



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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

(HONG KONG, 27 April 2022) On 6 May 2020, a Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants ordered the cancellation of the practising certificate of Ms. Li Sau Ying, certified public accountant (practising) (A05618) with no issuance of a practising certificate to her for 36 months. In addition, Li was ordered to pay the costs of disciplinary proceedings of HK\$150,000.

Li appealed the Disciplinary Committee's decision. Following the Court of Appeal's dismissal of the appeal in March 2022, the practising certificate of Li was cancelled with effect from 8 April 2022.

Li operates a part-time practice in her own name. The practice was subject to its first practice review in February 2018, which identified multiple deficiencies in the practice's quality control system. In addition, Li was found to have adopted a flawed audit methodology, which demonstrated her failure to carry out audits with professional competence and due care.

The practice review found that Li had inappropriately issued unmodified auditor's reports on the financial statements of two clients, when modified opinions should have been issued for material omissions and misstatements. She also issued modified auditor's reports, including a disclaimer of opinion, on the financial statements of certain other clients in a deliberate attempt to avoid performing the necessary audit work.

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

The Disciplinary Committee found that Li was in breach of i) 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*; ii) the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants; and iii) guilty of professional misconduct.

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

About HKICPA Disciplinary Process

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

For more information, please see:

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

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About HKICPA

The Hong Kong Institute of Certified Public Accountants ("HKICPA") is the statutory body established by the Professional Accountants Ordinance responsible for the professional training, development and regulation of certified public accountants in Hong Kong. The Institute has over 46,000 members and 17,000 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執業會計師作出紀律處分

(香港，二零二二年四月二十七日) 香港會計師公會轄下紀律委員會，於二零二零年五月六日命令吊銷執業會計師李秀英女士 (會員編號：A05618) 的執業證書，並在 36 個月內不向其另發執業證書。此外，李女士須支付紀律程序費用 150,000 港元。

李女士就紀律委員會的裁決提出上訴。上訴法庭於二零二二年三月駁回李女士的上訴後，公會由二零二二年四月八日起吊銷李女士的執業證書。

李女士以個人名義及兼職形式執業。公會在二零一八年二月對該執業單位進行首次執業審核，發現執業單位的品質監控系統有多項缺失。李女士更被發現採用錯誤的審計方法，反映其未能以專業能力及適當審慎的方式執行審計工作。

執業審核亦發現，李女士本應就兩個客戶財務報表的重大遺漏及錯誤陳述發表保留意見，但她不恰當地發表了無保留意見的核數師報告。此外，她故意就一些客戶的財務報表發表有保留意見的核數師報告，當中包括無法表示意見的報告，以逃避必要的審計工作。

公會經考慮所得資料後，根據《專業會計師條例》第 34(1)(a)(vi)及 34(1)(a)(viii)條對李女士作出投訴。

紀律委員會裁定李女士違反了 i) 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」；ii) Code of Ethics for Professional Accountants 中第 100.5(c)及 130.1 條有關「Professional Competence and Due Care」的基本原則；及 iii) 犯有專業上的失當行為。

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) 條向李女士作出上述命令。

香港會計師公會的紀律處分程序

香港會計師公會致力維持會計界的最高專業和道德標準。公會根據香港法例第 50 章《專業會計師條例》及紀律委員會訴訟程序規則，成立獨立的紀律委員會，處理理事會轉介的投訴個案。委員會一旦證明對公會會員、執業會計師事務所會員或註冊學生的檢控屬實，將會作出適當懲處。若答辯人未有提出上訴，紀律委員會的裁判將會向外公佈。

詳情請參閱：

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

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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 46,000 名，學生人數逾 17,000。

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(1) of the Professional Accountants Ordinance, Cap. 50

BETWEEN

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

COMPLAINANT

AND

Li Sau Ying (Membership no. A05618)

RESPONDENT

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

Members: Mr. Kaung Wai Ming Alexander (Chairman)
Mr. Lam Wai Chin Raymond
Mr. Lam Sze Cay Kevin
Mr. Wong Yue Ting Thomas
Mr. Ng Chi Keung Victor

Date of substantive hearing: 14 January 2020

REASONS FOR DECISION

Background

1. Li Sau Ying (the “**Respondent**”) is a certified public accountant who operates a part-time practice in her own name (the “**Practice**”). The Practice was subject to its first practice review in February 2018 (the “**Practice Review**”).
2. At the time of the Practice Review, the Respondent was the sole practitioner in the Practice which had no audit staff and 26 audit clients, none of which was listed or regulated.

3. The practice reviewer (“**Reviewer**”) identified a number of significant deficiencies in the Practice’s system of quality control and audit engagements, and found that the Respondent had failed to comply with the principle of professional competence and due care under the *Code of Ethics for Professional Accountants* (“**Code**”).
4. The Reviewer also found that the Respondent had issued inappropriate audit reports which contravened applicable auditing standards.
5. The deficiencies were considered sufficiently serious as to justify the commencement of disciplinary proceedings against the Respondent.
6. There are a total of 3 complaints against the Respondent:-
 - (i) Complaint 1 is that, contrary to Section 34(1)(a)(viii) of the Professional Accountants Ordinance (“**PAO**”), the Respondent had committed professional misconduct by issuing inappropriate audit reports which contravened the requirements under applicable auditing standards.
 - (ii) Complaint 2 is that, contrary to Section 34(1)(a)(vi) of the PAO, the Respondent had failed or neglected to observe, maintain or otherwise apply a professional standard in her failure to maintain professional knowledge and skill at a level required to ensure her clients received competent professional services.
 - (iii) Complaint 3 is that, contrary to Section 34(1)(a)(vi) of the PAO, the Respondent had failed or neglected to observe, maintain or otherwise apply a professional standard in her failure to maintain an adequate quality control system in the Practice.

