



Dear Assignment/News/Business Section Editor

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

(HONG KONG, 27 May 2016) — A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants reprimanded Sek Wai Tong, Stonely (membership number A04215) on 21 April 2016 for his failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. The Committee further ordered Sek to pay a penalty of HK\$50,000 and the costs of disciplinary proceedings of HK\$34,672.

Sek is the sole practising partner of Lee, Sek, Chiu & Hui ("Practice") and had been assigned responsibility of the Practice's quality control system and audit engagements. In 2013, a follow-up practice review visit was scheduled to confirm whether the Practice had taken appropriate actions in response to findings identified during the first practice review in 2011. The findings of the follow-up visit indicated that the Practice continued to fail to implement an adequate system of quality control and address audit deficiencies identified from the first practice review.

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

Sek admitted the complaint against him. The Disciplinary Committee found that Sek failed or neglected to observe, maintain or otherwise apply a number of professional standards.

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

Under the ordinance, if Sek is aggrieved by the order, he may give notice of an appeal to the Court of Appeal within 30 days after he is served the order.

The order and findings of the Disciplinary Committee are available at the Institute's website under the "Compliance" section at www.hkicpa.org.hk.

Disciplinary proceedings of the Institute are conducted in accordance with Part V of the ordinance by a five-member Disciplinary Committee. Three members of each committee, including a chairman, are non-accountants chosen from a panel appointed by the Chief Executive of the HKSAR, and the other two are CPAs.

Disciplinary hearings are held in public unless the Disciplinary Committee directs otherwise in the interest of justice. A hearing schedule is available at the Institute's website. A CPA who feels aggrieved by an order made by a Disciplinary Committee may appeal to the Court of Appeal, which may confirm, vary or reverse the order.

Disciplinary Committees have the power to sanction members, member practices and registered students. Sanctions include temporary or permanent removal from membership or cancellation of a practicing certificate, a reprimand, a penalty of up to \$500,000, and payment of costs and expenses of the proceedings.

- End -

About the Hong Kong Institute of Certified Public Accountants

The Hong Kong Institute of CPAs is the only body authorized by law to register and grant practising certificates to certified public accountants in Hong Kong. The Institute has more than 39,000 members and 19,000 registered students. Members of the Institute are entitled to the description *certified public accountant* and to the designation CPA.

The Hong Kong Institute of CPAs evolved from the Hong Kong Society of Accountants, which was established on 1 January 1973.

The Institute operates under the Professional Accountants Ordinance and works in the public interest. The Institute has wide-ranging responsibilities, including assuring the quality of entry into the profession through its postgraduate qualification programme and promulgating financial reporting, auditing and ethical standards in Hong Kong. The Institute has responsibility for regulating and promoting efficient accounting practices in Hong Kong to safeguard its leadership as an international financial centre.

The Hong Kong Institute of CPAs is a member of the Global Accounting Alliance – an alliance of the world’s leading professional accountancy bodies, which was formed in 2005. The GAA promotes quality services, collaborates on important international issues and works with national regulators, governments and stakeholders.

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致：編採主任／新聞／財經版編輯

香港會計師公會對一名執業會計師作出紀律處分

(香港，二零一六年五月二十七日) — 香港會計師公會轄下紀律委員會於二零一六年四月二十一日就石偉棠先生(會員編號：A04215)沒有或忽略遵守、維持或以其他方式應用公會頒布的專業準則，對石先生作出譴責。此外，石先生須繳付罰款五萬港元及支付紀律程序費用三萬四千六百七十二港元。

石先生是李石趙許會計師樓的唯一執業合伙人，並是會計師樓的品質監控及審計項目的最終負責人。審核委員會在 2013 年對該會計師樓進行跟進審核，以確定會計師樓是否已就 2011 年首次執業審核時發現的問題作出適當的行動。審核人員在跟進審核中發現該會計師樓仍未有實施足夠的品質監控程序，也沒有解決首次執業審核時所發現的審計工作不足之處。

