

3. In the reviewer's report dated 23 November 2020 (the "**Reviewer's Report**"), the practice reviewer (the "**Reviewer**") identified a number of significant findings and deficiencies in the Practice's audit, which led to concerns over the Respondent's lack of professional competence and due care, demonstrated by the Practice's insufficient quality control policies and procedures, deficient monitoring function, and lack of audit quality in the audit of the consolidation financial statements of Client A and its subsidiaries (the "**Group**") for the year ended 31 December 2018 (the "**2018 Financial Statements**").
4. In particular, the Reviewer's Report revealed various failures on the part of the Respondent to perform audit design and planning and appropriate audit procedures, to obtain appropriate audit evidence, and to maintain an adequate system of quality control, in the following aspects:
 - (a) impairment of goodwill and investment in a subsidiary;
 - (b) disposal of a subsidiary;
 - (c) associated companies;
 - (d) sales and purchases;
 - (e) auditor's report;
 - (f) audit opinion; and
 - (g) audit methodology for Client A.
5. Having considered the Reviewer's findings and all available information, the Practice Review Committee raised a complaint against the Respondent under section 32D(5) of the Professional Accountants Ordinance ("**PAO**") as summarised below.

THE COMPLAINTS

6. By a letter dated 25 January 2022, the Complainant made the following complaint against the Respondent (the "**Complaints**"):

Complaint 1

Section 34(1)(a)(vi) of the PAO applies to the Respondent in that he had failed or neglected to observe, maintain or otherwise apply a professional standard in respect of his audit of Client A's consolidated financial statements for the year ended 31 December 2018, with auditor's report dated 8 August 2019.

Complaint 2

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

Complaint 3

Section 34(1)(a)(viii) of the PAO applies to the Respondent in that his non-compliance as stated in Complaints 1 and 2 above amounts to professional misconduct.

THE PROCEEDINGS

7. On 25 January 2022, the Complainant submitted the letter of complaint against the Respondent.
8. On 22 March 2022, the Notice of Commencement of Proceedings was issued.
9. On 6 May 2022, the Complainant filed the Complainant's Case.
10. On 16 June 2022, the Respondent filed the Respondent's Case.
11. On 21 July 2022, the Complainant filed the Complainant's Reply to the Respondent's Case.
12. On 25 August 2022, the Respondent filed the Respondent's Reply.
13. On 8 September 2022, the Complainant and the Respondent submitted their respective Checklists.
14. On 7 March 2023, the Complainant filed its opening submissions.
15. On 13 March 2023, the Respondent submitted further submissions.
16. On 28 March 2023, the substantive hearing (the "**Hearing**") was held with the attendance of the representative of the Complainant, Mr. Kelvin Lee. The Respondent was absent. The Respondent previously indicated that he had "probably no date available" for the Hearing as per his Checklist dated 8 September 2022 submitted to the Committee. The Respondent did not show up at the scheduled time for the Hearing, which was 9:30 a.m. on 28 March 2023. Despite the Respondent's indication of absence from the Hearing, the Clerk to the Committee nevertheless made various attempts to contact the Respondent by all the means of contact known to the Clerk to the Committee. However, the Respondent could not be reached, nor did the Committee receive any response from the Respondent prior to the commencement of the Hearing. Having waited for the Respondent for around half an hour, the Committee commenced the Hearing at approximately 10:00 a.m. Notwithstanding the Respondent's absence at the Hearing, due consideration was given to the submissions of the Respondent in the Respondent's Case, the

Respondent's Reply and the Respondent's further submissions received by this Committee.

17. On 11 April 2023, the Complainant submitted its written submission on sanctions and costs (the "**Complainant's Submission on Sanctions and Costs**"). On 24 April 2023, the Respondent provided his written submission on sanctions and costs (the "**Respondent's Submission on Sanctions and Costs**").

FINDINGS OF THE COMMITTEE

Complaint 1

Complaint 1 relates to various aspects in the audit of Client A by the Respondent as described in paragraph 4 above. In a nutshell, Complaint 1 concerns the lack of evidence that the Respondent had taken appropriate audit procedures to collect sufficient evidence to support his audit opinion. Contrary to what the Respondent has argued or tried to defend, Complaint 1 is not about whether the Respondent's audit opinion was correct or whether his approach had reduced market risk or protected national security.

Impairment of goodwill and investment in a subsidiary

18. Client A acquired 52% equity interests in a subsidiary ("**Sub A**") at costs of HK\$14 million. The purchased goodwill recognized at the acquisition date and carried forward to 31 December 2018 was about HK\$62.59 million. The Complainant submitted that this was material because the total net assets of Client A together with its subsidiaries and associated companies (the "**Group**") were about HK\$56.9 million. According to the unaudited management accounts of Sub A for the year ended 31 December 2018, Sub A had accumulated losses of approximately HK\$298 million and a net liability position of approximately HK\$228.2 million. Sub A also disposed of its tangible and intangible assets during the year. Hence, these were strong indication that the purchased goodwill and investment costs of Sub A should have been impaired.
19. The Committee noted that:
 - (a) paragraph 9 of the Hong Kong Accounting Standard ("**HKAS**") 36 *Impairment of Assets* requires an entity (i.e., Client A) to assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. Under paragraph 10 of HKAS 36, irrespective of whether there is any indication of impairment, the entity shall test the goodwill acquired in a business combination for impairment annually;

- (b) there was no evidence that the Respondent had identified Client A's non-compliance with HKAS 36. The Respondent submitted that the goodwill would be totally written off in the next year. However, there was no evidence in the working papers that the Respondent had taken this into consideration in preparing his audit opinion;
 - (c) the failure to identify Client A's non-compliance with HKAS 36 also shows that the Respondent had failed to obtain reasonable assurance on whether the amounts stated in the 2018 Financial Statements were free from material misstatement in accordance with the Hong Kong Standard on Auditing ("**HKSA**") 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*; and
 - (d) paragraph 10 of HKSA 700 provides that the auditor shall form an opinion on whether the financial statements are prepared, in all material aspects, in accordance with the applicable financial reporting framework. Under paragraph 11 of HKSA 700, the auditor shall take into account several factors to conclude whether he has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement.
20. The Respondent argued that the goodwill would be written off, and that if he made an impairment to goodwill ("mark down"), he would need to "mark up" other assets of his client on "fairness basis". He also submitted that he exploited loopholes in the standards of valuating goodwill so that he did not need to "mark up" goodwill.
21. Despite the Respondent's attempts to justify his divergence from the relevant professional standards, the Committee agreed that the Complaint was not that the Respondent should have made impairment to the goodwill or not. It is rather about the presence of factor(s) suggesting that impairment might be necessary. Based on the information and documents submitted by both parties, there was no evidence in the audit working papers that the Respondent as the auditor had directed his mind to consider whether impairment was necessary.
22. Further, the Complainant submitted that the Respondent did not provide explanations on which his "fairness basis" and "professional standard" were based. The Respondent also did not explain how he "exploited" the loophole in auditing goodwill, and such explanation was also absent from the Respondent's audit working papers.
23. During the Hearing, the Committee was directed to the audit planning memorandum of the Practice which showed very limited information on the audit of the goodwill, which is consistent with the investigation findings by the Complainant.

