

IN THE MATTER OF

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

BETWEEN

The Registrar of the Hong Kong Institute of Certified Public Accountants COMPLAINANT

AND

Zenith CPA Limited (“Zenith”) (corporate practice no.: M0399)	FIRST RESPONDENT
Cheng Po Yuen (“Cheng”) (membership No. F06724)	SECOND RESPONDENT
Yam Wai Man (“Yam”) (membership no. : A26535)	THIRD RESPONDENT

(The 1st, 2nd and 3rd Respondents are collectively known as the “Respondents”)

Before a Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants

Members: Mr. Wai Siu Chung Dominic (Chairman)
Mr. Lau Leong Ho
Ms. Lee Wai Fun Stella
Ms. Tang Yuen Yee Loren Gertrud
Mr. Chan Wai Man Raymond

Date of Hearing: 5 November 2021

Date of Decision: 21 January 2022

REASONS FOR DECISION

1. There are 4 complaints made by the Registrar of the Hong Kong Institute of Certified Public Accountants (the “Institute”) against Zenith and Cheng and 1 complaint against Yam.

THE COMPLAINTS

2. The relevant details of the 5 complaints are set out in the letter from the Complainant to the Council of the Institute dated 6 November 2020.

First Complaint

3. Section 34(1)(a)(vi) of the PAO applies to Cheng and Zenith (by virtue of section 34(1AA)) for their failure or neglect to observe, maintain or otherwise apply professional standards in the audit of the 2015 Financial Statements (defined as below) in respect of assets and liabilities held for distribution to owners and discontinued operations.

Second Complaint

4. Section 34(1)(a)(vi) of the PAO applies to Cheng and Zenith (by virtue of section 34(1AA)) for their failure or neglect to observe, maintain or otherwise apply professional standards in the audits of the 2014 and 2015 Financial Statements in respect of the impairment assessment of available-for-sale (“AFS”) investments.

Third Complaint

5. Section 34(1)(a)(vi) of the PAO applies to Cheng and Zenith (by virtue of section 34(1AA)) for their failure or neglect to observe, maintain or otherwise apply professional standards in the audit of the 2014 Financial Statements in respect of the convertible note.

Fourth Complaint

6. Section 34(1)(a)(vi) of the PAO applies to Cheng and Zenith (by virtue of section 34(1AA)) for their failure or neglect to observe, maintain or otherwise apply professional standards in the audits of the 2014 and 2015 Financial Statements in respect of the impairment assessment of Modern Series Limited (“MSL”) Group’s loans and accounts receivable and finance leases receivable.

Fifth Complaint

7. Section 34(1)(a)(vi) of the PAO applies to Yam for his failure or neglect to observe, maintain or otherwise apply a professional standard as the engagement quality control reviewer (“EQCR”) of the 2014 and 2015 audits.

BACKGROUND

8. On 11 September 2019, the Financial Reporting Council (“FRC”) referred to the Institute an Investigation Report of the Audit Investigation Board (“AIB”) (“**AIB Report**”) concerning the audits of the consolidated financial statements of Simsen International Corporation Limited (stock code: 00993) (“**Company**”) and its subsidiaries (“**Group**”) for the financial years ended 30 April 2014 and 2015 (respectively “**2014 Financial Statements**” and “**2015 Financial Statements**”; collectively “**Financial Statements**”).
9. Zenith was the auditor and expressed unmodified opinions on the Financial Statements. Cheng was the engagement director and Yam was the EQCR of the audits.

10. The AIB found audit deficiencies in relation to:
 - a. assets and liabilities held for distribution to owners and discontinued operations;
 - b. impairment assessment of AFS investments;
 - c. accounting for a convertible note; and
 - d. impairment assessment of MSL Group's (refers to MSL (wholly owned by the Company) and its subsidiaries) loans and accounts receivable and finance leases receivable.

