



## **Background**

- (1) Ting Wai Monastery Limited ("Company") was incorporated in Hong Kong under the Companies Ordinance and limited by guarantee. It is an approved charitable institution engaged in promotion of Buddhism. It receives offerings and donations mainly on cash basis.
- (2) Mr. Lai Ka Cheung, Andrew, is the sole proprietor of Andrew K. C. Lai & Company which was the auditor of the financial statements of the Company for six years ended from 31 March 2010 to 2015 ("Financial Statements").
- (3) The Company's Financial Statements were stated to have been prepared in accordance with the Hong Kong Financial Reporting Standards and in accordance with the Hong Kong Companies Ordinance.
- (4) The Respondents expressed an unqualified opinion in all of the auditor's reports issued on the Financial Statements. The auditor's reports also stated that the audits were conducted in accordance with the Hong Kong Standards on Auditing ("HKSA").
- (5) On 9 August 2016, the Respondents confirmed that pages 1 to 1122 of Appendix 2 represent the complete documentation for the audit of the Financial Statements.
- (6) A review of the audit working papers found that the Respondents had failed to comply with a number of professional standards issued by the Institute. The Registrar has reason to believe that section 34(1)(a)(vi) applies to the Respondents in the audits of the Financial Statements.

## **Relevant Professional Standards**

- (7) Extracts of the following relevant professional standards are included in Appendix 1:
  - i. Section 440.1 of the Code of Ethics for Professional Accountants ("COE")
  - ii. HKSA 220 Quality Control for an Audit of Financial Statements
  - iii. HKSA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment
  - iv. HKSA 230 Audit Documentation
  - v. HKSA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
  - vi. HKSA 510 Initial Audit Engagements – Opening Balances
  - vii. HKSA 520 Analytical Procedures
  - viii. HKSA 500 Audit Evidence
  - ix. HKSA 580 Written Representations

## **The Complaints**

### ***First Complaint***

- (8) Section 34(1)(a)(vi) of the PAO applies to the Respondents in that, they failed or neglected to observe, maintain or otherwise apply a professional standard namely, section 440.1 of the COE since there is no evidence showing that they had requested and obtained a professional clearance from the preceding auditor of the Company before accepting the audit engagement in 2010.

***Second Complaint***

- (9) Section 34(1)(a)(vi) of the PAO applies to the Respondents in that, they failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraph 12 of HKSA 220 since there is no evidence showing that they had been satisfied that appropriate procedures regarding client acceptance and continuance have been followed in the 2010 to 2015 audits.

***Third Complaint***

- (10) Section 34(1)(a)(vi) of the PAO applies to the Respondents in that, they failed or neglected to observe, maintain or otherwise apply professional standards namely, paragraph 6 of HKSA 500 because as the auditor of the Company for the 2010 to 2015 audits, they failed to design and perform audit procedures appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

***Fourth Complaint***

- (11) Section 34(1)(a)(vi) of the PAO applies to the Respondents in that, they failed or neglected to observe, maintain or otherwise apply professional standards namely, paragraph 8 of HKSA 230 because as the auditor of the Company for the 2010 to 2015 audits, they failed to prepare sufficient audit documentation.

***Fifth Complaint***

- (12) Section 34(1)(a)(vi) of the PAO applies to the Respondents in that, they failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraph 32 of HKSA 240 because they did not design and perform audit procedures in relation to journal entries and other adjustments made in the preparation of the financial statements for the 2010 to 2015 audits.

***Sixth Complaint***

- (13) Section 34(1)(a)(vi) of the PAO applies to the Respondents in that, they failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraphs 12 and 13 of HKSA 315 because they had failed to obtain an understanding of internal controls relevant to the 2010 to 2015 audits and to evaluate the design of those controls to determine whether they have been implemented.