24. In light of the above, the Committee found Complaint 1 (in respect of the impairment of goodwill and investment in subsidiary) proven and the Respondent was in breach of paragraph 11 of HKSA 700.

Disposal of a subsidiary

25. According to the Reviewer's Report, Client A disposed of its equity interests of 69.41% in Subsidiary C ("Sub C") at its initial investment costs (HK\$40.7 million), but Client A retained indirectly through an associated company 25% equity interests in Sub C in 2018 (the "Disposal"). However, there was no evidence as to when exactly Client A disposed of its interests in Sub C. In this regard, the following deficiencies were identified:

- (a) no evidence was obtained or reviewed by the Respondent to verify the disposal, not even the date of disposal. The Respondent only acted upon the management's representation and the accounting journals;
- (b) although Sub C was disposed of at an unknown date in 2018, Client A ceased to consolidate the financial results of Sub C and started to equity account for Sub C at the beginning of the financial year (i.e., 1 January 2018). There was no evidence that the Respondent had evaluated whether this was appropriate and whether the financial results of Sub C had been properly accounted for; and
- (c) Client A derecognised Sub C and deducted its share of the subsidiary's accumulated losses from the Group's accumulated losses brought forward from 31 December 2017. Client A had lost the control over Sub C but the Group did not properly account for the derecognition in accordance with paragraphs 25 and B98 of the Hong Kong Financial Reporting Standard ("HKFRS") 10 *Consolidated Financial Statements*. The Practice failed to identify Client A's non-compliance with the requirement.

The Complainant submitted that these deficiencies showed that the Respondent had failed to comply with paragraph 6 of HKSA 500 *Audit Evidence*, which provides that the auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. They also showed that the Respondent had failed to comply with paragraph 11 of HKSA 700 as to whether the 2018 Financial Statements were free from misstatement.

26. Based on the Respondent's arguments, the Respondent looked at the financial statements of Client A and Sub C separately at their individual company level. The Respondent simply treated the return of investment capital from Sub C to Client A as "no gain, no loss". However, the Committee observed that:

- (a) the Respondent's argument failed to take into account that the Group's consolidated financial statements should reflect whether the investment had brought about profit or loss to the Group;
 - (b) based on the documents and information submitted by both parties, the Group had in fact recorded loss in its consolidated financial statements and it is therefore not a simple "no gain, no loss" situation from the Group's perspective; and
 - (c) the Respondent had failed to note the absence of the date of disposal of Sub C, which casted doubt on the Group's accounting treatments on Sub C. It was disappointed to note that the Respondent had relied on the management's representation without performing his own independent audit.
27. During the Hearing, the Complainant further explained that there was no legal document identified to ascertain the Disposal, nor was there any evidence collected or test performed. While the Respondent argued via his written submissions that the Disposal was not an actual transfer but in substance only a shareholders' dispute, there was, however, no evidence in the working papers to evidence the Respondent's arguments.
28. Having considered the above findings, the Committee found that the Respondent has failed to comply with paragraph 6 of HKSA 500. Deficiencies observed by the Reviewer also demonstrated that the Respondent had failed to comply with paragraph 11 of HKSA 700.
29. In light of the above, the Committee found Complaint 1 (in respect of the disposal of a subsidiary) proven.

Associated companies

30. The Reviewer's Report observed that the Group had eight associated companies, three of which were not independently audited and as a result, the Respondent gave a qualified opinion. The Complainant identified the following deficiencies in the Practice's audit of Client A:
- (a) there was no evidence that the Respondent had obtained any reliable external evidence, nor did the Respondent record what he had inspected, to verify the interests of Client A in the three unaudited associated companies;
 - (b) while Client A recognised its share of the profit or loss and reserve of the associated companies after the date of acquisition, there was no evidence in the working papers to demonstrate that sufficient audit work had been performed on the recognition involving Client A and the associated

companies. Notwithstanding the Respondent explained, among other things, that certain audit procedures were performed, the Committee observed that such procedures and the results of which were not reflected in the working papers, in particular, those in relation to:

- (i) agreeing the financial information used for the consolidation with the audited financial statements;
 - (ii) assessing whether the opinions issued by the component auditors were clean or not; and
- (c) the working papers showed that the Respondent had reviewed selected components' general ledgers with appropriate supporting documents in certain audit areas to establish the reliability of the components auditors. However, there was no documentation of the details such as the nature, extent and results of the audit work done, such as the item tested, the coverage and the supporting documents inspected.
31. The Respondent's arguments were mainly that the Complainant was "negligent" by ignoring his "factual evidence" which was submitted to the Complainant in the course of these proceedings.
32. However, the Committee observed that the alleged "factual evidence" as submitted by the Respondent in the course of these proceedings was not found in the audit working papers.
33. The Respondent also argued that whether there was a need to assess fraud risk should be based on results.
34. The Complainant submitted that in the absence of any evidence of the audit procedures performed and any evidence supporting the auditor's opinion, it is impossible to tell whether the Respondent's conclusion and opinion are correct. The Committee agreed with the Complainant in this regard.
35. Based on the above findings, the Committee found that there was a lack of independent audit of three unaudited associated companies of Client A and a lack of evidence and documentation of the audit procedures performed by the Respondent, if at all. In this connection, the Respondent had failed to comply with paragraph 6 of HKSA 500 to design and perform audit procedures that are appropriate in the circumstances, and paragraph 5 of HKSA 230 for an audit of financial statements, which states that the objective of an auditor is to prepare documentation that provides:
- (a) a sufficient and appropriate record of the basis of the auditor's report; and

- (b) evidence that the audit was planned and performed in accordance with HKSAs and applicable legal and regulatory requirements.

In light of the above, the Committee found Complaint 1 (in respect of associated companies) proven.