Procedural History

7. The Reviewer issued a report on 27 August 2018 (the “**Report**”) following submissions received from the Respondent.
8. On 29 March 2019, the Complainant sent its proposed complaint to the Respondent and, in accordance with Rule 5 of the Disciplinary Committee Proceedings Rules (the “**Rules**”), invited the Respondent to submit any explanation of her conduct or any other matter alleged in the proposed complaint which she had to offer. The Respondent did so by a letter dated 8 April 2019.
9. On 3 April 2019, the Complainant submitted a complaint (the “**Complaint**”) to the Institute’s Council pursuant to Section 34(1) of the PAO.
10. Extracts of the relevant sections of the professional standards referred to below were provided together with the Complaint, and are reproduced in **Annex 1** hereto.
11. **On 3 May 2019, the Respondent signed a confirmation admitting the Complaint against her, and a joint application was made by the Complainant and the Respondent to the Disciplinary Committee to dispense with the steps set out in Paragraphs 17 to 30 of the**

Rules in light of the Respondent's admission. The Disciplinary Committee agreed to do so and directed that the parties make written submissions on sanctions and costs.

12. The Complainant and the Respondent proceeded to file their respective written submissions on sanctions and costs dated 11 July 2019 and 14 July 2019 respectively.
13. Shortly after making those submissions on sanctions and costs, the Respondent sent a further letter to the Disciplinary Committee on 18 July 2019, asking that the disciplinary proceedings against her be "aborted". The Respondent also claimed that she had only admitted wrongdoing because she had felt financially threatened by the consequences and thought that if she admitted wrongdoing the Complainant would "go easy" on her and the matter would be concluded.
14. There was clearly no question of the Disciplinary Committee simply "aborting" these disciplinary proceedings as requested by the Respondent, as disciplinary proceedings had been commenced against the Respondent and the Disciplinary Committee was obliged to determine whether the complaints against the Respondent had been proved and if so to determine the sanction which ought to be imposed.
15. The Disciplinary Committee therefore asked the Respondent to clarify whether she was requesting to withdraw her admission of the complaints against her. By a letter dated 22 July 2019, the Respondent confirmed that she wished to withdraw her admission of the complaints against her.
16. The Disciplinary Committee permitted the Respondent to withdraw her admission of the complaints against her, and thereafter directed the parties to comply with the steps set out in Rules 17 to 30 of the Rules, which led to a substantive hearing which took place on 14 January 2020 ("**Substantive Hearing**").

Complaint 1

17. In support of Complaint 1, the Complainant has particularised the following failings:-
 - (i) In 4 audit engagements, the Respondent did not perform necessary audit work, and issued a qualified opinion. It appears that the Respondent did so on the basis that the audit reports were for tax reporting purposes and the Inland Revenue Department ("**IRD**") would not be concerned with qualified opinions. However, this was in breach of Paragraphs 11 to 13 of HKSA 705 which requires certain audit procedures to be performed to support the qualified opinions ("**Complaint 1A**").
 - (ii) In 1 audit engagement, the Respondent issued a disclaimer of opinion because she was not able to obtain sufficient appropriate audit evidence due to the fact that all the company's records were located in the Philippines, and there were no other procedures she could perform to ascertain whether the financial statements were in accordance with Hong Kong accounting standards. The Respondent did not take any actions or perform alternative procedures to address the scope limitations in accordance with the requirements of HKSA 705 ("**Complaint 1B**").

- (iii) In 2 audit engagements, the financial statements did not contain a Statement of Cash Flows as required by Paragraph 1 of HKAS 7. (“**Complaint 1C**”)
 - (iv) In 1 audit engagement, the company recorded its investment property at cost and did not provide for depreciation on the property, on the basis that its fair value had not decreased since acquisition, which contravened the requirements of HKAS 40 (“**Complaint 1D**”).
18. For Complaints 1A and 1B, the Complainant alleges that the Respondent issued qualified opinions and/or a disclaimer of opinion in order to cut corners and to avoid doing audit work. For Complaints 1C and 1D, the Complainant alleges that the Respondent sought to perform minimal audit work without regard to the relevant professional standard and requirements.
19. For Complaints 1A and 1B, the Complainant relies on Paragraphs 11 to 13 of HKSA 705, which require an auditor to perform, inter alia, the following audit procedures to support qualified opinions:-
- (i) undertake appropriate actions to remove the scope limitations of the audit that the auditor considers likely to result in the need to express a qualified opinion;
 - (ii) document the nature and extent of alternative procedures performed to address the limitations and/or rationale that no alternative procedures could be performed; and
 - (iii) assess the materiality and pervasiveness of the possible effects of the undetected misstatements on the financial statements to support the qualified opinions issued after having performed the procedures as set out in (i) and (ii) above.
20. However, in respect of Complaint 1A, the Complainant says that the working papers for the 4 audit engagements show no evidence that the Respondent had taken any actions or performed alternative procedures to address the scope limitations, which was in breach of the requirements of HKSA 705.
21. In respect of Complaint 1B, the Complainant says that the auditor’s reports for the relevant audit engagement indicated that the Respondent had issued a disclaimer of opinion because (a) she was not able to obtain sufficient appropriate audit evidence due to the fact that all the company’s records were located in the Philippines, and (b) there were no other procedures she could perform to ascertain whether the financial statements were in accordance with Hong Kong accounting standards. The Respondent also documented in the working papers that the IRD and the client would not “care about a disclaimer of opinion audit report”. The Complainant says that it is clear that the Respondent did not take any actions or perform alternative procedures to address the scope limitations, which was in breach of the requirements of HKSA 705.

