
COMPLIANCE



2021 Annual Report

Focusing on the Future



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Abbreviations used

| | |
|--------------------|--|
| CPA | Certified Public Accountant |
| CPRR | Corporate Practices (Registration) Rules |
| FRC | Financial Reporting Council |
| HKICPA / Institute | Hong Kong Institute of Certified Public Accountants |
| HKSA | Hong Kong Standard on Auditing |
| HKSQC | Hong Kong Standard on Quality Control |
| Members | CPAs, CPA firms, corporate practices and registered students |
| PAO | Professional Accountants Ordinance |
| PCC | Professional Conduct Committee |
| PRC | Practice Review Committee |
| RBA | Resolution by Agreement |
| ROB | Regulatory Oversight Board |

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FOREWORD

In June 2021, the Secretary for Financial Services and the Treasury announced the further reform of the regulatory regime of accounting profession to expand powers vested with the Financial Reporting Council. Those powers include extending inspection, investigation and discipline of public interest entity auditors to cover all certified public accountants and practice units registered with the Institute. The Financial Reporting Council (Amendment) Bill was passed by the Legislative Council in October 2021.

Since the announcement of the further reform, the Compliance Department has been liaising with the FRC to prepare for a smooth transition of the regulatory process in anticipation of the new regime. The transitional arrangements will be detailed in subsidiary legislation to be prepared by the HKSAR Government.

The Compliance Department will continue to process cases received under the current regime in accordance with the complaint handling process of the Institute, ensuring the efficiency and effectiveness needed to properly protect public interest and maintain the good reputation of the profession.

Linda Biek
Director, Compliance
November 2021

REGULATING THE PROFESSION

The Hong Kong Institute of Certified Public Accountants is the licensing body for professional accountants in Hong Kong and is responsible for regulating the conduct of certified public accountants. As part of its regulatory function, the Institute responds to complaints concerning the professional and ethical conduct of its members.

Compliance with the Institute's professional standards is a requirement of membership. Complaint and disciplinary processes are key mechanisms by which the Institute regulates the conduct of its members, with sanctions imposed for serious breaches of the standards.

The Compliance Department carries out the Institute's function of regulating the professional and ethical conduct of members. The department's activities are subject to continuous monitoring supported by an independent process review carried out by the Regulatory Oversight Board, to ensure procedures are consistently applied and expected results are delivered.

The core activities of the department consist of conducting case assessments and investigations arising from complaints against members of the Institute, supporting the Professional Conduct Committee in their consideration of appropriate action, and assisting with the disciplinary proceedings handled by Disciplinary Committees.

To protect the public image of the profession, the department supports the Institute in taking action against suspected offences under section 42 of PAO involving, inter alia, fraudulent representations of the designation "certified public accountant" and "CPA".

To promote proficiency, the department organizes technical forums and contributes contents in *A Plus* to alert members to contemporary regulatory issues and promote good practices. For details of the communication projects, please refer to Appendix 1 of this report.

This report sets out the department's key activities and statistics for the year ended 30 June 2021.



ANATOMY OF THE COMPLAINT PROCESS

What is a complaint?

