



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

(HONG KONG, 26 July 2019) A Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants ordered on 13 June 2019 that the name of Mr. Mo Kong Fung, certified public accountant (A30538) be removed from the register of CPAs for 12 months and a practising certificate shall not be issued to him for two years with effect from 25 July 2019. In addition, Mo was reprimanded and ordered to pay a penalty of HK\$80,000 and costs of the disciplinary proceedings of HK\$44,053.

Mo is the sole proprietor of Lacubus CPA ("Practice"). The Practice was subject to its first practice review in early 2017. Mo was responsible for the Practice's quality control system and the quality of its audit engagements.

The practice reviewer identified significant deficiencies in the Practice's system of quality control and in two of its audit engagements. In addition, Mo had deliberately attempted to mislead the practice reviewer by creating new working papers or changing other working papers after the audit report date, and making untrue statements in a meeting with the reviewer. He also falsely or recklessly provided untrue answers in a self-assessment questionnaire submitted in relation to the practice review.

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

Mo admitted the complaint against him.

The Disciplinary Committee found that Mo was in breach of the fundamental principle of integrity in sections 100.5(a) and 110 of the *Code of Ethics for Professional Accountants* (Code) and the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code. The Committee also found that Mo was in breach of 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*. The Committee further found that Mo was guilty of professional misconduct due to his blatant disregard to his obligations as a professional accountant.

Having taken into account the circumstances of the case, the Disciplinary Committee made the above order against Mo 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 more than 44,000 members and 17,100 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.

Hong Kong Institute of CPAs' contact information:

Ms Gemma Ho
Public Relations Manager
Phone: 2287-7002
Email: gemmaho@hkicpa.org.hk

Ms Rachel So
Head of Corporate Communications and Member Services
Phone: 2287-7085
Email: rachelso@hkicpa.org.hk



香港會計師公會對一名會計師作出紀律處分

(香港，二零一九年七月二十六日) 香港會計師公會轄下紀律委員會，於二零一九年六月十三日命令將巫江峰先生(會員編號：A30538)由二零一九年七月二十五日起從會計師名冊中除名，為期 12 個月，並在兩年內不向其發執業證書。此外，巫先生被譴責及須繳付罰款 80,000 港元和紀律程序費用 44,053 港元。

巫先生是澤匯會計師事務所的獨資經營者，該事務所在二零一七年年初被挑選進行首次執業審核。巫先生是事務所品質監控系統及審計項目質素的負責人。

執業審核人員發現事務所的品質監控系統及其中兩個審計項目有嚴重缺失。此外，巫先生蓄意在審計報告日期後加添或更改工作底稿，並在與審核人員會面中作出不實陳述，意圖誤導審核人員。巫先生更在執業審核的自我評估問卷中虛假或罔顧後果地作出失實回覆。

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

巫先生承認投訴中的指控屬實。

紀律委員會裁定巫先生違犯了 Code of Ethics for Professional Accountants 中第 100.5(a) 條及 110 條有關「Integrity」的基本原則，以及第 100.5(c) 條及 130.1 條有關「Professional Competence and Due Care」的基本原則。委員會同時裁定巫先生違犯了 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」。由於巫先生公然無視其作為專業會計師的責任，紀律委員會亦裁定巫先生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)條向巫先生作出上述命令。

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。公會會員超過 44,000 名，學生人數逾 17,100。

