

2. On 3 September 2018, the Complainant submitted a complaint (“**the Complaint**”) to the Registrar of the Institute on the basis that the Respondent failed or neglected to observe, maintain or otherwise apply professional standards under section 34(1)(a)(vi) of the Professional Accountants Ordinance (“**PAO**”), and he was guilty of professional misconduct under section 34(1)(a)(viii) of the PAO .
3. Upon the Respondent’s admission of the Complaint, the steps set out in paragraphs 17 to 30 of the Disciplinary Committee Proceedings Rules were dispensed with and the parties were asked to make written submissions on sanctions and costs.
4. On 2 April 2019 and 3 April 2019, the Respondent and the Complainant made their respective submissions on sanctions and costs.

Background

5. The Respondent is the sole proprietor of Aaron Wong & Co. (Firm no.: 1807) (the “**Practice**”). The Practice did not have any audit staff and was subject to a practice review in August 2017. The Reviewer’s Report was issued on 10 January 2018 following submissions received from the Practice commenting on the Dated Draft Report¹. The Respondent was not previously subject to a practice review.
6. During an 18-month period between January 2016 and June 2017, the Practice had issued audit reports to approximately 110 audit clients; none of which were listed or regulated entities.
7. The Respondent, who has issued the auditor’s reports in the name of the Practice, was responsible for the Practice’s quality control system and the quality of audit engagements.

¹ The Practice submitted three written responses dated 27 November 2017, 4 December 2017, and 5 December 2017 respectively, which set out/enclosed: (1) information on work performed on all engagements selected by the practice reviewer; (2) proposed follow-up actions to address the practice review findings; (3) a resource plan of the Practice; and (4) a set of working papers of the subsequent audit of Client SB to demonstrate how some follow-up actions had been taken.

8. During the practice review, the reviewer identified significant deficiencies in the Practice's quality control system and found evidence which raised serious doubts on the Respondent's professional competence and integrity.

The Complaints

Complaint 1

9. 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, namely sections 100.5(a) and 110.1 of the *Code of Ethics for Professional Accountants* (the "**Code**") for his failure to comply with the fundamental principle of integrity during the practice and monitoring reviews.

Complaint 2

10. Section 34(1)(a)(vi) of the PAO applies to the Respondent in that, as the sole practitioner of the Practice, he failed or neglected to observe, maintain or otherwise apply a professional standard, namely HKSQC 1², for failure to maintain an adequate quality control system in the Practice.

Complaint 3

11. 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, namely sections 100.5(c) and 130.1 of the Code for his failure to maintain professional knowledge and skill at a level required to ensure that his clients would receive competent professional services and to act in accordance with applicable professional standards.

² 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*

Complaint 4

12. Section 34(1)(a)(viii) of the PAO applies to the Respondent in that the non-compliances identified in the Reviewers' Report amounted to professional misconduct.

Facts and Circumstances in support of Complaint 1

13. Prior to the practice review, the Respondent was required to provide the practice reviewer a completed "Audit Health Screening Checklist" ("**Checklist**") which included questions relating to his Practice's audit methodology. The Respondent answered "Yes" to have performed and documented, for all engagements, procedures in accordance with the relevant auditing standards including, inter alia, the development of an audit plan and strategy (HKSA³ 300), understanding of client business and key controls (HKSA 315), fraud risk assessment (HKSA 240), and analytical procedures (HKSA 520).
14. Approximately seven working days before the practice review site visit, the Respondent was informed that two engagements, Clients EJ and GS, had been selected for review. The working papers provided included audit documentation for these engagements in relation to the procedures stated under the Checklist.
15. However, when the reviewers spot checked six other engagements, they found that there was no documentation to show any of the procedures under the Checklist had been performed.
16. The Respondent admitted that he had prepared the working papers of Clients EJ and GS for the practice review as well as the external monitoring review which was carried out prior to the practice review⁴.
17. The Respondent's actions of creating the working papers would mislead the monitor and the practice reviewers and render the practice and monitoring review process ineffective.