Sales and purchases

36. Client A had a total sales and purchases of HK\$101.3 million and HK\$99.1 million respectively in 2018, which was a substantial drop from the previous financial year (the “**Variance**”). The Complainant submitted that the following deficiencies were identified in the audit of the sales and purchases:
- (a) the Respondent had performed the turnover, gross profit and net profit ratio and the percentage changes as compared to the previous financial year. As to the explanation of the Variance, the Respondent only stated that it was due to external market competitive pressure without any evidence in support and without any analysis as to whether the Variance was reasonable. This shows that the Respondent had failed to comply with paragraphs 5 to 7 of HKSA 520 *Analytical Procedures*, which deal with, among other things, the auditor’s responsibility to perform analytical procedures. In the case of fluctuation, paragraph 7 requires an auditor to make further inquiry with the management and obtain appropriate evidence relevant to the management’s response and to perform other audit procedures as necessary;
 - (b) the Respondent provided an inconsistent response to the Reviewer on the audit procedures on the sales and purchases transactions. On the working papers, the Respondent annotated “accounting posting review, over 50% by value of sales/purchases were checked to sales/suppliers’ invoices, bill of lading, trade finance documents, settlement as to correctness, existence.” There were no details and evidence of the tests performed, such as which items had been tested, and the documents checked. When the Respondent was asked to comment, the Respondent stated that he had performed close to 100% substantive testing of the sales and purchases transactions. Again, there were no details and evidence in support of the Respondent’s latter version; and
 - (c) the Respondent did not document the nature, extent and results of the sales and purchase cut-off tests performed.
37. The Respondent submitted that he had performed a “close to 100% substantive testing” of the sales and purchases transactions. The Complainant submitted that this was merely a self-serving assertion. The Committee was unable to find any evidence in the working papers (and also in the information and documents

submitted by the Respondent) as to the alleged “close to 100% substantive testing” and what testing he had performed. The only conclusion the Committee can draw is that such an assertion was merely self-serving and was not based on any professional standards.

38. During the Hearing, the Complainant reiterated that work performed in relation to sales and purchases by the Respondent was insufficient. It was further submitted that the Respondent gave no explanation, and no analysis was performed, in his audit working papers.
39. On account of the lack of evidence and documentation which clearly shows that the Respondent had failed to obtain sufficient appropriate audit evidence in his audit work performed on the sales and purchases of Client A, the Committee found the Respondent was in breach of paragraph 6 of HKSA 500 and paragraph 5 of HKSA 230.
40. In light of the above, the Committee found Complaint 1 (in respect of sales and purchases) proven.

Auditor’s report

41. The Reviewer’s Report revealed that the auditor’s report of Client A did not fully comply with the requirements under paragraph 21 of HKSA 720 *The Auditor’s Responsibilities Relating to Other Information* that the auditor’s report shall include a separate section with a heading “Other Information” or other appropriate heading which should set out that the auditor has obtained some or all of the other information. It was submitted that since the Director’s Report of the 2018 Financial Statements also contained information other than financial statements, the Respondent should set out such information under a separate “Other Information” section.
42. Based on the information and documents submitted by both parties, the Committee observed that mandatory contents as required in paragraphs 34 and 39 of HKSA 700 were not found in the Respondent’s opinion:
 - (a) there shall be a section in the auditor’s report on “Responsibilities of Management for the Financial Statements” or other appropriate heading. Under paragraph 34, that section shall set out, among other things, the management’s responsibility to assess the entity’s ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing matters relating to going concern (paragraph 34(b)); and

- (b) there shall be a section in the auditor's report on "Auditor's Responsibilities for the Audit of the Financial Statements". Per paragraph 39(b)(iv), the auditor needs to state his responsibilities are, among other things, to conclude on the appropriateness of management's use of the going concern basis for accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
43. The Complainant also submitted that the Respondent had mistakenly stated in the auditor's report under "Director's responsibilities for the Consolidated Financial Statements" that Client A's consolidated financial statements were prepared in accordance with Hong Kong Financial Reporting Standards for Private Entities, regardless that he set out in "Qualified Opinion" that the consolidated financial statements gave a true and fair view in accordance with HKFRS. This clearly demonstrated that the Respondent did not prepare his auditor's report with the level of diligence expected of a practising Certified Public Accountant.
44. The Respondent had admitted that he did not comply with the latest auditor's report format. His explanation for such non-compliance was that he deliberately delayed adopting the latest report format as the shareholder and the director of his client were the same person. In response to the Respondent's submission, it was submitted by the Complainant that such explanations were incomprehensible and were not based on any professional standards or professional judgment. The Committee considered the Respondent's explanation totally groundless and that the Respondent had clearly demonstrated his deliberate non-compliance with the relevant professional standards.
45. Based on the above findings, it is clearly found that the auditor's report on Client A prepared by the Respondent failed to comply with the relevant requirements under the relevant professional standards as mentioned above.
46. In light of the above, the Committee found Complaint 1 (in respect of auditor's report) proven.

Audit opinion

47. The Complainant had identified deficiencies in the Respondent's audit opinion, as further elaborated below, demonstrating the Respondent's failure to comply with paragraph 8 of HKSA 230, which provides that the auditor shall prepare audit documentation sufficient to enable an experienced auditor, who have no previous connection with the audit, to understand, among other things, the audit procedures performed.

Qualified opinion

48. It was reported in the “Basis for Qualified Opinion” section in the auditor’s report prepared by the Practice that two subsidiaries (Sub A and Sub B) had not been subjected to any independent audit and the Practice was unable to establish whether the Group’s share of subsidiaries’ profits and equity were fairly stated or not. It was noted that the total assets of Sub A and Sub B contributed 17% of the Group’s assets, which included a number of material account items such as extraordinary gain, other receivables, other payables and long-term loan.
49. The Committee considered that the Practice should have considered whether the impact of the qualification was material and pervasive to the consolidated financial statements such that a disclaimer of opinion would be more appropriate. In addition, the Committee found no documentation in the working papers on the Practice’s evaluation of the pervasiveness of the potential effect(s) of the qualifications on the consolidated financial statements and hence the Practice was clearly in breach of paragraph 8 of HKSA 230.
50. The Complainant submitted that, while the Respondent argued that he was correct to give a qualified opinion, the issue in question was not whether the Respondent was correct to give a qualified opinion, but whether the Respondent had directed his mind as to whether he should provide a disclaimer in his opinion. The Committee agreed with the Complainant’s analysis.

Extraordinary gain

51. While information available to the Respondent showed the amount should be RMB32.4 million, the Respondent stated that there was an extraordinary gain of RMB23.3 million resulting from the disposal of a subsidiary in the “Basis for Qualified Opinion” (the “**Discrepancy**”).
52. The Respondent reported that no explanation for the Discrepancy was provided but explained that he had enquired about the Discrepancy. However, there was no documentation of the enquiry process or performance of other audit procedures to investigate the Discrepancy, nor was there evidence showing that the Respondent had conducted any audit procedure or evaluation on the Discrepancy. As revealed in one of the attachments to the Respondent’s submissions, the only procedure the Respondent had taken was enquiry with the management without applying any proper audit procedure to obtain independent evidence to verify the management’s representation. In addition, the Respondent admitted that there still remained a discrepancy of about RMB 1 million that could not be accounted for, but he claimed that “the benefit of the doubt went to the suspect”. He therefore ignored the discrepancy.