公會經考慮所得資料，根據《專業會計師條例》第 34(1)(a)(vi)條對石先生作出投訴。

石先生承認投訴中的指控屬實。紀律委員會裁定石先生沒有或忽略遵守、維持或以其他方式應用公會頒布的多項專業準則。

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)條向石先生作出上述的命令。

根據《專業會計師條例》，如石先生不服紀律委員會對他作出的命令，可於命令文本送達後30天內向上訴法庭提出上訴。

紀律委員會的書面判決可於公會網頁內"Compliance"部分查閱，網頁為 <http://www.hkicpa.org.hk>。

公會的紀律程序是根據《專業會計師條例》第V部份，由五位成員組成的紀律委員會執行。每個紀律委員會的大多數成員，即包括主席在內的三名成員，是從業外人士組成的紀律小組中選派，該紀律小組的成員是由香港特別行政區行政長官委任的；另外兩名成員由專業會計師出任。

除非負責的紀律委員會因公平理由認為不恰當，否則紀律聆訊一般以公開形式進行。紀律聆訊的時間表可於公會網頁查閱。如當事人不服紀律委員會的裁判，可向上訴法庭提出上訴，上訴法庭可確定、修改或推翻紀律委員會的裁判。

紀律委員會有權向公會會員、執業會計師事務所會員及註冊學生作出處分。紀律處分範圍包括永久或有限期地將違規者從會計師註冊紀錄冊中除名或吊銷其執業證書、對其作出譴責、下令罰款不多於五十萬港元，以及支付紀律程序的費用。

關於香港會計師公會

香港會計師公會是香港唯一獲法例授權負責專業會計師註冊兼頒授執業證書的組織，會員人數超過三萬九千，註冊學生人數逾一萬九千。公會會員可採用「會計師」稱銜（英文為 **certified public accountant**，簡稱 **CPA**）。

公會(Hong Kong Institute of Certified Public Accountants)於一九七三年一月一日成立，當時的英文名稱為 **Hong Kong Society of Accountants**。

公會根據《專業會計師條例》履行職責，以公眾利益為依歸。其職能廣泛，包括開辦專業資格課程(**Qualification Programme**)以確保會計師的入職質素，以及頒布香港的財務報告、審計及專業操守準則。此外，公會亦負責在香港監管和推動優良而有效的會計實務，以鞏固香港作為國際金融中心的領導地位。

香港會計師公會是全球會計聯盟 (**Global Accounting Alliance, GAA**) 的成員之一。全球會計聯盟於二零零五年成立，聯合了全球頂尖的專業會計團體，推動優質服務，並積極與各地監管機構、政府及關連人士就國際重要議題共同合作。

香港會計師公會聯絡資料

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IN THE MATTER OF

A Complaint made under Section 34(1) of the Professional Accountants Ordinance (Cap.50) ("the PAO") and referred to the Disciplinary Committee under Section 33(3) of the PAO

BETWEEN

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

AND

Mr. Sek Wai Tong Stonely
Membership No. A04215 **RESPONDENT**

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

Members: Ms. Anne Rosamunde Carver (Chairman)
Ms. Chau Hoi Yan Cecilia
Mr. Ho Man Tat Edward
Mr. Lo Kai Ming Charles
Mr. Yeung Chi Wai Edwin

ORDER & REASONS FOR DECISION

1. This is a complaint made by the Practice Review Committee of the Hong Kong Institute of Certified Public Accountants (the "**Institute**") against Mr. Sek Wai Tong Stonely, a certified public accountant (practising) (the "**Respondent**"). Section 34(1)(a)(vi) of the Professional Accountants Ordinance ("**PAO**") applied to the Respondent.
2. The Complaints as set out in a letter dated 28 October 2015 (the "**Complaint**") are as follows:-
 - (1) Complaint 1: Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply a professional standard namely, 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" as his Practice had not implemented adequate quality control policies and procedures in respect of client acceptance and continuance, and engagement performance.

