits of Clients A and B which indicate that the Practice's audit methodology was non-compliant with professional standards. In addition, the reviewer also identified material weaknesses in the Practice's quality control system in breach of Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* ("**HKSQC 1**").
- (4) The Respondent was the sole practising director of the Practice from 12 June 2007 to 2 March 2017 and was responsible for the Practice's quality control system during the period under review.
- (5) As engagement director responsible for the audits of Clients A and B, the Respondent was found to have failed to maintain professional competence and knowledge at the level expected of a professional accountant. As the director responsible for the Practice, the Respondent was also found to have breached HKSQC 1.

THE COMPLAINT

Complaint 1

- (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 comply with the fundamental principle of professional competence and due care when carrying out the audits of Client A and Client B.

Complaint 2

- (7) 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 an adequate quality control system in the Practice.

FACTS AND CIRCUMSTANCES IN SUPPORT OF COMPLAINT 1

- (8) Complaint 1 concerns the audits of Client A and Client B.
- (9) As Auditor, the Respondent is required to comply with all Hong Kong Standard on Auditing ("**HKSAs**") relevant to an audit in accordance with HKSA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*. However, the Respondent was found to have breached a number of HKSAs in the audits of Client A and Client B.

Client A

- (10) In the audit of Client A, the Respondent was found to have breached a number of HKSAs for failing to:
- (10.1) Establish performance materiality and a clearly trivial amount in accordance with HKSA 320 *Materiality in Planning and Performing an Audit* and HKSA 450 *Evaluation of Misstatements Identified during the Audit*; and determine the performance materiality at the component level in accordance with HKSA 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*.
 - (10.2) Determine sample sizes under appropriate sampling method to provide a reasonable basis for drawing conclusions in respect of the audit substantive tests on sales and purchase transactions, in accordance with HKSA 530 *Audit Sampling*.
 - (10.3) Perform alternative audit procedures to obtain sufficient audit evidence for non-replied confirmations and evaluate whether results of the confirmation procedures provided relevant and reliable audit evidence, in accordance with HKSA 505 *External Confirmations*.
 - (10.4) Design and perform final analytical procedures to assist in the forming of overall conclusion as to whether the Client A 2015 Financial Statements were consistent with the Auditor's understanding of entity, in accordance with HKSA 520 *Analytical Procedures*.
 - (10.5) Prepare adequate audit documentation which provides a sufficient and appropriate record of the audit work done in accordance with HKSA 230 *Audit Documentation*.
 - (10.6) Design and perform audit procedures for the purpose of obtaining sufficient appropriate audit evidence in accordance with HKSA 500 *Audit Evidence* in respect of two significant accounts, namely investment property and prepayments.

Client B

- (11) For Client B, the reviewer also identified multiple breaches of HKSAs indicating that the Respondent had failed to:
- (11.1) Establish an appropriate basis for determining performance materiality in accordance with HKSA 320.
 - (11.2) Perform sufficient and adequate audit procedures on the opening balances in accordance with HKSA 510 *Initial Audit Engagements – Opening Balances*.

- (11.3) Document how the Auditor had determined the sample size and method in respect of the audit substantive tests on income and expenses in accordance with HKSA 230 and HKSA 530.
- (11.4) Perform alternative audit procedures to obtain sufficient audit evidence for non-replied confirmations and evaluate whether results of the confirmation procedures provided relevant and reliable audit evidence, in accordance with HKSA 505.
- (11.5) Design and perform final analytical procedures to assist in the forming of overall conclusion as to whether the Client B Financial Statements were consistent with the Auditor's understanding of entity, in accordance with HKSA 520.
- (11.6) Design and perform audit procedures for the purpose of obtaining sufficient appropriate audit evidence in accordance with HKSA 500 in respect of a significant account, namely accounts receivable.
- (12) According to sections 100.5(c) and 130 of the *Code of Ethics for Professional Accountants* ("**Code**"), a professional accountant must comply with the fundamental principle of professional competence and due care by maintaining professional knowledge and skill at the level required to ensure that clients receive competent professional service and act diligently in accordance with applicable professional standards.
- (13) The Respondent did not meet the requirements of all HKSAs relevant to the audits of Clients A and B despite making such a representation of compliance in the auditor's reports and, as such, section 34(1)(a)(vi) of the PAO applies to the Respondent.
- (14) In addition, the above multiple breaches of HKSAs show that the Respondent did not carry out the audits with the level of professional competence and due care expected of him, in breach of sections 100.5(c) and 130 of the Code.
- (15) As the Code is a professional standard referred to in the PAO, section 34(1)(a)(vi) of the PAO also applies to the Respondent in this respect.

FACTS AND CIRCUMSTANCES IN SUPPORT OF COMPLAINT 2

- (16) Under HKSQC 1, the Practice is required to have a quality control system which provides reasonable assurance that the Practice and its personnel comply with professional standards and issue reports that are appropriate in the circumstances.

- (17) The Practice is required to address the quality control elements of human resources and engagement performance by establishing policies and procedures designed to provide it with reasonable assurance that:
- (17.1) It has sufficient personnel with the competence, capabilities and commitment to uphold audit quality, in accordance with paragraphs 29 to 31 of HKSQC 1;
 - (17.2) Engagements are performed in accordance with professional standards, in accordance with paragraphs 32 of HKSQC 1; and
 - (17.3) Engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team is performed for audits of listed companies, in accordance with paragraphs 35 to 42 of HKSQC 1.
- (18) The multiple breaches of auditing standards as described under Complaints 1 and 2 show that the Practice did not (i) have sufficient personnel with the expected level of competence with which to carry out its audits; (ii) have appropriate audit methodology compliant with professional standards; and (iii) obtain sufficient appropriate evidence and/or provide adequate documentation in carrying out the relevant engagements.
- (19) In addition, the practice reviewer also found that the engagement quality control reviewer for Client A failed to carry out an effective review.
- (20) On the above basis, the Practice failed to have an adequate system of quality control to ensure that it (i) possessed adequate and appropriate human resources to uphold audit quality; and (ii) performed audit engagements in accordance with professional standards.
- (21) As the sole practising director at the time of the practice review, the Respondent is responsible for the Practice's failure to establish and maintain a system of quality control which meets the HKSQC 1 requirements.
- (22) As HKSQC 1 is a professional standard referred to in the PAO, section 34(1)(a)(vi) of the PAO applies to the Respondent.

THE PROCEEDINGS

3. By letter signed by the parties dated 26 November 2018, 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. Neither the Complainant nor the Respondent requested for a hearing.
5. The complaints were all found proven on the basis of the admission made by the Respondent.
6. The Complainant and Respondent filed their written submissions on sanctions and costs on 29 March 2019 and 28 March 2019 respectively.
7. 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

8. The Disciplinary Committee orders that:-
 - 1) the Respondent be reprimanded under Section 35(1)(b) of the PAO;
 - 2) the practising certificate issued to the Respondent be cancelled under Section 35(1)(da) of the PAO;
 - 3) a practising certificate shall not be issued to the Respondent for 16 months under Section 35(1)(db) of the PAO; and
 - 4) 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\$52,977 under Section 35(1)(iii) of the PAO.

The above shall take effect on the 42nd day from the date of this Order.

Dated the 18th day of June 2019

Ms. KOO Kar Chun, Anna
(Chairman)

Mr. CHAN Raymond
(Member)

Ms. CHUA Suk Lin, Ivy
(Member)

Ms. DOE Julianne Pearl
(Member)

Mr. WOO King Hang
(Member)