



- (3) In the course of reviewing the Practice during the February 2012 follow up visit, the reviewer noted that the Practice still failed to implement an adequate monitoring process of its practice, despite giving previous assurances that it would do so.
- (4) In addition, the reviewer had identified deficiencies in the Practice's audits and other assurance engagements of two regulated clients: Client M and Client ME.
- (5) Based upon those observations, the Institute wrote to the Respondent on 8 April 2013, seeking his explanations to the deficiencies noted on those two clients.
- (6) By its undated response which was received by the Institute on 22 May 2013, the Practice accepted that it had not fully implemented a monitoring process of the Practice. Further, in respect of the deficiencies in its audits and other assurance engagements of Client M and Client ME, the Practice advised that adequate audit work had been carried out on the areas identified but that those works had not been documented.

#### **RELEVANT PROFESSIONAL STANDARDS**

- (7) 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")

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

  - (a) Include an ongoing consideration and evaluation of the firm's system of quality control including, on a cyclical basis, inspection of at least one completed engagement for each engagement partner;
  - (b) Require responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility; and
  - (c) Require that those performing the engagement or the engagement quality control review are not involved in inspecting the engagement."
- (8) Hong Kong Standard on Auditing 230 "Audit Documentation" ("HKSA 230")

"5. The objective of the auditor is to prepare documentation that provides:

  - (a) A sufficient and appropriate record of the basis for the auditor's report;

and

- (b) Evidence that the audit was planned and performed in accordance with HKSAAs and applicable legal and regulatory requirements."
- (9) Hong Kong Standard on Auditing 500 "Audit Evidence" ("HKSA 500")

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

- (10) Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" ("HKSAE 3000")

"33. The practitioner should obtain sufficient appropriate evidence on which to base the conclusion."

"42. The practitioner should document matters that are significant in providing evidence that supports the assurance report and that the engagement was performed in accordance with HKSAEs."

## **SUMMARY OF PRINCIPAL ISSUES**

- (11) The principal issues relate to the failure by the Respondent to:
  - (i) 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.
  - (ii) Perform audit procedures that are appropriate for the purpose of obtaining sufficient appropriate audit evidence or adequately document the evidence obtained and procedures performed in relation to the audit of Client M for the year ended 31 December 2010.
  - (iii) Obtain sufficient appropriate evidence and/or adequately document matters that were significant in providing evidence to support the conclusions on the following:
    - Client ME's compliance with the Minimum Requirements under section 70(2) of the Insurance Companies Ordinance for the year ended 31 December 2010;
    - Client M's compliance with the relevant rules in the Securities and Futures Ordinance for the year ended 31 December 2010.

## **THE COMPLAINTS**

### **The First Complaint**

- (19) Section 34(1)(a)(vi) of the Professional Accountants Ordinance ("PAO") applies to the Respondent in that he had failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraph 48 of HKSQC 1 as his Practice had not implemented adequate quality control policies and procedures.

### **The Second Complaint**

- (20) 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 perform audit procedures that are appropriate for the purpose of obtaining sufficient appropriate audit evidence in relation to the audit of Client M for the year ended 31 December 2010.

### **The Third Complaint (in the alternative to the Second Complaint)**

- (21) 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 5 of HKSA 230 in that he had failed to adequately document the evidence obtained and procedures performed in relation to the audit of Client M for the year ended 31 December 2010.

### **The Fourth Complaint**

- (22) 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 33 and/or paragraph 42 of HKSAE 3000 in that there had been a failure to obtain sufficient appropriate evidence and /or adequately document matters that were significant in providing evidence to support the compliance reports dated 26 April 2011 and 9 June 2011 of Client M and Client ME, respectively, and that those engagements were performed in accordance with HKSAE 3000.

3. The Respondent admitted the First, Third and Fourth Complaint against him. He did not dispute the facts as set out in the Complaint. On 15 August 2013, the parties made a joint application to the Disciplinary Committee and they agreed that the steps set out in rules 17 to 30 of the Disciplinary Committee Proceedings Rules be dispensed with. Having considered the earlier cases of *The Registrar of HKICPA v Chan Cheuk Chi*, and *An Investigation*

*Committee of HKICPA v Wong Yat Fai and Ernst & Young re Global Trend Intelligent Technologies Limited*, the Committee would put the Second Complaint on record and it is not to be proceeded with.

