

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