

## APPLICATION ON PAPERS

### CONSENT ORDERS COMMITTEE OF THE ASSOCIATION OF CHARTERED CERTIFIED ACCOUNTANTS

#### REASONS FOR DECISION

**In the matter of:** Mr Ronald Tak Fai Yam

**Considered on:** 25 June 2020

**Chair:** Mrs Helen Carter-Shaw

**Outcome:** Consent Order for Reprimand and costs approved

#### INTRODUCTION

1. The Chair considered a draft Consent Order in respect of Mr Yam. The matter was listed to be considered on the basis of documents only. Neither Mr Yam nor ACCA were present or represented.
2. The Chair had before them the draft Consent Order, signed by Mr Yam and a signatory on behalf of ACCA, together with supporting documents in a bundle, numbered 1 to 59. In addition, there was a service bundle, numbered 1 to 11, a simple cost bundle of 2 pages and a detailed costs document consisting of 1 page.

#### SERVICE

3. The Chair was satisfied that Mr Yam had been properly notified of the meeting by an email dated 19 June 2020.

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## **BACKGROUND**

4. It was alleged by ACCA, and Mr Yam admitted, that he was liable to disciplinary action because on 10 December 2019, the Hong Kong Institute of Chartered Public Accountants (“HKICPA”) took action against him for a breach of Hong Kong Standard on Auditing (“HKSA”) 230 *Audit Documentation*, HKSA 330 *The Auditor’s Procedures in Response to Assessed Risks* and HKSA 500 *Audit Evidence*. This resulted in him being publicly reprimanded and directed to pay costs.
5. The details were set out in the attached draft Consent Order. ACCA’s Investigating Officer and Mr Yam had agreed the form of order which proposed a reprimand and made an order for costs.

## **DECISION AND REASONS**

6. In accordance with Regulation 8 of The Chartered Certified Accountants’ Complaints and Disciplinary Regulations 2014, as amended, the Chair has the power to approve or reject the draft Consent Order or to recommend amendments. The Chair can only reject a signed draft Consent Order if they are of the view that the admitted breaches would more likely than not result in exclusion from membership.
7. The Chair was satisfied that there was a case to answer and that it was appropriate to deal with the complaint by way of a Consent Order. The Chair considered that the Investigating Officer had followed the correct procedure.
8. The Chair considered the bundle of evidence and, together with Mr Yam’s admissions, found the facts proved. They were satisfied that the admitted facts and Mr Yam’s actions meant that he was liable to disciplinary action pursuant to byelaw 8(a)(vi) in that he had been disciplined by another professional or regulatory body.
9. Mr Yam is a member of ACCA, having joined in 1993.

10. On 10 December 2019, HKICPA took action against Mr Yam, a work colleague, Mr A, and his employer (Company A) (“the Respondents”) for their failure or neglect to observe, maintain or otherwise apply professional standards issued by HKICPA.
11. Company A audited the consolidated financial statements of Company B, a Hong Kong listed company, and its subsidiaries (“the Group”) for the years ended 31 March 2010 to 2012 and expressed unmodified auditor’s opinions. Mr Yam was the engagement partner in those audits.
12. The Financial Reporting Council investigated the audit irregularities concerning revenue recognition and a convertible note. The audit irregularities concerning revenue recognition related to the 2010 to 2012 audits. The Group recognised the un-utilised portion of prepaid service contracts as revenue when customers changed contracts before expiry and the underlying service treatments had not yet been delivered. This was contrary to Hong Kong Accounting Standard (“HKAS”) 18 *Revenue*.
13. In the 2010 and 2011 audits, the Respondents failed to consider the risks of material misstatement in relation to change in services or transfer of un-utilised prepaid contracts and failed to plan and perform audit procedures to test those transactions and the relevant internal controls. In the 2012 audit, the Respondents identified the accounting non-compliance and, through audit tests performed, calculated the expected misstatements in the deferred revenue balance and the corresponding amount of revenue recognised in the financial statements. Management determined an amount based on the Respondents’ calculation and adjusted the financial statements accordingly. However, the Respondents failed to justify that the management’s adjusted amount was sufficiently precise to correct the misstatements in the financial statements.
14. The irregularity concerning the convertible note related to the 2012 audit. Company B issued a convertible note to its controlling shareholder and chairperson as consideration of a business combination. The terms of the note contained contingent settlement provisions which would obligate Company B to redeem the unconverted outstanding balance of the note in cash when

certain events occurred. Notwithstanding this, Company B recognised its contractual obligation to pay interest for the note as a financial liability and the residual balance as an item in equity, whereas it should have comprised embedded derivative financial instruments and a financial liability.