***Seventh Complaint***

- (14) Section 34(1)(a)(vi) of the PAO applies to the Respondents in that, they failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraph 6 of HKSA 510 because in the 2010 audit, they had failed to obtain sufficient appropriate audit evidence for determining whether the opening balances contain misstatements that materially affect the current period's financial statements.

***Eighth Complaint***

- (15) Section 34(1)(a)(vi) of the PAO applies to the Respondents in that, they failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraphs 9 and 20 of HKSA 580 because they had failed to obtain written representations from the management of the Company for the 2012 and 2014 audits.

### ***Ninth Complaint***

- (16) Section 34(1)(a)(viii) of the PAO applies to the Respondents in that, they have been guilty of professional misconduct as a result of their failure to comply with multiple professional standards in the audits of the Financial Statements.

### **Facts and Circumstances in support of the Complaints**

#### ***In respect of First Complaint***

- (17) Section 440.1 of the COE states that where a change of auditor is contemplated, the nominated auditor should write to the existing auditor to obtain professional clearance. It further states that obtaining professional clearance from the preceding auditor is important because he may be made aware of any unusual circumstances surrounding the proposed change of auditor which may be relevant in determining his acceptance of nomination.
- (18) There was no evidence in the audit working papers showing that the Respondents had requested and obtained a professional clearance from the preceding auditor of the Company before accepting the engagement.

#### ***In respect of Second Complaint***

- (19) Paragraph 12 of HKSA 220 stated that the engagement partner shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate. Paragraph A8 states that information such as integrity of the principal owners and key management, whether the firm and the engagement team could comply with the relevant ethical requirements and whether the team is competent to perform the audit engagement, should be considered.
- (20) In 2010, the Respondents accepted to be the auditor of the Company and issued on 23 July 2010 the auditor's report for the Company's financial statements for year ended 31 March 2010. The audit working papers showed that the Respondents only "reviewed the audited financial statements of the company for the year ended 31st March 2009 and considered that client was acceptable for audit."
- (21) The Respondents' working papers did not show that they had considered the information as required under paragraphs 12 and A8 of HKSA 220.
- (22) Further, in considering whether or not to continue with the audit engagement with the Company in the subsequent years, the Respondents concluded that the Company was acceptable for audit based on review of the management accounts of the Company for the years from 2011 to 2015 and did not perform any other audit procedures to consider whether there are significant matters that would pose implications for continuing the relationship.

#### ***In respect of Third and Fourth Complaints***

- (23) Paragraph 6 of HKSA 500 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

- (24) Paragraph 8 of HKSA 230 requires that the auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand, amongst other things, the nature, timing, and extent of the audit procedures performed to comply with the HKSAs and applicable legal and regulatory requirements.
- (25) Findings from a review of the Respondents' working papers indicated that the Respondents did not design and perform adequate procedures for the purpose of obtaining sufficient appropriate audit evidence and/or prepare adequate documentation

Cash and bank balance

- (26) Extract from 2010-2015 audit working papers:

	2010	2011	2012	2013	2014	2015
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Cash at bank	347,579	362,264	432,458	457,151	657,455	334,591
Cash held by MD	350,000	350,000	-	-	-	-
Cash on hand	56,256	110,217	59,967	39,465	48,534	76,514
Difference between ledger and trial balance	-	-	-	-	-	32,898
<b>Total cash and bank balance</b>	<b>753,835</b>	<b>822,481</b>	<b>492,425</b>	<b>496,616</b>	<b>705,989</b>	<b>444,003</b>
Working paper reference	p.54,57,66	p.155-159	p.240-253	p.415-429	p.516-534	p.630-645