4. On 12 May 2014, the Disciplinary Committee issued a Notice of Commencement of Proceedings, enclosing a procedural timetable and a full set of the complaint documents to the parties. The parties were requested to make written submissions to the Disciplinary Committee on sanctions and costs.
5. The Disciplinary Committee noted that the Respondent was found to have repeatedly failed to take appropriate actions in response to the quality control deficiencies identified during practice reviews. Despite giving assurances that it would do so, the Respondent still failed to implement adequate measures to address these deficiencies. As evidenced in the written submissions on sanction dated 23 June 2014, the Respondent had taken no action to address these deficiencies up to date.
6. 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 parties' submissions on sanction and cost and their conduct throughout the proceedings.
7. The Disciplinary Committee ORDERS that:-
  - (1) the practising certificate issued to the Respondent in 2014 be cancelled under section 35(1)(da) of the PAO and it shall take effect on the 40<sup>th</sup> day from the date of this order;
  - (2) a practising certificate shall not be issued to the Respondent for the year 2015 under section 35(1)(db) of the PAO;
  - (3) the Respondent pay a penalty of HK\$20,000 under section 35(1)(c) of the PAO; and
  - (4) the Respondent do pay the costs and expenses of and incidental to the proceedings of the Complainant in the sum of HK\$28,073 under section 35(1)(iii) of the PAO.

Dated the 21<sup>st</sup> day of November 2014

IN THE MATTER OF

A Complaint made under section 34(1)(a) of the Professional Accountants Ordinance (Cap. 50) ("PAO") and referred to the Disciplinary Committee under section 33(3) of the PAO

BETWEEN

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

COMPLAINANT

AND

The Respondent

RESPONDENT

Members:     Mr. Cheung Kwok Kwan (Chairman)  
                  Mr. Law Japhet Sebastian  
                  Mr. Pong Po Lam Paul  
                  Mr. Chan Ho Yin Graham  
                  Mr. Stephen Chan

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**ORDER**

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Upon reading the complaint against the Respondent, a certified public accountant (practising), as set out in a letter from the Practice Review Committee of the Institute ("the Complainant") dated 9 July 2013, the written submissions of the Complainant dated 28 May 2014 and the Respondent dated 23 June 2014, and other relevant documents, the Disciplinary Committee is satisfied by the admission of the Respondent and the evidence adduced before it that the following complaints are proved:

- (a) Section 34(1)(a)(vi) of the Professional Accountants Ordinance ("PAO") applies to the Respondent in that he had failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraph 48 of HKSQC 1 as his Practice had not implemented adequate quality control policies and procedures.
- (b) 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 5 of HKSA 230 in that he had failed to adequately document the evidence obtained and procedures performed in relation to the audit of Client M for the year ended 31 December 2010.

(c) 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 33 and/or paragraph 42 of HKSAE 3000 in that there had been a failure to obtain sufficient appropriate evidence and /or adequately document matters that were significant in providing evidence to support the compliance reports dated 26 April 2011 and 9 June 2011 of Client M and Client ME, respectively, and that those engagements were performed in accordance with HKSAE 3000.

The Disciplinary Committee ORDERS that:-

- (1) the practising certificate issued to the Respondent in 2014 be cancelled under section 35(1)(da) of the PAO and it shall take effect on the 40<sup>th</sup> day from the date of this order;
- (2) a practising certificate shall not be issued to the Respondent for the year 2015 under section 35(1)(db) of the PAO;
- (3) the Respondent pay a penalty of HK\$20,000 under section 35(1)(c) of the PAO; and
- (4) the Respondent do pay the costs and expenses of and incidental to the proceedings of the Complainant in the sum of HK\$28,073 under section 35(1)(iii) of the PAO.

Dated the 21<sup>st</sup> day of November 2014