



## Hong Kong Institute of Certified Public Accountants takes disciplinary action against two certified public accountants

(HONG KONG, 12 June 2020) On 25 April 2020, a Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants issued sanctions against Ms. Yuen Suk Ching, certified public accountant (A02183) and Mr. Leung Tai Keung, certified public accountant (A01132) (collectively “Respondents”). The Committee ordered that the practising certificate of Yuen be cancelled, with no issuance of a practising certificate to her for 36 months, effective 4 June 2020. In addition, the Committee reprimanded Leung and ordered him to pay a penalty of HK\$100,000. Further, Yuen and Leung were ordered to jointly pay HK\$350,000 towards costs of the Institute and the Financial Reporting Council (“FRC”).

Yuen and Leung were partners of HLM & Co., a firm which is now de-registered. The firm expressed unmodified auditor’s opinions on the consolidated financial statements of Blue Spa Holdings Limited (currently known as SuperRobotics Limited), a Hong Kong listed company (“Company”), and its subsidiaries (collectively “Group”) for the years ended 30 June 2008 to 2010. Yuen was the engagement partner and Leung was the engagement quality control reviewer of the audits.

The Institute received a referral from the FRC about audit irregularities. There were numerous unusual factors which indicated a heightened risk of irregularity. The risk indicators included the following:

- the Group had significant amounts of prepayments, and these had increased significantly over the three years. Some amounts were prepaid long before the goods bought were delivered;
- prepayments to the suppliers were made through a major customer by cash cheques;
- the Group’s revenue relied heavily on sales to the major customer, and some receivables were long outstanding;
- receivables from the major customer were settled in cash received from certain former directors of the Company and could not match with individual sales invoices; and
- control over revenue recognition depended on only a few key management personnel.

The Respondents failed to conduct their audits with an attitude of professional scepticism. This led to their failure to adequately plan the audits and design appropriate procedures to address heightened risks, including the risk of material misstatement due to fraud in revenue recognition. In turn, the Respondents failed to perform and document sufficient, appropriate audit procedures on the nature of the prepayments, identities of the major customer and suppliers, existence of sales recorded and recoverability of receivables.

The Respondents also failed to update the audit strategy and revise the audit plan upon having significant concerns about being unable to confirm that prepayments had been

received by the suppliers or purchased goods had been received by the Company. Further, the Respondents failed to appropriately evaluate whether the evidence obtained on the prepayments, sales and receivables would support their unmodified opinions on the financial statements.

After considering the information available, the Institute lodged a complaint under sections 34(1)(a)(vi) and (viii) of the Professional Accountants Ordinance (Cap 50).

The Disciplinary Committee found as follows:

- (i) Yuen failed or neglected to observe, maintain or otherwise apply the following professional standards:
- Hong Kong Standard on Auditing ("HKSA") 200 *Objective and General Principles Governing an Audit of Financial Statements*;
  - HKSA 230 *Audit Documentation*;
  - HKSA 240 *The Auditor's Responsibilities to Consider Fraud in an Audit of Financial Statements*;
  - HKSA 300 *Planning an Audit of Financial Statements*;
  - HKSA 315 *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*;
  - HKSA 500 *Audit Evidence*;
  - HKSA 520 *Analytical Procedures*;
  - HKSA 550 *Related Parties*; and
  - HKSA 700 *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*.
- (ii) Leung failed or neglected to observe, maintain or otherwise apply the following professional standards:
- HKSA 220 *Quality Control for Audits of Historical Financial Information*; and
  - HKSA 230.
- (iii) In view of the multiple breaches of professional standards, Yuen and Leung were guilty of professional misconduct.

Having taken into account the circumstances of the case, the Disciplinary Committee made the above order against the Respondents under section 35(1) of the ordinance. In coming to its decision, the Committee took into account the serious deficiencies in the audit work performed and that the respondents' disciplinary records showed they had persistently failed to comply with professional standards issued by the Institute.

#### About HKICPA Disciplinary Process

The Hong Kong Institute of Certified Public Accountants ("HKICPA") enforces the highest professional and ethical standards in the accounting profession. Governed by the Professional Accountants Ordinance (Cap. 50) and the Disciplinary Committee Proceedings Rules, an independent Disciplinary Committee is convened to deal with a complaint referred by Council. If the charges against a member, member practice or registered student are proven, the Committee will make disciplinary orders setting out the

sanctions it considers appropriate. Subject to any appeal by the respondent, the order and findings of the Disciplinary Committee will be published.

For more information, please see:

<http://www.hkicpa.org.hk/en/standards-and-regulations/compliance/disciplinary/>

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### **About HKICPA**

The Hong Kong Institute of Certified Public Accountants ("HKICPA") is the statutory body established by the Professional Accountants Ordinance responsible for the professional training, development and regulation of certified public accountants in Hong Kong. The Institute has more than 46,000 members and 19,000 registered students.

Our qualification programme assures the quality of entry into the profession, and we promulgate financial reporting, auditing and ethical standards that safeguard Hong Kong's leadership as an international financial centre.

The CPA designation is a top qualification recognised globally. The Institute is a member of and actively contributes to the work of the Global Accounting Alliance and International Federation of Accountants.

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