



Hong Kong Institute of Certified Public Accountants takes disciplinary action against a certified public accountant

(HONG KONG, 18 March 2021) A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants reprimanded Mr. Chung Chi Hang, certified public accountant (A32902) on 5 February 2021 for his failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. Chung has not held a practising certificate since August 2019, and the Committee ordered that no practising certificate shall be issued to him again for 12 months from 17 March 2021. In addition, the Committee ordered Chung to pay costs of the Institute of HK\$107,443.

Chung was the managing director of a corporate practice. He conducted the audits of the financial statements of five private companies for the year/period ended 31 December 2017 and signed the relevant auditor's reports in the name of the practice. Chung expressed an unmodified auditor's opinion in each of those reports.

Deficiencies were found in the five audits. Chung failed to obtain sufficient appropriate audit evidence to support his conclusions that the companies' service revenue and costs were properly recognized. In addition, Chung inappropriately accepted certain bank confirmations as sufficient audit evidence when those confirmations were not sent to him directly but to a third party and thus their integrity might have been compromised. Further, Chung failed to apply sufficient professional scepticism when following up on the total lack of response to all confirmation requests sent to the companies' customers and suppliers.

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

Chung admitted the complaint against him. The Disciplinary Committee found that Chung had failed or neglected to observe, maintain or otherwise apply the following professional standards:

- (i) Hong Kong Standard on Auditing ("HKSA") 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*;
- (ii) HKSA 230 *Audit Documentation*;
- (iii) HKSA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*;
- (iv) HKSA 330 *The Auditor's Responses to Assessed Risks*;
- (v) HKSA 500 *Audit Evidence*;

- (vi) HKSA 505 *External Confirmations*; and
- (vii) the fundamental principle of Professional Competence and Due Care in sections 100.5(c) and 130 of the Code of Ethics for Professional Accountants.

Having taken into account the circumstances of the case, the Disciplinary Committee made the above order against Chung under section 35(1) of the ordinance.

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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 over 45,000 members and 18,000 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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香港會計師公會對一名會計師作出紀律處分

(香港，二零二一年三月十八日) 香港會計師公會轄下一紀律委員會，於二零二一年二月五日就會計師鍾智亨先生（會員編號：A32902）沒有或忽略遵守、維持或以其他方式應用公會頒佈的專業準則，對他予以譴責。鍾先生自二零一九年八月起不再持有執業證書，紀律委員會亦命令由二零二一年三月十七日起 12 個月內不向他另發執業證書。此外，紀律委員會命令鍾先生須繳付公會費用 107,443 港元。

鍾先生曾是一間執業法團的執行董事，曾審計五間私人公司截至二零一七年十二月三十一日止年度／期間的財務報表，並以該執業法團的名義簽署相關核數師報告。鍾先生在該等報告內均發表了無保留的核數師意見。

該五個審計項目有多項缺失。鍾先生未有就該等公司服務收入及成本正確入賬的結論獲取充分及適當的審計憑證。此外，若干銀行確認書先前非直接寄予鍾先生而寄予第三方，其可靠性或因而受到影響，但鍾先生不恰當地接納該等確認書作為充分的審計憑證。另外，鍾先生就跟進該等公司客戶及供應商沒有按要求回覆詢証函時，沒有採取充足的專業懷疑態度。

公會考慮所得資料後，根據香港法例第 50 章《專業會計師條例》第 34(1)(a)(vi)條作出投訴。

鍾先生承認投訴屬實。紀律委員會裁定鍾先生沒有或忽略遵守、維持或以其他方式應用以下的專業準則：

- (i) Hong Kong Standard on Auditing (「HKSA」) 200 「Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing」；
- (ii) HKSA 230 「Audit Documentation」；
- (iii) HKSA 315 「Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment」；
- (iv) HKSA 330 「The Auditor's Responses to Assessed Risks」；
- (v) HKSA 500 「Audit Evidence」；
- (vi) HKSA 505 「External Confirmations」；及
- (vii) Code of Ethics for Professional Accountants 內第 100.5(c)及 130 條有關「Professional Competence and Due Care」的基本原則。

