

BACKGROUND

2. The Respondent is a certified public accountant (practising) and the sole proprietor of Billy C.W. Cheung & Co. (firm no. 2096) (the “**Practice**”).
3. The Practice has no staff and the Respondent therefore is solely responsible for the quality of the Practice audit and compliance engagements, as well as the Practice’s quality control system.
4. The Practice had issued about 360 audit reports to about 240 audit clients (approximately 20 per month) within an eighteen-month period ended two months before the date of the practice review. The total audit fees involved was about HKD \$2,600,000.00.
5. The Practice was subject to a second full scope practice review which was concluded in February 2022. At the time of the practice review, the Practice reported that it had engaged subcontractors to perform its audit work.
6. The auditor’s reports reviewed stated that the audits were conducted in accordance with the then applicable Hong Kong Standards on Auditing (the “**HKSA**”).
7. The practice reviewer (“**Reviewer**”) found the following:
 - 1) The Respondent provided false and/or misleading representations to the Reviewer, and false answers in the 2020 practice review self-assessment questionnaire (the “**EQS**”), which was submitted on 30 July 2020.
 - 2) In response to the prospect of the practice review, the Respondent had created audit evidence and working papers of the engagements for Client M and Client L subsequent to the completion of those audits.
 - 3) The Respondent had manipulated the client lists provided to the Reviewer in an attempt to keep the engagements with no working papers from being selected for the practice review.
 - 4) For most of the Practice’s engagements, little or no audit work had been done prior to issuing the audit reports, such that there was not in existence any audit working paper or audit file.
 - 5) A number of significant deficiencies in the Practice’s quality control system and performance of the reviewed engagements.

8. As a result of the practice review, the Respondent is facing four Complaints. Complaints 1 to 3 are that section 34(1)(a)(vi) of the Professional Accountants Ordinance (Cap.50) (the “PAO”) applies to the Respondent in that the Respondent failed or neglected to observe, maintain or otherwise apply a professional standard:
 - 1) For making false or misleading statements in relation to the practice review, making false answers in the EQs and the issuing of audit and compliance reports with little or no work done (the “Complaint 1”);
 - 2) In respect of his audits of (i) Client M for the year ended 30 June 2019 (audit report dated 23 June 2020); and (ii) Client L for the year ended 31 March 2019 (audit report dated 11 November 2019) (the “Complaint 2”);
 - 3) For his failure to maintain an adequate quality control system in the Practice (the “Complaint 3”).
9. As a result of the Respondent’s failure to comply with multiple professional standards in Complaints 1 to 3, the Respondent is guilty of professional misconduct under section 34(1)(a)(viii) of the PAO (the “Complaint 4”).

THE COMPLAINTS

COMPLAINT 1

10. The Code of Conduct for Professional Accountants (the “COE”) is a professional standard referred to in section 34(1)(a)(vi) of the PAO.
11. R111.1 under Chapter A of the COE provides that:

A professional accountant shall comply with the principle of integrity, which requires an accountant to be straightforward and honest in all professional and business relationship
12. Rule 111.2 under Chapter A of the COE further provides that:

A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the accountant believes that the information:

 - (a) Contains a materially false or misleading statements;
 - (b) Contains statements or information provided recklessly; or
 - (c) Omits or obscures required information where such omission or obscurity would be misleading.

13. Complaint 1 concerns the integrity of the Respondent and consists of the Respondent submitting incomplete client lists to the practice reviewer, creating and amending audit working papers, and providing false answers in the practice review EQS.
14. As such, the Complainant submits that the Respondent intended to mislead the Institute by submitting false EQS answers to create a lower risk profile to avoid a practice review on the Practice, in breach of R111.1 and R111.2 under Chapter A of the COE.
15. Further, that the Respondent simply signed the reports prepared by subcontractors without performing any audit work and received substantial profit from such operation, which is why the Respondent would issue about 360 reports in 18 months.

COMPLAINT 2

16. Rule 113.1 under Chapter A of the COE provides that:

A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to:

- (a) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and,
 - (b) Act diligently and in accordance with applicable technical and professional standards.
17. The audit working papers of Client M and Client L were subsequently created by the Respondent in reaction to the practice review. Notwithstanding, in those subsequently created audit working papers, the reviewer still found a number of breaches of the Hong Kong Standards of Auditing (the “HKSA”), including the following:
 - 1) HKSA 500 “*Audit Evidence*”, design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence;
 - 2) HKSA 330 “*The Auditor’s Responses to Assessed Risks*”, design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls, and document the audit procedures performed;

- 3) HKSA 240 “*The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*”, conduct fraud inquiry of client management;
 - 4) HKSA 230 “*Audit Documentation*”, document the details of the transaction test on bank payment and receipt;
 - 5) HKSA 500, perform searching for unrecorded liabilities to obtain sufficient evidence that the liabilities owed by the company had not been understated;
 - 6) HKSA 520 “*Analytical Procedures*”, design and perform analytical procedures to assess whether the financial statements are consistent with the auditor’s understanding of the entity; and,
 - 7) HKSA 560 “*Subsequent Events*”, perform subsequent event review to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of auditor’s report that require adjustment of, or disclosure in, the financial statements have been identified.
18. As such, the Complainant submits that the Respondent failed to complete the audits in compliance with the principle of professional competence and due care, in breach of R113.1 under Chapter A of the COE.