³ Hong Kong Standard on Auditing

⁴ Under HKSQC 1, all practices are required to carry out a monitoring review of at least one engagement on cyclical basis.

18. Further, the answers on documentation provided under the Checklist were clearly untrue. By answering “Yes” to have documented the procedures in the Checklist, the Respondent had either furnished answers in the Checklist falsely or recklessly.
19. On the above basis, the Respondent had not been straightforward and honest during the practice and monitoring reviews, in breach of the fundamental principle of integrity under sections 100.5(a) and 110.1 of the Code.

Facts and Circumstances in support of Complaint 2

20. The reviewers found that the Practice failed to comply with HKSQC 1 for its failure to maintain an adequate quality control system in respect of (a) engagement performance; (b) independence; and (c) acceptance and continuance of client relationships.
21. The Respondent admitted to the practice review’s findings as below.
 - (a) *Engagement performance*
22. Paragraph 32 of HKSQC 1 requires a practice to establish policies and procedures to provide it with reasonable assurance that engagements are performed in accordance with professional standards and that the practice issues reports that are appropriate in the circumstances.
23. As mentioned above, the reviewer spot checked six engagements (Clients CP, SB, NB, RT, NC and TC) during the review. It was uncovered that the following procedures required under the auditing standards, had not been performed on those engagements:
 - (1) consideration of independence threats arising from the provision of (i) accounting and company secretarial services by a service company owned and managed by the Respondent; and (ii) tax compliance services provided by the Practice;
 - (2) client continuance procedures;
 - (3) development of an audit plan and strategy;
 - (4) understanding of client business, including evaluation of design and implementation of key controls;
 - (5) fraud risk assessment and journal entries test;

- (6) calculation and application of materiality, performance materiality and a clearly trivial amount;
 - (7) preliminary and final analytical reviews;
 - (8) search for unrecorded liabilities;
 - (9) sample size determination; and
 - (10) arrangement for bank confirmation and director's emolument confirmation requests.
24. The review also identified significant deficiencies indicating that virtually no audit work had been performed on a number of key accounts such as sales, cost of sales, and expenses in these audit engagements.
25. Based on the above, there was no evidence that the Practice performed audits in accordance with professional standards, and that its auditor's reports issued were appropriate in the circumstances.
26. The Respondent claimed that he had done the audit work but failed to prepare adequate documentation. Failure to prepare adequate audit documentation as required under HKSA 230 is a serious quality control deficiency. Without documentation, there was no record to support that the Practice had obtained sufficient appropriate audit evidence as required under HKSA 500 to support the audit opinions issued on the six engagements.
27. As such, the Respondent failed to comply with paragraph 32 of HKSQC 1 to ensure that the Practice had implemented adequate quality control policies and procedures in respect of engagement performance.
28. Further, the Respondent also admitted that the Practice had no procedures in place to ensure audit files were assembled within 60 days of the audit report date, as required under paragraphs 45 and A54 of HKSQC 1.

(b) Independence

29. Paragraphs 21 and 22 of HKSQC 1 state the relevant independence requirements which should enable the practice to identify and evaluate circumstances and relationships which create threats to independence, and take appropriate action such as applying appropriate safeguards to eliminate or reduce those threats to an acceptable level.
30. Based on the review of the six engagements spot checked by the practice reviewer, there was no evidence that independence threats had been considered in these engagements. As such, the Practice did not comply with paragraphs 21 and 22 of HKSQC 1 for its failure to properly identify and evaluate, and apply appropriate safeguards when necessary, in relation to the threats to independence; which the Respondent did not deny.

