

IN THE MATTER OF

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

BETWEEN

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

COMPLAINANT

AND

Mr. Yip Wai Wing (A36410)

RESPONDENT

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

Members: Ms. KOO, Kar Chun, Anna (Chairman)
Mr. CHUNG, Kwok Fai
Mr. LIN, James C
Mr. LAI, Yat Hin, Adrian
Mr. LEONG, Jonathan Russell

ORDER AND REASONS FOR DECISION

1. This is a complaint made by the Practice Review Committee (the “**PRC**” or “**Complainant**”) of the Hong Kong Institute of Certified Public Accountants (the “**Institute**”) against Mr. Yip Wai Wing, a practising certified public accountant (the “**Respondent**”).
2. Sections 34(1)(a)(vi) and 34(1)(a)(viii) of the Professional Accountants Ordinance (the “**PAO**”) applied to the Respondent.

3. The particulars of the Complaints as set out in a letter from the PRC to the Registrar of the Institute dated 27 October 2021 (the “**Complaints**”) are as follows.

BACKGROUND

4. The Institute’s Quality Assurance Department (the “**QAD**”) concluded a practice review on Nic Yip & Co. (Firm No.: 2434) (the “**Practice**”) in November 2020, and issued a Reviewer’s Report dated 11 February 2021. The staff of QAD (the “**Reviewers**”) conducted the review during the period from August 2020 to November 2020.
5. The Respondent was the sole proprietor of the Practice registered in the middle of 2016. The Practice had close to 480 audit clients (comprising more than 700 audit engagements) in the period from December 2018 to June 2020 (the “**Relevant Period**”) which was subject to the practice review. The Practice did not have listed or regulated clients.
6. The practice review revealed significant findings which led to concerns over the Respondent’s integrity and his lack of professional competence and due care, demonstrated by his conduct in reaction to the practice review, and the Practice’s almost non-existent quality control system and lack of audit quality in the Practice’s engagements. The multitude and significance of these deficiencies amount to professional misconduct.
7. Before issuing the Reviewer’s Report, there were two exit meetings held for the practice review on 9 October 2020 and 13 November 2020. There was a follow-up meeting held on 16 October 2020. The Respondent did not dispute the findings of the Reviewers. The dated draft report was sent to the Respondent who, through his solicitors, indicated that he has no further comments. The Respondent also admitted through his solicitors that the audit procedures done were insufficient and he should have done more.
8. As such, the PRC decided to raise a complaint against the Respondent under section 32D(5) of the PAO.

THE COMPLAINTS

Complaint 1

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 the fundamental principle of integrity in relation to the practice review conducted on the Practice.

Complaint 2

10. Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply professional standards for his failure to maintain an adequate quality control system in the Practice.

Complaint 3

11. Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply professional standards in relation to certain material accounts in the audit of Client A's financial statements for the year ended 30 March 2019.

Complaint 4

12. Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he failed or neglected to observe, maintain or otherwise apply professional standards in relation to certain material accounts in the audit of Client B's financial statements for the year ended 31 December 2018.

Complaint 5

13. 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 the level required, and act diligently and in accordance with applicable professional standards, to ensure his clients receive competent professional services.

Complaint 6

14. Section 34(1)(a)(viii) of the PAO applies to the Respondent in that his non-compliances as stated in Complaints 1 to 5 above amount to professional misconduct.

FACTS AND CIRCUMSTANCES IN SUPPORT OF COMPLAINTS

COMPLAINT 1

15. The fundamental principle of integrity under sections 100.5(a), 110.1 and 110.2 (section 110.1A1(a), subsections R111.1-2 of Chapter A) of the *Code of Ethics for Professional Accountants* (the "Code") requires a professional accountant to be straightforward and honest, and not knowingly be associated with information which contains false or misleading statements; or information furnished recklessly.

