

IN THE MATTER OF

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

BETWEEN

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

AND

Hui Mei Sum, Virginia Ann (F02923) RESPONDENT

Before a Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants (the “**Disciplinary Committee**”)

Members: Mr DAWES, Victor, SC (Chairman)
 Mr LAM, Chi Ki
 Mr LAM, Yin Shing, Donald
 Ms LI, Yin Fan
 Mr SO, Kwok Kay

ORDER AND REASONS FOR DECISION

Introduction

1. This is a complaint made by the Practice Review Committee (“**PRC**”) of the Hong Kong Institute of Certified Public Accountants (the “**Institute**”) against Ms Hui Mei Sum, Virginia Ann, a certified public accountant (“**CPA**”) (practising) (the “**Respondent**”).
2. The Respondent is the sole proprietor of V A Hui & Co Limited (“**Practice**”). The Respondent became a CPA in 1992 and was issued a practising certificate

in 1995. The Practice was first registered as a practice unit in 2000. The Practice was subject to an initial practice review by the Quality Assurance Department (“QAD”) which concluded in September 2019. The QAD issued a Reviewer’s Report dated 23 March 2020, which gave rise to the present complaint.

3. On 28 May 2021, the PRC’s representative wrote to the Disciplinary Committee informing it that:
 - (a) the parties had applied to amend the complaint against the Respondent;
 - (b) the Respondent had admitted the amended complaint against her;
 - (c) the parties were now jointly applying for the steps set out in Rules 17 to 30 of the Disciplinary Committee Proceedings Rules (“DCPR”) to be waived and that the amended complaint which had been admitted by the Respondent be disposed of on the basis of the admission made; and
 - (d) the parties also sought the Disciplinary Committee’s confirmation that the approach in paragraph (c) was appropriate for adoption and sought further directions for parties to file and serve written submissions on sanctions and costs pursuant to rule 31 of the DCPR.
4. In its reply dated 4 June 2021, the Disciplinary Committee agreed to the amended complaint and made directions for the parties to file and serve written submissions on sanctions and costs.
5. At the time of the practice review, the Practice had one qualified and three non-qualified audit staff. All four of the audit staff (collectively “**Former Staff**”) resigned between June and August 2018. The Practice originally reported that it had issued audit reports to approximately 150 audit clients during an 18-month period spanning between September 2016 to March 2018 (“**Relevant Period**”).

The Complaints

6. The amended complaint is set out as an attachment to the 28 May 2021 letter from the PRC (“**Amended Complaint**”). The complaints are divided into five broad headings, which we now reproduce herein:

Complaint 1

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

Complaint 2

Section 34(1)(a)(vi) of the PAO applies to the Respondent in that she failed or neglected to observe, maintain or otherwise apply professional standards in relation to the audit of Client H's financial statements for the year ended 31 December 2016.

Complaint 3

Section 34(1)(a)(vi) of the PAO applies to the Respondent in that she failed or neglected to observe, maintain or otherwise apply professional standards in relation to the audit of Client Y's financial statements for the year ended 31 March 2017.

Complaint 4

Section 34(1)(a)(vi) of the PAO applies to the Respondent in that she failed or neglected to observe, maintain or otherwise apply professional standards in relation to the audit of Client P's consolidated financial statements for the year ended 31 December 2016.

Complaint 5 [Formerly Complaint 6]

Section 34(1)(a)(viii) of the PAO applies to the Respondent in that her non-compliances as stated in Complaints 1 to 4 above together with the facts and circumstances as stated in Complaint 5 below amount to professional misconduct.

7. Complaints 1-4 concern a number of significant deficiencies in relation to the Practice's quality control system and the discovery of audit irregularities in three audit engagements reviewed by the practice review team in respect of the audits of the financial statements of 3 clients (referred to as Client H, Client Y, and Client P in the Admitted Complaint). The audit deficiencies were not only

serious but involved fundamental accounting principles which put into question the appropriateness of the audit opinion. In essence:

- (a) Complaint 1 involved various breaches of Hong Kong Standard on Quality Control 1 (“**HKSQC 1**”). In relation to engagement performance, the facts and circumstances surrounding Complaints 2 to 4 showed that the Practice had failed to establish policies and procedures designed to provide it with reasonable assurance that the engagements were performed in accordance with professional standards, and that the reports issued were appropriate in the circumstances. Furthermore, the external monitor which reviewed the engagement of Client H failed to spot significant deficiencies in the auditing process and had nevertheless signed off the relevant file inspection report.
- (b) Complaint 2 involved the audit of Client H, a non-profit entity deriving most of its income from sponsorships. Reported revenue should have been regarded as a fundamental item in the financial statements. Despite this, the transaction test for sponsorship income was done by simply reviewing “invoices” produced by Client H itself. There was no evidence that the Respondent had inspected third-party evidence such as sponsorship contracts or agreements, or bank records to ensure Client H had received and recorded the income in accordance with the sponsorship agreements. Existing working papers did not support the revenue reported in the financial statements or show that the Respondent had performed adequate work to address the cut-off assertion of revenue reported therein. This showed the Respondent was in breach of paragraph 6 of Hong Kong Standard on Auditing (“**HKSA**”) 500. There was also a failure to prepare sufficient audit documentation on certain material items, in breach of paragraphs 8 and 9 of HKSA 230.
- (c) Complaint 3 involved the audit of Client Y, an engineering company whose main source of revenue was generated from construction work. Its financial statements were subject to section 8 SME-FRS (relating to construction contracts). However, based on existing working papers, Client Y did not track or record direct costs based on projects, nor was there any evidence of a progress report for projects undertaken by Client Y. As such, Client Y did not appear to have recorded its revenue and direct costs in accordance with SME-FRS. The Respondent failed to identify this fundamental non-compliance and failed to perform adequate audit procedures. There was no reasonable assurance that the revenue and expense accounts were free from material misstatements, whether due to

