

IN THE MATTER OF

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

BETWEEN

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

AND

Kwok Chi Sun, Vincent (A04893) RESPONDENT

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

Members: Mr. Hui Cheuk Kit, Frederick (Chairman)
 Ms. Chan Lai Yee
 Mr. Lui Chi Ho
 Mr. Lee Kwo Hang, Felix
 Mr. Lai Yat Hin, Adrian

ORDER AND REASONS FOR DECISION

1. This is a complaint made by the Practice Review Committee ("**PRC**") of the Hong Kong Institute of Certified Public Accountants (the "**Institute**") against Kwok Chi Sun, Vincent, a certified public accountant ("**CPA**") (practising) (the "**Respondent**").
2. Sections 34(1)(a)(vi) and 34(1)(a)(viii) of the PAO applied to the Respondent.
3. The particulars of the Complaint Letter from the PRC to the Registrar of the Institute dated 3 November 2020 are set out below.

BACKGROUND

4. The Respondent was the sole proprietor of Vincent Kwok & Company (firm no. 1469)¹ (the “**Practice**”). The Respondent was responsible for the Practice’s quality control system and the quality of its audit engagements.
5. Quality Assurance Department of the Institute (“**QAD**”) conducted a practice review on the Practice in December 2018. The practice review revealed that the audit quality of the Practice was poor which was illustrated below.
6. In order to assess the Practice’s audit approach, the practice reviewer (“**Reviewer**”) performed a high-level review on the following pre-selected engagements:
 - (1) Client O, an incorporation of owners, for the year ended 31 December 2017;
 - (2) Client H, a solicitor client, for the year ended 31 March 2018;
 - (3) School A, a school, for the year ended 31 August 2017; and
 - (4) Client P, a licensed corporation under the Securities and Futures Ordinance (Cap. 571), for the year ended 30 June 2018.
7. For checking the completeness of the Practice’s client list, the Reviewer performed a high-level review on the following three engagements that were selected on the spot:
 - (1) Client NE for the year ended 31 March 2017;
 - (2) Client NP for the year ended 31 December 2016; and
 - (3) Client K for the year ended 31 March 2016.
8. In addition, the Reviewer reviewed the following two pre-selected audit engagements:
 - (1) Client V (a private entity); year ended 31 March 2018 and audit report dated 31 October 2018; and
 - (2) Client G (a private group); year ended 31 December 2017 and audit report dated 10 August 2018.
9. The Reviewer found a number of deficiencies in the Practice’s quality control system and audit engagements during the practice review.
10. Furthermore, the Respondent admitted certain audit programmes filed in the pre-selected audit engagements files were prepared after the audits were completed and the relevant file assembly periods expired, in reaction to the practice review.
11. The Reviewer’s Report was sent to the Practice on 23 May 2019 outlining the findings of the practice review.

¹ In April 2019, the Practice admitted two partners and became a partnership.

12. Having considered the Reviewer's findings and all available information, the PRC decided to raise a complaint against the Respondent for non-compliance with professional standards.

THE COMPLAINTS

Complaint 1

13. 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 the fundamental principle of integrity because the Practice prepared the audit programmes of some of the pre-selected audit engagements in reaction to the practice review, after the audits were completed and the relevant file assembly periods expired.

Complaint 2

14. 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 for his failure to maintain an adequate quality control system.

Complaint 3

15. 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 in respect of his audit of Client V for the year ended 31 March 2018.

Complaint 4

16. 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 in respect of his audit of Client G for the year ended 31 December 2017.

Complaint 5

17. Section 34(1)(a)(viii) of the PAO applies to the Respondent in that he has been guilty of professional misconduct.

FACTS AND CIRCUMSTANCES IN SUPPORT OF COMPLAINT 1

18. The fundamental principle of integrity under sections 100.5(a), 110.1 and 110.2 of the Code of Ethics for Professional Accountants ("COE") requires a professional accountant to be straightforward and shall not knowingly be associated with information which contains, omits or obscures information required to be included where such omission or obscurity would be misleading.

