

IN THE MATTER OF

A Complaint made under Section 34(1) of the Professional Accountants Ordinance (Cap.50) (“the PAO”) and referred to the Disciplinary Committee under Section 33(3) of the PAO

BETWEEN

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

AND

Mr. Sek Wai Tong Stonely  
Membership No. A04215 RESPONDENT

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

Members: Ms. Anne Rosamunde Carver (Chairman)  
Ms. Chau Hoi Yan Cecilia  
Mr. Ho Man Tat Edward  
Mr. Lo Kai Ming Charles  
Mr. Yeung Chi Wai Edwin

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**ORDER & REASONS FOR DECISION**

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1. This is a complaint made by the Practice Review Committee of the Hong Kong Institute of Certified Public Accountants (the “**Institute**”) against Mr. Sek Wai Tong Stonely, a certified public accountant (practising) (the “**Respondent**”). Section 34(1)(a)(vi) of the Professional Accountants Ordinance (“**PAO**”) applied to the Respondent.
2. The Complaints as set out in a letter dated 28 October 2015 (the “**Complaint**”) are as follows:-
  - (1) Complaint 1: 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 namely, 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" as his Practice had not implemented adequate quality control policies and procedures in respect of client acceptance and continuance, and engagement performance.

- (2) Complaint 2: 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 namely, paragraph 440.1 of the Code of Ethics for Professional Accountants ("Code") in that he did not perform audit procedures to obtain professional clearance before accepting an engagement with a new client.
- (3) Complaint 3: 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 namely, paragraph 6 of Hong Kong Standard on Auditing 500 "Audit Evidence" in that he did not design and/or perform audit procedures that were appropriate for the purpose of obtaining sufficient appropriate audit evidence in relation to the audit of the financial statements of Client C for the year ended 31 March 2013.
- (4) Complaint 4: 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 namely, paragraph 6 of Hong Kong Standard on Auditing 500 "Audit Evidence" in that he did not design and/or perform audit procedures that were appropriate for the purpose of obtaining sufficient appropriate audit evidence in relation to the audit of the financial statements of Client W for the year ended 31 December 2012.
- (5) Complaint 5: 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 namely, paragraph 5 of Hong Kong Standard on Auditing 230 "Audit Documentation" in that he did not adequately document the evidence obtained and procedures performed in relation to the audit of the financial statements of Client C for the year ended 31 March 2013.
- (6) Complaint 6: 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 namely, paragraph 5 of Hong Kong Standard on Auditing 230 "Audit Documentation" in that he did not adequately document the evidence obtained and procedures performed in relation to the audit of the financial statements of Client W for the year ended 31 December 2012.
- (7) Complaint 7: 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 namely, paragraph 9 of Hong Kong Standard on Auditing 210 "Agreeing the Terms of Audit Engagements" in that he did not perform appropriate procedures for the purpose of agreeing the terms of engagement with management or those charged with governance in relation to the assurance engagements of Client C for the year ended 31 March 2013.
- (8) Complaint 8: 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 namely, paragraph 9 of Hong Kong Standard on Auditing 210 "Agreeing the Terms of Audit Engagements" in that he did not perform appropriate procedures for the purpose of agreeing the terms of engagement with management or those charged with governance in relation to the audit engagement of Client W for the year ended 31 December 2012.

- (9) Complaint 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 a professional standard namely, paragraphs 33 and/or 42 of Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" in that he did not obtain sufficient appropriate evidence and adequately document matters that were significant in providing evidence to support the conclusion that Client C complied with the relevant rules of the Hong Kong Securities and Futures Ordinance for the year ended 31 March 2013.
- (10) Complaint 10: 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 namely, paragraphs 100.5(c) and 130.1 of the Code in that he did not maintain professional knowledge and skill at the level required to ensure that clients receive competent professional services; and/or diligently carry out the audits of the financial statements of Client C for the year ended 31 March 2013 and Client W for the year ended 31 December 2012, in accordance with the relevant technical and professional standards. The Respondent was asked certain questions before and during the Review concerning one subcontractor and file selection, and he gave materially false or misleading answers to the reviewer, Ms. Brenda Chan (the "Reviewer").

#### **Background information**

- (11) The Respondent is the sole practising partner of Lee, Sek, Chiu & Hui (Firm no. 0421) (the "Practice").
- (12) The Respondent had been assigned by the Practice to assume ultimate responsibility of the firm's quality control system.
- (13) The Respondent issued the auditor's reports in the name of the Practice for the assurance engagements selected for practice review. He was therefore responsible for the quality of these engagements.