16. The Respondent admitted to the Reviewers that the Practice performed no or minimal audit work on approximately 85% of the audit engagements as listed in the Client List. Of the 728 audit engagements listed in the Client List, the Respondent identified that only 155 engagements have some sort of working paper files (hardcopy or softcopy, or both). In other words, close to 80% of the auditor's reports issued by the Practice during the Relevant Period did not have any supporting working papers. The Reviewers verified five such auditor's reports, which were issued by the Practice without any supporting audit files.
17. A typical audit report would contain the Respondent's statements to the effect that he has conducted the audit in accordance with the relevant auditing standards, and that he believes that the audit evidence obtained is sufficient and appropriate to provide a basis for the audit opinion. Such statements are therefore false and/or misleading. Also, the auditor's reports were being furnished by the Respondent recklessly.
18. Moreover, the Respondent also created working papers, and provided false information in attempts to mislead the Reviewers.
19. For the practice review, the Respondent was informed that the audit engagements of Client A and Client B had been selected for inspection; and Client C had been selected by the Reviewers in the review of client acceptance procedures.
20. During the 1st exit meeting held between the Reviewers and the Respondent on 9 October 2020, the Respondent admitted in writing that working papers had been created for Clients A, B, and C in reaction to the practice review. These working papers covered areas such as engagement continuance (for Clients A and B), client acceptance (for Client C), risk assessment, certain audit work schedules or audit programs.
21. In addition, in an attempt to mislead the Reviewers to believe in the existence and proper archiving of engagement files, the Respondent admitted that the "file assembly dates" stated in the "Audit Report Register" were not actual file assembly dates, but were "target" dates which fell within 60 days after the date of auditor's reports as required by paragraph 14 of Hong Kong Standard on Auditing ("HKSA") 230 *Audit Documentation*. The "Audit Report Register" itself was also prepared in reaction to the practice review.
22. The Respondent also reported false information in the 2018 and 2020 self-assessment questionnaires (the "EQS") by stating that the Practice had (a) implemented file assembly policies and procedures; and (b) no sub-contractors and business referrals. Paragraph 21 above demonstrated that the Practice in fact did not have file assembly policies and procedures in place as the file assembly dates were fabricated in the Audit

Report Register. With respect to sub-contractors and business referrals arrangements, paragraph 28 below shows that the Respondent made false declarations in the EQS.

23. The creation of working papers was clearly the Respondent's deliberate attempt to mislead the Reviewers. Further, the information as provided in the Audit Report Register and the EQSs, which were clearly untrue, were either furnished by the Respondent falsely or recklessly.
24. The above facts, which were not disputed by the Respondent or his legal representative, show that he had not been straightforward and honest, and was also knowingly associated with information which contained false or misleading statements, or furnished recklessly.
25. Therefore, the Respondent failed to comply with 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

26. 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* ("HKSQC 1") requires all practices of professional accountants to establish and maintain an adequate system of quality control which meets the requirements under the standard. The Respondent was responsible for the Practice's quality control system and its compliance with HKSQC 1.

Human Resources

27. Paragraph 29 of 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.
28. Based on the Respondent's representations, the audit engagements concerning the Practice were conducted by its employees as well as sub-contractors. The Practice had signed employment contracts with 11 individuals, who were divided into three engagement teams. Five of these individuals were sub-contractors who were commonly known as "sampan". Notwithstanding the purported employment contracts, according to the Respondent, there was no actual employment relationship with these five individuals; while the other six individuals were "true" audit staff. There were two other part-time staff who acted as sub-contractors. With respect to the sub-contractors, the Respondent had a profit-sharing arrangement with them under which, the sub-contractors would receive 70% of the audit fee by referring audit clients to the Practice and carried out all the related audit work. The Respondent would

receive 30% of the fees and would simply review the draft financial statements prepared by the sub-contractors and raised audit issues (if any). The Respondent would not review any working papers nor involve in the engagement performance. The sub-contractors would then clear the audit issues raised by the Respondent and arranged sign-off of the auditor's reports. This business arrangement started in 2016, and covered a significant portion of the Practice's engagements.

29. As explained in paragraph 16 above, it was revealed that a majority of the Practice's engagements (including those conducted by the sub-contractors) did not have working paper files to show that adequate audit work, if any, had been performed to support the audit opinions being issued. What the Respondent told the Reviewers in paragraph 28 above is consistent with the findings in paragraph 16.
30. The above shows that the Respondent failed drastically to maintain sufficient human resources that could provide the required competence and capabilities to carry out the audits in accordance with professional standards, in breach of paragraph 29 of HKSQC 1.

