

IN THE MATTER OF

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

BETWEEN

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

COMPLAINANT

AND

Lee Sun, Antony (A37956)

RESPONDENT

Before a Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants  
(the “**Disciplinary Committee**”)

Members: Mr. LAM Chi Ki (Chairman)  
Ms. CHAN Wai Kam, Caroline  
Mr. CHOW Lap San, Edward  
Mr. GUEN Kin Shing  
Mr. SO Kwok Kay

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**ORDER AND REASONS FOR DECISION**

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***Introduction***

1. This is a complaint made by the Practice Review Committee (“**PRC**”) of the Hong Kong Institute of Certified Public Accountants against Mr. Lee Sun, Antony, a certified public accountant (practicing) (“**Respondent**”).

2. The Respondent is the sole practicing director of JTBC CPA Limited (“Practice”) which was registered in February 2015. The Practice was subject to an initial practice review (“Review”) by the Quality Assurance Department (“Reviewer”) which was concluded in October 2020. The Reviewer issued a Reviewer’s Report dated 19 February 2021, which gave rise to the present complaint.
3. The Review revealed significant findings which led to concerns over the Respondent’s lack of integrity and professional competence and due care, demonstrated by (i) his conduct in response to the Review, in particular, the creation of working papers, and provision of false or misleading information / representations; (ii) deficient quality control system of the Practice; and (iii) the lack of audit quality in the Practice’s audit engagements. As such, the PRC raised a complaint against the Respondent under Section 32D(5) of the PAO.
4. At the time of the Review, the Practice had no audit staff but issued audit reports to about 290 audit clients. 355 of the audit reports were issued within the last 12 months of the Review.

### *The Complaints*

5. The complaints are set out as an attachment to the 1 March 2022 letter from the PRC. The complaints are divided into 6 broad headings, which are now produced herein:

#### Complaint 1

Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply the fundamental principle of integrity in relation to the Review conducted on the Practice.

#### Complaint 2

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.

### Complaint 3

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 in relation to the audit of Client L's financial statements for the year ended 31 July 2018 ("**July 2018 Statements**").

### Complaint 4

Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply professional standards in relation to the audit of Client S's financial statements for the year ended 31 December 2018 ("**Dec 2018 Statements**").

### Complaint 5

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 professional knowledge and skill at the level required, and act diligently in accordance with applicable professional standards, to ensure his clients received competent professional services.

### Complaint 6

Section 34(1)(a)(viii) of the PAO applies to the Respondent in that his non-compliances stated in Complaints 1 to 5 above together with the facts and circumstances as stated below, amount to professional misconduct.

6. The fundamental principle of integrity under Sections 110.1 A1(a), R111.1 and R111.2 of Chapter A of the Code of Ethics for Professional Accountants ("**Code**") require a professional accountant to be straight forward and honest, and not knowingly be associated with information which contains false or misleading statements; or information furnished recklessly.

Moreover, in accordance with Hong Kong Standard on Auditing ("**HKSA**") 230 *Audit Documentation*, paragraphs 7 and 14 require an auditor to prepare audit documentation, assemble the audit documentation in an audit file, and complete the administrative process of assembling the final audit file, on a timely basis.

Complaint 1 involved the creation of false working papers and false or misleading representations made by the Respondent. The Practice used an audit software to generate audit programs and working papers of its audit engagements however, the audit programs generated by the said software showed that the working papers for the pre-selected audit engagements were completed before the date of the auditor's reports of Clients L, S, H and Y, whilst the dates of the audit programs of Client L did not correspond with the audit completion checklist of Client L. The Respondent also created false audit working papers for Clients L and S, and continuance forms for Clients H and Y in response to the Review. It is clear that the Respondent had intentions to mislead the Reviewer.

Furthermore, the Respondent submitted false information in the 2018 Electronic Self-assessment Questionnaire ("EQS") by claiming that it had policies and procedures in place for new client acceptance and continuance, and file assembly but in fact, there was no evidence to prove the same. The Respondent also claimed that the Practice performed monitoring reviews and engagement quality control reviews however, no such reviews were performed since the Practice was registered in February 2015. This shows that the Respondent had been dishonest (which was not disputed by the Respondent during the exit meeting) as he furnished untrue information in the EQS.