經考慮有關情況後，紀律委員會根據《專業會計師條例》第 35(1)條向鍾先生作出上述命令。

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關於香港會計師公會

香港會計師公會是根據《專業會計師條例》成立的法定機構，負責培訓、發展和監管本港的會計專業。公會會員逾 45,000 名，學生人數逾 18,000。

公會開辦專業資格課程，確保會計師的入職質素，同時頒佈財務報告、審計及專業操守的準則，以鞏固香港作為國際金融中心的領導地位。

CPA 會計師是一個獲國際認可的頂尖專業資格。公會是全球會計聯盟及國際會計師聯合會的成員之一，積極推動國際專業發展。

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IN THE MATTER OF

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

BETWEEN

The Registrar of the Hong Kong Institute of Certified Public Accountants

COMPLAINANT

AND

Chung Chi Hang (A32902)

RESPONDENT

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

Members: Ms. Ho Man Kay Angela (Chairman)
Mr. Chan Fung Cheung Wilson
Ms. Chan Yiting Bonnie
Mr. Guen Kin Shing
Mr. Woo King Hang

ORDER AND REASONS FOR DECISION

INTRODUCTION

1. This is a complaint made by the Registrar of the Hong Kong Institute of Certified Public Accountants against Chung Chi Hang, CPA (Practising) (the "**Respondent**"). Section 34(1)(a)(vi) of the PAO applied to the Respondent.
2. The particulars of the Complaints as set out in a letter from the Registrar of the Institute to the Council of the Institute dated 8 October 2020 (the "**Complaint**") are as follows:

BACKGROUND

3. At the relevant times, the Respondent was the practising managing director of a corporate practice, **Larry Brendon C.P.A. Limited (“Practice”)**.
4. The Practice was newly appointed as the auditor of the following five private companies (collectively “**Companies**”) for the year/period ended 31 December 2017:
 - Elite Bright International Limited (“**Elite Bright**”),
 - Leader Hill Technology Limited (“**Leader Hill**”),
 - High Honest International Limited (“**High Honest**”),
 - BB In Technology Co., Limited (“**BB In**”), and
 - Winking Inspiration Holdings Limited (“**Winking Inspiration**”)
5. The Respondent was the engagement director responsible for the five audits. He expressed unmodified auditor’s opinions on the Companies’ financial statements which were stated to have been prepared in accordance with the Small and Medium-sized Entity Financial Reporting Standard (“**SME-FRS**”). The auditor’s reports stated that the audits were performed in accordance with the Hong Kong Standards on Auditing (“**HKSAs**”).
6. In response to the Institute’s request, the Respondent provided, on 21 January 2020, workpapers and confirmed that they were complete documentation of the five audits.
7. Based on a review of the workpapers, the Institute found deficiencies indicating that the Respondent had failed to comply with various requirements under the HKSAs and the Code of Ethics for Professional Accountants (“**COE**”) in all five audits.

The Complaint

8. Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply professional standard(s) in respect of the audits of the Companies’ financial statements for the year/period ended 31 December 2017.

Recognition of revenue and costs of services

9. According to the audited financial statements, the Companies generated material amounts of “Services income” and “Services costs” in 2017 as below:

	Services income (USD)	Services cost (USD)
Elite Bright	7,519,618	6,568,774
Leader Hill	7,479,805	6,781,660
High Honest	2,379,585	2,209,566
BB In	1,771,296	1,670,104
Winking Inspiration	11,554,298	9,803,590

10. The Notes to all of the Companies' financial statements stated that "Services income" was recognized when the services were provided.
11. The audit workpapers documented that all five Companies were engaged in the business of development of computer software, which services included "*market research services*", "*development of web-site design*" and "*system development on CRM service*".
12. The workpapers documenting the "*business flows*" of the five Companies were identical and indicated the following information:
 - (a) After the Companies had received order requests from customers, they would outsource the service to service providers.
 - (b) After the service providers completed the services and submitted a report to the Companies, the latter would request their customers to confirm the service completion or the stage of completion.
 - (c) Upon customers' confirmation the Companies would recognize the revenue and the corresponding cost of services.
 - (d) There were no written contracts signed between the Companies and their customers, or between the Companies and their service providers.
13. According to the Respondent, the Companies were not acting as agents for the customers because the Companies were responsible for selecting and engaging the external service providers. In addition, the Companies had to bear full risks and costs if the software products developed by the service providers were not accepted by the end customers.
14. The workpapers show no documentation of the details and scope of services rendered to the customers and the basis for determining the completion and/or percentage of completion based on which to recognize service income and corresponding costs.
15. The workpapers also show no evidence of the (i) auditor's assessment of the risks of material misstatements arising from over/understatements of service income and costs of services; and (ii) audit procedures designed to address those risks.
16. Regarding service income:
 - (a) The Companies issued sales invoices after the customers confirmed the services completion or the stage of completion. There is a lack of documentation on the process regarding customers' acceptance of services and the issuance of sales invoices by the Companies. The working papers show no evidence indicating how the Respondent had ascertained (i) the basis for determining the revenue based on the percentage of completion of work and (ii) that there was no material misstatement of income for services provided and accepted, but not yet billed, or vice versa.