22. In answer to these complaints, the Respondent argued that:-
- (i) her clients only prepared audited financial statements for the purpose of filing profits tax returns;
 - (ii) the directors/shareholders did not need the audited financial statements to understand the business;
 - (iii) the audit qualifications which the Respondent issued were acceptable to the directors/shareholders because there was no effect on their information needs;
 - (iv) the qualified reports were acceptable to the Companies Registry and to the IRD;
 - (v) no other users would rely on the financial statements;
 - (vi) the audit qualifications were made to avoid unnecessary audit work.
23. At the Substantive Hearing before the Disciplinary Committee, the Respondent repeatedly made the argument that so long as there was (in her view) no adverse impact or effect on users of the qualified audit reports which she issued, there was nothing wrong with issuing such qualified opinions, and that by issuing such qualified audit reports, she had saved her audit clients “cost and bother”.
24. The Respondent also repeatedly made the argument that by doing the work at the lowest cost possible, what she had done was in her clients’ best interests. At the Substantive Hearing, the Respondent candidly admitted that she explained to her clients that they could opt for a qualified audit report or a clean audit report, but that the latter would entail more work and cost.
25. In relation to Complaint 1B, at the Substantive Hearing, the Respondent admitted that she did not ask to see the company’s records in the Philippines nor performed any audit work, but said that she received and relied on the reports which were produced by local accountants in the Philippines, which were only compilation reports instead of audit reports.
26. Quite evidently, in respect of Complaints 1A and 1B, these are not valid reasons which would justify the Respondent’s deviation from applicable auditing standards.
27. In respect of Complaint 1C, the Complainant says that whilst the Respondent issued unqualified audit opinions for the 2 audit engagements, she was aware that the financial statements of the two audit clients did not contain a Statement of Cash Flows as required by Paragraph 1 of HKAS 7.
28. The Respondent accepted that the financial statements of the two audit clients did not contain a Statement of Cash Flows, but sought to downplay the seriousness of the breach, and argued that the financial statements still gave a true and fair view and were not misleading. The Respondent also argued that preparing Statements of Cash Flows would have increased the burden of the bookkeeper who prepared the accounts of the audit clients, and that it had been stated in her audit report that the scope of her audit work

included the Income Statement, the Balance Sheet, and the Notes to the Financial Statements, and did not include the Statement of Cash Flows.

29. The Respondent's attempt to downplay the matter and to argue that the failing was not serious in nature was indicative of her attitude towards all of the complaints made against her, as to which more will be said below. It goes without saying that whether a failure to comply with applicable accounting standards is a serious matter or not is not a matter for the Respondent herself to judge.
30. Again, quite evidently, in respect of Complaint 1C, what the Respondent has said are not valid reasons which would justify the Respondent's deviation from an applicable accounting standard.
31. In respect of Complaint 1D, the Complainant says that the audit client recorded its investment property at cost and did not provide for depreciation on the property on the basis that its fair value had not decreased since acquisition, which contravened the requirements of HKAS 40.
32. Whilst the Respondent acknowledged that she was wrong not to have provided for depreciation for land and building, she sought to explain this by saying that she thought that with rising property prices, depreciation at the rate of 0% was acceptable. The Respondent again sought to characterise the failure as a minor matter and argued that "it had no effect on anybody" given that the audited financial statements were prepared solely for the purposes of tax reporting to the IRD and depreciation is not tax deductible.
33. What the Respondent has said in relation to Complaint 1D does not justify the Respondent's deviation from an applicable accounting standard. Furthermore, an entity shall not describe financial statements as complying with HKFRS unless the financial statements comply with all the requirements of HKFRS under Paragraph 16 of HKAS 1.
34. As the Complainant has submitted, the Respondent had a duty to issue audit opinions on financial statements which she was appointed to audit and was required to do so in accordance with professional standards. It is quite clear on the evidence before the Disciplinary Committee that the Respondent had a blatant disregard for those requirements of professional standards in issuing the audit opinions which are the subject of the Complaint, and that she had failed to discharge her responsibility as a practising CPA and failed to uphold her statutory duty as an auditor.
35. That this was done by the Respondent deliberately, or at the very least recklessly, is demonstrated by the rationalisations which the Respondent has made in her submissions throughout the disciplinary process, including the following:-
 - (i) In the Report, the Respondent was said to have commented on the issues which had been identified during the Practice Review as follows:- "*Satisfactory in the way that no one will suffer any financial loss, in respect of my work. I acknowledged the format of the audited financial statement did not exactly follow the requirements of the HKICPA, as I used to think that the format is secondary in importance, as long as no one suffers financial loss. I would place*

more attention in the format in the future, to make sure it follows the requirement of the HKICPA.”