- (2) Complaint 2: Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraph 440.1 of the Code of Ethics for Professional Accountants ("Code") in that he did not perform audit procedures to obtain professional clearance before accepting an engagement with a new client.
- (3) Complaint 3: Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraph 6 of Hong Kong Standard on Auditing 500 "Audit Evidence" in that he did not design and/or perform audit procedures that were appropriate for the purpose of obtaining sufficient appropriate audit evidence in relation to the audit of the financial statements of Client C for the year ended 31 March 2013.
- (4) Complaint 4: Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraph 6 of Hong Kong Standard on Auditing 500 "Audit Evidence" in that he did not design and/or perform audit procedures that were appropriate for the purpose of obtaining sufficient appropriate audit evidence in relation to the audit of the financial statements of Client W for the year ended 31 December 2012.
- (5) Complaint 5: Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraph 5 of Hong Kong Standard on Auditing 230 "Audit Documentation" in that he did not adequately document the evidence obtained and procedures performed in relation to the audit of the financial statements of Client C for the year ended 31 March 2013.
- (6) Complaint 6: Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraph 5 of Hong Kong Standard on Auditing 230 "Audit Documentation" in that he did not adequately document the evidence obtained and procedures performed in relation to the audit of the financial statements of Client W for the year ended 31 December 2012.
- (7) Complaint 7: Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraph 9 of Hong Kong Standard on Auditing 210 "Agreeing the Terms of Audit Engagements" in that he did not perform appropriate procedures for the purpose of agreeing the terms of engagement with management or those charged with governance in relation to the assurance engagements of Client C for the year ended 31 March 2013.
- (8) 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 a professional standard namely, paragraph 9 of Hong Kong Standard on Auditing 210 "Agreeing the Terms of Audit Engagements" in that he did not perform appropriate procedures for the purpose of agreeing the terms of engagement with management or those charged with governance in relation to the audit engagement of Client W for the year ended 31 December 2012.

- (9) Complaint 9: Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraphs 33 and/or 42 of Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" in that he did not obtain sufficient appropriate evidence and adequately document matters that were significant in providing evidence to support the conclusion that Client C complied with the relevant rules of the Hong Kong Securities and Futures Ordinance for the year ended 31 March 2013.
- (10) Complaint 10: Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he had failed or neglected to observe, maintain or otherwise apply a professional standard namely, paragraphs 100.5(c) and 130.1 of the Code in that he did not maintain professional knowledge and skill at the level required to ensure that clients receive competent professional services; and/or diligently carry out the audits of the financial statements of Client C for the year ended 31 March 2013 and Client W for the year ended 31 December 2012, in accordance with the relevant technical and professional standards. The Respondent was asked certain questions before and during the Review concerning one subcontractor and file selection, and he gave materially false or misleading answers to the reviewer, Ms. Brenda Chan (the "Reviewer").

Background information

- (11) The Respondent is the sole practising partner of Lee, Sek, Chiu & Hui (Firm no. 0421) (the "Practice").
- (12) The Respondent had been assigned by the Practice to assume ultimate responsibility of the firm's quality control system.
- (13) The Respondent issued the auditor's reports in the name of the Practice for the assurance engagements selected for practice review. He was therefore responsible for the quality of these engagements.

Events leading to the complaints

- (14) The Practice had been selected for an initial practice review in March 2011 and deficiencies in relation to its quality control and audit engagements were identified.
- (15) The engagements selected for review in the initial practice review included (i) audits of financial statements of a securities broker namely, Chung Lee Securities Company Limited ("Client C") for the year ended 31 March 2010 and a private entity namely, Walsin Technology Corporation (HK) Limited ("Client W") for the year ended 31 December 2009; and (ii) compliance audit of Client C for the year ended 31 March 2010 for the purpose of reporting to Securities and Futures Commission.
- (16) In its response to the reviewer's letter dated 3 June 2011, the Practice accepted the findings and undertook to implement improvements to address the deficiencies identified. The Practice's response was submitted to the Practice Review Committee

("PRC") together with the First Reviewer's Report which was provided to the Practice on 30 June 2011.