Engagement performance

31. Paragraph 32 of 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.
32. The Respondent failed to comply with this requirement because the Practice failed to:
 - (a) perform any audit work to support the auditor's reports issued for close to 80% of the audit engagements during the Relevant Period (paragraph 16 above); and
 - (b) for two engagements selected for the practice review, comply with the relevant professional standards in carrying out its audits (see Complaints 3 and 4 below).

Relevant ethical requirements

33. Paragraphs 20 to 22 of HKSQC 1 requires a practice to establish policies and procedures designed to provide it with reasonable assurance that it and its personnel comply with relevant ethical requirements, including independence.
34. Section 290.10 (section R400.11-12 of Chapter A) of the Code requires an auditor to perform an assessment of independence which included identifying and evaluating threats to independence.
35. The Respondent admitted that the relevant working papers in support of the independence assessments in the audits of Client A and Client C were created in

reaction to the practice review. In other words, there was no evidence that an independence assessment was performed at all at the time of the relevant audits.

36. As for Client B, it was revealed during the practice review that the company who acted as its Company Secretary was in fact owned by the audit manager of the engagement. Yet, the same audit manager signed off Client B's working paper "Engagement Risk Assessment – Worksheet" indicating that no issues / threats to independence were identified. By failing to identify the association between the Company Secretary of Client B and the engagement staff, the auditor apparently failed to perform an adequate assessment of independence in the said audit.
37. The above demonstrated that in the audits of Clients A, B, and C, the Practice failed to comply with the relevant ethical requirements in the Code in relation to independence assessment. As such, the Respondent failed to comply with paragraphs 20 to 22 of HKSQC 1 in that the Practice did not have the relevant policies and procedures in place.
38. Based on paragraphs 26 to 37, with the Practice's failure to establish and maintain a system of quality control that included policies and procedures to address the elements of human resources, engagement performance, and relevant ethical requirements, the Respondent also failed to comply with paragraph 16 of HKSQC 1.
39. As HKSQC 1 is a professional standard under the PAO, section 34(1)(a)(vi) applies to the Respondent.

COMPLAINT 3

40. Client A was a private group. The Practice issued an unmodified opinion on its consolidated financial statements for the year ended 31 March 2019 (the "Client A FS") on 13 August 2019. Its principal activity was investment holding, and its only wholly-owned subsidiary was principally engaged in diagnostic services. The audit materiality was determined at HK\$308,047.

Amounts due to related companies

41. Client A FS reported two material amounts: (a) Loans from ultimate holding company of HK\$8.7 million and (b) Loan from fellow subsidiary of \$1.2 million. Based on the working papers, these two items comprised of balances recorded in the books of Client A and its subsidiary as follows:

	Client A	Client A's subsidiary	Total
Loan from ultimate holding company	\$4,595,326	\$4,070,000	\$8,665,326
Loan from fellow subsidiary	\$700,000	\$500,000	\$1,200,000

42. Audit confirmations had been received with respect to the amounts owed by Client A. However, the confirmation requests sent with respect to the amounts owed by Client A's subsidiary were not returned. There was no evidence of any alternative procedures being performed in this regard. As such, the Respondent failed to comply with paragraph 12 of HKSA 505 *External Confirmations*.
43. Given the use of audit confirmations was the only procedure performed in the audit of these accounts, in the absence of returned confirmations or performance of alternative procedures for non-replies concerning the material amounts owed by Client A's subsidiary, the Respondent failed to obtain sufficient appropriate audit evidence to support the amounts due to related companies as reported in Client A FS, in breach of paragraph 6 of HKSA 500 *Audit Evidence*.

