

IN THE MATTER OF

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

Mr. Seto Man Fai      FIRST  
A former certified public accountant,      RESPONDENT  
Membership No. A08347

Mr. Lo Hung Yan      SECOND  
Membership No. A04520      RESPONDENT

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

Members:      Mr. LIM Kian Leng, Malcolm (Chairman)  
                    Mr. CHAN Chak Ming  
                    Mr. D'SOUZA Robin Gregory  
                    Ms. LI Yin Fan, Fanny  
                    Mr. CHEUNG Yiu Leung, Andy

---

**ORDER & 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**”) against Mr. Seto Man Fai, a former certified public accountant (practising) (the “**First Respondent**”) and Mr. Lo Hung Yan, a certified public accountant (practising) (the “**Second Respondent**”).

2. The Complaints as set out in a letter dated 6 February 2017 (the "Complaint") are as follows:-

**A. BACKGROUND**

3. Parker Randall CF (H.K.) CPA Limited (corporate practice no. M208) (the "Practice") had been selected for an initial full scope practice review in September 2008 and was the subject of a follow up practice review visit that took place in October 2009. A second full scope practice review visit took place in June 2014.
4. At the time of the second practice review, the Practice had three practising directors. The First Respondent was one of the Directors appointed on 19 March 2010. He was also the managing director. The Second Respondent became a director of the Practice on 5 March 2013.
5. During the second practice review visit, the Practice stated that its operations were divided into two independent teams, i.e. Team A and Team B. Team A is led by the First Respondent and Team B is led by the Second Respondent and another director of the Practice.
6. The engagements selected for review in the second practice review included the following:
  - (a) Team A: Audit of a listed company, namely Superb Summit International Group Limited (stock code: 1228) and its subsidiaries, for the year ended 31 December 2013 ("Client A") by the First Respondent; and

- (b) Team B: Audit and compliance reporting of a private company, namely Goldenway Investments Holdings Limited and its subsidiaries, for the year ended 31 December 2012 ("Client G") by the Second Respondent.
7. The First and the Second Respondents confirmed that the working papers provided represented the complete working papers for their respective engagements of Client A and Client G.
  8. The First and the Second Respondents who issued the auditor's reports in the name of the Practice were also responsible for the quality of the engagements of Client A and Client G, respectively.
  9. Based upon the findings of the second practice review visit, the reviewer wrote to the Practice on 12 March 2015 to seek its explanations. Team A and Team B provided their own separate responses on 10 April 2015 and 31 March 2015 respectively. Their responses were submitted to the Practice Review Committee ("PRC") together with the Reviewer's Report which was provided to the Practice on 26 May 2015.
  10. Having considered the available information, the PRC decided to raise a complaint against the First and the Second Respondents as set out in Section C below.

## **B. RELEVANT PROFESSIONAL STANDARDS**

11. 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") stipulates, amongst others, the following:

- (i) Paragraphs 18 and 19 of HKSQC 1 requires the Practice to establish quality control policies and procedures which compel the Practice's chief executive officer or, if appropriate, the Practice's managing board of partners to assume ultimate responsibility for the firm's system of quality control;
  
- (ii) Paragraph 31 of HKSQC 1 requires the Practice to establish policies and procedures to assign appropriate personnel with the capabilities to:
  - i. perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and
  - ii. enable the firm or engagement partners to issue reports that are appropriate in the circumstances
  
- (iii) Paragraph 32 of HKSQC 1 requires the Practice to establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partner issued reports that are appropriate in the circumstances;
  
- (iv) Paragraph 45 of HKSQC 1 requires a Practice 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 finalised;

- (v) Paragraph 46 of HKSQC 1 requires the Practice to establish policies and procedures to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation;
  - (vi) Paragraph 48 of HKSQC 1 requires the Practice to 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, and that the process should include an ongoing consideration and evaluation of the Practice's system of quality control including, on a cyclical basis, inspection of at least one completed engagement for each engagement partner; and
  - (vii) 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.
12. The Code of Ethics for Professional Accountants (the "Code") stipulates, amongst others, the following;
- (a) Paragraphs 100.5(c) and 130.1 of the Code 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.
  - (b) Paragraph 290.220 of the Code states that when the total fees from an audit client represent a large proportion of the total fees of the firm expressing the audit opinion, the dependence on that client and concern about losing the client creates a self-interest or intimidation

threat. The threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level;

(c) Paragraph 290.222 of the Code states that where an audit client is a public interest entity and, for two consecutive years, the total fees from the client and its related entities represent more than 15% of the total fees received by the firm, the firm shall disclose this fact to those charged with governance of the audit client and consider the safeguards it can apply to reduce the threat to an acceptable level.

