

AUDIT PRACTICE BULLETIN NO. 3 OF 2018

DISCUSSION OF PAST DISCIPLINARY CASES AGAINST PUBLIC ACCOUNTANTS

INTRODUCTION

1. A complaint relating to any improper or dishonourable conduct on the part of a public accountant (PA) in the discharge of his professional duty, or concerning any improper act or conduct on the part of a PA or an accounting entity is dealt with in accordance with the prescribed procedures under Part VI of the Accountants Act (the Act).
2. The complaint received will be reviewed by the Registrar of Public Accountants (Registrar) to determine if it is "*frivolous, vexatious, misconceived or without merits*" and if so, the complaint will be dismissed. Otherwise, the Registrar will recommend to the Public Accountants Oversight Committee (PAOC) to refer the matter for inquiry by a Complaints Committee (CC), or a Disciplinary Committee (DC) in a case where the complaint relates to the conviction of the PA or accounting entity concerned of an offence that involves fraud or dishonesty or implies a defect in character which makes the PA concerned unfit for his profession.
3. Most of the complaints against the PA or accounting entity relate to allegations of professional misbehaviour. The issue to consider is whether such behaviour constitutes improper conduct (in the discharge of professional duty or otherwise) that would bring the profession of public accountancy into disrepute or whether the behaviour complies with the ethical requirements of the Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (the Code) set out in Fourth Schedule to the Accountants (Public Accountants) Rules.
4. This bulletin discusses some of the past cases which were subject to formal inquiry by the DC. It provides a summary of each case including the background information, charges brought against the respondent, the DC's consideration and the decision of the PAOC. The aim of the bulletin is to raise awareness of important issues concerning inappropriate and unacceptable professional conduct.

CASE 1

Background

5. The Respondent had consented to be appointed and acted as a liquidator for two companies under compulsory winding up in 2009 and 2010, after his licence as an approved liquidator had expired on 31 March 2008. He was charged, convicted and fined in court for breach of section 11(1)(a) of the Companies Act which provides that "*a person shall not, except with the leave of the Court, consent to be appointed, and shall not act as a liquidator of a company if he is not an approved liquidator.*"

6. On account of the Respondent's conviction, the matter was referred to a CC which recommended that the case be referred to a DC for a formal inquiry.

Charges

7. At the formal inquiry, two charges were brought against the Respondent in the alternative, either under section 52(1)(b) of the Act which dealt with conviction "of any offence implying a defect in character which makes him unfit for the profession"; or under section 52(1)(c) of the Act for "improper conduct which would bring the profession of public accountancy into disrepute".

Consideration

8. The DC was of the view that the Respondent had a professional duty to establish that he held a valid liquidator's licence before accepting appointment as a liquidator. Hence, there was improper conduct on his part and such conduct, if excused or condoned, would bring the profession of public accountancy into disrepute.

Decision

9. The PAOC ordered that the Respondent be issued with a public censure for breach of professional duty for not establishing that he held a valid liquidator's licence before accepting appointment as a liquidator and to pay ACRA the costs and expenses of and incidental to the disciplinary proceedings.

CASE 2

Background

10. The Respondent was charged in the Subordinate Courts in Singapore for forgery. In 2009, the Respondent had dishonestly signed in the name of a PA whose firm the Respondent was working in, the audited financial statements of two companies, with the intention of causing it to be believed that the documents were signed by the PA. The Respondent was convicted of the charges and on appeal the conviction was affirmed.
11. The matter was referred to a DC for formal inquiry upon the CC's recommendation.

Charges

12. At the formal inquiry, the charges brought against the Respondent were that the Respondent was convicted in the Subordinate Courts of offences involving dishonesty which was affirmed on appeal and by reason of the said conviction, the Respondent was unfit to be a PA within the meaning of section 52(1)(a) of the Act.

Consideration

13. The DC was satisfied, under section 52(1)(a), that the Respondent has been convicted in Singapore or elsewhere of an offence involving fraud or dishonesty or moral turpitude. The DC regarded the criminal offences for which the Respondent was convicted were serious offences. Further, the acts of forgery were committed not on a single occasion but separate occasions and were committed on audited financial statements, being documents central to the accounting profession.

Decision

14. The PAOC ordered that the Respondent's registration as a PA be cancelled. Following the Respondent's appeal against the order to the High Court which took into account factors such as the Respondent's unblemished record working in the firm over a long period of time, the Court set aside the cancellation order and substituted it with a two-year suspension.

CASE 3

Background

15. The Respondent had acted as the liquidator of a company when the special resolution required to place the company under member's voluntary winding up was not validly passed at the company's Extraordinary General Meeting (EGM). The company, at the material time, had two shareholders, each with 50% shareholding in the company. At the relevant EGM, one shareholder voted in favour of winding up the company voluntarily and the other voted against. The chairman of the meeting then exercised his casting vote and the resolution was passed. The additional casting vote by the chairman was not sufficient to constitute the requisite three-fourths of votes required for such a resolution.
16. The matter was referred to a DC for formal inquiry upon the CC's recommendation.