- (b) Three of the Companies, namely Elite Bright, Leader Hill and Winking Inspiration, reported amounts of “Receipt in advance” and “Deposit received” in the financial statements. Given the audit documentation on “*business flows*” indicated that customers would only make payment after confirmation of completion of work (and sales invoices issued by the Companies), the workpapers show no evidence of the auditor’s assessment of the nature of the “Receipt in advance” and “Deposit received” to determine the validity of the transactions and accounts classification. There was also no evidence of auditor’s assessment to ascertain whether there were other similar advances/deposits received which could be wrongly recognized as service income, resulting in overstatement of income.

17. Regarding costs of services:

- (a) There is no indication as to the time lag between customers’ acceptance of services and the Companies recording of the corresponding costs based on the invoices issued by the service providers. The workpapers show no evidence of auditor’s work to (i) assess the Companies’ matching of costs of services to the income recognized; and (ii) ascertain whether there was any under/overstatement of costs of services.
- (b) The workpapers show no evidence of how the auditor had ascertained whether there was any understatement of costs arising from the work completed by the service providers but not accepted by the customers.
- (c) The financial statements of all five Companies reported nil salary expenses. The workpapers indicated that “costs invoices” were received by Amelie, the Companies’ Accountant; and that the auditor’s planned procedures included a review of payroll records for all the Companies. However, the workpapers show no evidence of work done on payroll records and auditor’s assessment on the reasonableness of nil salary expenses reported in the Companies’ financial statements.

18. The above findings show deficiencies in all five audits in that the auditor did not carry out adequate procedures and obtain sufficient evidence to ascertain that the Companies’ recognition of revenue and corresponding costs had complied with Section 11 of the SME-FRS which required that the transaction involving the rendering of services should be recognised when all the following conditions are satisfied:

- (a) the amount of revenue can be measured reliably;
- (b) it is probable that the economic benefits associated with the transaction will flow to the entity;
- (c) the state of completion of the transaction at the reporting period can be measured reliably; and
- (d) the costs incurred for the transaction and the costs to complete the

transaction can be measured reliably.

19. The deficiencies show that the Respondent failed to:
- (a) identify and assess the risks of material misstatements in relation to the service income and costs of services, in breach of paragraphs 25, 26 and 32 of HKSA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.
 - (b) design and perform further audit procedures which are based on and responsive to the assessed risks of material misstatement at the assertion level, in breach of paragraph 6 of HKSA 330 *The Auditor's Responses to Assessed Risks*.
 - (c) Obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion that the Companies' recognition of revenue and corresponding costs complied with Section 11 of the SME-FRS, in breach of paragraph 6 of HKSA 500 *Audit Evidence*.
 - (d) Prepare audit documentation that is sufficient to enable an experienced and independent auditor to understand the audit procedures performed and the results thereof, as well as the significant professional judgments made by the auditor in reaching their conclusions, in breach of paragraph 8 of HKSA 230 *Audit Documentation*.

Circularisation of bank confirmations

20. The workpapers show that the bank confirmations were not issued and/or received directly by the Respondent (or the Practice). The returned bank confirmations indicated that they were received in the first instance, by another CPA practice, Grand Concept Certified Public Accountants (Practising) Limited. There was no evidence of procedures taken by the Respondent to ensure the integrity of the returned bank confirmations which he accepted as sufficient appropriate evidence.
21. As such, the auditor failed to maintain adequate control over the bank confirmation procedure, in breach of paragraph 7 of HKSA 505 *External Confirmations*.