- (27) The auditor's planning memorandum for the 2010-2015 audits stated that the approach for the cash and bank balance was "trace to bank confirmations and bank statements", or "Bank statements are examined and bank confirmations had circulated".
- (28) According to HKSA 505, information obtained from bank confirmation assists the auditor in discharging his responsibilities to obtain sufficient appropriate audit evidence by providing external evidence in relation to such matters as the existence, completeness and valuation of assets and liabilities held by the bank on behalf of the entity.
- (29) The audit work on bank balances relied on agreeing the ledger balance to the bank confirmations. However, not all of the bank confirmations in the 2010, 2011, 2012 and 2014 audits were received before the auditor's reports were issued.
- (30) As an alternative procedure for the accounts without bank confirmations, the auditor agreed the balance to the relevant bank statements. However, there was no evidence and documentation of work done to ascertain whether there were any other assets or liabilities held by the bank on behalf of the Company.
- (31) Regarding the cash held by the MD in 2010 and 2011, the working papers included a bank deposit certificate showing that the money was held in a bank account under the name of the Company's Managing Director ("MD") and a declaration of trust signed by the MD confirming that the money was held by her on behalf of the Company. The documentation also included a handwritten note from the MD explaining that the purpose of holding the funds in her personal bank was for guaranteeing the employment of an Indonesian helper.

- (32) The working papers show no evidence or documentation of work done to:
- Verify whether there were relevant contracts or supporting documents substantiating the guarantee.
  - Ascertain whether the employment of the helper was for the MD's personal use or for the Company. If it was the former, whether the accounting treatment was appropriate.
  - Determine whether the funds held by the MD should be considered as a loan to the MD. If so, whether the transaction had been approved by the members of the Company and disclosed in the financial statements in accordance with the Companies Ordinance .
- (33) In 2012, the amount of \$350,000 held by the MD was noted to have been donated to a monastery in mainland China [景德鎮市昌江區南山禪寺]. The working papers show (i) a handwritten note from the MD stating that the funds were donated for the refurbishment of the aforesaid monastery; and (ii) a stamp chopped showing the Chinese name of this monastery on a copy of what appears to be a receipt voucher.
- (34) The working papers show no other external evidence or audit documentation of work done to verify the donation and to ascertain whether the donation of such a material amount required approval from the board of directors and/or the Company's members.
- (35) Regarding the cash on hand, the 2010 working papers included a "Cash Certificate" signed by the MD confirming the year-end balance. No such certificate was included in the audit working papers from 2011 to 2015. There was no evidence or documentation of audit work done to verify the existence and accuracy of the recorded amounts of cash.
- (36) The 2015 working papers show that after agreeing the bank balances to the bank statements and confirmations, there was a difference of \$32,898 of which the Respondents documented that "client explained the differences between the ledger and trial balance represented the cash balance" . There was no evidence or documentation showing that the Respondents had done any procedures to verify whether such amount represented cash held in hand and whether the cause for the difference was reasonable and within the normal course of the Company's activities.
- (37) The above findings show that the level of work done on Cash and Bank Balance in the audits was not sufficient for the purpose of obtaining sufficient appropriate audit evidence and that there was inadequate audit documentation, in breach of HKSA 500 and/or HKSA 230 respectively.

#### Income

- (38) Extract from the audit working papers:

	2010 HK\$	2011 HK\$	2012 HK\$	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000
Offerings [香油]	2,320,453	1,766,430	2,078,920	1,539,561	1,844,662	3,615,948
Donations for repairs and maintenance [寺危維持捐款]	-	-	-	355,697	-	-
Bank interest received	42	15	13	9	1	-
<b>Total Income</b>	<b>2,320,495</b>	<b>1,766,445</b>	<b>2,078,933</b>	<b>1,895,267</b>	<b>1,844,663</b>	<b>3,615,948</b>
Working paper reference	p.44, 94	p.149, 190	p.232, 363	p.381, 409	p.505, 577	p.598, 622