53. Apart from paragraph 8 of HKSA 230, the Respondent also failed to comply with paragraph 10 of HKSA 230, which requires the auditor to document discussions of significant matters with management, including the nature of the significant matters discussed, and when and with whom the discussions took place.
54. During the Hearing, the Committee was directed to the working papers and the Complainant submitted that no explanation for the Discrepancy was provided regarding the extraordinary gain. There was a document entitled “Completion Checklist” but there was nothing to demonstrate that disqualification or disclaimer was assessed as all work was marked “N/A”.
55. The Complainant further submitted that an auditor should investigate the cause of the extraordinary gain, if there is any error and the impact on the financial statements (whether there should be a disclaimer or a qualified opinion). The Committee agreed and this demonstrated that the Respondent had not directed his mind to the relevant professional standards or had just paid lip service to the same.

Key audit matters

56. In the “Key Audit Matters”, the Respondent reported a discrepancy of HK\$114 million on the current account balance between Client A and its associated company “Associate C”.
57. The Respondent made repeated self-serving assertions that he had performed a “close to 100% full check” without providing any evidence as to what the Respondent had done and what evidence he had collected.
58. The Complainant submitted that:
 - (a) reliance upon Client A’s balance was made until the discrepancy could be resolved by Client A;
 - (b) there was no evidence that the Respondent had adopted other audit procedures to investigate into the discretion and the impact on the 2018 Financial Statements;
 - (c) it is also unclear as to why such a significant amount was not included as part of the Respondent’s qualified opinion;
 - (d) the approach of adopting a “100% full check” does not appear to be based on any professional standards or carry any professional meaning; and
 - (e) once again, the issue is not whether the Respondent was wrong to set out the discrepancy in “Key Audit Matters” nor whether it was the Respondent’s

client's error in causing the discrepancy. The issue is whether there was any documentation that the Respondent had conducted any audit procedure to independently investigate into the discrepancy.

59. The Respondent argued that the issue related to the internal control of the companies, of which his client did not put much emphasis on. The Complainant submitted that the fact that an auditor's client places no emphasis on internal control does not mean the auditor does not have to perform any audit procedure. HKSA 315 *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* specifically requires an auditor to examine the internal control of the audit client.
60. It was also argued by the Respondent that the shareholder and director of his client were the same person and therefore there was no audit risk and that it was impossible for him to copy all the documents in the audit working papers. While the Complainant had accepted the Respondent's arguments that the professional standards do not require an auditor to copy all the documents in the audit working papers, paragraph 8 of HKSA 230 *Audit Documentation* requires an auditor to document the tests he had performed and the evidence he had obtained and relied upon. The Respondent should still document evidence he had inspected, the test he had performed and the results. It was again disappointing to note that the Respondent had failed to do so.
61. The Committee was unable to find any evidence in the working papers (and also in the information and documents submitted by the Respondent) as to the alleged "close to 100% full check" and what "full check" he had performed. The only conclusion the Committee can draw is that such an assertion was merely self-serving and was not based on any professional standards. In addition, the Committee considered that irrespective of the size of the Respondent's client, the Respondent is obliged to comply with professional standards. In case compliance is considered not necessary based on the Respondent's professional judgment, the Respondent is required to put such consideration to documentation. This was clearly not the case here for the Respondent.

Audit of the associated companies

62. It was reported by the Respondent that three out of eight associated companies of Client A were not independently audited, as there were no independent audited reports on these associated companies. However, there was no evaluation as to whether this would have any financial effect on the 2018 Financial Statements, nor was there work shown to have been or evidence to have been collected by the Respondent in this regard.

63. In light of the above, the Complainant submitted that the Respondent had failed to comply with paragraph 21 of HKSA 705 *Modifications to the Opinion in the Independent Auditor's Report*, which provides that if there is a material misstatement of the financial statements that relates to specific amounts in the financial statements (including quantitative disclosures), the auditor shall include in the Basis for Opinion section a description and quantification of the financial effects of the misstatement, unless impracticable. If it is not practicable to quantify the financial effects, the auditor shall so state in this section.
64. The Respondent's argument suggested that given five of the associated companies were independently audited, the interests of the three companies without independent audit accounted for only 3% of the total interest of all associated companies, which the Respondent considered immaterial.
65. The Complainant submitted that the Respondent has set "5% by value" as materiality without any evidence in his working papers as to how it was arrived at, and also doubted the basis of considering 3% immaterial. During the Hearing, it was further submitted by the Complainant that there were no independent audited reports on the three associated companies, and no work was shown to have been performed or evidence have been collected by the Respondent in assessing these associated companies. The Committee shared observations and analysis submitted by the Complainant and the Respondent was clearly in breach of paragraph 21 of HKSA 705.

Qualification on taxation

66. It was noted that the Respondent reported, in his Qualified Opinion, that there was an inconsistency between Sub A's financial information and its explanation as to its taxation profits and corporate income tax. It followed that the Group's profit was potentially understated by about HK\$4.36 million and the Group's provision for Mainland taxation was potentially understated by HK\$1.27 million. The Reviewer's Report showed that there was no evidence as to the audit procedures adopted by the Respondent to investigate the inconsistency between Sub A's financial information and explanations regarding its taxable profits and corporate tax, leading to an understatement of the Group's profit.
67. During the Hearing, the Complainant went through the available working papers of the Respondent with the Committee. The Committee found no evidence as to what audit procedures were adopted to investigate the discrepancy and how the two understatements were calculated. As such, the Committee found that the Respondent failed to comply with paragraph 8 of HKSA 230.

Conclusion on audit opinion

68. In light of the above, the Committee found Complaint 1 (in respect of audit opinion) proven.

Audit methodology for Client A

69. The Reviewer's Report observed the deficiencies in respect of the audit methodology of the Respondent for Client A. In particular, there was no evidence that the following procedures have been performed:
- (a) identifying the key controls over major business process (e.g. sales, purchases, expenditures and payroll cycles) and evaluating the design and implementation of those key controls in accordance with paragraph 13 of HKSA 315, which provides that when obtaining an understanding of controls that are relevant to the audit, the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel. There was no work shown in the audit planning memorandum of the Practice in relation to identification of key controls, fraud risk analysis, management override of control and there were no methods shown to address these. These works were also not reflected in other working papers;
 - (b) performing the following procedures in accordance with HKSA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statement*:
 - (i) assessing fraud risks (including evaluation fraud risk factors and inquiry of management) as required by paragraphs 16 and 25;
 - (ii) treating revenue recognition and management override of controls as high-risk areas as required by paragraphs 26, 27 and 31;
 - (iii) addressing the risk of management override of controls in the test on journal entries as required by paragraph 32; and
 - (c) performing going concern assessment in accordance with paragraphs 10 and 12 of the HKSA 570 *Going Concern*. Paragraph 10 provides the auditor shall consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern by determining whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern. Paragraph 12 requires the auditor to evaluate the management's assessment.