The above facts show that the Respondent failed to comply with the fundamental principle of integrity under the Code and failed to have audit documentation procedures in place in accordance with HKSA 230.

7. Complaint 2 involved various breaches of the 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").

#### *Planning and risk assessment*

There was no performance of fraud risk assessments in accordance with HKSA 240 *The Auditor's Responsibilities relating to Fraud in an Audit of Financial Statements* for both Clients L and S. For Client L, there was no evaluation of the key internal controls of the client in accordance with HKSA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, no design

performance of audit procedures in accordance with HKSA 330 *Auditor's Responses to Assessed Risks* and no reference to the business nature of the client in accordance with HKSA 320 *Materiality in Planning and Performing an Audit*. In relation to Client S, the Respondent did not perform risk assessment procedures, in accordance with HKSA 315 when auditing the Dec 2018 Statements and there was no determination and application of performance materiality for the Dec 2018 Statements, in accordance with HKSA 320 and HKSA 450 *Evaluation of Misstatements Identified during the Audit*.

#### *Basic audit work and completion*

There were insufficient audit procedures performed in relation to the bank balances and contingent liabilities for both Clients L and S, including failing to perform reassessment of materiality as audit progressed in accordance with HKSA 320, subsequent event reviews in accordance with HKSA 560 *Subsequent Events*, thorough assessments for Clients L and S and analytical reviews for the July 2018 Statements and the Dec 2018 Statements in accordance with HKSA 520 *Analytical Procedures*.

#### *Workload monitoring and human resources*

During the 18-month period under Review, the Respondent issued 486 auditor's reports for approximately 290 clients. Given that the Respondent is the sole practising director of the Practice with no audit staff, doubts were raised as to whether the Practice had sufficient resources to handle the numerous client portfolios and engagements in accordance with paragraph 29 of HKSQC 1.

#### *Monitoring*

No monitoring review was carried out by the Respondent since the registration of the Practice in February 2015, in breach of paragraph 48 of HKSQC 1.

#### *Relevant ethical requirements*

The Respondent confirmed to the Reviewer that there were two independent service providers that introduced 70% of the audit clients to the Practice but there was no

evidence to show that the Practice evaluated auditor independence and potential threats to independence before accepting those engagements, in breach of paragraphs 20 to 22 of HKSQC 1.

*File assembly*

The creation of working papers for Clients L, S, H and Y in response to the Review, as mentioned in Complaint 1 above, shows that the Practice failed to complete the assembly of audit files within 60 days after the date of the auditor's reports, in breach of paragraphs 45 and A54 of HKSQC 1.

As the sole practising director of the Practice, the Respondent failed to comply with paragraph 16 of HKSQC 1.

8. Complaint 3 involved the Respondent's failure to perform audit procedures properly before issuing a modified audit opinion on the inventories stated in the July 2018 Statements. In relation to the sales and purchases of Client L ("**Transactions of Client L**"), the Respondent simply filed a list of them but did not perform procedures to check delivery documents to identify the occurrence of the Transactions of Client L nor perform any cut off tests for the Transactions of Client L. The Respondent also failed to ascertain the accuracy of the inventory/closing balances and to evaluate any material misstatements in the July 2018 Statements. This shows that the Respondent breached the requirements under HKSA 500 *Audit Evidence*.
9. Similarly, Complaint 4 involved the Respondent's failure to perform audit procedures properly before issuing an unmodified auditor's report on the Dec 2018 Statements. In relation to the sales and purchases of Client S ("**Transactions of Client S**"), the Respondent performed matching tests to identify goods in transit however, it was unclear as to how the Respondent determined the sample size and selection criteria for the Transactions of Client S which were selected for the matching test. The audit work performed on the Transactions of Client S was also deficient in that the working papers did not show what evidence had been obtained by the Respondent to verify the Transactions of Client S. Even where supplier invoices were issued in support of the Transactions of Client S, the Respondent failed to question the genuineness of the

supplier invoices. Moreover, the Respondent did not evaluate any material misstatements in the Dec 2018 Statements. It is clear that the Respondent failed to obtain sufficient audit evidence and to prepare adequate audit documentation when he audited the Dec 2018 Statements, which are breaches of the requirements under HKSA 500 and HKSA 230.