(ii) Even after the conclusions set out in the Report were made known to her, the Complaint was sent to her and these disciplinary proceedings were commenced, the Respondent stated as follows in her written submissions dated 21 July 2019:- *“The sole purpose of the audited financial statements is for profit tax reporting purpose. To the directors/shareholders, a qualified audit report, that could satisfy that sole purpose, with lower audit fee, is better than a clean audit report, with higher audit fee. Well, business people are all astute people. Less audit fee with less bothering means more efficiency of the auditor, which means better reputation for the profession ... The client fulfilled the requirement of the Inland Revenue Department. I think as a responsible professional, my job is to solve problems of the client, according to circumstances.”*

(iii) In her written submissions dated 5 December 2019, the Respondent stated:- *“As a matter of fact, the directors used the audit report for Profit tax filing purpose. Once again, I want to reiterate that the audit report belongs to the directors/shareholders. If the directors do not care to use a qualified audit report for Profit tax filing purpose, and at the end invite questions/troubles from the Inland Revenue Department? How does it concern me, as long as the audited financial statements do not include fraudulent tax evasion material? I was not paid by the Inland Revenue Department, as a result, I did not own [sic] the Department any responsibility to reduce its work/trouble.”*

36. The Respondent’s rationalisations are demonstrative of the Respondent’s misguided way of thinking, and only serve to fortify the Complainant’s point that the Respondent has displayed and continues to display a lack of sufficient understanding of professional standards, and a lack of professional competence, and accordingly an inability to properly discharge her responsibilities as an auditor.
37. Simply put, none of the submissions made by the Respondent does anything to dispel the Complaint that the Respondent lacks sufficient understanding of professional standards and lacks professional competence. In the Respondent’s submissions, she frequently stated that she did not accept that any deficiencies in her work were serious.
38. At the Substantive Hearing, the Respondent continued to insist that she was entitled to approach matters from a cost/benefit perspective, and clung stubbornly to the submission that she should only be judged by reference to whether her actions had resulted in any demonstrable detriment or adverse consequences.
39. The Respondent also refused to accept that public interests were engaged in ensuring that professional standards were followed and standards were maintained, in the sense that failures to adhere to those standards would tend to have a detrimental effect on confidence in the profession as a whole.
40. For the reasons set out above, the Respondent committed professional misconduct as alleged in Complaint 1.

Complaint 2

41. In support of Complaint 2, the Complainant has particularised the following failings:-
- (i) The Respondent did not send confirmation requests to banks and to debtors/creditors in order to save costs, in contravention of Paragraph 19 of HKSA 330 (“**Complaint 2A**”).
 - (ii) The Respondent recorded that it was unnecessary to perform audit procedures relating to evaluation of her clients’ internal controls as required under Paragraphs 12 and 13 of HKSA 315, due to the small size of her clients (“**Complaint 2B**”).
 - (iii) In the case of one client, Client J, its financial statements for the period ended 31 March 2016 were prepared under HKFRS and the Respondent stated that she had performed the audit in accordance with HKSAs. However, the working papers showed that the Respondent had failed to perform adequate audit procedures in relation to the (a) evaluation of client’s internal controls and identification of assertion risks in accordance with HKSA 315, (b) risk assessment and consideration of fraud risks in accordance with the requirements of HKSA 240, (c) determination of overall materiality, performance materiality, and a clearly trivial amount in accordance with Paragraphs 10 and 11 of HKSA 320 and Paragraph 5 of HKSA 450, and (d) design and performance of substantive procedures based on the auditor’s risk assessment in accordance with Paragraphs 5, 6 and 18 of HKSA 330. The Respondent also failed to obtain sufficient appropriate audit evidence in accordance with Paragraph 6 of HKSA 500 with respect to the sales and bank balances since no third party audit evidence was obtained in relation to sales to ascertain the completeness and accuracy of the sales recorded, and there was no evidence in the working papers to support the bank balance (“**Complaint 2C**”).
42. Overall, it was alleged that the Respondent had totally disregarded her responsibilities as an auditor, and that she lacked professional competence and did not take due care to ensure her audit engagements complied with professional standards. As such, the Respondent failed to comply with the principle of professional competence and due care by maintaining professional knowledge and skill at the level required to ensure that a client receives competence professional services, in breach of Sections 100.5(c) and 130.1 of the Code.
43. In relation to Complaint 2A, the Respondent accepted that she did not send confirmation requests to banks and to debtors/creditors, but made various arguments to justify her conduct, including the following:-
- (i) Based on past experience, the return rate from debtors/creditors was very low, unless the directors took the initiative to chase for responses to the requests, and since all her clients were small companies and the directors were very busy, she just wanted to save them some time and effort;

