

STATEMENT OF DISCIPLINARY ACTION

A. The Disciplinary Action

1. Pursuant to sections 37CA and 37I(1A) of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (**AFRCO**), the Accounting and Financial Reporting Council (**AFRC**) has imposed the following sanctions against Mr Yeung Chi Fai (**Yeung**):
 - 1.1. public reprimand;
 - 1.2. pecuniary penalty of **HK\$161,000**; and
 - 1.3. order that Yeung pays the costs and expenses of, and incidental to, the AFRC's investigation, in the sum of **HK\$32,589.59**,(collectively, **Disciplinary Sanctions**).
2. The Disciplinary Sanctions were imposed in relation to the professional irregularities committed by Yeung in breaching the requirements for an auditor to be independent of his audit clients from 16 May 2020 to 23 May 2023, and in issuing 15 audit reports without a valid practising certificate from 14 January 2022 to 7 March 2022.
3. The AFRC found that Yeung failed to observe, maintain or otherwise apply the PAO professional standards¹ below:
 - 3.1. paragraph R115.1 of Chapter A of the applicable version of the Code of Ethics for Professional Accountants (**COE**), which requires a professional accountant to (a) comply with the relevant laws and regulations, and (b) behave in a manner consistent with the profession's responsibility to act in the public interest in all professional activities and business relationships;
 - 3.2. paragraph 400.5 of Chapter A of the applicable version of the COE, which provides that it is a fundamental principle that a professional accountant in public practice must be independent of his audit clients. Independence of mind and in appearance is necessary to enable the auditor to express a conclusion, and be seen to express a conclusion, without bias, conflict of interest, or undue influence of others; and
 - 3.3. paragraphs 9 to 11 of the applicable versions of the Hong Kong Standard on Auditing 220 – *Quality Control for an Audit of Financial Statements* (**HKSA 220**), which require the engagement partner to form a conclusion on compliance with independence requirements that apply to the audit engagement by, among other things, (a) identifying and evaluating circumstances that create threats to

¹ As defined in section 2 of the AFRCO.

independence; and (b) taking appropriate action to eliminate the circumstances that create such threats or reduce them to an acceptable level by applying safeguards.

4. By failing to observe, maintain or otherwise apply the above PAO professional standards, Yeung committed professional irregularities under section 3B(1)(c) of the AFRCO, and is guilty of CPA misconduct pursuant to section 37AA(1)(a) of the AFRCO and section 71 of the Accounting and Financial Reporting Council (Transitional and Saving Provisions and Consequential Amendments) Regulation (Cap. 588B).

B. Summary of Facts

5. Yeung has been registered as a member of the Hong Kong Institute of Certified Public Accountants (**HKICPA**)² since 20 February 2012, except for the period from 24 February 2022 to 7 March 2022.
6. Yeung was first issued with a practising certificate on 22 May 2017 and is currently and was at all material times a practising certificate holder,³ except for the period from 1 January 2022 to 7 March 2022.
7. In 2023, the AFRC carried out an inspection under section 20ZZB of the AFRCO (**2023 Inspection**) in connection with Yeung's independence in serving as the company secretary for his audit clients.
8. The 2023 Inspection was a follow-up review in which the AFRC assessed the extent of improvement in Yeung's compliance with professional standards after the last practice review conducted by the HKICPA in 2021 (**Practice Review**). During the Practice Review, Yeung advised that he provided company secretarial services to his audit clients.
9. During the 2023 Inspection, the AFRC found that Yeung had not only provided company secretarial services to his audit clients, but had also acted as both the auditor and the company secretary for some of his audit clients.
10. Subsequently, it has also come to the AFRC's attention that Yeung practised as a CPA (practising) and signed off the audit reports for 15 private companies without holding a valid practising certificate.

C. Summary of Findings

Yeung's dual capacity as the company secretary and auditor of his audit clients

11. The AFRC found that Yeung audited the financial statements of six private companies when he was the company secretary of these companies from 16 May 2020 to 23 May 2023.

² Membership number: A36775.

³ Practising certificate number: P06718.

12. Paragraphs 1 and 2 of Statement 1.303 – *General Guidance – Restrictions on Appointments as Secretaries and Directors of Audit Clients* of the Members' Handbook of the HKICPA make references to section 393 of the Companies Ordinance (Cap. 622) (**CO**) which prohibits an individual from holding the posts of auditor and secretary to a company.
13. Further, Yeung was aware of the independence requirements under the COE, section 393 of the CO and other applicable standards at the relevant time. Nonetheless, he proceeded to act as the company secretary of the six private companies, a position seen to imply close association with those companies.
14. Based on the above, the AFRC found that Yeung committed a professional irregularity under section 3B(1)(c) of the AFRCO, by failing to observe, maintain or otherwise apply the PAO professional standards, specifically by being in breach of R115.1 and paragraph 400.5 of Chapter A of the COE.

Yeung's failure to identify threats to independence and to take appropriate actions

15. The AFRC found that Yeung failed to identify threats to independence and take appropriate actions.
16. Although Yeung had put in place a Quality Control Manual (**QC Manual**) which included a section on the independence requirement, he failed to properly implement the QC Manual as he failed to prevent his breaches of the independence requirements from occurring.
17. When the 2023 Inspection took place, Yeung still acted in the dual capacity of the auditor and the company secretary of one audit client. Yeung's independence issue, persisting over a year after the Practice Review in 2021, indicated that he did not sufficiently eliminate the independence threats arising from his dual capacities as soon as reasonably practicable.
18. Based on the above, the AFRC found that Yeung breached paragraphs 9 to 11 of HKSA 220.