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。

香港會計師公會聯絡資料：

何玉淳女士

公共關係經理

直線電話：2287-7002

電子郵箱：gemmaho@hkicpa.org.hk

蘇煥娟女士

企業傳訊及會員事務主管

直線電話：2287-7085

電子郵箱：rachelso@hkicpa.org.hk

3. Background

- 3.1 Under Part IVA of the PAO, the Institute is empowered to carry out practice review on practice units.
- 3.2 The PRC is a statutory committee set up under section 32A of the PAO responsible for exercising the statutory powers and duties in relation to practice review under the PAO.
- 3.3 The practice reviewers, being staff members of the Quality Assurance Department of the Institute, assist and report to the PRC in carrying out those statutory powers and duties.
- 3.4 The Respondent is the sole proprietor of Lacubus CPA (Firm no.: 2217) (the "**Practice**"). The Practice was subject to its first practice review in March 2017. The Reviewer's Report which should be referred to for details in conjunction with this complaint, was issued on 15th January 2018, following submissions which commented on the dated draft Reviewer's Report received from the Practice.
- 3.5 The Respondent, being the sole proprietor and issuer of the audit reports in the name of the Practice, was responsible for the Practice's quality control system and the quality of audit engagements.
- 3.6 The practice reviewer identified significant deficiencies in the Practice's quality control system and in the following two engagements: -
 - (a) Audit of the financial statements of a private company for the year ended 31st March 2016, with audit report dated 12th November 2016 ("**Client L**"); and
 - (b) Audit of the consolidated financial statements of a private group for the year ended 31st December 2015, with audit report dated 13th September 2016 ("**Client R**").
- 3.7 The practice reviewer also found that the Respondent did not comply with the fundamental principles of integrity and professional competence and due care under the *Code of Ethics for Professional Accountants* (the "**Code**"). The nature and seriousness of the Respondent's non-compliance amount to professional misconduct.
- 3.8 The Institute wrote to the Respondent on 24th May 2018 to seek his explanations on the practice reviewer's findings to which he responded without any dispute.

4 Relevant professional standards

- 4.1 Sections 100.5(a) and (c), 110.1 and 130.1 of the Code;
- 4.2 Paragraphs 11 and 16 of Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Service Agreements” (“**HKSQC 1**”); and
- 4.3 Paragraphs 5, 7 and 8 of Hong Kong Standard on Auditing (“**HKSA**”) 230 “Audit Documentation”, paragraph 6 of HKSA 500 “Audit Evidence” and paragraphs 12 and A18 of HKSA 505 “External Confirmations”.

5 The Complaint

Complaint 1

- 5.1 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 for his failure to be straight forward and honest in relation to the practice review conducted on his Practice.

Complaint 2

- 5.2 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 for his failure to maintain an adequate quality control system in the Practice.

Complaint 3

- 5.3 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 for his failure to maintain professional knowledge and skill at a level required to ensure his clients received competent professional services.

Complaint 4

- 5.4 Section 34(1)(a)(viii) of the PAO applies to the Respondent in that his non-compliances as stated in Complaints 1 to 3 above amount to professional misconduct.

6 Facts and circumstances surrounding the Complaint

Complaint 1

- 6.1 Prior to the practice review site visit, the Respondent was informed that the working papers for the audits of Client L and Client R were to be provided to the reviewer at the

site visit for inspection.

6.2 In response to the reviewer's query, the Respondent subsequently admitted that the working papers provided by the Respondent for these engagements at the site visit were prepared after the audit report date and in reaction to the practice review ("New WP"). The New WP were created to replace the original working papers which were prepared before the issuance of the audit report ("Old WP"). The Respondent explained that his reasons for doing so were because he felt nervous about the practice review and erroneously believed that the working papers "could be amended in a perfect way".

6.3 In addition to creating new working papers for Clients L and R, the Respondent also admitted that he had created and/or changed other working papers for the purpose of the practice review. Some examples of the changes included: -

- (a) adding programmes, checklists and working papers;
- (b) replacing certain programmes, checklists and working papers with another set;
- (c) creating or amending working papers on significant items such as revenues, purchases, inventories, receivables and payables; and
- (d) amending wording in signed engagement letters, e.g. removing the outdated/incorrect wordings such as "true and fair view", "true and correct view".

6.4 The Respondent also provided misleading information to the practice reviewer: -

6.4.1 In a meeting with the practice reviewer, the Respondent stated that: -

- (a) certain forms were required to be completed in acceptance and continuance procedures;
- (b) an engagement quality control reviewer was required to complete a worksheet before issuance of the audit report; and
- (c) audit teams were required to prepare certain audit planning documents and programmes before issuance of the audit report.

However, he later admitted that this was untrue and all relevant documents which appeared to support such representations were created in reaction to the practice review.

6.4.2 Prior to the practice review, the Respondent submitted the 2016 self-assessment questionnaire ("EQS") which reported that the Practice: -

- (a) did not provide non-assurance services to its audit clients when in fact it did; and

- (b) did not get business referrals of audit clients from independent service providers but in fact had been receiving referrals on a routine basis from a service company with which the Practice was sharing office premises.