- (17) The Practice was the subject of a follow up practice review visit that took place in December 2013. The main purpose of this visit was to confirm whether the Practice had taken appropriate actions in response to findings identified during the initial practice review. During this visit, the audit and compliance audit of Client C for the year ended 31 March 2013 and the audit of Client W for the year ended 31 December 2012 were selected for review.
- (18) During the follow up visit, the reviewer noted that the Practice continued to fail to implement an adequate quality control system. In addition, it was apparent that the Practice had failed to address the deficiencies identified in the initial practice review, as the reviewer had found the same or similar problems recurring in the subsequent audit engagements of Client C and Client W.
- (19) Copies of the working papers for the audits of Client C and Client W for all of the above-mentioned financial years are enclosed at A1 to A1410. The Respondent confirmed that they represent the complete working papers for both audits.
- (20) Based upon the findings of the follow up visit, the Institute wrote to the Practice on 29 April 2014 to seek its explanations. In its response dated 19 May 2014, the Practice accepted the deficiencies identified and undertook to implement appropriate procedures to comply with the standards' requirements.
- (21) The Practice's response was submitted to the PRC together with the Second Reviewer's Report which was provided to the Practice on 7 July 2014. In view of the lack of improvement, the PRC had serious concerns over the Practice's commitment to properly address quality control findings and establish audit systems to comply with the relevant professional standards.
- (22) On the basis of the above, the PRC decided to raise a complaint against the Respondent. The relevant facts and observations based on which a complaint was raised were provided to the Respondent on 22 September 2015. In his response to the Institute dated 5 October 2015, the Respondent did not dispute those facts and observations.

Relevant Professional Standards

- (23) 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" (Revised July 2010) ("HKSQC 1")

"26. The firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm:

- (a) Is competent to perform the engagement and has the capabilities, including time and resources, to do so;

- (b) Can comply with relevant ethical requirements; and
- (c) Has considered the integrity of the client, and does not have information that would lead it to conclude that the client lacks integrity."

"27. Such policies and procedures shall require:

- (a) The firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client...."

"28. The firm shall establish policies and procedures on continuing an engagement and the client relationship, addressing the circumstances where the firm obtains information that would have caused it to decline the engagement had that information been available earlier...."

"32. The firm shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partner issued reports that are appropriate in the circumstances...."

(24) Section 100 "Introduction and Fundamental Principles" of the Code of Ethics for Professional Accountants ("Code")

"100.5 A professional accountant shall comply with the following fundamental principles:

...

- (c) Professional Competence and Due Care – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards. ..."

(25) Section 130 "Professional Competence and Due Care" of the Code

"130.1 The principle of professional competence and due care imposes the following obligations on all professional accountants:

- (a) To maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service; and
- (b) To act diligently in accordance with applicable technical and professional standards when providing professional services. "

(26) Section 440 "Changes in a Professional Appointment" of the Code

" 440.1 Where a change of auditor is contemplated, the nominated auditor should write to the existing auditor to obtain "professional clearance". This is an important procedure to be followed to protect the interest of the nominated auditor, such that he may be made aware of any unusual circumstances surrounding the

proposed change of auditor which may be relevant in determining his acceptance of nomination."

- (27) Hong Kong Standard on Auditing 500 "Audit Evidence" (Revised July 2010) ("HKSA 500")

"6. The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence."

- (28) Hong Kong Standard on Auditing 230 "Audit Documentation" (Revised July 2010) ("HKSA 230")

"5. The objective of the auditor is to prepare documentation that provides:
(a) A sufficient and appropriate record of the basis for the auditor's report; and
(b) Evidence that the audit was planned and performed in accordance with HKSA's and applicable legal and regulatory requirements."

- (29) Hong Kong Standard on Auditing 210 "Agreeing the Terms of Audit Engagements" (Revised December 2012) ("HKSA 210")

"9. The auditor shall agree the terms of the audit engagement with management or those charged with governance, as appropriate."

- (30) Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" (Issued October 2004) ("HKSAE 3000")

"33. The practitioner should obtain sufficient appropriate evidence on which to base the conclusion. Sufficiency is the measure of the quantity of evidence. Appropriateness is the measure of the quality of evidence; that is, its relevance and its reliability...."

"42. The practitioner should document matters that are significant in providing evidence that supports the assurance report and that the engagement was performed in accordance with HKSAEs."