- (39) The Respondents' planning memorandum for the audits stated that the approach for income and expenditure include agreeing balances to the general ledger, analytical review for movements, and substantive tests to trace substantial items to the supporting documents .
- (40) For the analytical reviews done in the 2010-2015 audits, the working papers documented that the offerings income was generally supported by copy of official receipts issued to donors and extract of bank pay-in-slips. Apart from stating the percentage of increase or decrease, there was no evidence and documentation on analytical procedures performed in accordance with HKSA 520 such as, amongst other things, (i) evaluation of financial information to determine if it is consistent with auditor's understanding of the entity; and (ii) determining the reasonableness of audit procedures and results taking into account of given assertions and assessed risk of material misstatement.
- (41) For the substantive tests done in all six years, the working papers documented that the auditor had test checked some of the receipts to supporting documents which included copies of official receipts and bank pay-in slips. Given the donations are generally received in cash, there was no evidence and documentation on how the Respondents had ascertained that all of the money received were recorded and deposited into bank on a timely basis; and how the nature, timing and extent of the substantive testing performed had been determined.
- (42) The level of work done on income in the 2010-2015 working papers raised doubts as to whether the Respondents had obtained sufficient and appropriate audit evidence and prepared adequate documentation in accordance with HKSA 500 and HKSA 230.

Expenses

- (43) Extract from audit working papers:

	2010 HK\$	2011 HK\$	2012 HK\$	2013 HK\$	2014 HK\$	2015 HK\$
Total Operating Expenses	2,556,037	1,802,877	2,431,662	1,930,042	1,679,194	3,909,340
Festivals and religious expenses	1,064,466 ( 42%)	871,796 (48%)	1,067,200 (44%)	883,631 (46%)	810,323 (48%)	1,286,392 (33%)
Repairs and maintenance	239,093 ( 9%)	45,502 (3%)	90,576 (4%)	-	-	896,632 (23%)
Salaries	85,900 (3%)	-	162,920 (7%)	182,240 (9%)	-	-
Sundry expenses	116,377 ( 5%)	29,436 (2%)	63,930 (3%)	319,863 (17%)	500,872 (30%)	1,298,733 (33%)
Working paper reference	p.44	p.149	p.232	p.409	p.505	p.622

- (44) In all of the relevant working papers for the above material expenses, there was no evidence and no documentation to show how the nature, timing and extent of the substantive testing performed had been determined and the results thereof. Observations on the audit work performed specific to the above material expenses are summarized below.

#### Festival and religious expenses

- (45) The amounts of festival and religious expenses were significant throughout 2010 to 2015 (more than 30% of total operating expenses). The relevant working papers documented the following work done:
- (a) "checked to supporting documents representing the Lai See payments to monks and nuns and the payment vouchers were authorized by [the MD]" ; and
  - (b) "traced to the supporting documents and noticed that the most of the vouchers were written representation approved by the [managing] director of the monastery."

There was no evidence and documentation showing how the Respondents had established that the vouchers written by the MD, without other corroborative evidence from external source, represented sufficient and appropriate evidence to substantiate the validity and accuracy in respect of this expense.

#### Repair and maintenance expenses

- (46) For the repair and maintenance expenses, it was documented in the 2010 to 2012 working papers that the Respondents "regarded the repairs and maintenance as a normal expense" and that the work done on this expense was "vouching checked" or "test vouching checked" without further information such as details of the expenses incurred and source documents checked; and how the Respondents had established the nature, timing and extent of the "vouching" performed.
- (47) In the 2015 working papers, it was documented that the repair and maintenance expenses increased by approximately 19 times . Notwithstanding this significant increase, the working papers only showed an audit mark "vt" indicating that the expense was "Test Vouching checked" without further details on the nature of the expenses incurred and the assessment undertaken to enable the Respondents to conclude that the expenses had not been materially misstated.