The Reviewer's Report also revealed that there was no evidence and documents in relation to procedures as follows:

- (d) while the "overall materiality" was determined as "5% by value", there was no evidence as to how this was determined and applied as required by paragraphs 10 and 14 of HKSA 320 *Materiality in Planning and Performing an Audit*. There is no evidence that the Respondent had determined and applied "performance materiality" as required by paragraph 11 of HKSA 320. Apart from the two materiality, the Respondent also did not determine a "clearly trivial" amount as required by paragraphs 5 and A3 of HKSA 450 *Evaluation of Misstatements Identified during the Audit*;
- (e) the basis of determining audit sample size and sample selection in accordance with paragraphs 6 to 8 of HKSA 530 *Audit Sampling*; and
- (f) there was no evidence that the Respondent had performed audit procedures on subsequent event review as required by paragraph 6 of HKSA 560 *Subsequent Events*, which provides that the auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified.

Whilst the Respondent had disputed the Complainant's arguments and asserted again that he had performed a "close to 100% full check", the Committee considered that the absence of evidence of audit procedures as found in the Reviewer's Report was serious.

The Respondent's arguments on NSL in relation to the Complaints

- 70. In addition, the Respondent made repetitive arguments to contend the findings of the Reviewer and of the Complainant in relation to the lack of evidence and documents of audit procedures the Respondents had performed by reason of the relevant Mainland legal requirements (see below). The Committee would consider these arguments in one go.
- 71. In the Respondent's submissions, he asserted that he could not make copies of the records of the Mainland (or the People's Republic of China (the "PRC")) companies due to the relevant PRC legal requirements, such as the National Security Law of the PRC (the "NSL"). The Committee observed that these assertions were not shown in the Respondent's working papers at all and hence was doubtful if the Respondent had directed his mind towards the NSL issues at the relevant times.

72. The gist of the Respondent's primary submission was that some of the requirements of professional standards are in conflict, or might conflict, with the requirements of PRC laws such as the NSL. It was alleged that the requirements of PRC laws take precedence, and the Respondent should not be penalised for not complying with the professional standards in such cases. The Respondent submitted that in any event, the fact that compliance with professional standards would give rise to a breach, or a risk of a breach, of PRC laws is in itself an "exceptional circumstance" which justifies a departure from the requirements of HKSA.
73. The Respondent also argued that the Complainant was wrong in relying upon the absence of audit documentation to infer that the Respondent did not carry out the relevant audit procedures, as the recording of such details in the audit working papers would conflict, or might conflict, with the requirements of PRC laws.
74. The Respondent did not specify the specific provisions under PRC laws being relied upon. He only produced a copy of the NSL with certain provisions highlighted in his submission. The Respondent submitted that PRC laws are relevant in the following respects:
- (a) Economic security: Economic security is an aspect of national security under the NSL. The Respondent's approach to the impairment of goodwill and materiality effectively reduced the risk of Client A engaging in excessive leveraged borrowing, which would undermine the banking system and endanger the economic security of the PRC. This is in contrast with the approach which, the Respondent contended, is being advocated by the Complainant and which would necessitate a "marking up" of the carrying value of Client A's real properties in the 2018 Financial Statements. This would in turn encourage Client A to engage in excessive leveraged borrowing and jeopardizes national security.
 - (b) Protection of sensitive state information and state secrets: PRC laws prohibit the leakage or disclosure of sensitive state information and state secrets. The Respondent argued that Client A and the Respondent were concerned that some of the accounting records of Client A's associated companies in the PRC might contain sensitive state information or even state secrets, without further elaborating if this was in fact the case. The leakage of such information was the greatest "going concern" risk faced by Client A. Therefore, the Respondent adopted an approach to audit documentation and monitoring review that effectively reduced the risk of leakage. It was alleged by the Respondent that this explained why some of the details of the audit procedures performed could not be found in the audit working papers. In contrast, the Complainant's alleged insistence on the Respondent photocopying the relevant accounting records, and on third party monitoring

of the audit, would increase the risk of leakage of sensitive state information and state secrets.

75. In response to the Respondent's arguments surrounding NSL as set out above, the Complainant submitted the following:

- (a) while the Respondent asserted that he had followed the speeches of President Xi Jinping or other leaders and preserved national security, one does not see the logic as to how not complying professional standards could protect national security as alleged by the Respondent; and
- (b) the Respondent's self-proclaimed mission to preserve national security was not based on any professional judgment. To put up protection of national security as defence, it is for the Respondent to prove by providing creditable and reliable evidence, instead of self-proclamation and self-assertion based on newspaper articles. Further, the Respondent needs to prove that his purported protection of national security could be a justification in law or under professional standards for his non-compliance.

76. As regards the Respondent's argument relating to the NSL, the Committee considered that the burden of proof lies with the Respondent to prove to the satisfaction of the Committee as to the following:

- (a) the existence and scope of the requirements of PRC laws being relied upon;
- (b) that compliance with the applicable professional standards would give rise to a breach, or a risk of a breach, of the requirements of PRC laws; and
- (c) that his response in the audit of the 2018 Financial Statements of Client A was the appropriate one in the circumstances.

Existence and scope of the requirements of PRC laws being relied upon

77. Taking into account of the Respondent's submissions, the Committee found that the Respondent had failed to prove to its satisfaction the existence and scope of the requirements of PRC laws being relied on, based on the following findings:

- (a) the Respondent placed heavy reliance of his arguments on PRC laws in his submission but he had not adduced any expert evidence on PRC laws (and any specific provisions of the same, other than producing a copy of the NSL in his submission) being relied on. The Committee would expect any such expert evidence be given by an appropriately qualified person in PRC laws, such as a PRC qualified lawyer with relevant experience, in order for the Respondent to discharge his burden of proof;

- (b) while the Respondent had produced a copy of the NSL with certain provisions highlighted, he did not specify the specific provisions being relied upon in respect of different aspects of his submissions;
- (c) whilst the Respondent had produced a number of newspaper articles and speeches purporting to support his own interpretation of the PRC legal requirements, the Committee did not consider this sufficient due to the lack of expert evidence be provided by appropriately qualified PRC law experts (see paragraph 77(a) above); and
- (d) the Respondent had relied on his own submissions to prove the requirements of PRC laws rather than, as mentioned above, adducing appropriately qualified PRC laws expert to give proper opinion.

Whether compliance with the applicable professional standards would give rise to a breach, or a risk of a breach, of the requirements of PRC laws

78. Considering the various submissions of the Respondent, it did not appear to the Committee that the Respondent has proved his arguments to the Committee's satisfaction by submitting credible and reliable evidence in a number of areas, including:

- (a) the factual premise for his submissions;
- (b) the steps that applicable professional standards require the Respondent to take; and
- (c) whether the taking of those steps would give rise to a breach, or a risk of a breach, of the requirements of PRC laws.