- (ii) As the audited financial statements were prepared for profit tax reporting purposes, and her clients had absolutely no intention to misstate the position with respect to debtors/creditors, the risk of misstatement was low;
 - (iii) She dared to issue the audit reports based on the bank statements and without receiving the bank confirmations because she was confident that the bank confirmations would show nothing more than the bank statements, and she was never proven to be wrong in hindsight (she also stated “*After all, professions are about judgment, not procedures*”).
44. As she had done with other complaints, the Respondent sought to make light of the failure to send confirmation requests to banks. In her written submissions, the Respondent stated “*I agreed with the Complainant’s complaints that I did not always make sure bank confirmations were received before audit report was signed. I did not agree with the seriousness of this act. Actually it has no seriousness.*” The Respondent exhibited a similar attitude to her failure to issue confirmation requests to debtors/creditors, saying that she did not agree that the failure was serious.
45. Again, the Respondent clung to the submission that she should only be judged by reference to whether her actions had resulted in any demonstrable detriment or adverse consequences, and said that in each case where she had not received the bank confirmations before issuing her audit report, it had subsequently transpired that there was no discrepancy and no error.
46. Furthermore, even after stating that she would issue confirmation requests to debtors/creditors in the future, the Respondent qualified this by saying that she would do so “*unless the confirmation would do harm to the business of the company*”. The Respondent went on to say “*For example, the debtors are general public, who might take the confirmation as a reminder of debt, this in turn would harm the relationship between the company and its customers.*”
47. The Respondent also claimed that she had used “*alternative procedures*” to replace confirmation requests to debtors/creditors. In the case of Client TD, which provided dental products to dentists, the Respondent said that she had reviewed and checked copies of the covering letters and cheques sent by the dentists in settlement of invoices, which the dentists tended to do in one go at the end of each month, but admitted that this work could not be observed from her audit work papers (“*I admit I did not do enough documentation*”).
48. The Respondent’s stance in relation to audit documentation should also be mentioned. She maintained throughout the Substantive Hearing that small practitioners like her should not be subject to the same requirements to prepare audit documentation as larger audit firms performing more complicated audits. The Respondent did not accept that the audit working papers ought to enable a third party reviewing the papers to understand how the audit had been conducted, and maintained that as everything was in her head, if anyone had any queries about how the audit had been conducted, they could simply approach her and ask her.

49. Again, plainly, none of the foregoing justifies the Respondent's deviation from an applicable auditing standard in not sending confirmation requests to banks and to debtors/creditors.
50. In relation to Complaint 2B, the Respondent did not accept that irrespective of the size of the audit client, she was required to understand and evaluate the client's internal controls in accordance with HKSA 315. The Respondent said that internal controls did not exist for companies like her clients which were typically "owner-managed entities".
51. Whilst the Disciplinary Committee accepts that there are situations where the client entity has no effective internal controls to address business risks relating to financial reporting objectives, HKSA 315 requires in those situations that the auditor consider (i) whether the absence of such internal controls is appropriate in the circumstances or represents a significant deficiency in internal control, (ii) take further steps to discuss with management whether business risks relevant to financial reporting objectives have been identified and how they have been addressed. This is to address the heightened risk of misstatement, for example due to omission or error. However, there was no appropriate documentation to show that the Respondent had taken any such steps or made such enquiries.
52. Accordingly, the Respondent deviated from applicable auditing standards in relation to Complaint 2B.
53. In relation to Complaint 2C, the Respondent argued as follows:-
- (i) She did not accept that she had failed to perform adequate audit procedures in relation to (a) risk assessment and consideration of fraud risks in accordance with the requirements of HKSA 240, and (b) design and performance of substantive procedures based on the auditor's risk assessment in accordance with Paragraphs 5, 6 and 18 of HKSA 330. The Respondent said that the risk assessment process was not documented but she had retained the information in her head.
 - (ii) She did not accept that she had failed to obtain sufficient appropriate audit evidence (in accordance with Paragraph 6 of HKSA 500) with respect to sales since no third party audit evidence was obtained in relation to sales to ascertain the completeness and accuracy of the sales recorded. The Respondent argued that Paragraph 6 of HKSA 500 did not mandate that audit evidence of the sales had to be in the form of third party audit evidence.
 - (iii) She did not accept that she had failed to obtain sufficient appropriate audit evidence (in accordance with Paragraph 6 of HKSA 500) with respect to bank balances, despite that there was no evidence in the working papers to support the bank balance. She re-iterated her argument that she was confident, based on her understanding of her clients, that the bank confirmations would not show anything more than what was known from the bank statements.
 - (iv) She did not accept that she had failed to perform adequate audit procedures in relation to the determination of overall materiality and performance materiality in accordance with Paragraphs 10 and 11 of HKSA 320.