19. Paragraph 7 of Hong Kong Standard on Auditing (“HKSA”) 230 *Audit Documentation* requires that auditor shall prepare audit documentation on a timely basis and 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”) requires that a practice shall establish policies and procedures for engagement teams to complete the assembly of final engagement files within 60 days ordinarily after the engagement reports have been finalized.
20. The Respondent admitted that, apart from the three large/high risk audit engagements (namely Clients V, P and H), all audit programmes filed in the other pre-selected audit engagements (e.g. Clients O, F and G, School A, and two other engagements²) by the engagement team were prepared after the audit completion and relevant assembly periods, in reaction to the practice review.
21. It was only after the Reviewer reviewed the engagement files and enquired the Respondent about the timing of the preparation of the audit programmes, that the Respondent admitted his wrongdoing. Therefore, the Respondent breached the fundamental principle of integrity in that he had knowingly prepared the audit programmes after the audits and presented the same to the Reviewer, in breach of sections 100.5(a), 110.1 and 110.2 of the COE.
22. As COE is a professional standard referred to in the PAO, section 34(1)(a)(vi) applies to the Respondent in this respect.

FACTS AND CIRCUMSTANCES IN SUPPORT OF COMPLAINT 2

23. HKSQC 1 requires all firms of professional accountants to establish and maintain an adequate system of quality control which meets the requirements under the standard.

Audit methodology / Engagement performance

24. Paragraph 32 of HKSQC 1 requires a practice to establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards.
25. The Practice failed to comply with this requirement because for the pre-selected engagements, it was found that the Practice failed to carry out the audit procedures in accordance with the following HKSA's. The Practice did not:

² The two engagements were selected for examining acceptance and continuance procedures.

- (1) identify the risks of material misstatement through understanding the entities' business, operation and internal controls relevant to the audits and evaluating the design of those controls to determine whether they have been properly implemented, in accordance with paragraphs 11, 12 and 13 of HKSA 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*. There is no evidence showing that the audit team had obtained adequate understanding of the business, operation and internal control of Client O, Client H and School A. The audit work performed was not specific to the audit clients' industries;
- (2) make inquiries of management regarding fraud risk assessment and to determine whether they have knowledge of any actual, suspected or alleged fraud affecting Client O and School A, in accordance with paragraphs 17 and 18 of HKSA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*;
- (3) evaluate whether the audit clients comply with law and regulations that affect the financial statements in accordance with paragraph 14 of HKSA 250 *Consideration of Laws and Regulations in an Audit of Financial Statements*. There was no evidence to show that the audit team had considered whether Client O and School A had complied with relevant requirements of, for example, Building Management Ordinance, and Code of Aid issued by the Education Bureau;
- (4) design and perform appropriate audit procedures and obtain sufficient appropriate audit evidence to support the auditor's opinion expressed for Client O, in accordance with paragraph 6 of HKSA 500 *Audit Evidence* ("**HKSA 500**");
- (5) maintain control over the process of using the external confirmation requests as audit evidence for Client H's client accounts, in accordance with paragraph 7 of HKSA 505 *External Confirmation*;
- (6) enquire management of Client O about identity and nature of related party transactions and understand the controls established by the management to identify the transactions for proper recognition and disclosure, in accordance with paragraphs 13 and 14 of HKSA 550 *Related Party*;
- (7) set out management's responsibilities pertaining to the preparation of the financial statements of Client O, School A and Client P under the applicable laws and regulations in the engagement letter, in accordance with paragraph 10 of HKSA 210 *Agreeing the Terms of Audit Engagements*;