Service income

44. Client A FS reported diagnostics service income of approximately HK\$22 million, of which approximately HK\$460,000 were cash sales.
45. The cash sales amount was material; however, according to the working papers, there were no transaction tests performed due to its immateriality (which was an incorrect assessment) apart from the cut-off test. In this regard, the auditor had only checked whether the last five cash sales transactions of the year were recorded in the correct period. There was no evidence that the auditor had obtained reasonable assurance to ascertain the \$460,000 cash sales were properly / accurately recorded.
46. As such, the Respondent failed to obtain sufficient appropriate audit evidence to support the revenue as reported in Client A FS, in breach of paragraph 6 of HKSA 500.
47. As HKSAs are professional standards under the PAO, section 34(1)(a)(vi) applies to the Respondent.

COMPLAINT 4

48. Client B was a private entity the principal activity of which was investment holding. The Practice issued an unmodified opinion on its financial statements for the year

ended 31 December 2018 (the “Client B FS”) on 29 March 2019. The audit materiality was determined at approximately HK\$5.2 million.

Equity Investments

49. Client B FS reported equity investments designated at fair value through other comprehensive income (the “**Equity Investments**”) of approximately HK\$274 million. The irrevocable designation in 2018 (the same investments were designated as “available for sale” in 2017) was explicitly stated in Note 10 to Client B FS, and the accounting policy as disclosed in Note 3 stated that the Equity Investments were not subject to impairment assessment. Accordingly, Client B was required to recognize changes in fair value of the Equity Investments in other comprehensive income (“**OCI**”) in accordance with the relevant requirements in the Hong Kong Financial Reporting Standard 9 *Financial Instruments* (the “**HKFRS 9**”).
50. However, Client B reported “Impairment losses on equity investments designated at fair value through other comprehensive income / available for sale investment” of HK\$82 million before the “loss for income tax” item in the “Statement of profit or loss and other comprehensive income”. The fact that the change in fair value in 2018 was presented in the same line item as the impairment loss recognized in 2017 on the “available for sale investment” indicated that the classification and presentation of this item were not made in compliance with the requirements in HKFRS 9.
51. There was no evidence that the auditor had identified any of the irregularities in this material disclosure. As such, the Respondent failed to comply with paragraphs 12 to 14 of HKSA 700 *Forming an Opinion and Reporting on Financial Statements* in that he failed to properly evaluate whether Client B FS were prepared in accordance with the requirements of the applicable financial reporting framework (i.e. HKFRS 9).

Amount due from a fellow subsidiary

52. Client B FS reported an amount due from fellow subsidiaries of approximately HK\$8.5 million, which was unsecured, interest-free and repayable on demand. Based on the working paper, this amount arose from the conversion of a loan of approximately US\$1.1 million at an exchange rate of 7.8.
53. There was no evidence of any audit procedures performed in respect of this loan except for an audit confirmation filed in the working papers. However, the audit confirmation signed by the fellow subsidiary showed the loan (in the same amount) in RMB, not US\$. The different currency denominations of the loan led to a potential misstatement of the converted loan balance in the amount of approximately HK\$7.3 million, which was material.

54. On the basis that the only audit evidence obtained gave rise to a material inconsistency, which the auditor seemed to have failed to identify, the Respondent did not obtain sufficient appropriate audit evidence with respect to this account as reported in Client B FS, in breach of paragraph 6 of HKSA 500.

Realized foreign exchange loss

55. Realized foreign exchange loss of close to HK\$50 million was recorded in Client B FS as part of the administrative expenses. The working papers showed that close to HK\$46 million of the exchange loss arose from two receivable balances, in the amounts of RMB 300 million and RMB 640 million respectively. The loss was related to two loan agreements.
56. The calculation of these two exchange loss amounts was dependent on the exchange rates being used on the date of the transaction. According to the working paper, the date was 9 July 2018 and the rate used was 1.1384. However, according to the loan agreements, the maturity dates of the receivables were 10 August 2018 and 11 July 2018 respectively. There was no evidence as to why 9 July 2018 was chosen. Further, the Reviewers looked up an external source and found the exchange rate on 9 July 2018 to be approximately 1.17. The resulting difference was a potential understatement of exchange loss of approximately HK\$29.7 million, which was material.
57. There was no evidence in the working papers that the auditor had tested the relevant transactions (e.g. traced to the loan agreements and bank records, and documented when the receivables were settled), including the validity of the exchange rates used and the reasonableness / accuracy of the foreign exchange loss realized.
58. Based on the above, the Respondent failed to obtain sufficient appropriate audit evidence with respect to the realized foreign exchange loss as reported in Client B FS, in breach of paragraph 6 of HKSA 500.
59. As HKSAs are professional standards under the PAO, section 34(1)(a)(vi) applies to the Respondent.