10. Complaint 5 concerns the significant deficiencies already set out in Complaints 2 to 4 above relating to the Respondent's failure to establish and maintain an adequate system of quality control in the Practice and to comply with professional standards in the audits of Clients L and S. The non-compliances indicate that the Respondent had failed to maintain professional services and to act in accordance with professional standards when he performed the audits, as required under Sections 110.1 A1(c) and R113.1 of the Code.
11. Complaint 6 concerns the accumulation of the problems identified in Complaints 1 to 5 above. The creation of working papers and the provision of false and misleading information in the EQS reveals that the Respondent lacked integrity. Whilst, the deficiencies identified in the quality control systems of the Practice and the audit engagements reviewed, indicate that the Respondent had failed to uphold the fundamental principle of professional competence and due care. The Respondent did not dispute any of these findings during the exit meeting.
12. HKSQC 1 and all HKSAAs are professional standards referred to in the PAO. In addition, the seriousness and breadth of the multiple breaches and factual matters in Complaints 1 to 6 above amount to professional conduct. Accordingly, Section 34(1)(a)(viii) of the PAO applies to the Respondent.

### ***The Proceedings***

13. In a letter signed by the Respondent dated 23 August 2022 which was duly and fully received by the Disciplinary Committee on 27 October 2022, the Respondent admitted the Complaints against him. In a letter dated 11 November 2022, the Complainant joined the Respondent and requested that the steps set out in Rules 17 to 30 of the Disciplinary Committee Proceedings Rules (the "DCPR") be dispensed with.

14. On 24 November 2022, the Disciplinary Committee agreed to the parties' request to dispense with the steps set out in the Rules 17 to 30 of the DCPR in light of the admission made by the Respondent, and directed the Complainant and the Respondent to make written submission on sanctions and costs by 2 December 2022 and 6 January 2023 respectively.
15. Neither the Complainant nor the Respondent requested for a sanctions hearing.
16. On 5 January 2023, the Respondent applied for an extension of time of one week to file its submission as to sanctions and costs. On 6 January 2023, the Disciplinary Committee granted the extension in terms.
17. The Complainant and the Respondent filed their written submissions on sanctions and costs dated 2 December 2022 and 12 January 2023 respectively.

### ***Discussion and Decision***

18. The Complaints were all found proven on the basis of the admission made by the Respondent.
19. The only outstanding matter is the question of sanctions and costs which ought to be imposed upon the Respondent.
20. In considering the proper order to be made in the case, the Disciplinary Committee has had regard to all the aforesaid matters, including the particulars in support of the Complaints, the Respondent's personal circumstances, the parties' respective submissions on sanctions and costs, and the parties respective conduct throughout the proceedings.
21. The Disciplinary Committee is of the view that the Complaints against the Respondent are of very serious nature. In terms of costs, the Disciplinary Committee considers that the sum incurred by the Complainant and the Clerk to the Disciplinary Committee was reasonable and ought to be borne by the Respondent.



***Order of the Disciplinary Committee; Sanctions and Cost***

22. The Disciplinary Committee order that:-

- (a) the Respondent be reprimanded under Section 35(1)(b) of the PAO;
- (b) the name of the Respondent be removed from the register of certified public accountants for eighteen months under Section 35(1)(a) of the PAO and it shall take effect on the 42<sup>nd</sup> day from the date of this order;
- (c) the practising certificate issued to the 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;
- (d) the Respondent do pay a penalty of HK\$200,000.00 under Section 35(1)(c) of the PAO; and
- (e) the Respondent do pay the costs and expenses of and incidental to the proceedings of the Complainant and that of the Disciplinary Committee in full, totalling HK\$71,298.00 under Section 35(1)(iii) of the PAO.

Dated the 17<sup>th</sup> day of February 2023.

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Mr. LAM Chi Ki  
Chairman

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Ms. CHAN Wai Kam, Caroline  
Member

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Mr. GUEN Kin Shing  
Member

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Mr. CHOW Lap San, Edward  
Member

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Mr. SO Kwok Kay  
Member