(c) Acceptance and continuance of client relationships

31. Paragraph 26(b) of HKSQC 1 states that a practice should have policies and procedures in place to provide it with reasonable assurance that it would only undertake or continue engagements where the practice could comply with relevant ethical requirements (e.g. independence).
32. The engagements spot checked by the practice reviewer also did not show evidence of any continuance procedures being performed. As such, the Practice did not comply with paragraph 26 of HKSQC 1, which was also admitted by the Respondent.

Facts and Circumstances in support of Complaint 3

33. In its submissions to the Institute in December 2017, the Respondent provided a set of working papers in relation to a subsequent audit of Client SB for the year ended 31 March 2017 (“**Client SB WP**”) to demonstrate how the Practice had implemented some of its follow-up actions.

Audit Evidence

34. Having reviewed the Client SB WP, the reviewer found that the Practice failed to perform adequate work to ascertain that Client SB's revenues were properly recognized.
35. According to the working papers, Client SB prepared its financial statements under SME-FRS⁵. In relation to revenue recognition concerning rendering of services, paragraph 11.3 of SME-FRS states that "revenue associated with the transaction should be recognised by reference to the stage of completion of the transaction at the end of the reporting period".
36. Client SB operated a beauty centre. It is common practice for beauty centres to accept advance payments from customers for a course of treatments.
37. The Practice merely tested some receipts and bank statements in three selected months; without checking details of the customers' payments, nor ascertaining whether the receipts were in relation to Client SB's provision of beauty services which revenue could be recognized, or simply advance payments from its customers.
38. The Practice failed to recognize that its testing, which essentially was a receipts testing, was inadequate to ascertain whether Client SB had satisfied the revenue recognition principle in accordance with SME-FRS, i.e. whether the provision of services had been completed to render revenue recognition; and if so, whether the revenue had been accounted for in the correct period. Therefore, it did not obtain reasonable assurance on the revenues recognized by Client SB.
39. As such, the auditor's report for Client SB for 2017 was issued without sufficient appropriate audit evidence to support the audit opinion.

⁵ Small and Medium-sized Entity Financial Reporting Standard

Audit documentation

40. The Respondent's conduct as identified in the practice review reveals his flawed concept about audit documentation. His initial response to the deficiency that he considered it unnecessary to prepare working papers since all the audit procedures were performed by himself as the Practice had no audit staff, was later changed to that he considered it "unnecessary for a one-man band to attend to every areas twice although a final review is required to be done".
41. The Respondent still did not seem to grasp the basic concept and the critical significance of audit documentation.

Professional competence and due care

42. The above findings raise serious doubt on the Respondent's professional competence and due care to ensure that his Practice upholds audit quality:
 - (1) the Practice had a significantly deficient quality control system (as explained in Complaint 2);
 - (2) a subsequent audit file provided by the Respondent to demonstrate how the Practice had implemented some of its follow-up actions indicated further deficiencies; and
 - (3) the Respondent's submissions show a lack of understanding of the basic concept of audit documentation.
43. These deficiencies reflect the Respondent's inability to ensure his clients received competent professional services by maintaining adequate professional knowledge and skill. As such, the Respondent failed to comply with the fundamental principle of professional competence and due care in accordance with sections 100.5(c) and 130.1 of the Code.

Facts and Circumstances in support of Complaint 4

44. The conduct of preparing working papers in reaction to practice or monitoring reviews, and providing false information to the Institute, which casted serious doubt on the Respondent's integrity (Complaint 1), was unprofessional and unacceptable.

45. The facts and circumstances in support of Complaint 2 revealed that the Respondent failed to ensure that his Practice had an acceptable quality control system to ensure its audit quality.
46. Further, the findings also pointed to the serious lack of professional competence and due care on the part of the Respondent as explained in Complaint 3.
47. The severity of the non-compliances as explained above amounts to serious professional misconduct.