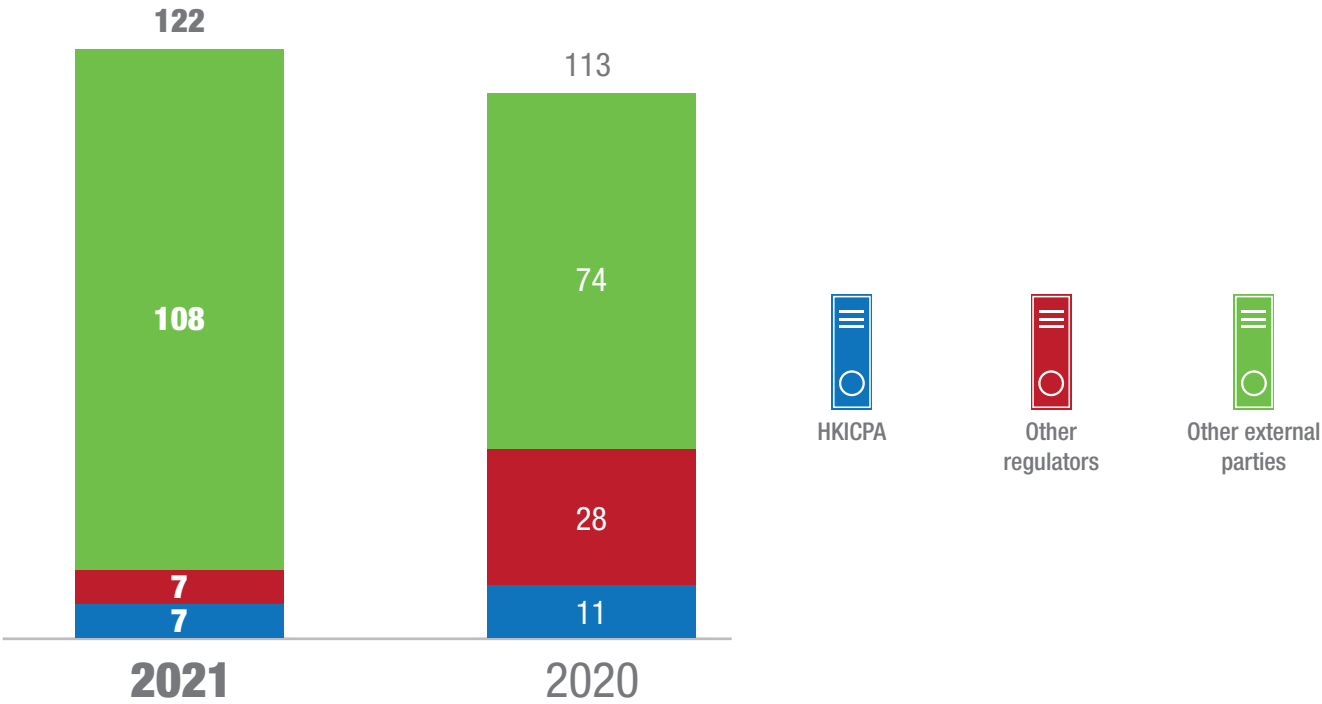
The Institute’s power to regulate its members under the Professional Accountants Ordinance allows it to pursue complaints against members.

Any complaint received by the Institute (whether made anonymously or not) is handled in accordance with the Institute’s complaint handling process.



The Institute’s complaint handling process is governed by the [General policy on Anonymous Complaints](#) and the policy on [Confidentiality and Protection of Identity](#).

Complaint sources



Processing complaints

Complaints are analysed by the Compliance Department to determine if a prima facie case exists. Before conducting enquiries of our members, the department will ensure that the subject matter is:

- within the jurisdiction of the Institute; and
- supported by sufficient evidence suggesting that members may have failed to comply with the Institute's standards.

To ensure a fair and due process, enquiries are sought from members in accordance with the complaint handling process. On conclusion of enquiry and analysis, the Compliance Department will submit a report on its findings, conclusion and recommended action to the PCC for consideration of appropriate action.

For details of the complaint process, visit:

<https://www.hkicpa.org.hk/en/Standards-and-regulation/Compliance/Complaints>

Performance measures

The Compliance Department aims to maintain effective, efficient case processing; and continuous review and monitoring of cases throughout all phases of the complaint handling process.

As a measure of good performance, the Compliance Department targets completion of all phases of the complaint handling process, excluding disciplinary proceedings, within 12 months of case receipt. Actual achievement of this metric for the reporting period was 95% (2020: 99%).

ASSESSING COMPLAINTS

Professional Conduct Committee

The Professional Conduct Committee comprises CPAs in public practice and in business. Based on information gathered by the Compliance Department, each complaint is independently evaluated.