THE PROCEEDINGS

11. The Notice of Commencement of Proceedings was issued on 30 December 2020.
12. The Complainant filed the Complainant's Case on 3 February 2021.
13. On 9 February 2021, a time extension was granted to the Respondents to file the Respondents' Case by 23 April 2021.
14. On 23 April 2021, the Respondents filed the Respondents' Case.
15. On 21 May 2021, the Complainant filed the Complainant's Reply.
16. On 16 June 2021, a time extension was granted to the Respondents to file the Respondents' Reply by 30 June 2021.
17. On 28 June 2021 the Respondents filed the Respondents' Reply.
18. Based on the Complainant's checklist filed on 13 July 2021 and by a letter dated 9 August 2021 from the Respondents, the parties confirm that there was no material matters of fact in dispute.
19. In the checklist of the Respondents dated 13 July 2021 and by the Respondents' letter of 9 August 2021, Cheng asked not to attend the Disciplinary Committee hearing in person but remotely. On 17 August 2021, the Chairman of the Disciplinary Committee directed that the Respondents need to attend the Disciplinary Committee hearing in person.
20. By a letter from the Respondents on 24 August 2021, Zenith and Cheng confirmed that they would not attend the Disciplinary Committee hearing but Yam will.
21. The substantive hearing was held on 5 November 2021 with the attendance of the Complainant and Yam. Zenith and Cheng were absent.
22. As Zenith and Cheng were absent from the substantive hearing, the Disciplinary Committee directed that for the case of Zenith and Cheng, due consideration would be given to the submissions of Zenith and Cheng as set out in the Respondents' Case and the Respondents' Reply and the documents from the Respondents.

FINDINGS OF THE DISCIPLINARY COMMITTEE

First Complaint

23. The First Complaint concerns audit irregularities relating to assets and liabilities held for distribution to owners and discontinued operations.
24. On 23 March 2015, the Company announced a proposed distribution in specie of the shares in MSL (“**Distribution**”). At the end of the 2015 financial year, the MSL Group’s assets and liabilities were classified as held for distribution to owners, and its income and expenses were presented as discontinued operations.
25. The Distribution was conditional upon, inter alia: (a) the share premium reduction of the Company becoming effective; and (b) the completion of the reorganisation, which involved change of ownership in licensed corporations and was subject to approval by the Securities and Futures Commission.
26. Further, the ordinary resolution for the Distribution would become unconditional if, among satisfaction of other conditions, at least 75% of the votes attaching to the shares held by independent shareholders (“**Distribution Independent Shareholders**”) voted in favour of the resolution, and the number of votes against such resolution represented not more than 10% of the votes.
27. In accordance with paragraph 12A of HKFRS 5, in order to classify MSL Group’s assets and liabilities as held for distribution to owners and its income and expenses as discontinued operations, there are 2 conditions to be fulfilled: the MSL Group’s assets must be available for immediate distribution in their present condition; and the Distribution must be highly probable.
28. The conditions precedent to the Distribution, including the share premium reduction and the reorganisation were not yet completed on 30 April 2015, the year-end date. Further, the approval of the Distribution Independent Shareholders was obtained after the financial year-end date. This was not disputed by the Respondents.
29. The Respondents argue that the Distribution was highly probable even though some of the condition precedents were not met based on the following:
 - a. Zenith and Cheng (hereafter also referred to as “**Auditors**”) relied on historical voting records because the proposed Distribution was “considered as part of better business development” and were “not unprecedented or uneven”;
 - b. (i) senior management had committed to a plan to sell (confirmed with the Auditors after discussing with management); (ii) a buyer had been located and the disposal plan had been initiated; (iii) the sale would be completed within 12 months without significant changes to the disposal plan; and (iv) the probability of shareholders’ approval (it was unlikely that the Company’s single largest shareholder would abstain from voting);
 - c. the Distribution was for sale at a price that was reasonable in relation to the fair value and compared to the net assets; and
 - d. the Distribution became highly probable as at 30 April 2015, which was exactly the same view from the Practice Review Team and the incoming auditor, Deloitte.

