



CPA impostors

Non-CPA firms pose a threat to qualified accounting practitioners and businesses that use their services often land in trouble, writes Ng I-ching

W

alking by an MTR station, you'll often see advertisements promoting services for book-keeping, taxation and auditing at eye-popping discounts.

Some people get to work and find their fax machines stuffed with fliers offering the same cut-rate services.

Although only certified accountants can perform audits under the law, a flurry of non-CPA companies claim to offer comparable services at bargain rates. One of them boasts on its website that it can help clients save "at least 20 percent of their auditing fee." Service packages, which include preparation of financial statements, tax return and auditor's report, start from HK\$2,000.

The company claims to have a "close working relationship with a number of small and medium CPA audit firms," which "have idle manpower and [are] willing to accept audit assignments below market price."

It goes on to say "quality" is not a key issue in auditing because all auditors are members of the Institute and are therefore closely monitored. Repeated calls to the company's hotline to seek more information, however, went unanswered.

Qualified accountants bemoan a two-fold problem: While it is not illegal for these non-CPA companies to offer bargain book-keeping and taxation services, the practice results in a vicious price war that threatens the livelihood of legitimate small- and medium-sized practitioners. They say the cutthroat competition in turn leads to a bigger problem: Some CPAs are colluding with the unlicensed agents by helping to sign off on their clients' audits without performing proper due diligence as required by the Institute.

Shady "sampan"

Helen Kun Yun-fong, director of Vision A.S. Ltd., Certified Public Accountants, recalls how an insurance agent from mainland China tried to persuade her to sign off on books for his clients in exchange for a handsome commission when she first qualified as a CPA a decade ago.

"He gathered many customers from cold calls and promised me an annual turnover of [auditing business] worth more than HK\$1 million," she says. "It was a very tempting offer."

But Kun refused to join his operation when she realized client relationships were non-existent. "I was not allowed to contact the clients, nor obtain the letter

"He gathered many customers from cold calls and promised me an annual turnover of [auditing business] worth more than HK\$1 million. It was a very tempting offer."

of clearance. I knew right away there was no way I could follow the rigorous auditing procedures required by the Institute," she says.

Kun explains that the agents and middlemen who operate these shady operations are colloquially known as *tang zai*, or "sampan." They often target newly certified accountants who are struggling to build their name and client base, but those succumbing to the allure of short-term gains are putting their neck on the line, she says.

"By doing so, you misuse your power and it will be detrimental to your career development. Would you rather become a machine that simply signs off on books?" she says.

Word gets around

Besides, word often travels fast in the profession: Any qualified accountant who engages in such malpractice is often stigmatized by his or her peers, Kun warns.

Chris Joy, executive director of the Institute, says if members get an audit through business referral, "the onus is on the CPAs to prove they comply with professional standards in the relationship with the client and don't contravene the code of ethics in business relations with the non-CPA."

He says qualified accountants who fail to comply with professional standards when performing audits are subject to disciplinary action and may risk losing their licence.

"If the CPA did nothing but sign off the audit opinion, and all the work was done by the non-CPA firm and the

CPA impostors



CPA hasn't used appropriate procedures, we would take action against that individual," he says.

Thomas Wong Wa-sun, partner of CWCC CPA and a member of the Institute's SMP leadership panel, says while unknowing customers will no doubt be lured by the cheap prices of the unlicensed firms, they often end up wasting more time and money than they save.

Because the non-CPAs are not conversant with current accounting standards and taxation requirements, they often misdo the audits, prompting their clients to eventually go back to certified accountants, he says.

"These [unlicensed] companies may be able to do some basic accounting work such as secretarial and book-keeping, but they cannot do auditing work. The clients still need to look for CPAs to do the final audits," he says.

The perils of using unlicensed firms

Chan Lok-sang of Lau & Au Yeung CPA Ltd. is among those who had to fix the error-ridden work for some of his clients who initially went to uncertified firms. He says the clients faced unnecessary questioning from the Inland Revenue Department and paid more taxes than necessary after following "inappropriate tax advice on simple tax issues" from the non-CPA firms. He declines to divulge more details, citing client confidentiality.

Elizabeth Law, a director at Law & Partners CPA Ltd.,

says the only way uncertified firms can make a dollar is to skimp on audit procedures – some of them simply rely on the financial statements provided by the management of their clients without verifying the information.

Things could become nightmarish if an uncertified agent loses or fails to return a company's documents or records, says Kun of Vision A.S. "Even if you find a new CPA, they will have difficulties redoing your audit and subsequently, the auditor's report would be qualified," she says. "And the directors have the responsibility to keep the books and records of the company."