Professional skepticism

22. The workpapers show that all of the accounts payable and receivable confirmations were met with no response. The Respondent was satisfied that the alternative procedures, which were mainly vouching to the invoices and bank transactions were sufficient to establish the existence and accuracy of the amounts. There was no evidence that the Respondent had performed audit procedures to elicit responses such as contacting the customers / suppliers by other means, and ascertain the reasons for non-response.

23. The non-response from all accounts payable and receivable confirmation requests should have raised the Respondent's concern about the occurrence of the service income and cost of services transactions and the existence of the customers and service providers. Furthermore, given there were no written service contracts between the Companies and the customers, and between the Companies and the service providers, it is reasonable to expect that the auditor would perform further audit procedures to verify the existence of customers and service providers and the services rendered; especially when this is the Respondent's first audit of the Companies.
24. The lack of audit procedures on service income and cost of services described above indicate that the Respondent failed to plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated, in breach of paragraph 15 of HKSA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*.

Professional Competence and Due Care

25. In summary, the Respondents had breached HKSA 200, HKSA 230, HKSA 315, HKSA 330, HKSA 500 and HKSA 505 in the above-mentioned five audits.
26. Sections 100.5(c) and 130 of the COE require a professional accountant to comply with the fundamental principle of professional competence and due care by maintaining professional knowledge and skill at the level required to ensure that clients receive competent professional services, and act diligently in accordance with applicable professional standards.
27. The multiple breaches of HKSAs explained above show that the Respondent failed to carry out the five audits with the level of professional competence and due care expected of a professional accountant, in breach of sections 100.5(c) and 130 of the COE.
28. As the HKSAs and the COE are professional standards referred to in the PAO, section 34(1)(a)(vi) of the PAO applies to the Respondent in this respect.

THE PROCEEDINGS

29. By a letter dated 12 November 2020, the parties jointly informed the Committee that the Respondent had admitted the complaint against him. They also suggested that it is no longer necessary for the parties to follow the steps set out in paragraphs 17 to 20 of the Disciplinary Committee Proceedings Rules.
30. The Notice of Commencement of Proceedings was issued on 27 November 2020. Having considered the parties aforementioned joint letter and the Respondent's admission of the complaint, the Committee approved the parties' proposal and directed that they made submissions on sanctions by 24 December 2020.
31. The Committee is satisfied by the admission of the Respondent and evidence adduced before it that the complaint is proved.

32. The Complainant and Respondent provided their written submissions on sanctions and costs on 24 December 2020.

SANCTIONS AND COSTS

33. The Disciplinary Committee notes that the Practice had ceased its practice and had been removed from the register effective 22 January 2019 and the Respondent had ceased to be a practising certificate holder effective 8 September 2019, and orders that:-

- (1) the Respondent be reprimanded under section 35(1)(b) of the PAO;
- (2) a practising certificate shall not be issued to the Respondent for 12 months under section 35(1)(db) of the PAO; and
- (3) the Respondent do pay the costs and expenses of and incidental to the proceedings of the Complainant, including the costs of the Disciplinary Committee, in the sum of HK\$107,443 under section 35(1)(iii) of the PAO.

The above shall take effect on the 40th day from the date of this Order.

Dated: 5 February 2021

Ms. Ho Man Kay Angela
Chairman
Disciplinary Panel A

Mr. Chan Fung Cheung
Wilson
Member
Disciplinary Panel A

Mr. Guen Kin Shing
Member
Disciplinary Panel B

Ms. Chan Yiting Bonnie
Member
Disciplinary Panel A

Mr. Woo King Hang
Member
Disciplinary Panel B

IN THE MATTER OF

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

BETWEEN

The Registrar of the Hong Kong Institute of Certified Public Accountants

COMPLAINANT

AND

Chung Chi Hang (A32903)

RESPONDENT

CORRIGENDUM

The following is a corrigendum to the Order & Reasons for Decision dated 5 February 2021.

“33. The Disciplinary Committee notes that the Practice had ceased its practice and had been removed from the register effective 22 January 2019 and the Respondent had ceased to be a practising certificate holder effective 8 September 2019 ...”

is amended to

“33. The Disciplinary Committee notes that the Respondent had ceased to be a practising certificate holder effective 1 August 2019 ...”

Dated: 11 February 2021

Clerk to the Disciplinary Committee