30. There is no evidence in the working papers showing that the Auditors had questioned the status of the conditions precedent to the Distribution during the 2015 audit or provided valid reason to conclude that the assessment was not relevant for the purpose of applying HKFRS 5.
31. Further, there is insufficient evidence in the working papers for the 2015 audit which indicated that the Auditors had assessed whether the shareholders' approval was substantive in nature in determining the probability of the Distribution. Regarding the voting of the single largest shareholder, the Company's announcement indicated that he was required to abstain from voting on the Distribution. This factor was not documented by the Auditors.
32. The Auditors had relied on management's representation without obtaining sufficient corroborative evidence to support that the Distribution was likely to be approved. Regarding the historical voting record of the Company, AIB has pointed out every resolution in the past are different and the proposed Distribution was a non-recurring matter. Therefore, the Auditors had not performed adequate audit procedures in accordance with paragraphs 6 and 7 of HKSA 500. The 2 conditions under paragraph 12A of HKFRS 5 were not met.
33. On the other hand, the audit working papers indicated that the Auditors concurred with management to reflect the Distribution, which was a non-adjusting event after the reporting period, in the 2015 Financial Statements. The Auditors argued that HKAS 10 was not so relevant or redundant, or that the Distribution should be treated as an adjusting event after the reporting period. The Auditors considered that since the management considered the Distribution was highly probable subject only to terms that were usual and customary for the Group's distribution (ie the historical voting point), therefore the classification was made before the reporting period as an "adjusting event". However, as set out in paragraph 32, as the conditions that the Distribution was highly probable was not fulfilled, there was no basis to say that the Distribution should not be considered as non-adjusting under HKAS 10. It shows that the Auditors did not have a sufficient and proper understanding of the accounting principles under HKFRS 5 and HKAS 10, and they had not properly exercised their professional judgment of the issue in accordance with paragraph 16 of HKSA 200. Further, the above mentioned audit deficiencies indicate that the Auditors had failed to meet the objective of an audit in accordance with paragraph 11 of HKSA 200.
34. Based on the above, the Auditors failed to carry out the 2015 audit in respect of assets and liabilities held for distribution to owners and discontinued operations in accordance with professional standards, namely paragraphs 6 and 7 of HKSA 500, and paragraphs 11 and 16 of HKSA 200.
35. The Disciplinary Committee found the First Complaint proven.

Second Complaint

36. The Second Complaint concerns audit irregularities relating to impairment assessment of AFS investments.
37. The aggregate fair values of the AFS Investments A and B were HK\$50 million and HK\$58 million below their costs at the year end of 2014 and 2015 respectively. The quoted price of Investment A was below its cost by approximately 72% and 82% as at 30 April 2014 and 2015 respectively. As for Investment B, the quoted price was below its cost by approximately 23% and 34% respectively. In the subsequent

restatement of the financial statements, it was found that the impairment loss for AFS investments had been understated by approximately HK\$46.2 million and HK\$16.4 million for 2014 and 2015 respectively.

38. According to HKAS 39, a significant or prolonged decline in fair value of an equity investment below its cost is objective evidence of impairment.
39. When there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised.
40. Since a significant decline in the fair values of the AFS investments below their costs existed as at 30 April 2014 and 2015, the cumulative decline in fair values should have been recognised as impairment loss in profit or loss in 2014 and 2015. The Group, however, did not record any impairment losses in the financial statements for both years.
41. According to the working papers for audit planning in 2014 and 2015, the Auditors identified that “AFS investments” was one of the “significant accounts”. They also assessed that the risk of material misstatements regarding the valuation of AFS investments was high.
42. According to the 2015 working papers, the Auditors considered that the deficit in the AFS investment revaluation reserve was an impairment indicator. In the 2014 and 2015 working papers, they referred to rises in quoted share price of listed investments A and B subsequent to the year-end dates to support that no impairment loss relating to AFS investments should be made in the 2014 and 2015 Financial Statements.
43. The Auditors argued that HKAS 10 was irrelevant because the fair value of the AFS investments were under the measurement of quoted market price as at 30 April 2014 and 2015. However, under HKAS 10, changes in fair value of investments between the end of the reporting period and the date when the financial statements are authorised for issue do not normally relate to the condition of the investments at the end of the reporting period. Therefore, stock prices movements subsequent to the year-end dates should not be taken into account in the impairment assessment of AFS Investments A and B.
44. Further, according to “IFRIC Update” (published in July 2009), an anticipated market recovery is not relevant to the assessment of “significant” or “prolonged” decline in the fair value below the cost of an equity instrument. The Auditors questioned why IFRIC did not explain why future recovery events could not be considered because it is important for assessing whether such changes in fair value was temporary or prolonged.
45. The Auditors stated in the audit working papers that they had assessed the impairment of AFS investments in accordance with HKAS 36. However, HKAS 36 is not the applicable standard for impairment assessment of financial assets that are within the scope of HKAS 39.
46. The Auditors argued that HKAS 39 was problematic (creating “mismatching accounting concept”) and queried its rationale. The Auditors also argued that both Investment A and Investment B were not classified as prolonged decline because (inter alia) “there was no intention to trade for short-term profit.”