13. The Hong Kong Standard on Auditing 500 (“**HKSA 500**”) requires at paragraph 6 that an auditor design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.
14. The Hong Kong Standard on Auditing 230 (“**HKSA 230**”) requires at paragraph 5 that an auditor prepares documentation that provides sufficient and appropriate record of the basis for the auditor’s report.
15. Further, the Hong Kong Standard on Assurance Engagements 3000 (“**HKSAE 3000**”) requires at paragraphs 33 and 42 that an auditor obtain sufficient appropriate evidence and document matters that are significant for providing evidence that support their conclusion in an assurance engagement other than an audit or review of historical financial statements.

## **C. THE COMPLAINTS**

### *First Complaint*

16. Section 34(1)(a)(ix) of the PAO applies to the Respondents in that they refused or neglected to comply with the rule made by the Council namely,

paragraph 6 of the Corporate Practices (Registration) Rules ("CPRR") in that they failed to ensure the Practice had complied with the professional standard namely, HKSQC 1.

*Second Complaint*

17. Section 34(1)(a)(vi) of the PAO applies to the First Respondent in that he failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraphs 290.220 and 290.222 of the Code in that he did not perform appropriate procedures to carry out the fee independence assessment of Team A's audit clients.

*Third Complaint*

18. Section 34(1)(a)(vi) of the PAO applies to the First Respondent in that he failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraph 6 of HKSA 500 in that he did not design and/or perform audit procedures that were 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 December 2013.

*Fourth Complaint*

19. Section 34(1)(a)(vi) of the PAO applies to the First 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 the audit of the financial statements of Client A for the year ended 31 December 2013, in accordance with the relevant technical and professional standards.

*Fifth Complaint*

20. Section 34(1)(a)(vi) of the PAO applies to the Second Respondent in that he failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraph 6 of HKSA 500 in that he did not design and/or perform audit procedures that were 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 2012.

*Sixth Complaint*

21. Section 34(1)(a)(vi) of the PAO applies to the Second Respondent in that he failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraph 5 of HKSA 230 in that he did not adequately document the evidence obtained and procedures performed in relation to the audit of the financial statements of Client G for the year ended 31 December 2012.

*Seventh Complaint*

22. Section 34(1)(a)(vi) of the PAO applies to the Second Respondent in that he failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraphs 33 and/or 42 of HKSAE 3000 in that he did not obtain sufficient appropriate evidence and adequately document matters that were significant in providing evidence to support the conclusion that Client G complied with the relevant rules of the Hong Kong Securities and Futures Ordinance for the year ended 31 December 2012.

*Eighth Complaint*

23. Section 34(1)(a)(vi) of the PAO applies to the Second 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 the audit and compliance reporting of Client G for the year ended 31 December 2012, in accordance with the relevant technical and professional standards.

**D. SUMMARY OF MAIN ISSUES**

24. The main issues for the First and Second Respondents relate to their failure to establish policies and procedures to ensure that the requirements of HKSQC 1 regarding leadership responsibilities, confidentiality and safe custody of engagement documentation, assignment of engagement teams, file assembly, monitoring and engagement performance are complied with.
25. The main contention against the First Respondent relate to his failure to:
- (a) Perform appropriate procedures to carry out the fee independence assessment of Team A's audit clients;
  - (b) Design and/or perform audit procedures that were 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 December 2013; and

(c) Maintain professional knowledge and skill at the level required to carry out the audit of the financial statements of Client A for the year ended 31 December 2013.

26. The main contention against the Second Respondent relate to his failure to:

(a) Design and/or perform audit procedures that were 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 2012;

(b) Adequately document the evidence obtained and procedures performed in relation to the audit of the financial statements of Client G for the year ended 31 December 2012;

(c) Obtain sufficient appropriate evidence and adequately document matters that were significant in providing evidence to support the conclusion that Client G complied with the relevant rules of the Hong Kong Securities and Futures Ordinance for the year ended 31 December 2012; and

(d) Maintain professional knowledge and skill at the level required to carry out the audit of the financial statements of Client G for the year ended 31 December 2012.