Facts and circumstances in support of Complaints 1 and 2

Client acceptance and continuance

- (31) According to paragraphs 26 to 28 of HKSQC 1, a practice is required to establish policies and procedures for client acceptance and continuance which enable the practice to obtain information necessary in the circumstances before accepting an engagement with a new client or when deciding whether to continue an engagement with an existing client.
- (32) Paragraph 440.1 of the Code states that, where a change of auditor is contemplated, the nominated auditor should write to the existing auditor to obtain "professional clearance".

- (33) In the initial practice review, the reviewer found no evidence that the Practice had performed client acceptance and continuance procedures before accepting engagement with a new or existing client. The Practice noted this finding and undertook to make improvements in this respect in future engagements.
- (34) This deficiency had not been adequately addressed by the Practice because in the follow up visit, the reviewer found that the Practice did not communicate with the existing auditor to obtain information about any unusual circumstances surrounding the proposed change of auditor before accepting an audit engagement with a new client. Therefore, the Practice is considered to have failed to comply with paragraphs 26 to 28 of HKSQC 1 and paragraph 440.1 of the Code.
- (35) In his letter dated 19 May 2014, the Respondent accepted this finding and agreed to undertake appropriate procedures to rectify the problem.

Engagement performance

- (36) According to paragraph 32 of HKSQC 1, a practice shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partner issued reports that are appropriate in the circumstances.
- (37) In the initial practice review, it was noted that the Practice's audit work and documentation did not meet many of the requirements under the auditing standards. The Practice noted the weaknesses and deficiencies identified and stated that it will make improvements in future audits.
- (38) In the follow up visit, a number of recurring audit deficiencies such as those related to audit evidence and documentation were identified. Therefore, the Practice is considered to have failed to establish policies and procedures that are effective for ensuring that audit engagements performed are in accordance with relevant auditing standards.
- (39) On the basis of the above quality control deficiencies, the Practice is considered to have not complied with HKSQC 1 and the Code as it had not implemented adequate quality control policies and procedures in respect of client acceptance and continuance, and engagement performance.

Facts and circumstances in support of Complaints 3 and 4

- (40) According to paragraph 6 of HKSA 500, an auditor is required to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.
- (41) The review of working papers related to the audits of Client C and Client W indicated that the Practice failed to comply with paragraph 6 of HKSA 500.

Audit of Client C

- (42) The audit working papers of Client C did not show any evidence that the Practice had properly carried out the audit procedures below for the purpose of obtaining sufficient appropriate audit evidence.

Determination of materiality and performance materiality required under HKSA 320 "Materiality in Planning and Performing an Audit" (Revised July 2010).

- (43) During the initial visit, it was found that the Practice did not determine a materiality level for its audits in accordance with HKSA 320. The Respondent agreed to undertake appropriate evaluation to address such non-compliance.
- (44) However, this deficiency had not been adequately addressed by the Practice because in the follow up visit, the reviewer found no evidence that the Practice had performed audit procedures to establish materiality applicable for determining nature, timing and extent of audit procedures.
- (45) In his letter of 19 May 2014, the Respondent accepted the findings and agreed to undertake appropriate procedures to address such non-compliance in future audits.

Audit of Client W

- (46) The audit working papers of Client W did not show any evidence that the Practice had properly carried out the audit procedures below for the purpose of obtaining sufficient appropriate audit evidence. This raised considerable doubts as to whether the Practice had obtained sufficient and appropriate audit evidence such that a reasonable conclusion could be drawn on the relevant accounts.

Determination of materiality and performance materiality required under HKSA 320.

- (47) During the initial visit, it was found that the Practice did not determine a materiality level for its audits in accordance with HKSA 320. The Respondent agreed to undertake appropriate evaluation to address such non-compliance.
- (48) However, this deficiency had not been adequately addressed by the Practice because in the follow up visit, the reviewer found no evidence that the Practice had performed audit procedures to establish materiality applicable for determining nature, timing and extent of audit procedures.
- (49) In his letter of 19 May 2014, the Respondent accepted the findings and agreed to undertake appropriate procedures to address such non-compliance in future audits.