47. As HKAS 39 does not provide specific guidance on what is a “significant” or “prolonged” decline in the fair value below cost of an equity instrument, judgement is required. An entity should develop an accounting policy for assessing significant or prolonged decline in fair value in order to apply management’s judgement consistently.
48. There is no evidence that the Auditors had obtained an understanding of the Group’s accounting policy on the threshold of significant or prolonged decline in fair value for the purposes of impairment assessment of AFS investments or whether such policy indeed existed. Therefore, the Auditor had not performed adequate audit procedures in accordance with paragraphs 6 and 7 of HKSA 500.
49. The Complainant submitted that the value of the investments dropped continuously in the financial year of 2014 and 2015 in a significant manner. If an upward trend of value in after the 2015 year-end date was a reason for not making impairment, what about the downward trend after the 2014 year-end date?
50. The Complainant also submitted that relevant standards mentioned in the Complainant’s case were the prevailing standards that all auditors should comply. While the Respondents may have reasons for not complying with those standards, there is no evidence whether they consider the implications for not complying with those standards based on the queries and rationale that the Respondents have raised in their case.
51. We agree with the Complainant’s submission as set out in paragraphs 49 and 50. Based on the above, the Auditors did not have a sufficient and proper understanding of the principles set out in HKAS 39, and therefore failed to exercise proper professional judgement on this issue, in accordance with paragraph 16 of HKSA 200.
52. Although the Auditors had identified AFS investments as one of the significant accounts in the 2014 audit and there was significant decline in fair values of those investments, they had not communicated the relevant issue to the Audit Committee at the final stage of the audit. Therefore, the Auditors failed to act in accordance with paragraph 16 of HKSA 260.
53. The multiple deficiencies described above also show that the Auditor failed to meet the objective of an audit, which requires an auditor to plan and perform an audit with professional scepticism, and to reduce audit risk by planning and performing the audit to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion, in accordance with paragraphs 15 and 17 of HKSA 200.
54. The Disciplinary Committee found the Second Complaint proven.

Third Complaint

55. The Third Complaint concerns audit irregularities relating to convertible note (“CN”).
56. On 19 February 2014, the Company issued a 3-year zero coupon CN with a nominal value of HK\$500 million.
57. According to the audit working papers, the Auditors considered the CN was one of the significant items in the 2014 audit, and the risks of material misstatements were assessed to be high.

58. The CN was initially recognised at its principal amount of HK\$500 million. However, the CN might not be at its fair value because the conversion price of HK\$5 per share represented a deep discount of the market price on the issuance date (HK\$17 per share on 19 February 2014). In the subsequent restatement of the financial statements, it was pointed out that the CN was recognised by deducting the liability component from the principal amount of the CN, rather than from the fair value of the CN as a whole.
59. The Auditors argued that the CN was non-derivative and was accounted for a fixed for fixed with no derivative features such that “for an accounting treatment of fixed for fixed convertible note with no derivative features, the face value of the CN was HK\$500 million made no difference between the issuance date or the date of placing agreement was entered.”
60. The Complainant submitted that this argument was not valid:
- a. The working papers do not show that any work has been done regarding the fair value of the CN (as a whole) at its initial recognition. There is no evidence to show that the terms of the CN (e.g. the appropriateness of the discount rate adopted) had been evaluated so as to derive the conclusion now being put forward.
 - b. The argument has never been mentioned by the Respondents before in the correspondence (to either AIB or the Institute), despite numerous opportunity for them to do so.
 - c. In any event the suggestion was without merit. The fixed-for-fixed criterion concerns paragraph 16 of HKAS 32, which is a separate issue from the requirement to fair value of the CN under HKAS 32.31 and HKAS 32.32. The former does not obviate the requirement for fair value under HKAS 32.31 and HKAS 32.32.
61. The Company engaged an expert to perform a valuation of the CN. The expert did not determine the fair value of the CN as a whole according to the accounting requirement. The carrying value of the equity component at the issuance date of HK\$22.3 million was determined by deducting the fair value of the debt component from the principal amount of the CN of HK\$500 million, instead of from the fair value of the CN as a whole. This was contrary to the accounting requirement of HKAS 32.31 and HKAS 32.32.
62. The working papers did not show that the Auditors had assessed if the issue proceeds of the CN approximated its fair value.
63. The Company’s expert used Moody’s credit rating to determine the discount rate for estimating the fair value of the liability component of the CN. The Respondents submitted that they have recalculated and compared the expert’s Moody’s Financial Metrics with the Group’s key financial ratio to derive their conclusion to the “Aaa” ratings over the “C”. They submitted that they have considered there were 8 out of 10 was Aaa (that is 80%) and by comparing similar bonds’ (several listed corporate bonds) credit rating and maturity date to the CN as the reason for using “Aaa” instead of “C” ratings. The Respondents submitted that this was commonly used in practice and was justifiable.

