

IN THE MATTER OF

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

BETWEEN

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

AND

Ng Kwong Sang (F01025) RESPONDENT

Members: Miss LEE, Wai Yan, Susanna (Chairman)
Mr. CHAN, Kin Man, Eddie
Ms. DOE, Julianne Pearl
Mr. FENN, David
Miss LEUNG, Chi Ying, Kathy

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 the Respondent, who is a certified public accountant (practising). Section 34(1)(a)(vi) of the Professional Accountants Ordinance ("PAO") applied to the Respondent.
- (2) The particulars of the complaints as set out in a letter from the Executive Director on behalf of the Complainant dated 5 February 2016 ("the Complaint") were as follows:-
 1. **Background**
 - 1.1 Mr. Ng Kwong Sang ("**Respondent**") is the sole practising partner of K.S. Ng & Co. (Firm no. 0630) (the "**Practice**"). He is responsible for the firm's quality control system.
 - 1.2 The Practice had been selected for its second practice review in May 2015 and its monitoring review was found to be ineffective and/or inadequate given both deficiencies identified in its quality control systems for the Practice and in those audit engagements selected for review.

- 1.3 The practice review findings show that there was no documentary evidence indicating that the Practice had undertaken a monitoring review which was contrary to the information submitted by the Practice in its 2014 practice review self-assessment questionnaire ("2014 EQS") (Appendix 2).
- 1.4 Based upon the practice review findings, the Institute wrote to the Practice inviting him to respond to the dated draft report. In its response to the Institute dated 22 July 2015 and 2 August 2015, the Practice undertook to implement improvements to address the deficiencies identified and agreed to carry out a monitoring review by the end of December 2015 (Appendix 3).
- 1.5 A copy of the Reviewer's Report outlining the practice review findings considered by the Practice Review Committee ("PRC"), which had been provided to the Respondent on 11 September 2015, is enclosed in Appendix 1.
- 1.6 The PRC considered that the Practice failed to observe and apply the monitoring requirements of HKSQC 1 and gave a false/misleading answer in the 2014 EQS (Appendix 4).

2. Relevant Professional Standards

- 2.1 Extract of the following relevant professional standards are included in Appendix 5:
 - (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) Code of Ethics for Professional Accountants ("COE").

3. The Complaint

First Complaint

- 3.1 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, paragraphs 17, 48 and 57 of HKSQC 1 as his Practice had not implemented adequate quality control policies and procedures and/or adequately documented the quality control policies and procedures in respect of monitoring.

Second Complaint

- 3.2 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, paragraphs 100.5(a) and 110.2 of the COE for providing materially false or misleading statements in respect of his Practice's monitoring review in the 2014 EQS.

Third Complaint

- 3.3 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, paragraphs 100.5(c) and 130.1 of the COE for failure to maintain professional knowledge of and/or diligently implement an adequate system of monitoring review in accordance with the requirements under HKSQC 1.

4. Facts and circumstances in support of the Complaint

- 4.1 Prior to the practice review visit, the Practice submitted a completed 2014 EQS which sets out the following responses in respect of monitoring review:

Extract from EQS 2014 Summary	Practice's response
Was a monitoring review completed during the period from 1 April 2013 to 31 March 2014?	Yes
Please specify year and month of completion	2014
Please specify year and month of completion	1
Did the monitoring review include a review of implementation of firm-wide quality control policies and procedures?	Yes
Did the monitoring review include a review of completed audit engagement files?	Yes
Were the monitoring review procedures, results and follow up action plan documented?	Yes
Have the monitoring review findings been followed-up?	Yes
Which department(s) or organization(s) or individual is (are) responsible for carrying out the monitoring review?	Ng Kwong Sang, Sole Proprietor
When is the next planned monitoring review? [Please specify ... year and month]	2014
When is the next planned monitoring review? [Please specify ... year and month]	12

- 4.2 During the practice review, the reviewer found no evidence that the Practice had carried out a monitoring review during the period from 1 April 2013 up to the date of the practice review in May 2015.

5. Breach of HKSQC 1

- 5.1 The Institute issued a letter to all practising members in April 2014 to draw attention to the PRC's expectation that all practice units should have appropriate quality control policies and procedures to meet the requirements under HKSQC 1 which includes monitoring.
- 5.2 Paragraph 48 of HKSQC 1 requires all practices to establish a monitoring process designed to provide the practices with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively.
- 5.3 Paragraph 17 requires a practice to document its policies and procedures and communicate them to the firm's personnel. Further, paragraph 57 of HKSQC 1 provides that a practice shall establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.
- 5.4 In response to the reviewer's finding that no monitoring review had been carried out, the Respondent, in his letter dated 22 July 2015, claimed that the monitoring review process of the Practice have been communicated with its staff as the need arises but no documentation had been prepared.
- 5.5 The lack of documentation of the Practice's monitoring review policies and procedures is a non-compliance with HKSQC 1. Also, it shows that the monitoring review, if indeed had been undertaken, was not operating effectively as it did not provide a record of the monitoring procedures, results and follow up action based on which the Practice could assess whether the quality control requirements under HKSQC 1 were complied with.
- 5.6 This is apparent in the Reviewer's Report which indicated significant deficiencies in the Practice's quality control system that required remedial action to be undertaken in order to achieve full compliance with HKSQC 1. These deficiencies show that the Practice had failed to:
- Assess compliance of the ethical requirement on independence by the firm and its personnel.
 - Carry out adequate client acceptance and continuance procedures.
 - Carry out adequate procedures to ensure that audit engagements are performed in accordance with relevant professional standards. For example, in respect of the two selected audit engagements, the reviewer had doubts as to whether the Practice quality control system would enable it to have or obtain sufficient appropriate audit evidence to be able to draw reasonable conclusion on which to base its audit opinion on the relevant financial statements.