Audit procedures on account receivables totaled approximately HK\$617 million.

- (50) During the initial visit, it was found that the Practice did not perform adequate alternative procedures on non-replied debtor confirmations and procedures on assessing the recoverability of the accounts receivable balances. The Respondent agreed to undertake appropriate evaluation to address such deficiencies.

- (51) These deficiencies had not been adequately addressed by the Practice because in the follow up visit, the Practice had performed circularization of debtors for balances as at 30 November 2012. There was no evidence indicating (i) any alternative procedures done on non-replied confirmations for balances as at 30 November 2012; and (ii) how the circularization of balances as at 30 November 2012 could have been used to verify the existence of the balances as at 31 December 2012.
- (52) In addition, there was no evidence that the Practice had (i) verified the accuracy of the debtor aging report; and (ii) assessed the recoverability of the related party receivable balances as at 31 December 2012 which formed approximately 77% of the overall account receivables balance.
- (53) In his letter of 19 May 2014, the Respondent accepted the findings and agreed to undertake appropriate procedures to rectify the problem in future audits.

Audit procedures on account payables totaled approximately HK\$185 million.

- (54) During the initial visit, it was found that the Practice did not perform adequate alternative procedures on non-replied creditor confirmations. The Respondent agreed to undertake appropriate procedures to address such deficiency.
- (55) As evidenced in the follow up visit, this deficiency had not been adequately addressed by the Practice. In the circularization of creditors for balances as at 30 November 2012, there was no evidence indicating (i) whether reconciliations had been done to address the discrepancies identified in the replies received from creditors; nor (ii) how the circularization of balances as at 30 November 2012 could have been used to verify the existence of the balances as at 31 December 2012.
- (56) In his letter of 19 May 2014, the Respondent accepted the findings and agreed to undertake appropriate procedures to rectify the problem in future audits.

Facts and circumstances in support of Complaints 5 and 6

- (57) According to paragraph 5 of HKSA 230, an auditor is required to prepare documentation that provides sufficient and appropriate record of the basis for the auditor's report.
- (58) The review of working papers related to the audits of Client C and Client W indicated that the Practice failed to prepare adequate documentation in accordance with paragraph 5 of HKSA 230.

Audit of Client C

- (59) The audit working papers of Client C inadequately documented the following:

Work done on investments in securities

- The working papers indicated that the investments in securities are classified as current assets with its change in fair value being recognised in the profit and loss. There was no documentation of work done to assess the nature of the investments and to ascertain whether the accounting treatment of the investments was appropriate.
- In his letter of 19 May 2014, the Respondent accepted the findings and agreed to make improvements in future audits.

(60) The audit working papers of Client W inadequately documented the following:

Assessment procedures specified under HKSA 570 "Going Concern".

(61) During the initial visit, the reviewer found no evidence that the Practice had performed audit procedures to address the going concern issues identified in Client W. The Respondent accepted the findings and agreed to make proper documentation in future audits.

(62) In the follow up visit, it was found that the working papers indicated that Client W had net liabilities of approximately HK\$54 million as at 31 December 2012. There was no documentation of how the Practice had assessed the appropriateness of management's use of the going concern assumption in the preparation of the financial statements.

(63) In his letter of 19 May 2014, the Respondent accepted the findings and agreed to make improvements in future audits.

Performance of procedures in accordance with HKSA 520 "Analytical Procedures".

(64) Design and performance of analytical procedures assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

(65) During the initial visit, the reviewer found that the gross profit ratios for most of the inventories test samples were much higher than the overall gross profit ratio of Client W. There was no evidence that the Practice had performed procedures to investigate this matter. The Respondent accepted the findings and agreed to documents all necessary audit works in the file in future audits.

(66) In the follow up visit, the working papers indicated that Client W had a gross loss of approximately HK\$7.6 million for the year ended 31 December 2012. There was no documentation of whether the Practice had performed analytical procedures to:

- investigate the reasons for the loss; and
- assess the entity's gross loss position which was not supported by the conclusion reached in the inventory tests that net realisable value exceeded cost of all inventories tested and thereby suggesting that inventories were being sold at a margin.