- (8) request written representation from the management that the financial statements of Client O and School A were prepared in accordance with the applicable laws and regulations, in accordance with paragraphs 13 and A10 of HKSA 580 *Written Representations*; and
 - (9) perform procedures required under Practice Note (“PN”) 840 (Revised) *Reporting on Solicitors’ Accounts under the Solicitors’ Accounts Rules and the Accountant’s Report Rules* to ascertain if Client H has complied with the requirements under the Solicitors’ Accounts Rule, and procedures required under PN 820 (Revised) *The Audit of Licensed Corporation and Associated Entities of Intermediaries* to ascertain if Client P has complied with the requirements under the Securities and Futures Ordinance.
26. In addition, the Reviewer found that the audit working papers of Client NE, Client NP, and Client K revealed a number of deficiencies showing lack of basic audit procedures as required by HKSA. The basic audit procedures include engagement continuance evaluation, understanding of client’s business, assessment of audit risks and fraud risks, consideration of laws and regulations, determination and application of audit materiality.
27. The above deficiencies indicate that the Respondent failed to ensure that his Practice had established effective policies and procedures to ensure, with reasonable assurance, that (i) the acceptance and continuance of clients and engagements comply with ethical requirements, in accordance with paragraph 26 of HKSQC 1; and (ii) the audit engagements were performed in accordance with professional standards and applicable legal requirements, and its audit reports issued were appropriate in the circumstances, in accordance with paragraphs 32 and 33 of HKSQC 1.

File assembly

28. 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 finalized.
29. Although there was documentation of the file assembly dates on the audit files of the selected audit engagements, the Respondent admitted that no file assembly procedures were put in place to ensure the 60-day file archiving rule was properly followed.

File review

30. Paragraph 32 of HKSQC 1 requires a practice to establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards.
31. The deficiencies set in sections 3.1.1, 3.1.2 and 3.2 of the Reviewer's Report indicated that the Respondent did not sufficiently review the working papers to evaluate whether sufficient appropriate evidence had been obtained to support the audit opinions given. He admitted that he did not perform a detailed review of the audit files but only performed a review of the draft financial statements and discussed matters of concerns with the engagement managers at the audit completion. The review findings confirmed that the Respondent had not performed timely and sufficient reviews on the audit files before forming the audit opinions.

Monitoring process

32. Paragraph 48 of HKSQC 1 requires a practice to establish an effective monitoring process which should include an ongoing consideration and evaluation of the practice's system of quality control. The monitoring process shall be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility.
33. The number of deficiencies identified from the practice review revealed that the Practice's monitoring review function was not effective. In particular, the engagement deficiencies identified in the 2018 audit of Client V also existed in its 2017 audit but they were not identified by the internal monitor.

Training

34. Paragraph 29 of HKSQC 1 requires a practice to establish policies and procedures (e.g. training) designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities, and commitment to ethical principles.
35. The Respondent's 2016-2018 CPD records showed that he had not attended any auditing and accounting seminars. Besides, the Practice did not provide training to its audit staff (e.g. training on regulated entities).
36. In view of the number of deficiencies identified in the practice review, the Respondent did not comply the requirements under HKSQC 1.
37. As HKSQC 1 is a professional standard under the PAO, section 34(1)(a)(vi) applies to the Respondent.

FACTS AND CIRCUMSTANCES IN SUPPORT OF COMPLAINT 3

38. The Reviewer found a number of breaches of HKSAs in the Practice's audit of Client V, which runs a hotel business.

Modified audit opinion

39. Qualified audit opinion was given on Client V's financial statements as it did not provide depreciation on its hotel property according to HKAS 16 *Property, Plant and Equipment*. The cost and the net carrying value of the hotel property at the year-end date was HK\$1,150,000,000.
40. The Respondent submitted to the Reviewer that it was the eighth year that the Practice issued the same qualified audit opinion on Client V's financial statements. In this respect, the potential effect of the understatement of accumulated depreciation should have a material and pervasive impact on the financial statements. There was no evidence that the audit team had performed an assessment to support why a qualified audit opinion was more appropriate than an adverse audit opinion. In the Respondent's letter dated 10 April 2019 to the Institute, the Respondent accepted that no assessment had been done, which he proposed to rectify (for the next year's audit) by performing an assessment, and to include a note to the financial statements to express the effect of the understatement of accumulated depreciation and the impact on the financial statements.
41. Hence, the Respondent did not comply with paragraph 8 of HKSA 705 (Revised) *Modifications to the Opinion in the Independent Auditor's Report* for his failure to express an adverse opinion regarding the material and pervasive impact of the understatement of accumulated depreciation of the hotel property on the financial statements of Client V.