54. Without any evidence in the audit working papers as to how audit procedures had been performed, the Disciplinary Committee has little hesitation in finding that the Respondent had failed to perform adequate audit procedures in relation to (a) risk assessment and consideration of fraud risks in accordance with the requirements of HKSA 240, and (b) design and implement overall responses to address the assessed risks of material misstatement in the financial statements level under Paragraph 5 of HKSA 330.
55. In relation to materiality, the Reviewer had found that the Respondent had not determined overall materiality or performance materiality for Client J.
56. Paragraph 10 of HKSA 320 states:-
- “When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.”*
57. It is clear that the requirements set out in Paragraph 10 of HKSA 320 to determine overall materiality and to determine materiality levels for particular classes of transactions, account balances or disclosures are cumulative, and not in the alternative. That being the case, the fact that the Respondent determined materiality levels for particular classes of transactions, account balances or disclosures did not obviate the need to determine overall materiality, and the Respondent failed to do so.
58. Insofar as performance materiality is concerned, the rationale for performance materiality is explained in Paragraph A12 of HKSA 320 as follows:-
- “Planning the audit solely to detect individually material misstatements overlooks the fact that the aggregate of individually immaterial misstatements may cause the financial statements to be materially misstated ...”*
59. At the Substantive Hearing, the Respondent argued that determining performance materiality was not applicable to her as she was a one-person operation who did all the audit work herself instead of delegating to audit staff. The Disciplinary Committee did not agree with this submission and certainly did not consider it to amount to any justification for not determining performance materiality.
60. Insofar as third party audit evidence is concerned, Paragraph 6 of HKSA 500 is a general statement which requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate evidence. Clearly, what quality of audit evidence is appropriate will depend on the circumstances, and it is self-evident that, as reflected in Paragraphs A8 and A9 of HKSA

500, audit evidence is more reliable when it is obtained from independent sources outside the entity.

61. In the present case, the Respondent said that for Client J's sales, which were in the nature of income generated by the provision of structural engineering consulting services, she had checked samples of invoices and related supporting documents, and where it was available evidence of receipt of payment. The Disciplinary Committee accepts that the Respondent did perform such work. However, there was no evidence in the working papers to support the completeness of the sales.
62. It also remains the case that there was no evidence in the working papers to support the bank balance, and the Respondent's argument that she was entitled to rely solely on the bank statements as she was confident that the bank confirmations would confirm what was stated in the bank statements is clearly inadequate.
63. Accordingly, the Respondent deviated from applicable auditing standards in relation to Complaint 2C.
64. Overall, the arguments raised by the Respondent in response to Complaint 2 do little to justify the Respondent's conduct and are clearly not exculpatory. On the contrary, they serve to illustrate the Respondent's lack of awareness of professional standards and lack of appreciation as to what her professional responsibilities are and why those standards have been put in place and ought to be adhered to.
65. In the premises, the Disciplinary Committee has little hesitation in finding that the Respondent had failed to maintain her professional knowledge and skill at a level required to ensure her clients received competent professional services.
66. The Disciplinary Committee is satisfied that the Respondent failed or neglected to observe, maintain or otherwise apply a professional standard as alleged in Complaint 2.

Complaint 3

67. In support of Complaint 3, the Complainant has particularised the following failings:-
 - (i) Whilst the Respondent had put in place a Quality Control Manual ("QCM"), the QCM did not cover all required elements as set out in Paragraph 16 of HKSQC 1.
 - (ii) In the Practice Review, deficiencies were found in the practice's quality control system in relation to (a) monitoring review, (b) client acceptance and continuance, (c) ethical requirements, and (d) engagement performance, in breach of various requirements under HKSQC 1.
 - (iii) In particular, the Respondent acted as company secretary of her audit client, Client EL, when the Code only allows the auditor to hold such a position when permitted by law, and under Section 393(2) of the Companies Ordinance (Cap 622), an individual is prohibited from holding the positions of both auditor and secretary to a company.

68. The Respondent did not really seek to dispute that her QCM did not cover all required elements as set out in Paragraph 16 of HKSQC 1. Her argument appeared to be that, although it would follow if the other deficiencies alleged against her were proved that the QCM was ineffective, for the same reasons which she had given to explain those other deficiencies, the deficiencies in the Practice's quality control system were "not so bad".
69. In particular, the Respondent's argument in relation to the instance where the Respondent had acted as company secretary of her audit client, Client EL, was specious to say the least. The Respondent's argument was that there was no contravention of Section 393(2) of the Companies Ordinance, as the prohibition was against the same individual from being both the auditor and an officer of a company, and because of the nature of the work which she did as the company secretary of Client EL, which consisted of no more than filing an annual return each year at the Companies Registry, she could not be considered an officer of Client EL. This is despite the fact that an officer is defined under the Companies Ordinance as including a director, manager or company secretary of a company. The Disciplinary Committee has no hesitation in rejecting the Respondent's argument.
70. In the premises, the Disciplinary Committee finds that the Respondent did not maintain an adequate quality control system in the Practice.
71. The Disciplinary Committee is satisfied that the Respondent failed or neglected to observe, maintain or otherwise apply a professional standard as alleged in Complaint 3.

Conclusion

72. As indicated above, the Disciplinary Committee has found that the Respondent had committed the breaches alleged in each of Complaint 1, Complaint 2 and Complaint 3.
73. In addition to the reasons set out above, the Disciplinary Committee also wishes to note that it found the Respondent's attitude towards the said breaches to be regrettable.
74. On more than one occasion during the Substantive Hearing, the Respondent sought to assert that what she had done was to exercise her professional judgment and that it had not been shown that her judgment had been incorrect. The Respondent said that auditing standards were for bigger audit firms conducting more complicated audits, and that in her case, rather than to adhere to those auditing standards, she had exercised her professional judgment, which could not be criticised unless it could be shown that her judgment had resulted in adverse consequences for anyone.
75. The Disciplinary Committee considers that this attitude itself shows that the Respondent is very much lacking in professional judgment, and that this is at least partly responsible for the Respondent's breaches.

