

IN THE MATTER OF

The Complaints 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. Chan Yui Hang, CPA (practising) (F05525) **RESPONDENT**

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

Members: Ms. DOE Julianne Pearl (Chairman)
Ms. POON Suk Ying, Debora
Mr. TANG Shu Pui, Simon
Mr. LI Peter Po-ting
Mr. MAN Mo Leung

Date of Decision: 28 February 2023

REASONS FOR DECISION

1. These Reasons for Decision refer to four complaints ("**Complaints**") made by the Hong Kong Institute of Certified Public Accountants as Complainant (the "**Institute**" or "**Complainant**") against Chan Yui Hang (the "**Respondent**"), a certified public accountant.
2. The particulars of the Complaint from the Practice Review Committee of the Institute ("**PRC**") are set out in a letter from the PRC dated 1 September 2017 addressed to the Council of the Institute (the "**Complaint**").

Background

3. D.C. (CPA) & Associates, Certified Public Accountants (Practising) (Firm no. 1538) (the "**Practice**") had been selected for an initial practice review in March 2014 and deficiencies in relation to its quality control system and audit engagements were identified.
4. A follow up practice review visit of the Practice was conducted in April 2016. The main purpose of this visit was to confirm whether the Practice had taken appropriate actions in response to findings identified during the initial practice review.
5. At the time of the follow up practice review, the Practice had two practising partners, namely the Respondent and Ms. Chung May Shan ("**Ms. Chung**"). The Respondent and Ms. Chung became a partner of the Practice on 1 April 2012 and 1 January 2015 respectively.

6. The Practice did not employ any staff. Its audit work was carried out by a service company, namely ADGS Advisory Limited.
7. The audit engagements selected for review in the follow up visit included the following:
 - (a) Client G, a private entity, for the year ended 31 December 2014. The relevant auditor's report was issued on 18 June 2015; and
 - (b) Client A, a private entity, for the year ended 31 March 2015. The relevant auditor's report was issued on 27 January 2016.
8. In addition to the above, the practice reviewer ("**Reviewer**") selected 22 engagements on the spot, including Client SFI for the year ended 30 June 2015, to assess the Practice's quality of audit work after identifying issues in the procedures of checking completeness of the client list.
9. The Respondent is the managing partner of the Practice and also the engagement partner for all the Practice's engagements, except for the audit and compliance reporting engagements of Client SFI for year ended 30 June 2015 for which Ms. Chung was the engagement partner.
10. In the review process, the Reviewer found a number of deficiencies in the Practice's quality control system and audit engagements. Some of these deficiencies are the same or similar to those findings identified in the initial practice review which indicates that the Practice failed to address the deficiencies previously identified.
11. Based on the findings in the follow up visit and the Practice's responses, the PRC considered the results of the review were unsatisfactory. The PRC expressed serious concerns over the poor standards of the Practice's quality control and audit work as evidenced by serious internal control deficiencies and a number of repeated and new significant findings on engagements as set out in the reviewer's report. The PRC therefore decided to raise a complaint and the Respondent and Ms. Chung were notified of this decision on 30 November 2016.
12. In view of the deficiencies identified by the Reviewer regarding the Practice's quality control system, the engagements of Client G and Client A, and the 22 spot checked engagements, the Institute considered that the weaknesses identified revealed fundamental flaws in the Practice's quality control systems and audit practices and has reason to believe that the Practice had seriously failed to observe, maintain or apply professional standards. Based on the above, the Institute decided to raise a complaint against the Practice under section 34(1A) of the PAO.