15. In their audit, the Respondents failed to properly evaluate those contingent settlement provisions against the requirements of HKAS 32 Financial Instruments: Presentation and prepare sufficient audit documentation to support their conclusion on the classification of the convertible note.

16. HKICPA concluded as follows:

Mr Yam and Company A failed or neglected to observe, maintain or otherwise apply the following professional standards:

- HKSA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing;
- HKSA 230 Audit Documentation;
- HKSA 500 Audit Evidence; and
- HKSA 530 Audit Sampling.

17. HKICPA, Mr Yam and Company A agreed to deal with the matter by way of Resolution by Agreement (“RBA”), with Mr Yam and Company A acknowledging the facts of the case and the areas of non-compliance with the relevant professional standards and that they be reprimanded, each paying an administrative penalty, for Mr Yam that was HK\$40,000 and jointly pay the costs incurred by HKICPA and the Financial Reporting Council.

18. The matter was referred to ACCA who wrote to Mr Yam on 13 February 2020 requesting clarification of a number of matters.

19. On 25 March 2020, Mr Yam responded and provided some background to the matter which resulted in the RBA. He confirmed that he had accepted the regulatory action taken by way of the RBA and that he was not appealing it. He also confirmed that the administrative penalty had been paid, together with the costs ordered. In response to ACCA's question about what measures had been put in place to ensure the issues investigated would not be repeated, Mr Yam said:

*"The issues should not repeat again as I and all key audit personnel concerned have acknowledged the findings. We put greater care and attention in the preparation of our planning memorandums for our audit clients and, in particular, identifying significant audit risks and audit work to be done to address such risks."*

He added,

*"The case concerns audits of [Company B] carried out over 7 years ago and our last audit of the company was for the year ended 31 March 2013. In my career as a professional accountant, I have not had any regulatory action taken against me, since my admission as a member of ACCA in April 1987, except this case."*

20. On 14 May 2020, ACCA wrote to Mr Yam informing him that it considered the complaint against him was suitable for disposal by means of a Consent Order. Mr Yam subsequently signed the Consent Order containing the allegation that he was liable to disciplinary action by virtue of action taken against him on 10 December 2019 by HKICPA. He also provided two-character references.
21. HKICPA has confirmed that an RBA is equivalent to an ACCA Consent Order in that it is an agreement which emanates from a complaint and results in a formal finding, a public sanction in the form of a reprimand, with or without a penalty and payment of costs, and public censure as the outcome is posted on HKICPA's website.

22. The Chair noted the agreed aggravating and mitigating factors as set out in the Consent Order. In particular, the Chair noted that Mr Yam: had fully co-operated with the investigation and regulatory process; had no previous disciplinary history in a long association with ACCA and HKICPA; there was no continuing risk to the public as Mr Yam had provided assurances and details of efforts made to address the complaint raised by HKICPA. He had, therefore, taken remedial action to address his conduct.
23. In all the circumstances, and following ACCA's Guidance on sanctions, the Chair was satisfied that the sanction of reprimand was appropriate in this case and that exclusion would be disproportionate. There had been an acceptance of the failures as shown by the RBA with HKICPA and the agreement for this Consent Order, together with expressions of genuine remorse. The Chair noted that Mr Yam's membership with HKICPA remained intact and that he had paid the administrative penalty and costs as directed by HKICPA.
24. The order for costs for this Consent Order appeared appropriate.
25. Accordingly, the Chair approved the attached Consent Order. In summary:
  - a. Mr Yam shall be reprimanded; and
  - b. Mr Yam shall pay costs of £440.00 to ACCA.

**Mrs Helen Carter-Shaw**  
**Chair**  
**25 June 2020**