Further Directions

76. The Disciplinary Committee makes the following further directions:-

- (a) The Complainant shall file its written submission on sanctions and costs within 28 days from the date of this decision;
- (b) The Respondent shall file her written submissions on sanctions and costs within 28 days after the Complainant's written submissions on sanctions and costs; and
- (c) Parties are at liberty to apply to the Disciplinary Committee for further directions in writing.

Dated: 5 March 2020

Mr. Kaung Wai Ming
Alexander
Chairman
Disciplinary Panel A

Mr. Lam Wai Chin Raymond
Member
Disciplinary Panel A

Mr. Wong Yue Ting Thomas
Member
Disciplinary Panel B

Mr. Lam Sze Cay Kevin
Member
Disciplinary Panel A

Mr. Ng Chi Keung Victor
Member
Disciplinary Panel B

IN THE MATTER OF

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

BETWEEN

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

COMPLAINANT

AND

Li Sau Ying (Membership no. A05618)

RESPONDENT

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

Members: Mr. Kaung Wai Ming Alexander (Chairman)
Mr. Lam Wai Chin Raymond
Mr. Lam Sze Cay Kevin
Mr. Wong Yue Ting Thomas
Mr. Ng Chi Keung Victor

Date of substantive hearing: 14 January 2020

Date of Reasons for Decision: 5 March 2020

DECISION ON SANCTIONS AND COSTS

1. On 5 March 2020, the Disciplinary Committee found against the Respondent on three complaints that had been made against her under section 34(1) of the Professional Accountants Ordinance (Cap. 50) (“PAO”), relating to audit reports which the Respondent had issued which blatantly contravened applicable auditing standards, and significant deficiencies in the Respondent’s system of quality control and audit engagements.
2. The first complaint was concerned with audit reports the Respondent had issued which clearly did not comply with various applicable auditing standards. The Disciplinary Committee found the complaint established and that the Respondent had committed

professional misconduct. Amongst other things, the Disciplinary Committee observed that the Respondent had a blatant disregard for the requirements of professional standards, had failed to discharge her responsibility as a practising CPA and failed to uphold her statutory duty, had displayed a lack of sufficient understanding of professional standards and a lack of professional competence, and had displayed an inability to properly discharge her responsibilities as an auditor.

3. The second complaint was concerned with deficiencies in the audit procedures which the Respondent had adopted. The Disciplinary Committee found that the Respondent had deviated from or ignored applicable auditing standards without justification, that the complaint had been established, and that the Respondent had failed to maintain her professional knowledge and skill at a level required to ensure her clients received competent professional services. Again, the Disciplinary Committee observed that the Respondent lacked awareness of professional standards and lacked appreciation of what her professional responsibilities were, why those standards had been put in place and why they ought to be complied with.
4. The third complaint was concerned with deficiencies in the Respondent's quality control system. The Disciplinary Committee found the complaint established and that the Respondent had failed or neglected to observe, maintain or otherwise apply a professional standard.
5. The Disciplinary Committee has received and considered the written submissions on sanctions and costs of both the Complainant and the Respondent.
6. The Disciplinary Committee is mindful that the objects of the Institute are to (a) regulate the practice of the accountancy profession, (b) represent the views of the profession and to preserve and maintain its reputation, integrity and status, and (c) to discourage dishonourable conduct and practices by certified public accountants. Hence, even if the failures are not shown to have resulted in significant actual harm, the Disciplinary Committee considers that the sanction ought also to be sufficient to serve the purposes of (i) protecting the public interest, (ii) deterring non-compliance with professional standards, (iii) maintaining and promoting public confidence in the profession, and (iv) upholding proper standards of conduct and performance.
7. The Disciplinary Committee has already found that:-
 - (i) The Respondent's disregard for professional standards, which was deliberate or at the very least reckless, amounted to serious professional misconduct.
 - (ii) The Respondent failed to uphold the fundamental principle of professional competence and due care in carrying out her audits and to ensure that her practice had an effective quality control system.
8. The Complainant argues that given the Respondent's disregard for regulatory requirements and the lack of professional competence she displayed, which have a detrimental effect on confidence in the profession, the Respondent's failures should be considered very serious and the sanction to be imposed ought to be correspondingly severe.