- 5.7 The above deficiencies should have been identified by the Practice had an effective monitoring review been carried out.
- 5.8 On this basis, the Practice is considered to have not complied with paragraphs 17, 48 and 57 of HKSQC 1.
- 6. Breach of paragraphs 100.5(a) and 110.2 of the COE**
- 6.1 Paragraphs 100.5(a) and 110.2 of the COE require a professional accountant to be straightforward and not knowingly be associated with information which contains materially false or misleading statements.
- 6.2 By answering "Yes" to indicate that the Practice had documented monitoring review procedures, results and follow up action plan when no such documentation had actually been prepared, this raised considerable doubts as to whether the Respondent had been straightforward and/or knowingly submitted materially false or misleading statements in the 2014 EQS.
- 7. Breach of paragraphs 100.5(c) and 130.1 of the COE**
- 7.1 Paragraphs 100.5(c) and 130.1 of the COE require a professional accountant to maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional services and act diligently in accordance with applicable technical and professional standards.
- 7.2 As the sole-proprietor, the Respondent is responsible for ensuring that the Practice establishes and maintains an adequate system of quality control and promotes an internal culture recognizing that quality is essential in performing engagements.
- 7.3 The Respondent's letter which stated that the Practice's monitoring review was a continuous process involving discussion with his staff as the need arises without documentation raised doubts on whether he understood the monitoring requirements under the HKSQC 1.
- 7.4 The Respondent's misunderstanding of the HKSQC 1 requirements demonstrated that he did not maintain professional knowledge and skill and/or diligently carry out monitoring review in accordance with HKSQC 1 in order to provide the Practice with reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively.
- (3) The Respondent admitted the Complaint against him. He did not dispute the facts as set out in the Complaint. He agreed that the steps set out in paragraphs 17 to 30 of the Disciplinary Committee Proceedings Rules be dispensed with.

- (4) By a letter dated 14 April 2016 addressed to the Complainant and the Respondent, the Clerk to the Disciplinary Committee ("DC"), under the direction of the DC, informed the parties that they should make written submissions to the DC as to the sanctions and costs and that the DC would not hold a hearing on sanctions and costs unless otherwise requested by the parties.
- (5) In considering the proper order to be made in this case, the DC has had regard to all the aforesaid matters, including the particulars in support of the Complaint. The DC found the First Complaint, Second Complaint and Third Complaint are proved.
- (6) The DC orders that:-
- 1) the Respondent be reprimanded under section 35(1)(b) of the PAO;
 - 2) the Respondent pay a penalty of HK\$65,000 under section 35(1)(c) of the PAO;
 - 3) the practising certificate issued to the Respondent in 2016 be cancelled effective from 42 days from the date hereof under section 35(1)(da) of the PAO;
 - 4) a practising certificate shall not be issued to the Respondent for one year effective from 42 days from the date hereof under section 35(1)(db) of the PAO; and
 - 5) the Respondent do pay the costs and expenses of and incidental to the proceedings of the Complainant in the sum of HK\$26,123 under section 35(1)(iii) of the PAO.

Dated the 11th day of August 2016

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false or misleading statements in respect of his Practice's monitoring review in the 2014 EQS.

3. 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, paragraphs 100.5(c) and 130.1 of the COE for failure to maintain professional knowledge of and/or diligently implement an adequate system of monitoring review in accordance with the requirements under HKSQC 1.

IT IS ORDERED that:-

1. the Respondent be reprimanded under section 35(1)(b) of the PAO;
2. the Respondent pay a penalty of HK\$65,000 under section 35(1)(c) of the PAO;
3. the practising certificate issued to the Respondent in 2016 be cancelled effective from 42 days from the date hereof under section 35(1)(da) of the PAO;
4. a practising certificate shall not be issued to the Respondent for one year effective from 42 days from the date hereof under section 35(1)(db) of the PAO; and
5. the Respondent do pay the costs and expenses of and incidental to the proceedings of the Complainant in the sum of HK\$26,123 under section 35(1)(iii) of the PAO.

Dated the 11th day of August 2016