Charge

17. The charge brought against the Respondent was that the Respondent, by acting as the liquidator of the company, was negligent by regarding the special resolution required to place the company under a member's voluntary winding up pursuant to section 290(1)(b)¹ read with section 184² of the Companies Act as valid when in fact it was not validly passed at the EGM of the company as the additional casting vote by the chairman was not sufficient to constitute the requisite three-fourths of votes required for such a resolution and by reason of this, the Respondent was guilty of improper conduct which rendered him unfit to be a PA within the meaning of section 52(1)(c) of the Act.

¹ Section 290(1)(b) of the Companies Act states that "A company may be wound up voluntarily - (b) **if the company so resolves by special resolution.**"

² Section 184(1) of the Companies Act states that "**A resolution shall be a special resolution when it has been passed by a majority of not less than three-fourths of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy present at a general meeting...**"

18. At the formal inquiry, the Respondent pleaded guilty to the charge.

Consideration

19. The DC considered that:

- a. As a liquidator, the Respondent ought to have known that a special resolution requires at least 75% shareholders' approval as provided under section 184 of the Companies Act. The DC was of the view that an oversight on this fundamental point was not acceptable.
- b. The Respondent did not defend the charge but accepted that it was an oversight. The Respondent proactively sought legal advice when the issue that the company might not have been lawfully placed under voluntary winding up was first raised. Upon confirmation from the lawyers on this issue, the Respondent took steps within a reasonable time frame to rectify the situation and comply with the necessary provisions.
- c. There appeared to be no financial loss or damages suffered by the company or any third party as a result of the Respondent's oversight.

Decision

20. The PAOC ordered that the Respondent be imposed a financial penalty. It is noteworthy that for this case, the Respondent had admitted to the charge at the first opportunity and this enabled the formal inquiry to be completed expeditiously. The PAOC had thus dispensed with prosecution's costs and only ordered the Respondent to pay ACRA the costs relating to disbursements incurred in relation to the disciplinary proceedings.

CASE 4

Background

21. The Respondent failed his practice review and was, by PAOC's order, restricted from performing any audit and reporting on financial statements of certain types of companies³ for a period of 12 months (restriction period). Arising from ACRA's check on the Respondent's compliance with the restriction order, the Respondent provided ACRA with an incomplete list of client engagements that he had signed off during the restriction period. The Respondent had disclosed that he had signed off on 30 auditor's reports when in fact he had signed off on a total of 65 auditor's reports. Of the 35 auditor's reports that he did not disclose to ACRA, 34 were for companies the Respondent was restricted from performing audit on. Therefore, the Respondent had breached the terms of the PAOC's order.

³ (i) Public company that is not dormant; (ii) Private company that is not dormant and not an exempt private company (EPC); and (iii) EPC that is not dormant and has annual revenue of more than \$5 million.

22. The matter was referred to a DC for formal inquiry upon the CC's recommendation.

Charges

23. The charges formulated against the Respondent in the proceedings before the DC were that:

- a. The Respondent had acted dishonestly by failing to disclose to ACRA a complete listing of all auditor's reports of financial statements he had signed off during the restriction period following ACRA's written request for the information and the auditor's reports not disclosed to ACRA included auditor's reports for companies for which the Respondent was restricted from performing any audit and reporting on financial statements and by reason of this, the Respondent was guilty of improper conduct in the discharge of his professional duty within the meaning of section 52(1)(c) of the Act.
- b. The Respondent had, during the restriction period, signed off auditor's reports for companies for which the Respondent was restricted from performing any audit and reporting on financial statements, and thereby breached the terms of the PAOC order made pursuant to section 38(1) of the Act and by reason of this, the Respondent was guilty of improper conduct in the discharge of his professional duty within the meaning of section 52(1)(c) of the Act.

24. At the formal inquiry, the Respondent pleaded guilty to the charges and on the basis of the Respondent's admissions, the DC were satisfied beyond reasonable doubt of the Respondent's guilt and found him guilty of both charges.

Consideration

25. For the first charge, the Respondent made no effort to present mitigating circumstances. For the second charge, the Respondent indicated that his clients had needs and he had to take care of his staff and that he needed the revenue from the client in order to pay salaries to his staff.

26. The Respondent did not indicate if he had made any attempt to persuade the PAOC to vary its order arising from the practice review in the light of the commercial pressures he was facing. The Respondent's misconduct was further aggravated by his attempt to withhold information from ACRA when initially queried and this led to the presentation of the first charge.