9. The Respondent's breaches were systematic in nature and reflective of the approach which the Respondent adopted with respect to her entire practice. The Respondent's explanations showed that she deliberately adopted such an approach as she considered that all of her audit clients were small, privately held companies and hence she could avoid having to perform all the audit procedures required by the relevant accounting standards, and she also rationalised her approach by saying that it was in her clients' interests.
10. Throughout these proceedings, the Respondent has not denied that she departed from auditing standards, but has consistently argued that what she did was not serious and that the auditing standards served no useful purpose and/or ought not to apply to the audits that she conducted. The Disciplinary Committee agrees with the Complainant that the Respondent's attitude throughout has not only demonstrated a fundamental misconception of the role of an auditor, but also a driven determination on her part to disregard them. As the Complainant has put it, even in light of the Disciplinary Committee's findings against her, the Respondent has demonstrated "a lack of self-reflection and unwillingness to accept responsibility". That being the case, it is no surprise that despite being given the opportunity to do so, the Respondent did not advance much, if any, in the way of submissions in mitigation.
11. In her submissions on sanctions and costs, the Respondent continued to exhibit the same regrettable attitude towards her breaches as she had displayed throughout these disciplinary proceedings. Simply put, the Respondent said that she did not accept that she ought to be judged based on whether she had complied with the procedures set out in the applicable auditing standards, and that she ought only to be judged based on whether any adverse consequences could be shown to have resulted from her decisions not to follow the applicable auditing standards. The Respondent further sought to assert that auditing standards existed to cater for complicated audits where there was a high risk of misstatement of financial figures, and ought not to apply to the audits which she conducted. Although the Respondent was given the opportunity to make submissions in mitigation, she chose instead to focus her submissions on why she thought that the Disciplinary Committee ought not to have found against her on the three complaints. In one of the Respondent's submissions, she even asserted that it was the Complainant which did not understand the relevant auditing standards, which had caused her to waste a lot of time and effort in these disciplinary proceedings.
12. The Disciplinary Committee has no hesitation in arriving at the conclusion that a lengthy period of suspension of the Respondent's practising certificate ("PC") is warranted in the circumstances of the present case.
13. For the sake of completeness, the Disciplinary Committee wishes to address the submission which has been made by the Respondent that somehow the fact that the audit clients concerned were small, privately held companies and that no significant actual harm can be shown to have resulted means that the Respondent's breaches were not significant, and ought not to be viewed as raising doubt as to the Respondent's professional competence, or as having a detrimental effect on confidence in the profession.
14. As the Complainant has reminded the Disciplinary Committee, whilst a failure to observe professional standards may be made more egregious when a public company is

involved, it cannot be a reason for letting professional standards slip that an accountant's firm was a small one or his clients were small companies, which proposition was clearly recognised and confirmed by the Court of Appeal in its decision in **HKICPA v Cheung Yiu Hung** [2018] HKCA 463. The Court of Appeal went on to explain the rationale in the following succinct terms:-

"An accountant is accorded the privilege of practice by virtue of membership of his professional body. For that privilege, he has to comply with its standards, whether or not he considers them to be too demanding for him, and whether his firm is big or small, and irrespective of the status of his clients."

15. It is simply not for the Respondent to say that the public interest is not engaged because of the small number and size of the audit clients affected.
16. The Disciplinary Committee has taken into account the fact that any period of cancellation of the Respondent's PC will have a serious impact on the Respondent's livelihood. The Respondent has said that she is 55 years of age, and any sanctions will likely have the result of ending her career.
17. Nevertheless, in view of the seriousness of the breaches, and to ensure that the sanction serves the purposes of (i) protecting the public interest, (ii) deterring non-compliance with professional standards, (iii) maintaining and promoting public confidence in the profession, and (iv) upholding proper standards of conduct and performance, a cancellation of the Respondent's PC is clearly warranted. The Complainant has submitted that the appropriate period of cancellation is a period of at least 30 months. The Complainant has also pointed out that even if the Respondent's PC is cancelled, she would continue to be a member of the Institute and would still be able to carry out work as a professional accountant other than those only a practising member can perform i.e. statutory audits. The Disciplinary Committee considers that an appropriate period of suspension is 36 months and accordingly orders such a suspension of the Respondent's PC. In view of the suspension of the Respondent's PC, the Disciplinary Committee does not consider it necessary to additionally reprimand the Respondent or to additionally impose a financial penalty.
18. The Complainant has submitted a statement of costs in the total amount of HK\$166,644, which includes the costs of the Clerk to the Disciplinary Committee. As previously noted, the Respondent had initially admitted the complaints against her in these disciplinary proceedings, but thereafter withdrew her admission of her own accord, thereby in essence depriving herself of the benefit of the savings in costs which would have resulted from the admission.
19. Adopting a broad brush approach, the Disciplinary Committee orders that the Respondent pay costs in the total sum of HK\$150,000.
20. The Disciplinary Committee accordingly makes the following orders:-
 - (i) That the practising certificate issued to the Respondent be cancelled under Section 35(1)(da) of the PAO, which shall take effect on the 35th day from the date of this Order;

(ii) That no practising certificate be issued to the Respondent for a period of 36 months under Section 35(1)(db) of the PAO, which shall take effect on the 35th day following the date of this Order;

(iii) That the Respondent do pay the costs and expenses of and incidental to the proceedings of the Complainant (including the costs of the Clerk to the Committee) in the total sum of HK\$150,000 under Section 35(1)(iii) of the PAO, which shall take effect on the 35th day from the date of this Order.

Dated: 6 May 2020

Mr. Kaung Wai Ming
Alexander
Chairman
Disciplinary Panel A

Mr. Lam Wai Chin Raymond
Member
Disciplinary Panel A

Mr. Wong Yue Ting Thomas
Member
Disciplinary Panel B

Mr. Lam Sze Cay Kevin
Member
Disciplinary Panel A

Mr. Ng Chi Keung Victor
Member
Disciplinary Panel B