#### **Events leading to the complaints**

- (14) The Practice had been selected for an initial practice review in March 2011 and deficiencies in relation to its quality control and audit engagements were identified.
- (15) The engagements selected for review in the initial practice review included (i) audits of financial statements of a securities broker namely, Chung Lee Securities Company Limited ("Client C") for the year ended 31 March 2010 and a private entity namely, Walsin Technology Corporation (HK) Limited ("Client W") for the year ended 31 December 2009; and (ii) compliance audit of Client C for the year ended 31 March 2010 for the purpose of reporting to Securities and Futures Commission.
- (16) In its response to the reviewer's letter dated 3 June 2011, the Practice accepted the findings and undertook to implement improvements to address the deficiencies identified. The Practice's response was submitted to the Practice Review Committee

("PRC") together with the First Reviewer's Report which was provided to the Practice on 30 June 2011.

- (17) The Practice was the subject of a follow up practice review visit that took place in December 2013. The main purpose of this visit was to confirm whether the Practice had taken appropriate actions in response to findings identified during the initial practice review. During this visit, the audit and compliance audit of Client C for the year ended 31 March 2013 and the audit of Client W for the year ended 31 December 2012 were selected for review.
- (18) During the follow up visit, the reviewer noted that the Practice continued to fail to implement an adequate quality control system. In addition, it was apparent that the Practice had failed to address the deficiencies identified in the initial practice review, as the reviewer had found the same or similar problems recurring in the subsequent audit engagements of Client C and Client W.
- (19) Copies of the working papers for the audits of Client C and Client W for all of the above-mentioned financial years are enclosed at A1 to A1410. The Respondent confirmed that they represent the complete working papers for both audits.
- (20) Based upon the findings of the follow up visit, the Institute wrote to the Practice on 29 April 2014 to seek its explanations. In its response dated 19 May 2014, the Practice accepted the deficiencies identified and undertook to implement appropriate procedures to comply with the standards' requirements.
- (21) The Practice's response was submitted to the PRC together with the Second Reviewer's Report which was provided to the Practice on 7 July 2014. In view of the lack of improvement, the PRC had serious concerns over the Practice's commitment to properly address quality control findings and establish audit systems to comply with the relevant professional standards.
- (22) On the basis of the above, the PRC decided to raise a complaint against the Respondent. The relevant facts and observations based on which a complaint was raised were provided to the Respondent on 22 September 2015. In his response to the Institute dated 5 October 2015, the Respondent did not dispute those facts and observations.

### **Relevant Professional Standards**

- (23) 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" (Revised July 2010) ("HKSQC 1")

"26. The firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm:

- (a) Is competent to perform the engagement and has the capabilities, including time and resources, to do so;

- (b) Can comply with relevant ethical requirements; and
- (c) Has considered the integrity of the client, and does not have information that would lead it to conclude that the client lacks integrity."

"27. Such policies and procedures shall require:

- (a) The firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client...."

"28. The firm shall establish policies and procedures on continuing an engagement and the client relationship, addressing the circumstances where the firm obtains information that would have caused it to decline the engagement had that information been available earlier...."

"32. The firm shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partner issued reports that are appropriate in the circumstances...."

(24) Section 100 "Introduction and Fundamental Principles" of the Code of Ethics for Professional Accountants ("Code")

"100.5 A professional accountant shall comply with the following fundamental principles:

...

- (c) Professional Competence and Due Care – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards. ..."

(25) Section 130 "Professional Competence and Due Care" of the Code

"130.1 The principle of professional competence and due care imposes the following obligations on all professional accountants:

- (a) To maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service; and
- (b) To act diligently in accordance with applicable technical and professional standards when providing professional services. "

(26) Section 440 "Changes in a Professional Appointment" of the Code

" 440.1 Where a change of auditor is contemplated, the nominated auditor should write to the existing auditor to obtain "professional clearance". This is an important procedure to be followed to protect the interest of the nominated auditor, such that he may be made aware of any unusual circumstances surrounding the

proposed change of auditor which may be relevant in determining his acceptance of nomination."

- (27) Hong Kong Standard on Auditing 500 "Audit Evidence" (Revised July 2010) ("HKSA 500")

"6. The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence."