- 6.5 The creation of working papers was clearly the Respondent's deliberate attempt to mislead the practice reviewer. Further, the answers in the EQS, which were clearly untrue, were either furnished by the Respondent falsely or recklessly.
- 6.6 According to sections 100.5(a) and 110 of the Code, a professional accountant must comply with the fundamental principle of integrity which imposes an obligation to be straightforward and honest in all professional relationships.
- 6.7 The above facts, which were not disputed by the Respondent, show that the Respondent had not been straightforward and honest, in breach of the fundamental principle of integrity under the Code, which is a professional standard referred to in the PAO. As such, section 34(1)(a)(vi) applies to the Respondent in this respect.

Complaint 2

- 6.8 Paragraph 11 of the HKSQC 1 requires a practice to have a quality control system which provides reasonable assurance that the practice and its personnel comply with professional standards and issue reports that are appropriate in the circumstances.
- 6.9 Under paragraph 16 of HKSQC 1, such quality control system should address various elements including acceptance and continuance of client relationships, ethical requirements and engagement performance.
- 6.10 In addition to reviewing the working papers of Client L and Client R, the practice reviewer spot-checked ten other engagement files and found the following deficiencies:
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 - 6.10.1 There was no evidence that client acceptance and continuance procedures were completed before the Practice accepted the the appointments/reappointments. This indicates that the Practice's quality control system was not effective to address the element of client acceptance and continuance.
 - 6.10.2 There was no evidence that the audit teams had assessed the Practice's independence on provision of non-assurance services such as accounting and

secretarial services to its audit clients. This indicates that the Practice's quality control system was not effective to address the element of ethical requirements.

6.10.3 There were lack of audit documentation and procedures performed indicating that the Practice had a deficient audit methodology. Findings on Clients L and R, which are explained under Complaint 3 below, also show that the Practice's audit methodology was not compliant with the relevant auditing standards. This indicates that the Practice's quality control system was ineffective to address the element of engagement performance.

6.11 The above deficiencies, which were not disputed by the Respondent, are further explained in the Reviewer's Report in detail. Given the deficiencies, the Respondent, being the sole proprietor responsible for the Practice's quality control, failed to properly discharge his duty to ensure that the Practice has an effective system which meets the requirements under HKSQC 1. As HKSQC 1 is a professional standard referred to in the PAO, section 34(1)(a)(vi) of the PAO applies to the Respondent in this respect.

Complaint 3

6.12 Sections 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.

6.13 The Respondent was the engagement partner of the audit of Client L and Client R and issued an unqualified opinion in the respective audit reports.

6.14 As mentioned above, the Respondent admitted that the New WP in respect of Client L and Client R were prepared after the audit report date. Therefore, the New WP should not be considered as part of the audit documentation to support the opinions issued for the audits of Client L and Client R.

6.15 Since the Respondent stated that the Old WP were prepared before the issuance of the audit reports for both engagements, the reviewer obtained from the Respondent a selection of Old WP pertaining to the audit work of certain significant accounts of the financial statements of Client L and Client R for review. The difference between the Old and New WPs, which had been confirmed by the Respondent, are described in pages A7 to A12 of the Reviewer's Report.

6.16 Based on the Old WP, the reviewer found that the Respondent failed to design and perform audit procedures in order to obtain sufficient appropriate audit evidence for both engagements, as required under paragraph 6 of HKSA 500 "Audit Evidence".

6.16.1 For Client L, the working papers show the following deficiencies: -

- (a) Sales: There was no evidence of how the Respondent was able to ascertain the accuracy and completeness of sales; and that sales were properly recorded in the appropriate period.
- (b) Purchases: There was no evidence of how the Respondent was able to ascertain the accuracy and completeness of purchases.
- (c) Trade receivables: There was no evidence of audit work on trade receivables other than the filing of a trade receivables aging report.
- (d) Trade payables: For the payable confirmation requests sent without replies, there was no evidence of alternative procedures done by the audit team to ascertain the accuracy of the account balance.
- (e) Inventory: There was no information showing how the Respondent had ascertained the accuracy of the inventory account given the working papers did not show the (i) details of items selected for inventory count; (ii) results of inventory count; and (iii) details regarding an "inventory price testing" performed.