COMPLAINT 5

60. The significant deficiencies identified in Complaints 2 to 4 above pointed to the Respondent's failure to establish and maintain an adequate system of quality control in the Practice and comply with professional standards in the audits of Clients A and B.
61. The magnitude of the breaches casts serious doubts on the Respondent's professional competence and due care, whether he had maintained professional knowledge and skill at the level required to ensure that his clients received competent professional service;

and acted diligently in accordance with applicable professional standards when performing the audits, as required under sections 100.5(c) and 130 (section 110.1A1(c) and subsection 113 of Chapter A) of the Code.

62. As the Code is a professional standard referred to in the PAO, therefore, section 34(1)(a)(vi) applies to the Respondent in this respect.

COMPLAINT 6

63. The conduct of subsequent creation of working papers to mislead the Reviewers and providing false information in the Audit Report Register and the EQS was unprofessional, and casts serious doubt on the Respondent's integrity. Moreover, to issue auditor's reports recklessly when no or little audit work had been done is also an egregious breach of integrity.
64. In addition, the multiple deficiencies found in the Practice's quality control system and audit engagements indicate that the Respondent seriously failed to uphold the fundamental principle of professional competence and due care to ensure that his professional work complies with professional standards.
65. The Respondent's failures as explained in Complaints 1 to 5 above demonstrate a blatant disregard by the Respondent to the requirements of the professional standards and the fundamental principles under the Code.
66. The Respondent does not dispute the above findings during the exit meetings, which point to behaviour that falls clearly below the standard expected of a certified public accountant, and amounts to professional misconduct. Therefore, section 34(1)(a)(viii) of the PAO applies to the Respondent in this respect.

THE PROCEEDINGS

67. In a letter signed by the parties dated 3 December 2021, the Respondent admitted the Complaints against him. The parties also requested that the steps set out in paragraphs 17 to 30 of the *Disciplinary Committee Proceedings Rules* (the "DCPR") be dispensed with.
68. On 3 January 2022, the Disciplinary Committee agreed to the parties' request to dispense with the steps set out in Rules 17 to 30 of the DCPR in light of the admission made by the Respondent, and directed the parties to make written submissions on sanctions and costs by 31 January 2022.
69. Neither the Complainant nor the Respondent requested for a sanctions hearing.

70. On 19 January 2022, the Respondent applied for an extension of time of 14 days to file its submission as to sanctions and costs. On 22 January 2022, the Disciplinary Committee granted the extension in terms.
71. The Complainant and the Respondent filed their written submissions on sanctions and costs on 31 January 2022 and 14 February 2022 respectively.

DISCUSSION AND DECISION

72. The Complaints were all found proven on the basis of the admission made by the Respondent.
73. The only outstanding matter is the question of sanctions and costs which ought to be imposed upon the Respondent.
74. 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, the parties' respective submissions on sanctions and costs, and the parties' respective conduct throughout the proceedings.
75. The Disciplinary Committee is of the view that the Complaints against the Respondent are of very serious nature. In terms of costs, the Disciplinary Committee considers that the sum incurred by the Complainant and the Clerk to the Disciplinary Committee was reasonable and ought to be borne by the Respondent.

SANCTIONS AND COSTS

76. The Disciplinary Committee orders that:-
 - (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 twelve months 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 practising 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 HK\$200,000.00 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 HK\$53,737 under Section 35(1)(iii) of the PAO.

Dated: 23 May 2022

Ms. KOO, Kar Chun, Anna
Chairman

Mr. CHUNG, Kwok Fai
Member

Mr. LAI, Yat Hin, Adrian
Member

Mr. LIN, James C
Member

Mr. LEONG, Jonathan Russell
Member