- (28) Hong Kong Standard on Auditing 230 "Audit Documentation" (Revised July 2010) ("HKSA 230")

"5. The objective of the auditor is to prepare documentation that provides:  
(a) A sufficient and appropriate record of the basis for the auditor's report; and  
(b) Evidence that the audit was planned and performed in accordance with HKSA's and applicable legal and regulatory requirements."

- (29) Hong Kong Standard on Auditing 210 "Agreeing the Terms of Audit Engagements" (Revised December 2012) ("HKSA 210")

"9. The auditor shall agree the terms of the audit engagement with management or those charged with governance, as appropriate."

- (30) Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" (Issued October 2004) ("HKSAE 3000")

"33. The practitioner should obtain sufficient appropriate evidence on which to base the conclusion. Sufficiency is the measure of the quantity of evidence. Appropriateness is the measure of the quality of evidence; that is, its relevance and its reliability...."

"42. The practitioner should document matters that are significant in providing evidence that supports the assurance report and that the engagement was performed in accordance with HKSAEs."

## **Facts and circumstances in support of Complaints 1 and 2**

### *Client acceptance and continuance*

- (31) According to paragraphs 26 to 28 of HKSQC 1, a practice is required to establish policies and procedures for client acceptance and continuance which enable the practice to obtain information necessary in the circumstances before accepting an engagement with a new client or when deciding whether to continue an engagement with an existing client.

- (32) Paragraph 440.1 of the Code states that, where a change of auditor is contemplated, the nominated auditor should write to the existing auditor to obtain "professional clearance".

- (33) In the initial practice review, the reviewer found no evidence that the Practice had performed client acceptance and continuance procedures before accepting engagement with a new or existing client. The Practice noted this finding and undertook to make improvements in this respect in future engagements.
- (34) This deficiency had not been adequately addressed by the Practice because in the follow up visit, the reviewer found that the Practice did not communicate with the existing auditor to obtain information about any unusual circumstances surrounding the proposed change of auditor before accepting an audit engagement with a new client. Therefore, the Practice is considered to have failed to comply with paragraphs 26 to 28 of HKSQC 1 and paragraph 440.1 of the Code.
- (35) In his letter dated 19 May 2014, the Respondent accepted this finding and agreed to undertake appropriate procedures to rectify the problem.

*Engagement performance*

- (36) According to paragraph 32 of HKSQC 1, a practice shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partner issued reports that are appropriate in the circumstances.
- (37) In the initial practice review, it was noted that the Practice's audit work and documentation did not meet many of the requirements under the auditing standards. The Practice noted the weaknesses and deficiencies identified and stated that it will make improvements in future audits.
- (38) In the follow up visit, a number of recurring audit deficiencies such as those related to audit evidence and documentation were identified. Therefore, the Practice is considered to have failed to establish policies and procedures that are effective for ensuring that audit engagements performed are in accordance with relevant auditing standards.
- (39) On the basis of the above quality control deficiencies, the Practice is considered to have not complied with HKSQC 1 and the Code as it had not implemented adequate quality control policies and procedures in respect of client acceptance and continuance, and engagement performance.

**Facts and circumstances in support of Complaints 3 and 4**

- (40) According to paragraph 6 of HKSA 500, an auditor is required to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.
- (41) The review of working papers related to the audits of Client C and Client W indicated that the Practice failed to comply with paragraph 6 of HKSA 500.

*Audit of Client C*

- (42) The audit working papers of Client C did not show any evidence that the Practice had properly carried out the audit procedures below for the purpose of obtaining sufficient appropriate audit evidence.

*Determination of materiality and performance materiality required under HKSA 320 "Materiality in Planning and Performing an Audit" (Revised July 2010).*

- (43) During the initial visit, it was found that the Practice did not determine a materiality level for its audits in accordance with HKSA 320. The Respondent agreed to undertake appropriate evaluation to address such non-compliance.
- (44) However, this deficiency had not been adequately addressed by the Practice because in the follow up visit, the reviewer found no evidence that the Practice had performed audit procedures to establish materiality applicable for determining nature, timing and extent of audit procedures.
- (45) In his letter of 19 May 2014, the Respondent accepted the findings and agreed to undertake appropriate procedures to address such non-compliance in future audits.