Yeung's signing of audit reports without a valid practising certificate

19. The AFRC found that Yeung signed 15 audit reports without a valid practising certificate from 14 January 2022 to 7 March 2022.
20. The AFRC further found that Yeung's 2022 practising certificate was not renewed due to his failure to respond to five letters from the HKICPA on a timely basis:
 - 20.1. a letter from the HKICPA to Yeung dated 18 June 2021 requiring him to complete a continuing professional development (**CPD**) Record Form for audit purpose;

- 20.2. a follow-up letter from the HKICPA to Yeung dated 23 July 2021 requiring him to respond, failing which his case would be referred to the Council of the HKICPA for appropriate action;
 - 20.3. a second follow-up letter from the HKICPA to Yeung dated 27 August 2021 requiring him to respond, failing which the HKICPA would refer his case to the Council of the HKICPA for appropriate action as it sees fit, including removal of his membership;
 - 20.4. a letter from the HKICPA to Yeung dated 8 November 2021 requiring him to renew his 2022 practising certificate and his HKICPA membership online and informing him that until he has been issued with a practising certificate, no statutory audit reports shall be issued under his name or in the name of a CPA practice as from 1 January 2022; and
 - 20.5. a letter of final notice from the HKICPA to Yeung dated 30 December 2021, requesting him to submit his CPD declaration, re-application of a practising certificate and complete and return the CPD Record Form, failing which the Council of the HKICPA would remove his name from the membership register and/or the list of practising certificate holders without further notice.
21. On 24 February 2022, the HKICPA issued a letter to Yeung notifying him that his name had been removed from (a) the CPA register; and (b) the list of practising certificate holders with immediate effect, as he had not completed the requested renewal procedures before the extended deadline of 9 February 2022. In that letter, the HKICPA again reminded Yeung that he could not sign or issue any statutory audit reports under his name or in the name of a CPA practice as from 1 January 2022 unless he had been issued with a practising certificate following the expiry of his previous practising certificate on 31 December 2021.
 22. Yeung's explanation for his failure to renew his 2022 practising certificate was that:
 - 22.1. he considered he completed the renewal process as he had completed the renewal procedure online and paid the renewal fee; and
 - 22.2. he no longer resided in his correspondence address and instead co-rented a flat at another location. He decided not to change his correspondence address to the address which he co-rented. Yeung indicated that he only collected the mails sent to his correspondence address once in a while. As such, he was unaware of the HKICPA's letters set out in paragraph 20 above until February 2022.

23. The AFRC found that:
- 23.1. Yeung did not complete the procedures for renewing his 2022 practising certificate, despite claiming that he did so; and
 - 23.2. Yeung's correspondence address had not changed during the period from 18 June 2021 to 30 December 2021. He had specifically declared, on his application for restoration as a CPA submitted to the HKICPA on 7 March 2022, that his contact details were identical to the information kept by the HKICPA before the removal of his membership registration on 24 February 2022. As such, he should have received all the letters from the HKICPA to him set out in paragraph 20 above. It was Yeung's responsibility to ensure timely access to all mails sent to his correspondence address.
24. Yeung's signing of 15 audit reports without holding a valid practising certificate from 14 January 2022 to 7 March 2022 constitutes breaches of sections 29(1) and 29(2) of the then Professional Accountants Ordinance (**PAO**). As a professional accountant at all material times, Yeung was expected to strictly adhere to the relevant laws and regulations. However, he breached the laws which undermined the trust and confidence that the public and the stakeholders of his audit clients had placed in him.
25. Based on the above, the AFRC found that Yeung was in breach of R115.1 of the COE as he failed to comply with the then PAO and to behave in a manner consistent with the profession's responsibility to act in the public interest in all professional activities and business relationships.

D. Conclusion

26. Having considered all relevant circumstances, the AFRC is of the view that Yeung is guilty of CPA misconduct.
27. In determining the Disciplinary Sanctions, the AFRC has had regard to its Sanctions Policy for Professional Persons, Guidelines for Exercising the Power to Impose a Pecuniary Penalty for Professional Persons and the Guidance Note on Cooperation with the AFRC, and has taken into account all relevant circumstances, including:
- 27.1. acting in the dual capacity as the company secretary and auditor of audit clients constituted breaches of the fundamental principle of independence;
 - 27.2. apart from acting as the company secretary, there is no evidence that Yeung assumed any other roles of his audit clients, such as acting as a director or shareholder of his audit clients;
 - 27.3. the signing and issuance of audit reports without holding a valid practising certificate is by nature a serious matter;

- 27.4. the absence of any damage to the interest of the investing public since the relevant audit engagements involved private companies;
- 27.5. Yeung's clean disciplinary record with the AFRC and the HKICPA; and
- 27.6. Yeung admitted his liabilities in full and initiated resolution discussions with the AFRC. He further accepted the Disciplinary Sanctions against him and entered into an agreement with the AFRC pursuant to section 37I(1A) of the AFRCO before the issuance of a Notice of Proposed Disciplinary Action.