### **The Proceedings**

27. The Second Respondent admitted the First, Fifth, Sixth, Seventh and Eighth Complaints against him. He did not dispute the facts as set out in the complaints. On 29 March 2017, the parties agreed that the steps set out in

paragraphs 17 to 30 of the Disciplinary Committee Proceedings Rules ("DCPR") be dispensed with.

28. The Notices of Commencement of Proceedings were issued to the parties on 1 June 2017. Based on the Second Respondent's admission and the joint application, the Committee approved the above proposal.
  - (a) The steps as set out in paragraphs 17 to 30 of the DCPR be waived with respect to the Second Respondent; and
  - (b) The Complainant and the Second Respondent to make written submissions on sanctions and costs under Rule 31 of the DCPR upon direction of the Disciplinary Committee as the Complainant and the First Respondent were required to submit written submissions to the Disciplinary Committee for consideration of the complaints against the First Respondent.
29. The Complainant filed the Complainant's Case in respect of the complaints against the First Respondent on 29 June 2017.
30. According to the Procedural Timetable issued to the Complainant and the Respondent, the First Respondent was originally required to file his Respondent's Case by 27 July 2017. Despite the Disciplinary Committee having acceded to two time extension requests of the First Respondent, the First Respondent still failed to file his Respondent's Case to the Disciplinary Committee.
31. As the First Respondent had been given adequate opportunities to file his Case, the Disciplinary Committee asked the parties to file their checklists by 25 October 2017. The Complainant filed his checklist on 25 October 2017. The First Respondent filed his checklist by 1 November 2017.

32. On 6 December 2017, the Complainant and the First Respondent made a joint application to the Disciplinary Committee which attached the First Respondent's confirmation that he admitted the First, Second, Third and Fourth Complaints against him and did not dispute the facts as set out in the complaints.
33. In light of the admission by all the Respondents, the Chairman directed that parties were not required to file further replies as required in the Procedural Timetable and the oral hearing originally scheduled was vacated. Parties were directed to make submissions on sanctions and costs by 15 January 2018.
34. The Complainant and the First Respondents provided their written submissions on sanction and costs on 15 January 2018 while the Second Respondent provided his written submissions on sanctions and costs on 18 January 2018.
35. The Complainant acknowledged that each case was fact sensitive and that this Committee was not bound by previous decisions of Disciplinary Committees.
36. The Complainant highlighted that since the Complaints involved the audits of a listed company and regulated company, there is a high degree of public interest involved.
37. It was also pointed out that at the time of the review, the First Respondent handled at least four Hong Kong listed clients, and that the multiple deficiencies found in the audit work performed on the one engagement reviewed raised serious concerns as to the First Respondent's professional

competence and diligence with which to carry out audits of listed companies.

38. In the circumstances the Complainant argued that the breaches by both Respondents are very serious and the level of sanctions should reflect the gravity of the breaches. It was further submitted that since the Respondents were currently directors of other corporate practices, they should be reminded that the profession does not tolerate lax quality control and breach of corporate practice rules. Accordingly, the Committee was urged that this was a case that would justify cancellation of the Respondents' practicing certificates for such period as the Committee considered appropriate.
39. In mitigation, the First Respondent referred us to an earlier decision (as shall be discussed below) in which that respondent was reprimanded and ordered to pay a penalty of HK\$50,000. The First Respondent argued, amongst other things, that the present case was far less serious than in that case and therefore a reprimand and a fine of no more than HK\$25,000 is appropriate for him.
40. The Second Respondent drew attention to the following matters:
  - (a) He discovered that there were a lot of issues between the First Respondent and the regulatory authorities since he joined the Practice as a director on 5 March 2013;
  - (b) Client G was audited by him during a time of turbulence of the Practice, with dispute among directors, issues with regulatory authority (i.e. the Reviewer) and great staff turnover; and

(c) The First Respondent, being the managing director of the Practice, should be in a better position to implement the neglected controls and measures, whereas the Second Respondent was new to the Practice at the time of the review and therefore deserves to be given some leniency.