When deliberating cases, the PCC:

- evaluates each case in light of the circumstances and expected conduct of the member under the relevant professional standards or PAO provisions; and
- makes decisions in the context of the Institute's commitment to uphold the quality of members' professional work and the positive public perception of the profession in Hong Kong.



Types of actions under the PCC's terms of reference:



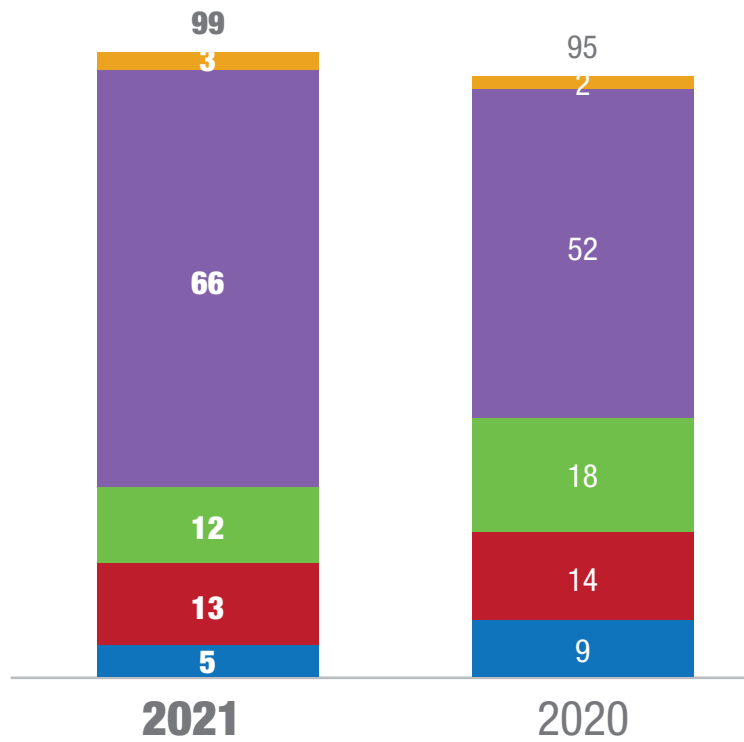
- Insufficient evidence to show a *prima facie* case
- Outside jurisdiction
- Advisory letter may be issued

- Issue disapproval letters for minor *prima facie* cases
- Direct other course of action as appropriate

- Recommend Resolution by Agreement for *prima facie* cases of moderate severity
- Recommend referral of serious *prima facie* cases to the Disciplinary Panels