6.16.2 For Client R, the working papers for the PRC Subsidiary A and PRC Subsidiary B show that inadequate audit procedures had been performed to ascertain the accuracy of the following significant accounts: -

- (a) Sales: There was no evidence that sales transaction test and sales cut-off test had been performed.
- (b) Purchases: There was no evidence that purchase transaction test and purchase cut-off test were performed.
- (c) Trade receivables and payables: There were inadequate procedures performed on these accounts such as lack of alternative procedures on non-replied confirmation and subsequent settlement tests.

6.17 As shown in pages A7 to A12 of the Reviewer's Report, some of the audit procedures not evidenced in the Old WP were shown to have been done in the New WP. However, the Reviewer's Report shows how the New WP were still inadequate to address the audit deficiencies identified in the Old WP.

6.18 The Respondent's submissions seemed to suggest that some audit procedures set out in

the New WP might have been performed before the audit report date. Even if that were true, those audit procedures were not documented before the issuance of the audit reports and as such, the Respondent did not comply with the requirement under HKSA 230 "Audit Documentation" which required the auditor to prepare documentation that provides a sufficient and appropriate record of the basis for the audit reports.

- 6.19 The above audit deficiencies, together with those identified by the reviewer in the spot-checking of ten other audit engagements as mentioned in Complaint 2, show that the Respondent lacks professional competence and due care, in that he failed to maintain the professional knowledge and skill at the level required to ensure his clients received competent professional services, and act diligently in accordance with applicable auditing standards.
- 6.20 On this basis, the Respondent failed to comply with the fundamental principle of professional competence and due care in accordance with sections 100.5(c) and 130.1 of the Code. As the Code is a professional standard referred to in the PAO, section 34(1)(a)(vi) of the PAO applies to the Respondent in this respect.

Complaint 4

- 6.21 The conduct of adding and amending working papers to mislead the practice reviewer and making false and/or misleading representations to the Institute was unprofessional and casted serious doubt on the Respondent's integrity (Complaint 1).
- 6.22 In addition, the facts and circumstances in support of Complaint 2 revealed that the Respondent failed to ensure his Practice implemented an effective quality control system to ensure its audit quality. As a result, it was no surprise that deficiencies were identified in the audits of Client L and Client R which pointed to the serious lack of professional competence and due care on the part of the Respondent when carrying out professional work (Complaint 3).
- 6.23 The severity of the Respondent's failures as explained in Complaints 1 to 3 above demonstrate a blatant disregard to his obligations as a professional accountant and the requirements under the professional standards and amounts to professional misconduct.

7. The Order

7.1 The Disciplinary Committee having considered all the documents available, the respective submissions made by the representative of the Complainant and the Respondent, the Confirmation by Respondent dated 21st November 2018, and the facts and circumstances as a whole, ordered that:-

- (a) the Respondent be reprimanded under section 35(1)(b) of the PAO;
- (b) the Respondent pay a penalty of HK\$80,000.00 under section 35(1)(c) of the PAO;
- (c) a practising certificate shall not be issued to the Respondent for 2 years effective from 42 days from the date hereof under section 35(1)(db) of the PAO;
- (d) the Respondent be removed from the register of CPAs for 12 months effective from 42 days from the date hereof under section 35(1)(a) of the PAO; and
- (e) the Respondent do pay the costs and expenses of and incidental to the proceedings of the Complainant in the sum of HK\$44,053.00 under section 35(1)(iii) of the PAO.

7.2 The decision was made by the Disciplinary Committee's members. All 5 members of the Disciplinary Committee agree with the decision.

Dated 13 June 2019

Mr. LEUNG, Ka Yau
Chairman
Disciplinary Panel A

Ms. HO, Man Kay, Angela
Disciplinary Panel A

Mr. Robin Gregory D'SOUZA
Disciplinary Panel A

Mr. CHAN, Kin Man, Eddie
Disciplinary Panel B

Mr. TSANG, Tin For
Disciplinary Panel B