fraud or error. No modified audit opinion was issued in spite of these circumstances. These failures were breaches of paragraph 6 of HKSA 500, as well as paragraphs 10-12 and 17 of HKSA 700.

- (d) Complaint 4 concerned the audit of consolidated financial statements of Client P, a private group consisting of 5 subsidiaries. This too, was improperly done as there was an overall failure to obtain sufficient audit evidence. The Practice issued a qualified opinion on the consolidated financial statements of the group, and stated that there was a scope limitation imposed, in that there was insufficient information concerning Client P's mainland China subsidiaries for the Practice to determine whether adjustments should be made at the consolidated level. The scope limitation could lead to potential misstatements, and the possible effects of undetected statements in the client's financial statements could be both material and pervasive, yet the Respondent failed to determine the implications as to whether she should have withdrawn from the engagement or disclaim the opinion, in breach of paragraph 13(b) HKSA 705.
8. Complaint 5 concerns serious deficiencies relating not only on the audit quality of the Practice's engagements (as set out in Complaints 1-4), but on the leadership, professional competence and due care of the Respondent in running the Practice. During the course of their practice review, the QAD received multiple submissions of inaccurate client lists from the Respondent, which demonstrated her grossly inadequate control over the Practice. Apart from revealing a fundamental weakness in the Practice's quality control system, they also revealed her negligence in supervising the Former Staff and her management of the Practice's engagements. This directly hampered the QAD's task of carrying out its review in an efficient and effective manner. Doubts were also raised as to whether the Respondent acted in accordance with professional standards required under sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants.
9. HKSQC 1 and all HKSA's are professional standards referred to in the PAO. In addition, the seriousness and breadth of the multiple breaches and factual matters in these complaints amount to professional misconduct. Section 34(1)(a)(vi) PAO accordingly applies to the Respondent.

Order of the Disciplinary Committee; Sanctions and Costs

10. The Respondent agrees to and admits the Amended Complaint in full. The Disciplinary Committee is satisfied that the Amended Complaint has been proved.
11. The sanctions must be proportionate, reasonable, and reflect the seriousness of the breaches in order to constitute an effective deterrent and preserve the public's confidence in the profession. The Committee regrettably takes the view that a cancellation of the Respondent's practising certificate for a period of time is inevitable. As the Respondent's legal representatives acknowledged, the Amended Complaints fall within the category of "serious" by reference to paragraph 6.1 of the Institute's Guidelines to Disciplinary Committee for Determining Disciplinary Orders.
12. We further note that the Respondent accepts her liability to meet the costs of and incidental to these proceedings, and we so order.
13. As to the length of the appropriate suspension of the Respondent's practicing certificate, we have been referred to a fairly substantial number of earlier decisions, which we have carefully considered. While previously decided cases are helpful, each case will ultimately turn on its own individual circumstances.
14. We are unable to agree with the Respondent's suggestion that the "maximum suspension period should be no more than 3 months". We have taken into account but are unable to place any substantial weight on the Respondents' clean and unblemished disciplinary record. The deficiencies identified in the Respondent's Practice did not happen overnight. Whilst we emphasise that this is not an aggravating factor in present case, we cannot help but think that the Respondent's breaches are wholly unacceptable for a practitioner of her seniority.
15. On the other hand, we do recognise that the Respondent has made an admission of liability and has taken remedial and preventative measures – which are supported by documentation.
16. Having considered the facts of the present case and the parties' submissions, the Disciplinary Committee orders that:
 - (a) The Respondent be reprimanded under section 35(1)(b) of the PAO.

- (b) The Respondent's practising certificate be cancelled effective from 42 days from the date hereof under section 35(1)(da) of the PAO.
- (c) A practising certificate shall not be issued to the Respondent for a period of 6 months effective from 42 days from the date hereof under section 35(1)(db) of the PAO; and
- (d) The Respondent do bear the costs and expenses incidental to the proceedings in the sum of HK\$141,811 under section 35(1)(iii) of the PAO, which includes the costs of the Clerk to the Disciplinary Committee.

Dated 21 October 2021

Mr DAWES, Victor, SC
Chairman

Mr LAM, Chi Ki
Member (Disciplinary Panel A)

Mr LAM, Yin Shing, Donald
Member (Disciplinary Panel A)

Ms LI, Yin Fan
Member (Disciplinary Panel B)

Mr SO, Kwok Kay
Member (Disciplinary Panel B)