(67) In his letter of 19 May 2014, the Respondent accepted the findings and agreed to make improvements in future audits.

Determination of sample size and selection of items for testing in accordance with HKSA 530 "Audit Sampling" (Revised July 2010).

(68) During the initial visit, the reviewer pointed out that the Practice did not perform sufficient audit work on related party transactions, sales and purchases.

(69) According to HKSA 530, the objective of the auditor, when using audit sampling, is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.

(70) In the follow up visit, the reviewer found that the working papers indicated that the Practice performed the following audit procedures without documentation of the basis for sample size and selection:

- (a) Substantive testing of six samples of related party receivables and eight samples of related party payables representing 20% and 15% of the year end balance of approximately HK\$617 million and HK\$185 million respectively.
- (b) Substantive testing of 11 samples of turnover and 12 samples of purchases representing 1.6% and 1.7% of the total amount for the year of approximately HK\$601 million and HK\$748 million respectively.
- (c) Circularization of debtors representing 11% of the accounts receivable as at 30 November 2012 of approximately HK\$604 million.

(71) In the above circumstance, the working papers provided an insufficient record of how the Practice complied with the sampling requirements under paragraphs 6 to 8 of HKSA 530 which required the auditor to:

- Consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn when designing an audit sample test;
- Determine a sample size sufficient to reduce sampling risk to an acceptably low level; and
- Select items for the sample in such a way that each sampling unit in the population has a equal chance of selection.

(72) In his letter of 19 May 2014, the Respondent accepted the findings and agreed to make improvements in future audits.

Assessment procedures specified under HKSA 505 "External Confirmations"

(73) The working papers provided no documentation of how the Practice had maintained control over the confirmation process to obtain relevant and reliable audit evidence. There was no indication of whether the confirmations were received directly by the auditor from confirming parties.

(74) This non-compliance was also identified in the initial practice review and the Respondent undertook to rectify the problem.

(75) In his letter dated 19 May 2014, the Respondent accepted the findings and agreed to undertake appropriate procedures to address the issue in future audits.

Substantive procedures on sales

(76) During the initial visit, it was found that the Practice did not perform audit work to verify the validity of sales transactions by inspecting the third party evidence (e.g. shipping documents). The Practice agreed to undertake appropriate procedures to address this issue.

(77) In the follow up visit, the reviewer found that the working papers for testing of sales transactions indicated that the delivery dates are the same as the invoice dates. However, the working papers provided no documentation of whether the Practice had inspected third party evidence (e.g. shipping documents) to verify the validity of the transactions (A766).

(78) In his letter dated 19 May 2014, the Respondents stated that the sales transactions and sales cut-off test had included the checking of shipping documents and third party evidence. However, there was no such documentation in the working papers.

Facts and circumstances in support of Complaints 7 and 8

(79) According to paragraph 9 of HKSA 210, a practice shall agree the terms of the audit engagement with management or those charged with governance, as appropriate.

(80) During the initial visit, it was found that the Practice did not obtain an engagement letter for long established clients, including Client W. The engagement letter of Client C did not contain the terms in relation to the compliance audit engagement. The Respondent agreed to undertake appropriate procedures to ensure that the Practice would issue engagement letters to all clients.

(81) In the follow up visit, it was found that this deficiency had not been adequately addressed by the Practice. The reviewer found that in relation to the audits of both Client C and Client W, there were no evidence indicating that the Practice had performed procedures to agree engagement terms between the auditor and management and/or those charged with governance before accepting or continuing with the engagements. In addition, there was no evidence of procedures performed to agree the terms of the compliance audit engagement for Client C.

(82) In his letter of 19 May 2014, the Respondent accepted the findings and undertook to rectify the problem.