Audit work on hotel room revenue

42. The audit team performed substantive procedures on the hotel room revenue and the following deficiencies were identified:
- (1) The audit team calculated the sample size required for the substantive test on the hotel room revenue. However, the testing coverage was low (only approximately 0.05% of Client V's hotel room revenue); and the audit team selected three transactions recorded on 31 March 2018 and 1 April 2018 each for cut-off testing. There was no evidence on file to show the basis for the sample size and sample selection. Hence, the Respondent did not comply with paragraphs 7 and 15 of HKSA 530 *Audit Sampling* because there is no evidence to show that the sample size determined was sufficient to reduce sampling risk to an acceptably low level, and that the result of the sample test

was evaluated and whether the use of audit sampling had provided a reasonable basis for conclusions about the population that had been tested.

- (2) Substantive analytical procedures (“SAP”) were performed on the hotel room revenue. However, no audit work was performed to assess the reliability and accuracy of the parameters used (e.g. number of hotel rooms, occupancy rate and average room rate). Consequently, the SAP performed did not provide reasonable assurance on the hotel room revenue. Hence, the Respondent did not comply with paragraph 9 of HKSA 500, which requires the Respondent to evaluate if, when using the data provided by the client, the data used is sufficiently reliable and accurate.
 - (3) In addition, the SAP was considered ineffective since the Respondent extracted an incorrect amount as hotel room revenue for the analysis³. Should the Respondent use the correct amount of hotel room revenue, the SAP would have resulted in a material difference of about 5.3% between the expected revenue and the recorded revenue, which was above the performance materiality. Then, the audit team should have performed follow-up work on this material difference. Hence, the Respondent did not comply with paragraph 7 of HKSA 520 (Clarified) *Analytical Procedures* in that the Respondent failed to investigate such difference by inquiring management or performing alternative audit procedures.
43. The above demonstrate that the Respondent did not maintain professional knowledge and skill at the level expected of a CPA to carry out audit in accordance with applicable professional standards, and hence he is in breach of sections 100.5(c) and 130.1 of the COE.
44. As COE is a professional standard referred to in the PAO, section 34(1)(a)(vi) applies to the Respondent.

FACTS AND CIRCUMSTANCES IN SUPPORT OF COMPLAINT 4

45. The Reviewer also found non-compliance with HKSA in the Practice’s audit of Client G which principally engaged in property investment. Client G had one subsidiary. Both the Client G and its subsidiary had properties which were leased out to earn rental income.
46. Client G acquired its subsidiary in 2013 from which goodwill of HK\$15.8 million was recognized, representing 17% of the total assets of the group. The subsidiary held a unit in a commercial shopping centre in Hong Kong which was leased out to

³ The Respondent erroneously used HK\$55,094,043.82 for the SAP. He should have used HK\$67,323,803 for the analysis.

earn rental income. At the date of acquisition, Client G recognized the difference between the consideration paid and the then book value of the net assets of the subsidiary as goodwill. The Practice did not consider the fair value of the property at the acquisition date in accordance with Hong Kong Financial Reporting Standard 3 (Revised) *Business Combinations*, which reflected that the carrying amount of the property as at the year-end date might have been understated. Accordingly, the unqualified opinion given by the Practice might be inappropriate.

47. Hence, the Respondent did not comply with paragraph 12 of HKSA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements* because he failed to evaluate whether the financial statements of Client G were prepared in accordance with the applicable financial reporting framework.
48. The above failure found in the Respondent's audit of Client G demonstrates that he did not maintain professional knowledge and skill at the level required to ensure that the audit was carried out in accordance with applicable professional standards, and hence he is in breach of sections 100.5(c) and 130.1 of the COE.
49. As COE is a professional standard referred to in the PAO, section 34(1)(a)(vi) applies to the Respondent in this respect.