The Parties' Submissions on Sanctions and Costs

48. The Complainant submits that nature and severity of these failures demonstrate a serious neglect by the Respondent to comply with the Institute's ethical requirements and professional standards. Even though the Respondent had made early admission of liability, it should not diminish the seriousness of the case. In the premises, the Complainant considers that the appropriate sanctions should be a cancellation of the Respondent's practising certificate and an order that it should not be issued to the Respondent for at least 2 years. In addition and regarding the Respondent's lack of integrity, the Complainant considers it appropriate to remove the Respondent from the register for at least 18 months.
49. The Respondent does not dispute any of the facts and circumstances in support of the complaints. However, he argues that the Practice is his family major source of income and he took the earliest opportunity to admit the Complaint, he submits that a reprimand and a fine of HK\$50,000 to HK\$60,000 is appropriate. He is willing to pay the costs of the Complainant and these proceedings.

Decision

50. In considering the appropriate sanctions, the Disciplinary Committee needs to first determine the severity of the complaints. Parts 5.2 and 5.3 of the Guideline to Disciplinary Committee for Determining Disciplinary Orders ("**the Guideline**") set out the considerations that

are aimed to assist the Disciplinary Committee in determining the seriousness of the breach. For example:

- (1) Nature and circumstances of the breach, such as:
 - (a) nature of failure and/or offence
 - (b) relative significance of the standard or regulation breached
 - (c) whether the breach could undermine confidence in the standards of the profession
 - (d) whether the breach involved ethical issues
 - (e) whether the breach may damage the reputation of the profession
 - (f) whether the breach was isolated or recurring.
- (2) Conduct of the respondent, e.g. whether the offence committed was intentional or deliberate, or occurred as a result of carelessness or recklessness.
- (3) The seriousness of the offences could be increased by, e.g. recklessness or blatant disregard for regulatory requirements or principles, nature and impact of the breach, and/or detrimental effect on reputation of and confidence in the profession.

51. The Disciplinary Committee agrees with the Complainant that it is alarming for the Respondent to document his audit work only after completion of the audit and for the purpose of the practice and monitoring review. Quite clearly, the Respondent's subsequent creation of working papers and misleading answers in the Checklist were designed to affect the practice reviewer's assessment on his Practice and it was a calculated scheme on his part to mislead. The Committee takes the view that the Respondent's conduct raises serious doubts over his integrity and it demonstrates a blatant and intentional disregard for the Institute's ethical and professional requirements. The sloppy and irresponsible manner in which the Respondent handled his clients' audit engagements could undermine public's confidence in the standards of the profession and damage the profession's reputation.

52. Whilst we note the Respondent's early admission of the Complaint which led to the saving of costs, the Respondent has not suggested any steps that have been taken to ensure that the Practice has an effective quality control system and that similar breaches will not occur in the future.
53. Having considered all the relevant facts of the Complaint and the parties' submissions, the Committee considers that the Respondent should be reprimanded and pay a financial penalty of HK\$50,000. The Respondent's practising certificate shall be cancelled and it should not be issued to the Respondent for a period of 18 months.
54. As for costs, we consider that the total sum of HK\$47,642 is reasonable and the Respondent should pay such costs to the Complainant.
55. The Disciplinary Committee makes the following order:
- (1) The Respondent be reprimanded under section 35(1)(b) of the PAO;
 - (2) The Respondent do pay a penalty of HK\$50,000 pursuant to section 35(1)(c) of the PAO;
 - (3) The practising certificate issued to the Respondent in 2019 be cancelled with effect 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 18 months with effect from 42 days from the date hereof under section 35(1)(db) of the PAO;
 - (5) The Respondent do pay the costs and expenses of and incidental to the proceedings of the Complainant (including the costs of the Disciplinary Committee) in the sum of HK\$47,642 under section 35(1)(iii) of the PAO.

Dated the 21st day of June 2019.

Ms. LAU Shing Yan
Chairman

Ms. CHAN Chui Bik, Cindy
Member

Miss YEUNG Kit Kam, Lesley
Member

Mr. FENN David
Member

Mr. CHEUNG Yat Ming
Member