Facts and circumstances in support of Complaint 9

- (83) According to paragraphs 33 and 42 of HKSAE 3000, an auditor is required to obtain sufficient appropriate evidence and document matters that are significant in providing evidence that support their conclusion in an assurance engagement other than an audit or review of historical financial statements.
- (84) During the initial visit, it was found that the Practice had not performed sufficient work to support its conclusion in the compliance report of Client C. The Practice agreed to undertake appropriate procedures to address such deficiency but the findings of the follow up visit indicated otherwise.
- (85) In a compliance report dated 23 July 2013, the Practice reported that Client C complied with the relevant rules of the Hong Kong Securities and Futures Ordinance for the year ended 31 March 2013.
- (86) The report stated that the engagement was conducted in accordance with Standards on Assurance Engagements and with reference to Practice Note 820 "The Audit of Licensed Corporations and Associated Entities of Intermediaries" ("PN 820").
- (87) The follow up visit found no evidence that the Practice had followed the guidance under PN820 in the compliance audit of Client C. Also, there was inadequate documentation or evidence showing that appropriate testing had been carried out by the Practice to support the conclusion that Client C complied with the relevant rules of the Securities and Futures Ordinance regarding client money, client securities and control over timely renewal of standing authorities. Therefore, the Practice failed to comply with paragraphs 33 and/or 42 of HKSAE 3000.
- (88) In his letter of 19 May 2014, the Respondent accepted the findings and undertook to rectify the problem in future audits.

Facts and circumstances in support of Complaint 10

- (89) Paragraphs 100.5 (c) and 130.1 of the Code require a professional accountant to maintain professional knowledge and skill at the level required to ensure that clients receive competent professional services and act diligently in accordance with applicable technical and professional standards.
- (90) In the initial practice review which took place in March 2011, a number of significant deficiencies were noted in the audit and compliance audit engagements of Client C for the year ended 31 March 2010 and in the audit engagement of Client W for the year ended 31 December 2009. Similar failures were identified in the follow up visit indicating that the Practice failed to take appropriate actions to address the deficiencies previously identified.
- (91) These repeated failures demonstrated that the Practice had not maintained professional knowledge and skill at the level required to ensure that clients receive competent professional services; and/or acted diligently in accordance with

applicable professional standards when providing professional services, in breach of paragraphs 100.5(c) and 130.1 of the Code.

3. On 23 December 2015, the Respondent admitted the complaints against him. He did not dispute the facts as set out in the complaints. The parties agreed that the steps set out in paragraphs 17 to 30 of the Disciplinary Committee Proceedings Rules ("DCPR") be dispensed with.
4. The Disciplinary Committee agreed to the parties' joint application to dispense with the steps set out in Rule 17 to 30 of the DCPR in light of the admission made by the Respondent and the Disciplinary Committee directed the parties to make written submissions on sanctions and costs.
5. The Complainant and Respondent provided their submissions on sanctions and costs on 4 and 22 February 2016 respectively. The complaints were all found proved on the basis of the admission by the Respondent.
6. In considering the proper order to be made in this case, the Disciplinary Committee has had regard to all the aforesaid matters, including the particulars in support of the Complaints, the Respondent's personal circumstances, and the conduct of the Respondent throughout the proceedings. The Respondent has been co-operative and admitted the complaints at the early stage. It is the first time he has faced such a complaint against him. The Committee considers that a reprimand will have the desired effect of improving the standards and systems necessary to bring about changes in the Respondent's working style, whilst the imposition of a penalty is designed to signal the Committee's disapproval of his conduct
7. The Disciplinary Committee orders that:-
 - (1) the Respondent be reprimanded under Section 35(1)(b) of the PAO;
 - (2) the Respondent pay a penalty of HK\$50,000 under Section 35(1)(c) of the PAO;
 - (3) the Respondent do pay the costs and expenses of and incidental to the proceedings of the Complainant in the sum of HK\$34,672 under Section 35(1)(iii) of the PAO.

Dated the 21st day of April 2016

IN THE MATTER OF

A Complaint made under Section 34(1) of the Professional Accountants Ordinance (Cap.50) (“the PAO”) and referred to the Disciplinary Committee under Section 33(3) of the PAO

BETWEEN

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

COMPLAINANT

AND

Mr. Sek Wai Tong Stonely
Membership No. A04215

RESPONDENT

ORDER & REASONS FOR DECISION

Dated the 21st day of April 2016