*Audit of Client W*

- (46) The audit working papers of Client W did not show any evidence that the Practice had properly carried out the audit procedures below for the purpose of obtaining sufficient appropriate audit evidence. This raised considerable doubts as to whether the Practice had obtained sufficient and appropriate audit evidence such that a reasonable conclusion could be drawn on the relevant accounts.

*Determination of materiality and performance materiality required under HKSA 320.*

- (47) During the initial visit, it was found that the Practice did not determine a materiality level for its audits in accordance with HKSA 320. The Respondent agreed to undertake appropriate evaluation to address such non-compliance.
- (48) However, this deficiency had not been adequately addressed by the Practice because in the follow up visit, the reviewer found no evidence that the Practice had performed audit procedures to establish materiality applicable for determining nature, timing and extent of audit procedures.
- (49) In his letter of 19 May 2014, the Respondent accepted the findings and agreed to undertake appropriate procedures to address such non-compliance in future audits.

*Audit procedures on account receivables totaled approximately HK\$617 million.*

- (50) During the initial visit, it was found that the Practice did not perform adequate alternative procedures on non-replied debtor confirmations and procedures on assessing the recoverability of the accounts receivable balances. The Respondent agreed to undertake appropriate evaluation to address such deficiencies.

- (51) These deficiencies had not been adequately addressed by the Practice because in the follow up visit, the Practice had performed circularization of debtors for balances as at 30 November 2012. There was no evidence indicating (i) any alternative procedures done on non-replied confirmations for balances as at 30 November 2012; and (ii) how the circularization of balances as at 30 November 2012 could have been used to verify the existence of the balances as at 31 December 2012.
- (52) In addition, there was no evidence that the Practice had (i) verified the accuracy of the debtor aging report; and (ii) assessed the recoverability of the related party receivable balances as at 31 December 2012 which formed approximately 77% of the overall account receivables balance.
- (53) In his letter of 19 May 2014, the Respondent accepted the findings and agreed to undertake appropriate procedures to rectify the problem in future audits.

*Audit procedures on account payables totaled approximately HK\$185 million.*

- (54) During the initial visit, it was found that the Practice did not perform adequate alternative procedures on non-replied creditor confirmations. The Respondent agreed to undertake appropriate procedures to address such deficiency.
- (55) As evidenced in the follow up visit, this deficiency had not been adequately addressed by the Practice. In the circularization of creditors for balances as at 30 November 2012, there was no evidence indicating (i) whether reconciliations had been done to address the discrepancies identified in the replies received from creditors; nor (ii) how the circularization of balances as at 30 November 2012 could have been used to verify the existence of the balances as at 31 December 2012.
- (56) In his letter of 19 May 2014, the Respondent accepted the findings and agreed to undertake appropriate procedures to rectify the problem in future audits.

#### **Facts and circumstances in support of Complaints 5 and 6**

- (57) According to paragraph 5 of HKSA 230, an auditor is required to prepare documentation that provides sufficient and appropriate record of the basis for the auditor's report.
- (58) The review of working papers related to the audits of Client C and Client W indicated that the Practice failed to prepare adequate documentation in accordance with paragraph 5 of HKSA 230.

#### *Audit of Client C*

- (59) The audit working papers of Client C inadequately documented the following:

Work done on investments in securities

- The working papers indicated that the investments in securities are classified as current assets with its change in fair value being recognised in the profit and loss. There was no documentation of work done to assess the nature of the investments and to ascertain whether the accounting treatment of the investments was appropriate.
- In his letter of 19 May 2014, the Respondent accepted the findings and agreed to make improvements in future audits.

(60) The audit working papers of Client W inadequately documented the following:

*Assessment procedures specified under HKSA 570 "Going Concern".*

(61) During the initial visit, the reviewer found no evidence that the Practice had performed audit procedures to address the going concern issues identified in Client W. The Respondent accepted the findings and agreed to make proper documentation in future audits.

(62) In the follow up visit, it was found that the working papers indicated that Client W had net liabilities of approximately HK\$54 million as at 31 December 2012. There was no documentation of how the Practice had assessed the appropriateness of management's use of the going concern assumption in the preparation of the financial statements.

(63) In his letter of 19 May 2014, the Respondent accepted the findings and agreed to make improvements in future audits.