The 2019 Hearing

13. The current case was deliberated by a Disciplinary Committee ("**2019 DC**") in 2019, which found all the complaints proven. The Respondent and the Practice then appealed against the decision and order of the 2019 DC to the Court of Appeal. Ms. Chung did not appeal against the decision and order of the 2019 DC. By an order of the Court of Appeal on 27 August 2020, the appeal lodged by the Practice was dismissed and struck out of the list upon the joint application of the parties by way of Consent Summons filed on 24 August 2020. Since Ms. Chung did not appeal against the decision and order of the 2019 DC, and the Practice's appeal was dismissed, only complaints relating to the Respondent are being dealt with by this Committee.
14. On 23 March 2021, The Court of Appeal ordered that the earlier decision and order of the 2019 DC be set aside and the case be remitted and heard by a differently constituted Disciplinary Committee on an expedited basis, and unless otherwise directed, that the hearing bundle for the substantive hearing on 22 October 2018 in the earlier DC's proceedings ("**2018 Hearing Bundle**") be admitted as submissions and evidence in the current proceedings. The Court of Appeal further directed the Respondent to submit a Supplemental Case setting out any additional submissions and annexing such additional documentary evidence on which he relies. In this regard, this Disciplinary Committee ("**Committee**") was constituted and the documents provided to this Committee include the 2018 Hearing Bundle, the Respondent's

Supplemental Case, the Complainant and the Respondent's respective Reply, a Checklist from the Complainant (the Respondent did not file a checklist), respective opening submissions and responses to the submissions from the Complainant and the Respondent.

The proceedings

15. The Notice of Commencement of Proceedings was issued on 29 October 2021.
16. On 8 December 2021, the Respondent applied for an extension of time of 1 week to file his Supplemental Case. The extension of time was allowed on 10 December 2021 and the Respondent filed his Supplemental Case on 17 December 2021.
17. The Complainant and the Respondent filed their respective Reply on 14 January 2022 and 11 February 2022.
18. The Complainant filed its checklist on 15 February 2022. On 1 March 2022, the Respondent verbally requested for a time extension of 1 to 2 weeks to file his checklist. An extension of 2 weeks was allowed by the Committee on 2 March 2022. The Respondent did not file a checklist and the Committee directed on 22 March 2022 that the proceedings would proceed on the basis that there is no checklist to be filed by the Respondent.
19. This Committee gave directions on the conduct of the proceedings on 6 April 2022. The Respondent requested an extension of time to consider the filing of any objection to the core bundle arrangement and filing written opening submissions. The Committee directed that the Respondent to file any objection with reasons to the core bundle arrangement by 27 April 2022 and to file any written opening submission by 4 May 2022, and that no further extension would be granted. On 27 April 2022, the Respondent indicate that he had no objection to the core bundle arrangement.
20. On 4 May 2022, the Complainant and the Respondent filed their respective opening submissions.
21. On 26 June 2022, the Respondent requested an extension of time of 28 days for the purpose of responding to the Complainant's opening submission to 29 July 2022. This extension was allowed by the Committee on 29 June 2022.

The Complainant's response to the Respondent's opening submission was made on 29 July 2022.

The Respondent's response to the Complainant's opening submission was made on 29 July 2022. In such response, the Respondent did not make any further submission or request to adduce expert evidence or to call witnesses.

In respect of the proceedings before the 2019 DC, the Respondent filed a checklist dated 25 July 2018 requesting to adduce expert evidence and to call a witness. This request was declined by the 2019 DC. Before this Committee, the Respondent did not file any checklist, or make any such request afresh or make any submission on the matter. This Committee therefore considered that no expert evidence be required to be adduced, and no witness be required to be called. The parties did not object to dealing with the subject case by paper disposal without a hearing.

Relevant Professional Standards

22. The following professional standards are relevant in this matter:
 - (a) 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");

(b) Hong Kong Standard on Auditing ("HKSA");

and

(c) Code of Ethics for Professional Accountants ("Code").

The Complaints

23. The Complaints are as follows:

- (a) First Complaint - 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 managing partner responsible for the Practice's quality control system, his Practice had not implemented adequate quality control policies and procedures in respect of safe custody of engagement documentation, assignment of engagement teams, file assembly, and engagement performance.
- (b) Second Complaint - Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he had failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraph 6 of HKSA 500 in that he 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 G for the year ended 31 December 2014.
- (c) Third Complaint - Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he had failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraph 6 of HKSA 500 in that he 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 A for the year ended 31 March 2015.
- (d) Fourth Complaint - 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, paragraphs 100.5(c) and 130.1 of the Code, in that he did not maintain professional knowledge and skill at the level required to ensure that clients receive competent professional services; and/or diligently carry out professional services, in accordance with the applicable professional standards.