FACTS AND CIRCUMSTANCES IN SUPPORT OF COMPLAINT 5

50. The Respondent was found to have acted contrary to the fundamental principle of integrity imposed on all professional accountants in that he had created audit working papers in reaction to the practice review.
51. In addition, the multiple and repeated deficiencies identified in the Practice's quality control system and audit engagements indicate that the Respondent failed to uphold the fundamental principle of professional competence and due care to ensure that his professional work complied with professional standards. The Respondent did not dispute the findings against him set out in the Reviewer's Report.
52. In April 2014, the Institute issued a letter to all practising members which stated clearly that if a practice has made no or little attempt or effort to address the five common deficiencies (e.g. ineffective monitoring and inappropriate audit methodology), such behaviour would be taken as amounting to serious professional misconduct and more rigorous follow up actions (including raising a complaint) would be considered. Based on the aforementioned deficiencies, the Respondent did not have proper regard to the Institute's alert and did not make enough efforts to avoid the significant deficiencies occurring.
53. Such blatant disregard by the Respondent to comply with professional standards amounts to professional misconduct.

THE PROCEEDINGS

54. By letter signed by the parties dated 4 December 2020, the Respondent admitted the Complaint against him, and the parties requested that the steps set out in paragraphs 17 to 30 of the Disciplinary Committee Proceedings Rules (“DCPR”) be dispensed with.
55. The Disciplinary Committee agreed with the parties’ request to dispense with the steps set out in Rules 17 to 30 of the DCPR in light of the admission made by the Respondent, and directed the parties to make written submissions on sanctions and costs by 5 February 2021, pursuant to the Procedural Timetable issued on 8 January 2021. Neither the Complainant nor the Respondent requested for a hearing.
56. The complaints were all found proven on the basis of the admission made by the Respondent.
57. The Complainant filed its submission on sanctions on 5 February 2021.
58. The Respondent’s submission on sanctions was received on the same day, admitting all of the findings from the practice review and listing the remedial follow-up actions carried out and steps taken to improve his practice.

CONSIDERATIONS

59. In considering the proper order to be made in this case, the Disciplinary Committee has had regard to all the aforesaid matters, including the particulars in support of the Complaint, the Respondent’s personal circumstances, the parties’ respective submissions on sanctions, and the parties’ respective conduct throughout the proceedings.
60. The Disciplinary Committee has also carefully considered the mitigation by the Respondent and has accepted most of the plea in his mitigation in considering the proper order to be made.
61. The Disciplinary Committee is of the view that the present complaints are serious in nature, and therefore a deterrent penalty is warranted.
62. Nevertheless, the Disciplinary Committee acknowledges the Respondent’s admission to all complaints against him, thereby obviating the need for a full hearing. This has saved considerable time and costs, and the Disciplinary Committee has taken such admission into consideration regarding any abatement on penalty to be made.

SANCTIONS AND COSTS

63. The Disciplinary Committee orders that:-

- (1) the Respondent be reprimanded under Section 35(1)(b) of the PAO;
- (2) the practicing certificate issued to the Respondent be cancelled with effect from 42 days from the date hereof under Section 35(1)(da) of the PAO;
- (3) a practicing certificate shall not be issued to the Respondent for 6 months with effect from 42 days from the date hereof under Section 35(1)(db) of the PAO;
- (4) the Respondent do pay a penalty of HK\$100,000 under Section 35(1)(c) of the PAO; and
- (5) the Respondent do pay the costs and expenses of and incidental to the proceedings of the Complainant and that of the Clerk in full totaling HK\$69,464 under Section 35(1)(iii) of the PAO.

Dated: 13th day of May 2021

Mr. Hui Cheuk Kit, Frederick
Chairman
Disciplinary Panel A

Ms. Chan Lai Yee
Member
Disciplinary Panel A

Mr. Lee Kwo Hang, Felix
Member
Disciplinary Panel B

Mr. Lui Chi Ho
Member
Disciplinary Panel A

Mr. Lai Yat Hin, Adrian
Member
Disciplinary Panel B