COMPLAINT 3

19. The Hong Kong Standard on Quality Control 1 (the “**HKSQC 1**”) generally requires all firms of professional accountants to establish and maintain an adequate system of quality control which meets the requirements under the standard.
20. Complaint 3 concerns breaches of the following standards and provisions:

Client acceptance and continuance

- 1) Paragraphs 26 to 28 of the HKSQC 1, that a practice is required to establish policies and procedures for client acceptance and continuance, which enables a 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.
- 2) Section 400.52 under Chapter C of the COE requires an auditor to consider whether limitations on the scope of his work are likely to be imposed by the client which may infringe his statutory duties as an auditor, when deciding whether to accept an audit appointment or reappointment.

Independence ethical requirements

- 3) Paragraphs 21 of the HKSQC 1, requires a practice to establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel maintain independence where required by relevant ethical requirements. Such policies and procedures shall enable the practice to identify the threat to independence and to take appropriate action to eliminate the threats or reduce the threats to an acceptable level.
- 4) Paragraph 24 of the HKSQC 1, further states that the firm shall obtain annual written confirmation of compliance with its independence policies and procedures from all the firm personnel required to be independent.
- 5) R523.3 under Chapter A of the COE, that a firm shall not serve as an officer (which is defined in the Companies Ordinance as including a company secretary) of its audit client.

Safe custody, accessibility and retrievability of engagement documentation

- 6) Paragraph 46 of the HKSQC 1, requires a practice to establish policies and procedures to maintain safe custody, accessibility and retrievability of engagement documentation.

Engagement performance

- 7) Paragraph 32 of the HKSQC 1, requires a practice to establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards.

Human resources

- 8) Paragraph 29 of the HKSQC 1, requires a practice to establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the necessary competence and capabilities to perform engagements in accordance with professional standards.

21. As such, the Complainant submitted the following:
 - 1) That, the Practice failed to provide for an adequate quality control system in the Practice;
 - 2) That, the Practice failed to comply with section 400.52 under Chapter C of the COE and paragraphs 26 to 28 of the HKSQC 1.

- 3) That, the Practice failed to comply with paragraphs 21 and 24 of the HKSQC 1.
- 4) That, the Practice acted as the company secretary of its audit clients in breach of R523.3 under Chapter A of the COE.
- 5) That, the Practice failed to comply with the ethical requirements of HKSQC 1.
- 6) That, the Practice had no policies and procedures in place to ensure the safe custody, accessibility and retrievability of the subcontracted audit files, in breach of paragraph 46 of the HKSQC 1.
- 7) That, the Respondent admitted to the practice reviewer that no audit working papers were prepared for most of the engagements of the Practice, which is corroborated by the Respondent's written admission dated 7 July 2021, Appendix 5 to the PRC complaint letter dated 9 June 2022.
- 8) That, the Respondent failed to perform the necessary audit procedure or any audit procedure in the audit engagements of Clients S1 to S4.
- 9) That, the Respondent breached paragraph 32 of the HKSQC 1.
- 10) That, the Respondent failed to ensure that the Practice had established effective policies and procedures to ensure that its audit reports issued were appropriate in the circumstances, in breach of HKSQC 1.
- 11) That the Practice has failed to establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the necessary competence and capabilities to perform engagements in accordance with professional standards in breach of paragraph 29 of the HKSQC 1.

COMPLAINT 4

22. The Complainant submits that the Complaints 1 to 3 show that the Respondent had:
(a) serious integrity issues (Complaint 1); (b) failed to demonstrate that he had the required professional competence and due care (Complaint 2); and (c) failed to manage the Practice properly (Complaint 3).
23. That, the Respondent's failures demonstrate a blatant disregard of professional standards and represent a behavior that falls below the standard expected of a certified public accountant, which conduct has a serious impact on the profession's reputation.

24. As such, that the Respondent is guilty of professional misconduct under section 34(1)(a)(viii) of the PAO, misconduct which goes to the fitness to practice (see *Registrar of the Hong Kong Institute of Certified Public Accountants v Tang Chung Wah CACV 60/2020, [2022] HKCA 1421, per Chu JA, at paragraph 50*).