27. The DC considered the Respondent's misconduct to be extremely grave.

Decision

28. The PAOC ordered that the Respondent's registration as a PA be cancelled. As the Respondent had admitted to the charge thereby enabling the formal inquiry to be completed expeditiously, the PAOC only ordered the Respondent to pay ACRA the costs relating to disbursements incurred in relation to the disciplinary proceedings.

CASE 5

Background

29. The Respondent was the auditor of two companies in which the Complainant was a director. The companies engaged an administrative assistant whose responsibilities included (a) preparing payment vouchers for payments to suppliers and reimbursement of operating expenses; (ii) reconciling bank statements against payments made; and (iii) preparing company account statements at the end of every month. As the Complainant travelled overseas regularly, he had entrusted the company cheque books to the administrative assistant who was also the sole full-time employee.
30. During the relevant years under the Respondent's audit, the companies lost about \$300,000 due to forgery committed by the administrative assistant. The administrative assistant had forged the Complainant's signature on some cheques and made payments to herself. She also raised fictitious payment vouchers and forged bank account statements to conceal the discrepancies. The administrative assistant pleaded guilty to charges of forgery and making false entries under the Penal Code, was convicted and sentenced to 54 months' imprisonment.
31. The complaint related to whether the Respondent had exercised adequate professional competence and due care in carrying out the relevant audits of the companies.
32. The matter was referred to a DC for formal inquiry upon the CC's recommendation.

Charges

33. The charge formulated against the Respondent in the proceedings before the DC was that in the course of auditing the financial statements of the companies, the Respondent did not plan and perform the audit with an attitude of professional scepticism recognising that circumstances may exist that cause the financial statements to be materially misstated whether due to fraud or error and have therefore failed to comply with SSA 240 *The Auditor Responsibilities Relating to Fraud in an Audit of Financial Statements* and by reason of this, the Respondent did not exercise adequate professional competence and due care by acting diligently and in accordance with applicable technical and professional standards and thereby guilty of improper conduct in the discharge of his professional duty within the meaning of section 52(1)(c) of the Act.

Consideration

34. The DC found that the Respondent had not complied with the professional standards in the planning of the audit in that he had not adequately considered the risks of material misstatement in the financial statements, and in the conduct of the audit itself in that he did not maintain the requisite attitude of professional scepticism that was called for in the circumstances of the case.
35. The DC was of the view that although maintaining an attitude of professional scepticism did not mean that the auditor must distrust the veracity of the accounts straightaway or doubt everything that was placed before him, if the circumstances suggested that there were real risks of misstatement in the financial statements, it would be remiss of an auditor to continue to assume the good faith and integrity of the company's staff.
36. The fact that there had been numerous posting errors in previous years did not entitle the Respondent to assume that the errors had been innocuous mistakes. Paragraph 24 of SSA240⁴ specifically states that an auditor's previous experience with the same client is irrelevant when it comes to maintaining an attitude of professionalism. A history of posting errors did suggest a real possibility of misstatements in the accounts.
37. The DC found the Respondent's methodology to be inadequate, whether in respect of the initial reclassification work or in respect of the actual audit. The Respondent admitted that (i) while correcting misclassification, in many cases, he would not go behind what was stated on the face of the payment voucher; and (ii) when testing the payments during the audit, he might not look to or question the sufficiency of supporting documents if the payment was to the Complainant and the voucher had on its face, a signature appearing to be that of the Complainant's.

Decision

38. The PAOC ordered that the Respondent undertake to attend a refresher course on auditing standards and that for a period of 12 months, the work of the Respondent, be reviewed by another PA before he signs off on a certain number and type of audit engagement. The Respondent was also ordered to pay ACRA the costs and expenses of and incidental to the disciplinary proceedings.

CASE 6

Background

39. The Respondents were the auditors of a Charity for the financial years ended 31 March 2005 to 2010 (FY2005 to FY2010). In 2011, the Charity reported to an enforcement agency

⁴ Paragraph 24 of SSA240 states "*The auditor should maintain an attitude of professional scepticism throughout the audit, recognising the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience with the entity about the honesty and integrity of management and those charged with governance.*"

a loss of funds in relation to a long-term deposit of about \$1.1 million purportedly maintained with a local bank.