As the Complainant has submitted, the Respondent's submissions consisted of self-proclamation and self-assertion without any credible basis, and the Respondent has not proved to the satisfaction of this Committee that his non-compliance with professional standards was justified due to any specific PRC legal requirements.

Whether the Respondent's response in the audit of the 2018 Financial Statements was the appropriate one in the circumstances

79. Given that the Respondent has failed to satisfy this Committee that he has discharged his burden of proof in relation to the existence and scope of the requirements of PRC laws being relied upon, and in relation to whether compliance with the applicable professional standards would give rise to a breach, or a risk of a breach, of the requirements of PRC laws, this Committee did not consider it necessary to deliberate on whether the Respondent's response in the audit of the 2018 Financial Statements was the appropriate one in the circumstances.

80. Taking into account the above considerations and findings as set out in paragraphs 71 to 79 above, the Committee found that the Respondent has failed to discharge his burden of proof to the satisfaction of the Committee to support his arguments on NSL in relation to the Complaints. In particular, the Committee accepted the submission of the Complainant that the Respondent's audit approach was to find evidence to justify his client's consolidated financial statements, rather than to carry out an independent audit as required by the relevant professional standards.
81. To this end, the Committee is of the view that if the Respondent had performed his audit properly, he would have discovered the accounting deficiencies as raised by the Reviewer and the Complainant. Accordingly, the Committee found Complaint 1 (in respect of audit methodology for Client A) proven.

The Respondent's arguments on NSL in relation to the Proceedings

82. Based on arguments on NSL in relation to the Complaints as set out in paragraphs 72 to 74 above, the Respondent put forward further allegation as follows:
- (a) if the Respondent was to breach PRC laws in an attempt to comply with professional standards (which were determined by overseas bodies), he would be at risk of being accused of colluding with external elements; and
 - (b) the Complainant and/or the Committee is acting in contravention of the NSL and the Law of the PRC on Safeguarding National Security in the Hong Kong Special Administrative Region (the "HK NSL") in attempting to compel the Respondent to act in violation of the NSL via the enforcement of professional standards in these proceedings.
83. The Complainant submitted that it was unable to see the logic as to how disciplinary proceedings initiated under the PAO would contravene the NSL. In response to the Respondent's allegation that adopting international professional auditing standards amounts to "collusion with a foreign country or with external elements to endanger national security", the Complainant submitted that such argument was completely nonsense, as The Chinese Institute of Certified Public Accountants and the Institute are both members of the International Federation of Accountants and have adopted international standards.
84. In response to the Respondent's allegation that he would be at risk of being accused of colluding with external elements, the Complainant submitted that one cannot see how adopting international auditing standards would amount to an offence under the NSL as the key element of such collusion offence is to obtain intelligence concerning national security to a body outside Hong Kong or Macau, or in association with a body outside Hong Kong or Macau to conduct certain specific acts.

85. Based on the facts and circumstances of these proceedings, the Committee considered that there is no realistic possibility that the Committee will violate the HK NSL in conducting the present proceedings for the following reasons:

- (a) the Committee is conducting a statutory process under the PAO to determine whether or not the Respondent has failed or neglected to observe, maintain or otherwise apply a professional standard and/or has been guilty of professional misconduct. The PAO is a statute under the laws of Hong Kong, and the Committee is applying Hong Kong legal obligations and professional standards;
- (b) to the extent the Respondent is asserting that, had he acted in accordance with the requirements of Hong Kong professional standards in his audit of Client A's 2018 Financial Statements, he would have violated the NSL, this would be a matter for the Respondent to prove. The burden is on the Respondent to prove, on the balance of probabilities:
 - (i) that the specific requirements of the NSL (which would normally have to be proved by way of expert evidence);
 - (ii) that the underlying facts which, if true, would mean that complying with Hong Kong professional standards in his audit of Client A's 2018 Financial Statements would involve a contravention of those requirements; and
- (c) assuming that the Respondent can show that had he acted in accordance with the requirements of Hong Kong professional standards in his audit of Client A's 2018 Financial Statements, he would have violated the NSL, the Respondent must then prove that whatever steps he took in response to this issue were in accordance with his legal obligations and professional responsibilities. The Committee found that the Respondent had failed to discharge his burden of proof in this regard.

86. In light of the above considerations, the Committee considered that there is no realistic possibility that the bona fide conduct of inquiries by the Committee in the performance of its statutory functions would constitute the offences of secession, subversion, terrorist activities or collusion with a foreign country or with external elements to endanger national security.

Conclusion as to Complaint 1

87. As the Complainant had rightly submitted, the Respondent's audit approach in this case was to use his arguments to justify Client A's 2018 Financial Statements. Evidence, however, revealed that the Respondent had not carried out a proper

independent audit. This case is about the lack of evidence and documentation on the Respondent's audit procedures but unfortunately the Respondent was attempting, through voluminous submissions (consisting of about 345 pages), to state his arguments which the Committee considered groundless and without regard to professional standards. Paragraph 11 of the HKSA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing* provides that:

"In conducting an audit of financial statements, the overall objectives of the auditor are:

- (a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and
- (b) To report on the financial statements, and communicate as required by the HKSAs, in accordance with the auditor's findings."

With the above objective in mind, an auditor is required to document his audit procedure and evidence properly as required under paragraph 8 of the HKSA 230, which provides that:

"The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:

- (a) The nature, timing, and extent of the audit procedures performed to comply with the HKSAs and applicable legal and regulatory requirements;
- (b) The results of the audit procedures performed, and the audit evidence obtained; and
- (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions."

The Committee considered that the Respondent has blatantly ignored what an auditor ought to perform based on the relevant professional standards. The Respondent also further went on distracting the Committee by raising arguments on the NSL, which the Committee had already disposed of.

88. In light of all the above considerations and findings, the Committee found that the Respondent has failed to perform the audit with professional competence and due care. The Respondent had also failed to comply with sections R110.2 and R113.1

under Chapter A of the Code of Ethics for Professional Accountants. Section R110.2 requires a professional accountant to comply with fundamental principles of ethics which establish the standard of behavior expected of a professional accountant, including section R113.1. Section R113.1 requires a professional accountant to comply with the principle of professional competence and due care to attain and maintain professional knowledge and skill and to act diligently and in accordance with professional standards. Taking into account the considerations and findings in relation to Complaint 1 as set out in paragraphs 18 to 87 above, the Committee found that the Respondent had failed or neglected to observe, maintain or otherwise apply a professional standard in respect of his audit of Client A's 2018 Financial Statements pursuant to Section 34(1)(a)(vi) of the PAO.