Facts and circumstances in support of the First Complaint

24. HKSQC 1 requires all firms of professional accountants to establish and maintain an adequate system of quality control which meets the requirements under the standard. In particular:

- (a) 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, the elements of human resources and engagement performance.
- (b) In addition, paragraphs 17 and 57 of HKSQC 1 requires the Practice to establish policies and procedures to ensure appropriate documentation are prepared to provide evidence of the operation of each element of its system of quality control.

The Respondent was responsible for the Practice's system of quality control in both the initial practice review and follow up visit.

Safe custody of engagement documentation

- (c) Paragraph 46 of HKSQC 1 requires a practice to establish policies and procedures to maintain safe custody of engagement documentation.
- (d) During the follow up visit, the Reviewer found that the Practice was sharing an office with other audit firms and there was no established policies and procedures in place to ensure the safe custody of audit files and client information, the Practice is considered to have failed to comply with paragraph 46 of HKSQC 1.
- (e) In the Practice's letter dated 3 October 2016, the Respondent did not dispute the finding and undertook to perform appropriate procedures to address the above non-compliance.

Assignment of engagement teams

- (f) According to paragraph 31 of HKSQC 1, a practice is required to establish policies and procedures to assign appropriate personnel with the competence and capabilities to:
 - 1) perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and
 - 2) enable the firm or engagement partners to issue reports that are appropriate in the circumstances.
- (g) As the Practice did not employ any staff, its audit work was all carried out by the service company. The Reviewer found that the Practice had no policies and procedures in place to ensure the staff who were assigned by the service company had the necessary competence and capabilities to perform the audit.
- (h) In the Practice's letter dated 3 October 2016, the Respondent did not dispute the finding and undertook to perform appropriate procedures to address the above non-compliance.
- (i) Based on the above, the Practice is considered to have failed to have effective procedures to ensure proper assignment of staff to an engagement in accordance with paragraph 31 of HKSQC 1.

The quality control deficiencies described below shows that he had failed to adequately implement the HKSQC 1 requirements.

Engagement performance

- (j) According to paragraph 32 of HKSQC 1, a practice shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards.
- (k) The practice review findings show that the Practice's audit work and documentation did not meet a number of requirements under Hong Kong Standard on Auditing ("HKSA"). The Reviewer noted that the audit working papers of the selected engagements (i.e. Clients G and A) and the 22 spot checked engagements did not show any evidence that the Practice had properly carried out the below audit procedures. Except for point (4), all the shortcomings below in audit procedures were also identified in the initial practice review.
 - 1) Obtain an understanding of the entities' internal controls relevant to the audits; and evaluate the design of those controls to determine whether they have been properly implemented in the period under audit, in accordance with HKSA 315 *"Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment"*.