To complicate matters more, Wong says some "black sheep" within the accounting profession are lured by the prospect of earning quick money by moonlighting for these unlicensed firms. "One has to doubt whether they could perform all the necessary auditing procedures after they finish their day job," he says.

The economic downturn also means more CPAs who lost their finance and business jobs have opened their own accounting practices, making competition keener, he says.

The Institute's Joy explains that in a proper audit, the auditor will need to obtain an engagement letter outlining all the terms and conditions of the audit, apply the correct audit methodologies, stay in contact with the client, and supervise and review the ongoing work.

Cutting corners

Gary Poon Tsun-wah, a principal of CPA firm Poon & Co., says, "Clients should be asking whether their auditors, especially those who are offering unreasonably low prices, have actually carried out the required procedures in their engagements."

He warns that small- and medium-sized enterprises can run into trouble with the Inland Revenue Department and the regulators if the authorities discover material misstatements in their financial statements after they are published. The companies will then have to amend or reissue their financial statements, which would be a blow to the company's reputation, he says.

Poon advises company management to see the firm's practising certificates if they suspect uncertified firms or personnel of conducting auditing services. Management should also check the Institute's website to see if their accountants are indeed registered members and report incidents of any wrongdoing to the Institute, he adds.

The elusive network

SMPs say the unlicensed firms are operating an increasingly complex network, with layers of agents

UNAUTHORIZED SIGNING OF AUDIT REPORTS

A recent disciplinary case reveals that an audit firm's staff signed and issued audit reports bearing the firm's name despite not being authorized to do so.

Although this doesn't happen often, effective control procedures ensure all audit reports are only signed by authorized personnel.

Firms can put in place procedures to:

- Track all audit reports requiring the signature of the engagement partner.
- Alert the engagement partner when audit reports remain unsigned long after audit field work has been completed.

- Discover irregularities when final engagement files are assembled after audit reports are finalized.

The fact that an unauthorized person signed and issued an audit report, purportedly on behalf of the firm, is a strong indication of a control breakdown and a sign the firm may have failed to comply with Hong Kong Standard on Quality Control 1.

Any member who signs and issues audit reports without authority is likely to be in breach of the Institute's Code of Ethics for Professional Accountants. Don't forget that forgery is a criminal offence.

acting as intermediaries for a pool of qualified CPAs whose duty is merely to sign off on books without doing the proper checks.

As the service supply chain grows and increases in complexity, outsiders may fail to detect the great volume of business referrals between these accounting agents and CPAs, says Poon.

Under the Professional Accountants Ordinance, any unlicensed person or company that performs auditing services violates section 42 of the ordinance and can be subject to criminal prosecution.

Though the number of complaints to the Institute has remained relatively low in recent years, some SMPs believe many cases have gone unreported.

Between 2005 and 2009, the Institute received a total of 21 complaints concerning section 42 offences. In 2005, out of the eight cases reported, only one non-CPA practice was convicted and fined HK\$3,000 – a relatively small penalty that didn't seem to deter wrongdoers: A year later, there were six complaints but only one resulted in police issuing a warning letter.

Joy says it's often difficult for police to prosecute the bogus firms because the offence is "time-barred," which means prosecution needs to be concluded within six months of the improper acts. Besides, complainants are often anonymous or uncooperative, which makes it harder for police to gather evidence against shady practices.

Law of Law & Partners CPA says she tried taking matters in hand by reporting to the police the activities of unlicensed firms after receiving advertisements from them at least once a week. But the authorities dismissed

the cases as a "marketing issue" – a price war turned sour, she says.

Raising awareness

As for the certified firms that collude with such unlicensed operators, the Institute now conducts practice reviews on about 150 firms a year to ensure audit quality. Joy says the Institute checks on firms suspected of partnering or receiving subcontracted auditing work from unlicensed firms.

To raise awareness of the problem, the Institute plans to introduce a campaign to explain to smaller companies and the public why they should seek quality accounting and auditing services offered by its more than 30,000 registered CPA members.

Poon fears that if the unlicensed firms continue to proliferate, it will deal a blow to the reputation of the whole accounting profession.

Mabel Chan Mei-bo, who runs her own accounting firm, agrees that the situation has become "an urgent matter that requires our immediate attention."

"If true and fair accounting principles are not upheld, Hong Kong's tax revenue could be seriously affected, especially in cases where tax returns are miscalculated," she says, adding that banks may also lend money to companies that would otherwise not qualify for loans because of incorrect or incomprehensive financial statements and audit reports compiled by unlicensed firms.

"Quality accounting and auditing services are crucial to the stability of Hong Kong's financial system," she says. **A**