THE PROCEEDINGS / CONSIDERATIONS

25. On 5 September 2022, the Institute constituted a disciplinary committee under section 33(3) of the PAO to deal with the Complaints (the “**Disciplinary Committee**” or “**Committee**”).
26. The Complainant filed its case on 19 October 2022 (the “**Complainants Case**”), and checklist on 3 February 2022 (the “**Complainants Checklist**”). The Respondent did not file its case or checklist.
27. On 3 February 2022, the Complainant also filed submissions on the future conduct of the proceedings in light of the Respondent’s persistent failure to comply with the procedural timetable and directions to file the Respondent’s Case dated 3 February 2023 (3 pages), including the case *Registrar of the Hong Kong Institute of Certified Public Accountants and another v Chan Yui Hang and others CACV 226/2019 dated 14 April 2022*.
28. On 22 February 2023, the Chair of the Disciplinary Committee made the following directions:
- 1) The Committee notes that the Respondent has not filed his Respondent’s Case to respond to the specific complaints against him, and also he has not filed checklist as at 22 February 2023.
 - 2) The conduct of the Respondent throughout the current proceedings as manifested above evidences that the Respondent has no intention to participate in these proceedings. In the circumstance, to hold a substantive hearing where the Respondent would in all likelihood not participate in would not be a meaningful exercise.
 - 3) In view of the above, the Committee directs that the Respondent shall file the checklist within 14 days from the date of this direction.

- 4) If the Respondent failed to file the checklist within 14 days, and in the absence of any valid written explanation by the Respondent, the Committee directs that a substantive hearing be dispensed with and that the Committee will proceed to determine whether the Complaint is established based on the documents and submissions filed without a hearing, unless an objection is received by the Respondent in writing within 14 days thereafter.”
29. On 29 March 2023, the Disciplinary Committee having not received any objection or any reply from the Respondent by the deadline of 24 March 2023, dispensed with the substantive hearing and proceeded to determine whether the Complaints are established based on the documents filed, including the following:
 - 1) A letter from the PRC to the Registrar of the Institute dated 9 June 2022 (12 pages), which set out in detail the four Complaints against the Respondent, including enclosures labelled Appendix 1 (Reviewer’s Report), Appendix 2 (Audit working papers of Client M for the year ended 30 June 2019), Appendix 3 (Audit working papers of Client L for the year ended 31 March 2019), Appendix 4 (Confirmation of the Incomplete First Client List dated 30 June 2021), Appendix 5 (Respondent’s admission of omitted engagements dated 7 July 2021), Appendix 6 (Third Client List provided by Respondent on 11 August 2021), Appendix 7 (Confirmation of amending and creating working papers), Appendix 8 (2020 practice review self-assessment questionnaire), Appendix 9 (PRC Decision letter dated 25 March 2022), and Appendix 10 (Extracts of relevant professional standards);
 - 2) The Complainant’s Case; and,
 - 3) The Complainant’s Checklist.
 30. On 23 May 2023, the Disciplinary Committee found that all the Complaints against the Respondent are proven. The Disciplinary Committee directed the parties to make submission on sanctions and costs within 14 days.
 31. On 1 June 2023, the Clerk to the Disciplinary Committee filed her statement of costs of these proceedings in the sum of HKD \$8,005.00.
 32. On 6 June 2023, the Complainant filed its detailed submissions on sanctions and costs, including Appendix 1 (D-21-1730P Yip Wai Wing precedent), Appendix 2 (D-20-1584P Mok Ching Ho precedent) and Appendix 3 (statement of costs for the Complainant of HKD \$62,678.00, including the Clerk’s costs of HKD \$8,005.00) (the “**Complainant’s Submissions**”).

33. On 7 June 2023, the Clerk to the Disciplinary Committee called the Respondent on his mobile phone and office telephone numbers but the Respondent could not be reached. Messages were left with the pager center and the Respondent's colleagues to return her calls but the Respondent did not return any of her calls.
34. The Respondent did not file any submission on sanctions and costs, nor provide any written explanation for failing to do so, and on 26 June 2023, the Disciplinary Committee proceeded to determine the sanctions and costs to be imposed.

SANCTIONS AND COSTS

35. After having reviewed the Complainant's Submissions and all documents filed in these proceedings, we determine the seriousness of the Complaints as 'very serious' and that the costs of the Complainant and Clerk to the Disciplinary Committee were reasonable and ought to be borne by the Respondent in full.
36. The Respondent's conduct has brought the profession into disrepute and is not in the public interest, as such a sentence to deter such conduct is justified. Further, the Respondent did not admit the Complaints and ignored these proceedings.
37. The Disciplinary Committee orders the following sanctions and orders:
 - (a) The Respondent be reprimanded under section 35(1)(b) of the PAO;
 - (b) The name of the Respondent be removed from the register of certified public accountants for four years under section 35(1)(a) of the PAO, and it shall take effect on the 42nd day from the date of this order;
 - (c) The practicing certificate issued to the Respondent be cancelled under section 35(1)(da) of the PAO and it shall take effect on the 42nd day from the date of this order;
 - (d) The Respondent do pay a penalty of HKD \$100,000.00 under section 35(1)(c) of the PAO; and,
 - (e) The Respondent do pay the costs and expenses of and incidental to the proceedings of the Complainant and that of the Disciplinary Committee in full, totaling HKD \$62,678.00 under section 35(1)(iii) of the PAO.

Dated: 7th day of November 2023

Ms. Yang, Elizabeth Ling
(Chairman)

Ms. Lau, Yuk Kuen
(Member)

Mr. Chau, Chi Chung
(Member)

Mr. Lee, Chi Man
(Member)

Mr. Miu, Liong, Nelson
(Member)