- 2) Perform audit procedures, including journal entry testing, to address the risks of management override of controls, in accordance with HKSA 240 *"The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements"*.
 - 3) 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, in accordance with HKSA 560 *"Subsequent Events"*.
 - 4) Determine performance materiality and a clearly trivial amount as required by HKSA 320 *"Materiality in Planning and Performing an Audit"* and HKSA 450 *"Evaluation of Misstatements Identified during the Audit"*.
- (l) In addition to the above, the Respondent admitted to the Reviewer that the audit working papers of the 22 spot checked engagements contained limited information to support the auditor's opinion on the relevant financial statements and the following deficiencies:
- 1) In a group audit engagement of Client ETD for the year ended 30 November 2014, the Respondent did not ensure that work had been performed on the significant components which were audited by another component auditor, in accordance with HKSA 600 *"Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)"*.
 - 2) The audit working papers of RCI for the year ended 31 March 2015 showed that the Respondent did not ensure that audit procedures had been carried out on the accounts of the financial statements. Only draft financial statements, management accounts and the bank statements were filed in the working papers.
 - 3) The audit working papers of Client LCC for the year ended 31 March 2014 indicated that the Respondent did not ensure that audit work had been performed on inventories, trade and other receivables and trade and bills payables accounts. These accounts are material to the financial statements. The aggregate value of the inventories and trade and other receivables represented 60% of total assets and the trade and bills payables represented 44% of total liabilities at the year end date.
 - 4) In addition, the working papers indicated that vouching test had been performed on certain income and expense items for the year ended 31 March 2014. However, there was no documentation about details of the tested items and the supporting documents that had been examined. It raised doubt as to whether sufficient audit work had been carried out on these accounts.
 - 5) The audit working papers of another 11 engagements indicated that insufficient audit work was performed on the accounts which are material to the financial statements. The Respondent did not ensure that sufficient audit work had been performed.
 - 6) The working papers of certain engagements (including the audit and compliance report for Client SFI) did not have any information showing that the Respondent and Ms. Chung as the engagement partners, had reviewed the audit work performed and the date when such work was completed, in accordance with paragraph 9 of HKSA 230 *"Audit Documentation"*.

The above deficiencies indicated that the Practice lacked sufficient supervision on its engagements to ensure that they were performed in accordance with professional standards.

In the Practice's letter dated 3 October 2016, the Respondent explained that engagement partners relied on the audit manager to monitor their engagements and only performed a rough review on the working papers before issuing the auditor's reports.

The above findings and explanation demonstrated that the Practice did not establish policies and procedures that are effective to ensure that audit engagements performed are in accordance with relevant auditing standards. It also demonstrated that the Practice's engagements lacked proper review. Therefore, it raised concerns as to whether sufficient and appropriate audit evidence had been or could have been obtained to support the auditor's opinion expressed in the auditor's reports.

File assembly

- (m) 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.
- (n) 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.
- (o) During the follow up visit, the Reviewer noted that certain audit working papers of the engagements reviewed on the spot, including 7 spot checked engagements, were not originally included in the audit files but provided to the Reviewer in response to the Reviewer's requests during the practice review. It indicated that the Practice did not complete the assembly of final engagement files on a timely basis after the issuance of auditor's reports, in accordance with paragraphs 45 and A54 of HKSQC 1.
- (p) The Practice agreed to the findings in its letter dated 3 October 2016 and undertook to perform appropriate procedures to address the above non-compliance.
- (q) On the basis of the above quality control deficiencies, the Respondent, who was responsible for the Practice's quality control system, is considered to have not complied with HKSQC 1 as the Practice had not implemented adequate quality control policies and procedures in respect of safe custody of engagement documentation, assignment of engagement teams, file assembly, and engagement performance.

Facts and circumstances in support of the Second and Third Complaints

- 25. The Respondent issued the auditor's reports on Client G and Client A in the name of the Practice for the year ended 31 December 2014 and 31 March 2015 respectively. The auditor's reports stated that the auditor had conducted the audit in accordance with Hong Kong Standards on Auditing and with reference to Practice Note 900 "*Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard*" ("PN900"). PN900 provides that HKSA's apply to the audits of financial statements.
- 26. According to paragraph 6 of HKSA 500, an auditor is required to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

Audit of Client G

- (a) Client G is a company engaged in the trading of computer parts. The audit working papers of Client G did not show any evidence that audit procedures had been carried out for the purpose of obtaining sufficient appropriate audit evidence in respect of the following accounts which are material to the financial statements.