Complaint 2

The Committee noted the Complainant has particularized the following failings and deficiencies in the Practice in support of Complaint 2:

89. 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**”) deals with the responsibilities of a firm of professional accountant(s) for its system of quality control for audits and reviews of financial statements. Two aspects of quality control of the Practice had been identified and their respective deficiencies, which are further elaborated as follows:

Quality control manual

90. Paragraph 16 of HKSQC 1 provides that the firm shall establish and maintain a system of quality control that includes policies and procedures that address each of the following elements:
- (a) leadership responsibilities for quality within the firm;
 - (b) relevant ethical requirements;
 - (c) acceptance and continuance of client relationship and specific engagements;
 - (d) human resources;
 - (e) engagement performance; and
 - (f) monitoring.
91. The Reviewer's Report revealed that the Respondent's own procedures only provided scattered procedures, without providing a holistic policy and procedures to comply with paragraph 16 of HKSQC 1. It was further submitted by the Complainant that regardless of the Respondent practising in his own name with no staff, the requirements of HKSQC 1 are equally applicable to all firms, regardless of their sizes.

92. The Respondent argued that as the Practice was a “one man band audit practice unit”, there was no need for a quality control system and leadership and human resources were therefore not necessary.
93. The Committee considered the Respondent’s arguments flawed, in that the Respondent as the sole auditor should take a leader’s role in evaluating whether his practice was capable of undertaking engagement when there were no human resources. It was further submitted by the Complainant that the Respondent had not taken any consideration as to whether his practice could provide competent services to his client. In this regard, the Complainant drew the attention of the Committee to the Court of Appeal’s (“CA”) observations in *Registrar of the Hong Kong Institute of Certified Public Accountants v Cheung Yiu-hung* [2018] HKCA 463:

“...it cannot be a reason for letting professional standards slip that an accountant’s firm was a small one or his clients were small companies. An accountant is accorded the privilege of practice by virtual of membership of his professional body. For that privilege, he has to comply with its standards, whether or not he considers them to be too demanding for him, and whether his firm is big or small, and irrespective of the status of his clients.”

Monitoring

94. The Complainant submitted that the Respondent provided to the Reviewer information on his monitoring review procedures through various emails. In summary:
- (a) the Respondent only recorded deficiencies identified in the next year’s audit plan of the client concerned, which did not comply with the relevant documentation requirements provided under paragraphs 57 and A74 of HKSQC 1. Paragraph 57 requires the firm to establish policies and procedures requiring appropriate documentation to provide evidence of the operation of the system of quality control. Paragraph A74 requires, among other things, records of evaluation of whether the system of quality control has been appropriately designed; and
 - (b) the Respondent only reviewed the quality control system on an as-needed basis. This did not comply with paragraph 48 of HKSQC 1 which requires a firm to establish monitoring process which includes an ongoing consideration and evaluation of the system of quality control.
95. In relation to Client A, the Respondent performed the engagement inspection by himself in violation of paragraphs 48 and A68 of HKSQC 1, which requires those performing the engagement, or the engagement quality control review not to be involved in inspecting the engagement. Paragraph A68 provides that a firm with a limited number of persons may choose to use a suitably qualified external person

or another firm to carry out engagement inspection and other monitoring procedures.

96. In respect of Complaint 2, it was noted by the Complainant that while there was some form of quality control or monitoring process, it did not comply with the requirements set out in HKSQC 1.
97. The main argument of the Respondent in response to Complaint 2 is that the Practice was a “one man band audit practice unit” and had adopted “alternative method”, which had not been proven by the Respondent with evidence or further elaboration. Despite the fact that the Respondent was practising on his own, HKSQC 1 did provide alternatives in the circumstances which the Respondent has failed to comply with.
98. Further, the Respondent did not provide any professional reason as to why he did not comply with external monitoring requirement. The Complainant submitted that “one man band” is not an excuse of not complying with professional standards, and that the burden is on the Respondent to prove his “alternative method” through empirical research and evidence, rather than self-assertion. Again, the Complainant drew this Committee’s attention to the CA’s observations as mentioned in paragraph 93 above.
99. Taking into consideration the deficiencies identified in Complaint 2 as deliberated above, the Committee found that the Respondent’s quality control or monitoring was not able to provide reasonable assurance of its engagement quality. As a result, it was found that the Respondent had failed or neglected to observe, maintain or otherwise apply a professional standard to maintain an adequate quality control system in his practice, in breach of Section 34(1)(a)(vi) of the PAO.

Complaint 3

100. Complaint 3 is the cumulative result of Complaints 1 and 2. The multiple deficiencies identified in Complaint 1 revealed that the Respondent failed to uphold fundamental accounting principles and his responsibilities as an auditor, which pointed to the serious lack of professional competence and due care on the part of the Respondent. This was aggravated by the absence of a proper quality control system as shown in Complaint 2.
101. After due consideration of the above findings, the Committee found that the Respondent’s multiple and fundamental failures as discussed above demonstrated a blatant disregard for professional standards by the Respondent. The Respondent’s conduct clearly falls below the standard expected of a professional accountant and

thus amounts to professional misconduct pursuant to Section 34(1)(a)(viii) of the PAO.

CONCLUSION

102. Having considered the findings above, the Committee unanimously found that all Complaints herein have been proved to its satisfaction.

SANCTIONS

103. The Committee has received and considered both the Complainant's Submission on Sanctions and Costs and the Respondent's Submission on Sanctions and Costs.

104. The Committee is mindful of the objects of the Institute are to:

- (a) regulate the practice of the accountancy profession;
- (b) represent the views of the profession and to preserve and maintain its reputation, integrity and status; and
- (c) to discourage dishonourable conduct and practices by certified public accountants.

105. The Committee is also mindful that sanctions should be proportionate to the nature of the failure and the harm or potential harm caused by the breach, and also with the aim to:

- (a) protect public interest;
- (b) deter non-compliance with professional standards;
- (c) maintain and promote public confidence in the profession; and
- (d) declare and uphold proper standards of conduct and performance.

106. The Complainant submitted that the totality of the Complaints against the Respondent should fall within the upper end of "serious" category as the Complaints concerned with fundamental audit requirements that an auditor should meet, including the fundamental objectives of an auditor, applicability of professional standards, the meaning of "evidence" and the requirement of documentation.

107. In relation to Complaint 1, the Complainant submitted that the Respondent's arguments during the Review and the Proceedings showed that he did not

understand the basic concept of “evidence” and the requirements of “documentation”.