40. From the special audit initiated by the Charity, it was revealed that the annual audit confirmation requests for the said long-term deposit were passed to the Charity's late President and not sent to the bank directly by the auditors. The audit confirmation reply for FY2008 provided by the late President to the auditors did not indicate the name of the Charity and did not appear similar to the confirmation replies received by the auditors for the other accounts maintained with the same bank.
41. The enforcement agency reviewed the audit work papers for the relevant years and noted the following: (i) there were no annual confirmation replies concerning the long-term deposit in the audit work papers other than the confirmation received for FY2008; (ii) there was no evidence that the auditors had approached the bank separately to confirm the existence and completeness of the deposit; (iii) the auditors had sighted the deposit renewal letters, which were forged documents, as an alternative audit procedure.
42. The matter was referred to ACRA to determine whether the Respondents had performed sufficient and appropriate audit procedures with respect to the verification of the deposit as part of the relevant audits of the Charity, and whether the Respondents were negligent in their practice as PAs. The matter was subsequently referred to a DC for formal inquiry upon the CC's recommendation.

Charges

43. The charges formulated against the Respondents in the proceedings before the DC were that:
 - a. For the audits from FY2005 to FY2010, the Respondents did not exercise sufficient due care in obtaining sufficient and appropriate audit evidence to be able to draw reasonable conclusions as to the existence and completeness of the long-term deposit of the Charity and have therefore failed to comply with the applicable SSA 8 or SSA 500 *Audit Evidence*; and
 - b. For FY2009 audit, the Respondent did not plan and perform the audit with an attitude of professional scepticism recognising that circumstances may exist that cause the financial statements to be materially misstated and have therefore failed to comply with SSA 200 *Objective and General Principles Governing an Audit of Financial Statements*; and

by reason of the above, the Respondents did not carry out their professional work in accordance with applicable technical and professional standards and were guilty of improper conduct in the discharge of their professional duty within the meaning of section 52(1)(c) of the Act.

Consideration

44. The DC found that:

- a. For FY2005 to FY2010 audits, the Respondents failed to substantiate that the audit work paper files contain sufficient appropriate audit evidence to prove the existence and completeness of the long-term deposit as at the respective financial year-ends. The key audit evidence contained in the audit work paper files related to the sighting of the Fixed Deposit Advice (FDA) and additionally for FY2005, the Time Deposit Renewal Advice (TDRA). Both the FDA and TDRA only proved that the deposit may have existed as at the date of the Advice but did not substantiate that the deposit was still existing and was complete as at the respective year-end dates.
- b. For FY2008 audit, the confirmation reply letter was without the Charity's name on it and therefore did not support the existence of the deposit. Further, the letter was received several days after the auditor's report date. The Respondent should date the report on the financial statements no earlier than the date on which the Respondent has obtained sufficient and appropriate evidence on which to base the opinion on the financial statements. Further, the DC noted that the said confirmation reply letter indicated bcc to the Charity and the letter was given by the Charity to the Respondent. The applicable auditing standard on Audit Evidence provides that confirmation has to directly come from the confirming third party⁵ (i.e. the bank in this case) and that the audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference⁶. Given the materiality of the amount, the Respondent should have called the bank directly to verify.
- c. For FY2009 audit, the Respondent did not perform the audit with an attitude of professional scepticism commensurate with the risks present, given that the assembled audit working paper file included:
 - (i) Outstanding items with no alternative procedures performed to ascertain that the account balance existed and was complete.
 - (ii) Contradictory documentation that the Respondent's staff had verified the deposit in May 2009 and yet the same staff still requested the same deposit details one day before the audit report date in August 2009.

⁵ Paragraph 35 of SSA500 states "Confirmation, which is a specific type of inquiry, is the process of obtaining a representation of information or of an existing condition directly from a third party...."

⁶ Paragraph 9 of SSA500 states "The reliability of audit evidence is influenced by its source and by its nature and is dependent on the individual circumstances under which it is obtained. Generalizations about the reliability of various kinds of audit evidence can be made; however, such generalizations are subject to important exceptions.... While recognizing that exceptions may exist, the following generalizations about the reliability of audit evidence may be useful:

- Audit evidence is more reliable when it is obtained from independent sources outside the entity.
- Audit evidence obtained directly by the auditor (for example, observation of the application of a control) is more reliable than audit evidence obtained indirectly or by inference (for example, inquiry about the application of a control)"

- (iii) No bank confirmation reply was received from the bank and no answer was given by the Charity after being asked about the non-response from the bank.
- (iv) For the past years, the Respondent consistently received replies from the same bank on the other accounts held by the Charity which did not include the long-term deposit.

Decision

45. The PAOC ordered that the Respondents give an undertaking to ensure that, for a period of 6 months and 9 months respectively for the two PAs, their work be reviewed by another PA before they sign off on any audit engagement. The Respondents were also ordered to pay ACRA the costs and expenses of and incidental to the disciplinary proceedings.

CONCLUSION

46. ACRA takes a serious view of any improper or dishonourable conduct by public accountants. This bulletin serves to remind public accountants of the need to comply with the ethical requirements of the Code and applicable technical and professional standards. Public accountants should exercise professional scepticism and judgement when carrying out their professional work, and conduct themselves professionally when dealing with their clients and other third parties.