## **F. DISCUSSION**

41. The Complainant referred us to a list of cases with similar features to the current Complaints, with particular reliance on two, namely (1) D-14-0920P and (2) D-12-0669P. Both cases involved non-compliance with the quality control requirements and audit deficiencies resulting in the respondents having had their practicing certificates cancelled for a period of one year. The Disciplinary Committees in both cases justified the sanction mainly on the fact that they involved a repetitive failure by those respondents to eliminate and rectify the deficiencies by the time of the follow up visit, which happened a long time after the initial visit. It was ruled that such conduct and attitude by those respondents demanded a deterrent sanction.
42. We note that in the present case there was an earlier practice review in September 2008, followed by a follow up practice review that took place in October 2009. However, it was not suggested that those earlier reviews had any connection with the review that took place in June 2014. In any event, the review in June 2014 concerned the audits of the Practice for the year ended 31 December 2012 and 2013, which cannot be the subject of review in 2008 or 2009. We do not find the two cases referred by the Complainant completely on all fours with the present case.
43. We do, however, accept that the breaches are serious given their nature and the relative significance of the standards breached. We also accept that the involvement of a listed company and regulated company renders this to be a

case of high degree of public interest. The First Respondent's involvement in four Hong Kong listed clients at the time of the review is also a factor to consider.

44. In his mitigation, the First Respondent referred us to the recent decision of D-14-0946P. We note that the respondent in that case was involved in 10 breaches while the First Respondent was only involved in 4 in the present case. However, in handing down the sanction of reprimand and a penalty of HK\$50,000, the Disciplinary Committee also made clear that it took into account, amongst other things, that the respondent had been cooperative and admitted the complaints at the early stage, and that it was the first time he has faced such a complaint against him. In that case, the respondent admitted to the complaints 3 months after the complaint was provided to him.
45. In the present case, while the Complainant acknowledges the "*early admission and cooperation*" of the Respondents, it did take around 10 months for the First Respondent to come around to his admission. From the information available to us, it is also not the first time the First Respondent faced a disciplinary complaint. He was recently ordered to be removed from the register of certified public accountants for a period of 5 years with effect from 22 March 2018 in another set of disciplinary proceedings under no. D-15-1033F/1065F/1081F.
46. Moreover, unlike the present case, no listed companies were involved in D-14-0946P.
47. We nevertheless accept that the case of D-14-0946P is applicable in the case of the Second Respondent as he admitted to the Complaint at a very early stage shortly after the Complaint was issued.

48. In considering the appropriate sanctions to be imposed in this case we take into account all the representations made and placed before us by the parties. Although we note that the First Respondent was recently ordered to be removed from the register of certified public accountants for a period of 5 years in D-15-1033F, the sanction that he is to receive in these proceedings should properly reflect the seriousness of the complaints in these proceedings only.
49. In taking into account all the circumstances of the case as well as the mitigation submissions by the Respondents we consider that the Respondents' respective practising certificates be cancelled and shall not be issued until after a period of time and that they should pay costs. And we make the following ORDERS:
- (a) Both the First and the Second Respondents be reprimanded under section 35(1)(b) of the PAO;
  - (b) The practising certificate issued to the Second Respondent be cancelled under section 35(1)(da) of the PAO and it shall take effect on the 42<sup>nd</sup> day from the date of this order;
  - (c) A practicing certificate shall not be issued to the First Respondent for 18 months under section 35(1)(db) of the PAO. However in view of the fact that the First Respondent has been removed from the register of certified public accountants in the disciplinary proceedings number D-15-1033F/1065F/1081F, nine months of the non-issuance of a practising certificate is to be concurrent with the said proceedings and nine months of non-issuance is to be consecutive to the order in the said proceedings;

- (d) A practising certificate shall not be issued to the Second Respondent for nine months commencing from the 42<sup>nd</sup> day after the date of this order under section 35(1)(db) of the PAO; and
- (e) Since it was the conduct of the Respondents which gave rise to the current proceedings, we take the view that they should pay the costs and expenses of the proceedings, and as submitted by the Complainant. As the admission from the First Respondent was received only after the Complainant's Case and Checklist were filed, the costs incurred by the Complainant to prepare its Case and Checklist should be paid by the First Respondent alone. Accordingly,
- (i) the First Respondent is to pay costs of HK\$91,127 under section 35(1)(iii) of the PAO; and
- (ii) the Second Respondent is to pay costs of HK\$54,721 under section 35(1)(iii) of the PAO

Dated 10 July 2018

  
Mr. LIM Kian Leng, Malcolm  
Chairman

Mr. CHAN Chak Ming  
Disciplinary Panel A

Ms. LI Yin Fan, Fanny  
Disciplinary Panel B

Mr. D'SOUZA Robin Gregory  
Disciplinary Panel A

Mr. CHEUNG Yiu Leung, Andy  
Disciplinary Panel B