64. In the subsequent restatement of the financial statements, it was pointed out that the Company did not use the borrowing rate of comparable borrowings with similar credit rating of the Company as the discount rate when determining the fair value. As a result the interest expense had been understated for approximately HK\$6.4 million for 2014. We agree with the Complainant that there is no evidence that the Auditors had performed adequate or appropriate audit procedure regarding the weighting and relevant importance of different financial ratios in estimating the credit rating of the Company. Apart from the Respondents' submissions, there is no evidence of any proper evaluation done to justify giving preference to the "Aaa" ratings over the "C" ratings.
65. Liquidity spread was one of the components of the discount rate used in the valuation of the liability component of the CN. The Auditors cross checked the liquidity spread to a research paper published in 2003, which was considered by the valuer as a more reliable source of information. There was no evidence in the working papers showing that the Auditors had considered the relevance and reliability of the research paper for the purposes of the evaluation of the liquidity spread in the 2014 audit.
66. Based on the above, the Auditors failed to comply with professional standards in that:
- a. they did not perform adequate audit procedures to obtain an understanding of the work of the management's expert and to evaluate the appropriateness of the expert's work as audit evidence for the initial measurement of the CN and the discount rate used in the measurement of the CN in the 2014 audit, in accordance with paragraphs 8 and A48 of HKSA 500;
 - b. they did not obtain audit evidence to evaluate the fair value of the CN at its initial recognition and the appropriateness of the discount rate used to determine the fair value of the liability component of the CN at initial recognition, in accordance with paragraphs 6 and 7 of HKSA 500; and
 - c. they failed to meet the objective of an audit which requires an auditor to plan and perform an audit with professional scepticism, and to reduce audit risk by planning and performing the audit to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base an audit opinion, in accordance with paragraphs 15 and 17 of HKSA 200.
67. The Disciplinary Committee found the Third Complaint proven.

Fourth Complaint

68. The Fourth Complaint concerns audit irregularities relating to impairment assessment on the loans and accounts receivable and finance leases receivable.
69. According to HKAS 39.64, the Group should assess the impairment provision on a collective basis. However, the Group did not make any assessment of collective impairment on the loans and accounts receivable and finance leases receivable of the MSL Group in 2014 and 2015, and there were material amounts overdue at each year end. In the subsequent restatement of the financial statements, it was pointed out that the Group overstated the receivable balances by approximately HK\$120 million and HK\$196 million in 2014 and 2015 respectively.
70. During the 2014 and 2015 audits, the Auditors assessed that the balance was significant and the risk of material misstatements was moderate.

71. In 2014, Zenith reported to the Audit Committee that there were internal control weaknesses relating to loans and accounts receivable. As a result, the Group set up a credit control department to monitor the credit risks.
72. Notwithstanding, the Auditors concurred with the Group's assessment that no provision for impairment was necessary for the loans and accounts receivable in 2014 and 2015 because, inter alia, the Group had the right to sell the pledged assets to recover the outstanding debts, and the value of the pledged assets was sufficient to cover the outstanding loans.
73. The Auditors performed audit procedures in 2014 and 2015 to support their conclusions that no provision of impairment was necessary. However, the following audit deficiencies in relation to the impairment assessment were identified:
 - a. The Auditors had arranged a confirmation to the guarantor of a receivable balance in their 2014 and 2015 audits, however, there was no returned confirmation filed in the working papers. They explained that they had checked the guarantor agreement obtained in 2013 audit and the guarantor's asset backing as alternative procedures.
 - b. However, they failed to check whether the guarantor agreement remained effective and the underlying assets of the guarantor's asset backing were collateral assets for the relevant receivable balance of the Group in 2014 and 2015.
74. For certain loans and accounts receivable balances of the MSL Group, the borrowers sub-loaned the borrowed monies to third parties, secured by pledged assets. However, the loans from MSL Group to those borrowers were unsecured. When the Auditors assessed the adequacy of the impairment provision, they only checked that the pledged assets were sufficient to cover the borrowed amounts and concluded that no impairment provision was necessary. The Auditors considered that there was no evidence that the borrower (ie employee and representative of the MSL Group and not any outside 3rd party) had any financial difficulty or other priority creditors. They considered that the employee was appointed and authorized by the Group to lend money to 3rd parties on behalf of the Group and presumably, the employee is obligated to act in good faith to the Group. However, they failed to obtain evidence to show how the pledges from the third parties to the borrowers could be used to support the recoverability of the unsecured loans from MSL Group to the borrowers or how it could ensure that the employee (not being a director of the Company or owe any fiduciary duty to the Company or the Group) would act in the best interest of the Group with respect to the loans and accounts receivable and pledged assets. They also failed to assess the financial ability of the borrowers in 2015.
75. For an overdue amount of HK\$71.6 million (for 2014), the Auditors considered that no impairment was necessary because there was partial settlement of HK\$22 million subsequent to the 2014 financial year end, and the borrowers' new loan facilities granted by an independent third party. Despite the above, the Auditors did not evaluate the present value of the estimated future cash flows, based on the estimated repayment schedule and compared with carrying amount, to determine if any impairment provision was necessary for the remaining overdue balance of HK\$49 million.
76. Notwithstanding that the Auditors identified internal control weaknesses in relation to the loans and receivable in their report to the Audit Committee in 2014, the working papers did not show that they had considered the impact of those weaknesses on the recoverability of the loans and accounts receivable for either 2014 or 2015.