*Performance of procedures in accordance with HKSA 520 "Analytical Procedures".*

(64) Design and performance of analytical procedures assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

(65) During the initial visit, the reviewer found that the gross profit ratios for most of the inventories test samples were much higher than the overall gross profit ratio of Client W. There was no evidence that the Practice had performed procedures to investigate this matter. The Respondent accepted the findings and agreed to documents all necessary audit works in the file in future audits.

(66) In the follow up visit, the working papers indicated that Client W had a gross loss of approximately HK\$7.6 million for the year ended 31 December 2012. There was no documentation of whether the Practice had performed analytical procedures to:

- investigate the reasons for the loss; and
- assess the entity's gross loss position which was not supported by the conclusion reached in the inventory tests that net realisable value exceeded cost of all inventories tested and thereby suggesting that inventories were being sold at a margin.

(67) In his letter of 19 May 2014, the Respondent accepted the findings and agreed to make improvements in future audits.

*Determination of sample size and selection of items for testing in accordance with HKSA 530 "Audit Sampling" (Revised July 2010).*

(68) During the initial visit, the reviewer pointed out that the Practice did not perform sufficient audit work on related party transactions, sales and purchases.

(69) According to HKSA 530, the objective of the auditor, when using audit sampling, is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.

(70) In the follow up visit, the reviewer found that the working papers indicated that the Practice performed the following audit procedures without documentation of the basis for sample size and selection:

- (a) Substantive testing of six samples of related party receivables and eight samples of related party payables representing 20% and 15% of the year end balance of approximately HK\$617 million and HK\$185 million respectively.
- (b) Substantive testing of 11 samples of turnover and 12 samples of purchases representing 1.6% and 1.7% of the total amount for the year of approximately HK\$601 million and HK\$748 million respectively.
- (c) Circularization of debtors representing 11% of the accounts receivable as at 30 November 2012 of approximately HK\$604 million.

(71) In the above circumstance, the working papers provided an insufficient record of how the Practice complied with the sampling requirements under paragraphs 6 to 8 of HKSA 530 which required the auditor to:

- Consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn when designing an audit sample test;
- Determine a sample size sufficient to reduce sampling risk to an acceptably low level; and
- Select items for the sample in such a way that each sampling unit in the population has a equal chance of selection.

(72) In his letter of 19 May 2014, the Respondent accepted the findings and agreed to make improvements in future audits.

*Assessment procedures specified under HKSA 505 "External Confirmations"*

(73) The working papers provided no documentation of how the Practice had maintained control over the confirmation process to obtain relevant and reliable audit evidence. There was no indication of whether the confirmations were received directly by the auditor from confirming parties.

(74) This non-compliance was also identified in the initial practice review and the Respondent undertook to rectify the problem.

(75) In his letter dated 19 May 2014, the Respondent accepted the findings and agreed to undertake appropriate procedures to address the issue in future audits.

#### Substantive procedures on sales

(76) During the initial visit, it was found that the Practice did not perform audit work to verify the validity of sales transactions by inspecting the third party evidence (e.g. shipping documents). The Practice agreed to undertake appropriate procedures to address this issue.

(77) In the follow up visit, the reviewer found that the working papers for testing of sales transactions indicated that the delivery dates are the same as the invoice dates. However, the working papers provided no documentation of whether the Practice had inspected third party evidence (e.g. shipping documents) to verify the validity of the transactions (A766).

(78) In his letter dated 19 May 2014, the Respondents stated that the sales transactions and sales cut-off test had included the checking of shipping documents and third party evidence. However, there was no such documentation in the working papers.

#### Facts and circumstances in support of Complaints 7 and 8

(79) According to paragraph 9 of HKSA 210, a practice shall agree the terms of the audit engagement with management or those charged with governance, as appropriate.

(80) During the initial visit, it was found that the Practice did not obtain an engagement letter for long established clients, including Client W. The engagement letter of Client C did not contain the terms in relation to the compliance audit engagement. The Respondent agreed to undertake appropriate procedures to ensure that the Practice would issue engagement letters to all clients.

(81) In the follow up visit, it was found that this deficiency had not been adequately addressed by the Practice. The reviewer found that in relation to the audits of both Client C and Client W, there were no evidence indicating that the Practice had performed procedures to agree engagement terms between the auditor and management and/or those charged with governance before accepting or continuing with the engagements. In addition, there was no evidence of procedures performed to agree the terms of the compliance audit engagement for Client C.

(82) In his letter of 19 May 2014, the Respondent accepted the findings and undertook to rectify the problem.