#### Salaries

- (48) Salaries were incurred in 2010, 2012 and 2013. The working papers for the 2010 and 2013 audits did not show any evidence or documentation of work done on salaries such as verification of the existence and accuracy of salaries paid and details of the employees.
- (49) In the 2012 audit, the working papers included a salary schedule which indicated that the auditor had checked the salaries paid to the relevant employer's return, payroll summary, MPF calculations and bank statements. The Respondents concluded that the test result was satisfactory and the risk of misstatement was low. However, the working papers show that the Company had approved employment of one employee but this employee's name and salaries were not recorded in the salary schedule without any explanation.
- (50) There were no salaries paid in 2011, 2014 and 2015. The working papers for 2011 and 2014 audits did not contain any evidence or documentation to show that the auditors have performed any assessment in respect of the comparative figures to determine whether or not there was any understatement of salaries, in accordance with paragraph 4 and A1 of HKSA 520.



### Sundry expenses

- (51) In the 2010 audit working papers, it was documented that "sundry expenses was normal expenses incurred for the monastery" . No evidence or documentation of any work done was noted.
- (52) The working papers for the 2011 and 2012 audits documented that the audit work performed was "Test vouching checked" . However, there was no evidence and documentation on the details of the "vouching test" performed and the results thereof. The working papers did not show breakdown of these expenses or any documentation on the auditor's assessment on the nature and reasonableness of these expenses.
- (53) The working papers for the 2013 and 2014 audits included breakdown of items comprising the sundry expenses.
- (a) The 2013 breakdown shows that there were expenses paid for salaries and expenses incurred by foreign helper/worker [印傭人工, 資助印傭] of approximately HK\$45,000, food expenses incurred in Shenzhen [深圳市飲食] of approximately HK\$46,000, and three miscellaneous expense items totalling HK\$130,000 without further details apart from a remark "authorized by [MD]". There was no evidence and documentation to show that the auditor had performed any procedures on any of these sundry expenses.
- (b) The expense breakdown in the 2014 working papers indicated that the expenses included approximately HK\$66,000 of "domestic worker salary and commission to domestic worker agency" .
- (c) None of the 2013 and 2014 working papers show that the auditor had assessed the relevant domestic worker contracts to determine whether the expenses were incurred in the normal course of the Company's activities and appropriately classified under sundry expenses.
- (54) As for the 2015 audit, the working papers documented that "The sundry expenses were increased by 10 times over that of the previous year. As the amount is so substantial that we adopted a test vouching approach for such expenses. Through the test vouching, we focused on the tracing to supporting official receipts and authorization by directors."
- (55) According to the breakdown, the expenses mainly comprised an item named "purchase of kitchen and miscellaneous expenses" [購廚房, 寺院雜項] of HK\$1,174,949.80 and domestic worker salary and expenses of HK\$88,551. Apart from an audit mark of "Vt" which represented " Test vouching checked", there was no evidence and documentation to show details of the source documents sighted by the Respondents and the assessment based on which the Respondents could conclude that the evidence obtained was sufficient and appropriate to establish that the sundry expenses were incurred in the normal course of the Company's activities and the accounting treatment was appropriate.
- (56) Based on the above findings, the level of work done on the above-mentioned expenses in the six year audits was inadequate for the purpose of obtaining sufficient and appropriate audit evidence, in accordance with HKSA 500, such that a reasonable conclusion could be drawn on the financial statements. In addition, the level of documentation in the audits does not appear to provide a sufficient and appropriate record of the basis for the Respondents' auditor's report, in breach of the requirement under HKSA 230. On this basis, there is considerable doubt as to whether the Respondents had obtained sufficient and appropriate evidence and prepared

documentation to support the unqualified audit opinion that the Company had prepared financial statements in accordance with HKFRS and kept books and records in accordance with the Companies Ordinance for the six financial years ended from 31 March 2010 to 2015.

*In respect of Fifth Complaint*

- (57) According to HKSA 240, auditors need to identify and assess the risks of material misstatement of the financial statements due to fraud and to design and implement appropriate responses to fraud or suspected fraud identified. These risks include risk of management override of controls.
- (58) Paragraph 32 states that the auditor shall design and perform audit procedures to test the appropriateness of journal entries recorded in the general ledger and other adjustments the management made in the preparation of the financial statements.
- (59) There was no evidence in the audit working papers showing that audit work had been performed by the Respondents in identifying any journal entries and/or other adjustments made by the management of the Company.
- (60) In addition, there was no evidence to show that the Respondents had carried out sufficient appropriate audit procedures on material transactions which were supported only by internally generated vouchers approved by the MD.