77. The above show that the audit procedures performed by the Auditors were insufficient to support their conclusion that no impairment provision was necessary. Given this, the Auditors:
- a. did not obtain sufficient audit evidence to support the impairment assessment of MSL Group's loans and accounts receivable and finance leases receivable in the 2014 and 2015 audits, in accordance with paragraphs 6 and 7 of HKSA 500; and
 - b. failed to meet the objective of an audit which requires an auditor to plan and perform an audit with professional scepticism, and to reduce audit risk by planning and performing the audit to obtain sufficient appropriate evidence to be able draw reasonable conclusions on which to base an audit opinion in the 2014 and 2015 audits, in accordance with paragraphs 15 and 17 of HKSA 200.
78. The Disciplinary Committee found the Fourth Complaint proven.

Fifth Complaint

79. The Fifth Complaint concerns Yam's failure, as the EQCR of the 2014 and 2015 audits, to identify or deal with the multiple audit deficiencies as mentioned above.
80. All of the four issues were significant to the Financial Statements, it is reasonable to expect the EQCR to select the audit documentation of significant issues to perform engagement quality control review.
81. According to the "Program for Engagement Quality Control Review - Audits" and "Summary Review Memorandum" signed off by Yam:
- a. the issues relating to the recoverability of loans and accounts receivable and accounting treatment of convertible notes were discussed in the 2014 audit.
 - b. the issues relating to AFS investments, classification of the MSL Group's assets and liabilities as held for distribution to owners and its income and expenses as discontinued operations, and recoverability of loans and accounts receivables were discussed in the 2015 audit.
82. The EQCR assessed the audit work performed on significant accounting issues but he failed to properly perform the engagement quality control review by sufficiently challenging the decisions of the audit team in performing the audits in those areas.
83. If the EQCR had performed the engagement quality control review diligently, he should have identified the audit deficiencies as set out above and ensures that the audit team had properly addressed them before the auditor's report were issued.
84. Given the Disciplinary Committee's findings above on the First to Fourth Complaints proven, accordingly, the EQCR had failed to comply with paragraph 20 of HKSA 220 during the 2014 and 2015 audits.
85. The Disciplinary Committee found the Fifth Complaint proven.

SANCTIONS AND COSTS

86. As Zenith and Cheng were absent at the substantive hearing, and given the Disciplinary Committee's findings that all the complaints were proven against the Respondents, the Disciplinary Committee directed the Complainant to make submissions to the Disciplinary Committee within 21 days from the date of this Reasons for Decision on the proposed sanctions and costs against Zenith, Cheng and Yam and that Zenith, Cheng and Yam may make submissions on sanctions and costs 21 days thereafter.
87. The Disciplinary Committee will deliberate and make the sanction and costs order after having reviewed the submissions on sanctions and costs from the Complainant and the Respondents.

Dated 21 January 2022

Mr. Wai Siu Chung Dominic
Chairman, Disciplinary Panel A

Ms. Lee Wai Fun Stella
Member, Disciplinary Panel A

Ms. Tang Yuen Yee Loren Gertrud
Member, Disciplinary Panel B

Mr. Lau Leong Ho
Member, Disciplinary Panel A

Mr. Chan Wai Man Raymond
Member, Disciplinary Panel B