### **Facts and circumstances in support of Complaint 9**

- (83) According to paragraphs 33 and 42 of HKSAE 3000, an auditor is required to obtain sufficient appropriate evidence and document matters that are significant in providing evidence that support their conclusion in an assurance engagement other than an audit or review of historical financial statements.
- (84) During the initial visit, it was found that the Practice had not performed sufficient work to support its conclusion in the compliance report of Client C. The Practice agreed to undertake appropriate procedures to address such deficiency but the findings of the follow up visit indicated otherwise.
- (85) In a compliance report dated 23 July 2013, the Practice reported that Client C complied with the relevant rules of the Hong Kong Securities and Futures Ordinance for the year ended 31 March 2013.
- (86) The report stated that the engagement was conducted in accordance with Standards on Assurance Engagements and with reference to Practice Note 820 "The Audit of Licensed Corporations and Associated Entities of Intermediaries" ("PN 820").
- (87) The follow up visit found no evidence that the Practice had followed the guidance under PN820 in the compliance audit of Client C. Also, there was inadequate documentation or evidence showing that appropriate testing had been carried out by the Practice to support the conclusion that Client C complied with the relevant rules of the Securities and Futures Ordinance regarding client money, client securities and control over timely renewal of standing authorities. Therefore, the Practice failed to comply with paragraphs 33 and/or 42 of HKSAE 3000.
- (88) In his letter of 19 May 2014, the Respondent accepted the findings and undertook to rectify the problem in future audits.

### **Facts and circumstances in support of Complaint 10**

- (89) Paragraphs 100.5 (c) and 130.1 of the Code require a professional accountant to maintain professional knowledge and skill at the level required to ensure that clients receive competent professional services and act diligently in accordance with applicable technical and professional standards.
- (90) In the initial practice review which took place in March 2011, a number of significant deficiencies were noted in the audit and compliance audit engagements of Client C for the year ended 31 March 2010 and in the audit engagement of Client W for the year ended 31 December 2009. Similar failures were identified in the follow up visit indicating that the Practice failed to take appropriate actions to address the deficiencies previously identified.
- (91) These repeated failures demonstrated that the Practice had not maintained professional knowledge and skill at the level required to ensure that clients receive competent professional services; and/or acted diligently in accordance with

applicable professional standards when providing professional services, in breach of paragraphs 100.5(c) and 130.1 of the Code.

3. On 23 December 2015, the Respondent admitted the complaints against him. He did not dispute the facts as set out in the complaints. The parties agreed that the steps set out in paragraphs 17 to 30 of the Disciplinary Committee Proceedings Rules ("DCPR") be dispensed with.
4. The Disciplinary Committee agreed to the parties' joint application to dispense with the steps set out in Rule 17 to 30 of the DCPR in light of the admission made by the Respondent and the Disciplinary Committee directed the parties to make written submissions on sanctions and costs.
5. The Complainant and Respondent provided their submissions on sanctions and costs on 4 and 22 February 2016 respectively. The complaints were all found proved on the basis of the admission by the Respondent.
6. 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, and the conduct of the Respondent throughout the proceedings. The Respondent has been co-operative and admitted the complaints at the early stage. It is the first time he has faced such a complaint against him. The Committee considers that a reprimand will have the desired effect of improving the standards and systems necessary to bring about changes in the Respondent's working style, whilst the imposition of a penalty is designed to signal the Committee's disapproval of his conduct
7. The Disciplinary Committee orders that:-
  - (1) the Respondent be reprimanded under Section 35(1)(b) of the PAO;
  - (2) the Respondent pay a penalty of HK\$50,000 under Section 35(1)(c) of the PAO;
  - (3) the Respondent do pay the costs and expenses of and incidental to the proceedings of the Complainant in the sum of HK\$34,672 under Section 35(1)(iii) of the PAO.

Dated the 21st day of April 2016

IN THE MATTER OF

A Complaint made under Section 34(1) of the Professional Accountants Ordinance (Cap.50) ("the PAO") and referred to the Disciplinary Committee under Section 33(3) of the PAO

BETWEEN

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Institute of Certified Public Accountants

COMPLAINANT

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Mr. Sek Wai Tong Stonely  
Membership No. A04215

RESPONDENT

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**ORDER & REASONS FOR DECISION**

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Dated the 21st day of April 2016