- 1) Opening balances - This was the first year audit by the Practice. The working papers did not show any audit work done on the opening balances in accordance with HKSA 510 *"Initial Audit Engagements – Opening Balances"*.
- 2) Revenue and cost of sales
 - i. The working papers show that the profit and loss accounts included revenue and cost of sales of HK\$251,935,389 and HK\$247,081,389 respectively for the year ended 31 December 2014.
 - ii. No audit work was performed on the revenue and cost of sales accounts to assess the validity and accuracy of the transactions.
- 3) Inventories
 - i. The working papers show that the balance of inventories was HK\$8,774,437, which represented 64% of Client G's net assets as at 31 December 2014.
 - ii. It was documented that the auditor had attended inventory count on 5 January 2015. However, there was no audit work carried out to:
 - a) test the transactions in the intervening period between the year end date (i.e. 31 December 2014) and inventory count date (i.e. 5 January 2015) – there was also no evidence of any year end cutoff procedures; and
 - b) assess the underlying fair values of inventories.

There was also no evidence in the working papers that the auditor attending inventory count had received proper stocktake instructions and how movement in stock items were controlled in the course of the stocktake.

Audit of Client A

- (b) Client A is a company engaged in the provision of telecommunication installation and consultancy services. The audit working papers of Client A did not show any evidence that audit procedures had been carried out for the purpose of obtaining sufficient appropriate audit evidence in respect of the following accounts which are material to the financial statements. These findings were also identified in the review of the audit engagement of Client A for the year ended 31 March 2013 during the initial practice review.

- 1) Service income and cost of services
 - i. The working papers show that the profit and loss accounts included service income and cost of services of HK\$1,557,155 and HK\$1,048,076 respectively for the year ended 31 March 2015.
 - ii. No substantive audit procedures were carried out on the service income and cost of sales accounts to ascertain the validity and accuracy of the transactions.
- 2) Trade receivables
 - i. The working papers show that the balance of trade receivables was HK\$66,260, which represented 17% of Client A's total assets as at 31 March 2015.
 - ii. No audit procedures were carried out to ascertain the existence and valuation of the balance as at the year end date.

On the basis of the above findings, the Respondent, being the engagement partner of Client G and Client A, is considered to have failed to comply with paragraph 6 of HKSA 500 in that he did not ensure that sufficient and appropriate audit evidence was obtained such that a reasonable conclusion could be drawn on the relevant accounts.

Facts and circumstances in support of the Fourth Complaint

27. Under sections 100.5(c) and 130.1 of the Code, the fundamental principle of Professional Competence and Due Care requires a professional accountant to maintain professional knowledge and skill at the level required to ensure that clients receive competent professional services and act diligently in accordance with applicable technical and professional standards.
28. During the practice review, a number of significant fundamental deficiencies were noted in the Practice's quality control system and in the audit and assurance engagements of Client A and Client G and in the spot checked engagements. These fundamental failures demonstrated that the Respondent had not maintained professional knowledge and skill at the level required to ensure that clients receive competent professional services; and/or acted diligently in accordance with applicable professional standards when providing professional services, in breach of sections 100.5(c) and 130.1 of the Code.

Conclusion

29. After considering the Complainant's case against the Respondent, and having given due consideration to all written submission set out in the materials filed in the proceedings (including the supplemental case/materials filed by the Respondent after the Court of Appeal ordered that the case be remitted to be heard by a differently constituted Disciplinary Committee), this Committee found that all complaints against the Respondent were proven. This Committee is satisfied that there is relevant and substantial evidence to support the above facts and circumstances of the Complainant's case.

Sanctions and Costs

30. Given the findings of this Committee that all complaints against the Respondent were proven, this Committee directs the Complainant to make submission to this Committee within 14 days from the date of this Reasons for Decision on the proposed sanctions and costs against the Respondent, and that the Respondent makes submissions on sanctions and costs within 14 days thereafter.
31. This Committee will deliberate and make the sanctions and costs order after having reviewed the submission on sanctions and costs from the Complainant and the Respondent.

Ms. DOE Julianne Pearl
Chairman

Ms. POON Suk Ying, Debora
Member

Mr. LI Peter Po-ting
Member

Mr. TANG Shu Pui, Simon
Member

Mr. MAN Mo Leung
Member