*In respect of Sixth Complaint*

- (61) Paragraph 12 of HKSA 315 states that the auditor shall obtain an understanding of internal controls relevant to the audits. Paragraph 13 further states that the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel.
- (62) There was no evidence in the audit working paper showing that audit work had been performed by the Respondents in identifying and assessing the risk of material misstatements of the Financial Statements by understanding the Company's internal controls relevant to audits, evaluating the design of the controls and determining whether they have been implemented.
- (63) Contrary to what the Respondents stated in the auditor's reports that sufficient appropriate audit evidence had been obtained to evaluate the client's internal control in order to assess the risk of material financial statements misstatements, there was no evidence in the audit working papers to support his statements.

*In respect of Seventh Complaint*

- (64) Paragraph 6 of HKSA 510 requires that the auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements.
- (65) There was no evidence showing that the Respondents had performed sufficient appropriate audit work on opening balances in respect of the financial statements for year ended 2010 given this was the first year of audit of the Company. Therefore, the Respondents failed to comply with paragraph 6 of HKSA 510.

*In respect of Eighth Complaint*

- (66) Paragraph 9 of HKSA 580 requires that the auditor shall request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned. Paragraphs 10 and 11 require that the written representation states that management has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework; has provided the auditor with all relevant information and access as agreed; and all transactions have been recorded and are reflected in the financial statements.
- (67) Paragraph 20 requires auditor to disclaim an opinion on the financial statements if the management does not provide written representations required by paragraphs 10 and 11.
- (68) The Respondents did not obtain written representations from the management of the Company for the financial statements for years ended 2012 and 2014 in respect of which the Respondents did not disclaim the audit opinion.

*In respect of Ninth Complaint*

- (69) In the event that the Respondents are found liable for breach of any one or all of the professional standards under the First to Eighth Complaints, they are also guilty of serious professional misconduct. The serious lack of audit work and recurring breach of professional standards in six years of audits give rise to serious doubts concerning the Respondents' professional conduct.
3. The Respondents admitted the complaints against them. They did not dispute the facts as set out in the complaints. On 14 December 2016, the parties agreed that the steps set out in paragraphs 17 to 30 of the Disciplinary Committee Proceedings Rules ("DCPR") be dispensed with.
  4. The Disciplinary Committee approved the parties' joint application to dispense with the steps set out in Rule 17 to 30 of the DCPR in light of the admission made by the Respondents and directed the parties to make written submissions on sanctions and costs.
  5. The Complainant and Respondents provided their submissions on sanctions and costs on 7 and 10 March 2017 respectively. The complaints were all found proved on the basis of the admission by the Respondents.
  6. 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 Complaints, the Respondent's personal circumstances, and the conduct of the First Respondent throughout the proceedings. The Committee noted that the Respondents have been co-operative throughout the proceedings. However, the First Respondent does not have the skills to perform the audit engagements up the requirements of the standards.

7. The Disciplinary Committee orders that:-

- (a) the practising certificate issued to the First Respondent in 2017 be cancelled under Section 35(1)(da) of the PAO;
- (b) a practising certificate shall not be issued to the First Respondent for one year under section 35(1)(db) of the PAO;
- (c) the Second Respondent be reprimanded under section 35(1)(a) of the PAO;
- (d) the Respondents do pay the costs and expenses of and incidental to the proceedings of the Complainant in the sum of HK\$77,140 under Section 35(1)(iii) of the PAO.

The above shall take effect on the 40<sup>th</sup> day from the date of this order.

Dated the 9th day of June 2017