108. In relation to Complaint 2, the Respondent argued that he was operating as an “one man band” and therefore he did not need to comply with the monitoring standards imposed by the HKSQC 1. The Complainant submitted that this reflected that the Respondent was not familiar with the basic requirements of quality control. Again, the Complainant drew this Committee’s attention to the CA’s observations as mentioned in paragraph 93 above.
109. The Committee observed that throughout the Proceedings, the Respondent has not denied that he departed from the relevant auditing requirements. Instead, the Respondent has repeatedly argued that those auditing requirements ought not to apply to the audits that he conducted. The Committee therefore agrees with the Complainant that the Respondent demonstrated that he did not fully understand the fundamental audit requirements that an auditor should meet.
110. The Committee also noted that, in the Respondent’s Submission on Sanctions and Costs, the Respondent did not advance much, if any, submissions in mitigation. The Respondent instead chose to focus his submissions on why the Committee ought not to have found the Complaints against him, by arguing that he helped his client to avoid debt default crisis and repeating his arguments on NSL. The Respondent continued to display the same lack of understanding on the basic concept of “evidence” and the requirements of “documentation” as he had displayed throughout the Proceedings.
111. The Committee observed that the Respondent was not cooperative in various aspects during these proceedings and did not focus on the gist of the Complaints in his submissions. His submissions were voluminous, and the Committee would describe them as repetitive and chaotic. In addition, the Respondent:
 - (a) without seeking permission of the Committee, made submissions in Chinese in the Respondent’s Case and the Respondent’s Reply, but switched back to English in the Respondent’s opening submission;
 - (b) did not cooperate with the Committee to schedule a substantive hearing;
 - (c) did not turn up at the Hearing; and
 - (d) distracted the Committee’s attention to the relevant accounting and auditing issues by repeatedly making irrelevant submissions without substantive and relevant evidence.
112. The Complainant submitted that the above conducts should be considered as aggravating factors and a deterrent approach should be adopted to address such conducts.

113. The Complainant further submitted that a particularly malicious conduct of the Respondent was his allegations that complying with professional standards as alleged by the Institute in the Complaints had compromised Chinese national security. The Complainant submitted that this amounted to a groundless intimidation against the Institute as the statutory regulator. This also showed that the Respondent has no remorse for his failure to comply with professional standards.
114. The Complainant referred the Committee to two cases (Proceedings Nos. D-19-1505P and D-19-1478P) in which the respondents therein both admitted the complaints against them and had their practising certificates cancelled for 10 months and 15 months respectively. The Complainant submitted that the Respondent's case is more serious than the two cases because the Respondent did not admit the Complaints against him.
115. The Complainant also referred the Committee to paragraph 6.1 of the Guideline to Disciplinary Committee for Determining Disciplinary Orders, which provides that for "Serious" offence, the suggested sanctions include "cancellation of practising certificate and not reissued for up to 1 year" and "temporary removal from the register". The Complainant submitted that the Respondent's conducts should also be treated as aggravating factors which justify the deviation from the suggested starting point.
116. The Complainant submitted that the appropriate sanctions should include that the Respondent be removed from the register for 2 years or alternatively, the practising certificate of the Respondent be cancelled, and a practising certificate shall not be issued to the Respondent for at least 2 years.
117. The Respondent has no previous disciplinary record.
118. The Committee considered that the Respondent had committed serious misconduct and failed to observe and maintain the relevant professional standards which put the accounting profession into disrepute. Furthermore, the Respondent's uncooperative attitude, the quality of his submissions which were repetitive and mostly irrelevant to the issues in question and his lack of understanding of the relevant professional standards as demonstrated in his submissions would all contribute significantly to the Committee's considerations of sanctions on the Respondent. Having taken into account all the above, the Committee considered that a reprimand, temporary removal of the Respondent's name from the register for 2 years and cancellation of his practising certificate would be appropriate sanctions.

COSTS

119. The Complainant submitted a Statement of Costs in the total amount of HK\$186,617.50, which includes the costs of the Clerk to the Committee.
120. The Respondent disputed the amount. The Respondent argued, amongst other things, that because “none of [the Complainant’s] expected documentation can be found, so they must review nothing”.
121. The Committee is unable to agree with the Respondent for the simple reason that the Complainant would have to, and did, review all the papers in order to come up with the conclusion that there was a lack of documentation. Indeed, and quite to the contrary, the Respondent’s voluminous but repetitive and chaotic submissions would, in the Committee’s opinion, create additional hours and manpower on the part of the Complainant and the Clerk to the Committee.
122. The Respondent also argued that since he did not hire or require the Complainant to review his audit work, the time costs of the Complainant should be borne on their own. The Respondent further argued that the Complainant’s work was not “value-added” nor justified.
123. For the sake of completeness, the Committee wishes to quote the relevant principles in relation to costs as below:
 - (a) Section 35 of the PAO empowers the Committee to make such order as the Committee thinks fit with regard to the payment of costs and expenses of and incidental to the proceedings, whether of the Institute (including the costs and expenses of the Committee) or of the Complainant; and
 - (b) Paragraph 72 of the Guidelines for the Chairman and the Committee on Administering the Disciplinary Committee Proceedings Rules provides guidance on the award of costs. In general, the Committee has a discretion to determine the extent to which costs should be recoverable. The discretion should be exercised in the following manner:
 - (i) Save where there is good reason to do otherwise, the Committee should award costs to the successful party in the proceedings (i.e., costs follow the event); and
 - (ii) The starting point in any award of costs should be the costs (i.e., indemnity costs) incurred by the successful party, subject to the Committee being satisfied that the costs were reasonably and necessarily incurred. The costs may include those costs and expenses reasonably incurred by the Complainant, whether in relation to or incidental to any investigation carried out before the proceeding were instituted or for the purpose of the proceedings, as the Committee

considers appropriate. The Committee may reduce the amount awarded to the extent it considers costs to have been incurred unnecessarily or extravagantly. In deciding what reduction is reasonable, the Committee may consider being guided by the practices of the courts in civil proceedings.

124. The Committee found no reason to depart from the principle of “costs follow the event”.
125. The Committee also noted that the Respondent did not admit the Complaints against him. This deprived him of the benefit of the savings in costs which would have resulted from the admission.
126. The Committee is satisfied that the costs as particularized in the Complainant’s Statement of Costs were reasonably and necessarily incurred.
127. The Committee therefore orders the Respondent to pay the costs and expenses in relation to or incidental to the Proceedings in the total amount of HK\$186,617.50, as per the Complainant’s Statement of Costs.

ORDERS

128. The Committee hereby 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 2 years under section 35(1)(a) of the PAO effective on the 42nd day from the date of this Order;
- (c) the practising certificate of the Respondent be cancelled under section 35(1)(da) of the PAO effective on the 42nd day from the date of this Order; and
- (d) the Respondent pays the costs and expenses in relation to or incidental to the proceedings of the Complainant, including costs of the Clerk to the Committee, in the sum of HK\$186,617.50 under section 35(1)(iii) of the PAO.

Dated: the 8th day of June 2023

Mr. Chan Che Chung, Conrad
(Chairman)

Ms. Cheung Chiu Nam, Cermain
(Member)

Ms. Lee Fu Fan
(Member)

Mr. Chan Kwong Tak
(Member)

Mr. Chan Ting Bong, Michael
(Member)