Recommendations and outcomes

Complaints decided by PCC



Recommended for
referral to
Disciplinary Panels



Recommended for
Resolution by
Agreement



Issue of
disapproval letter



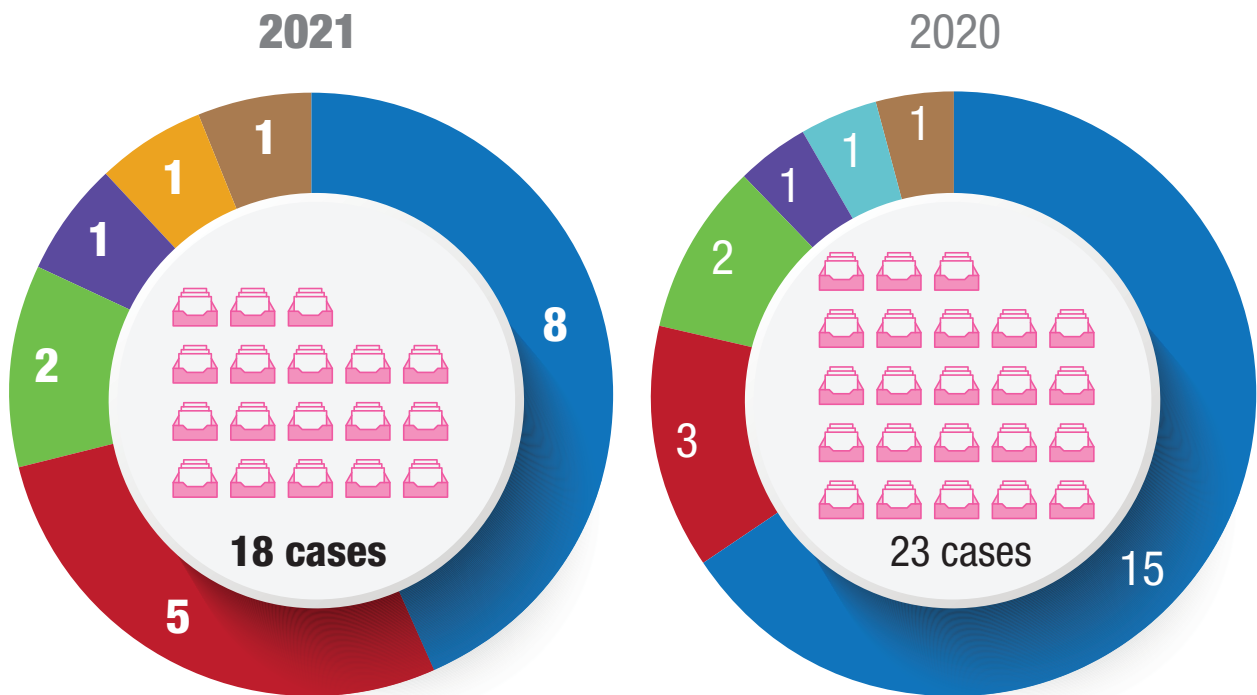
Dismissed



Issue of
advisory letter

Disciplinary Cases and RBAs

(Recommended by the PCC)



- Breach of auditing and assurance standards
- Lack of professional competence and due care
- Lack of integrity, professional misconduct
- Dishonourable conduct
- Breach of anti-money laundering and counter-terrorist financing requirements
- Improper practice promotion activities
- Non-compliance with laws and regulations

RESOLUTION BY AGREEMENT

The RBA mechanism was established to conclude disciplinable cases of moderate severity in lieu of disciplinary proceedings. This allows an efficient and effective alternative for resolving potential disciplinary cases which meet the pre-determined criteria.

Criteria:

- Complaints under sub-paragraphs (vi), (viii), (ix) and (x) of section 34(1)(a) of the PAO;
- Cases not contested by the respondents; and
- Cases not involving complaints of dishonesty.

Other factors:

- Nature and seriousness of a complaint.
- Relevant precedent cases.
- Past disciplinary records of the respondents.
- Aggravating or mitigating circumstances.

Applicable terms:

- Mandatory public censure including publication of the RBA terms and relevant facts.
- Optional administrative penalty not exceeding HK\$50,000.
- Other actions, such as payment of costs, and additional conditions and restrictions, as deemed necessary by Council.

The terms within the RBA are non-negotiable. If they are not accepted by all stakeholders, the complaint may be referred to the Disciplinary Panels unless significant new information has been found subsequent to the original decision, which may warrant reconsideration of the original decision.

No. of completed RBAs



2021 (15)



2020 (11)

For details of the RBAs, visit: <https://www.hkicpa.org.hk/en/Standards-and-regulation/Compliance/Resolution-by-Agreement>

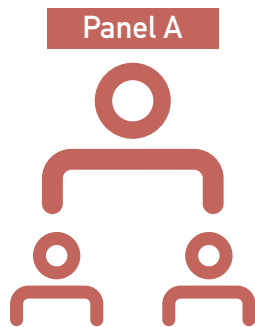
DISCIPLINARY MATTERS

What is a disciplinary proceeding?

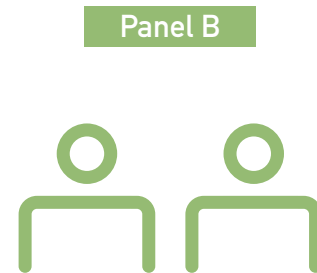
A Disciplinary Committee is constituted when Council concludes that a complaint is serious enough to warrant referral to the Disciplinary Panels. The sequence of steps by which the matter is adjudicated would be referred to as disciplinary proceedings.



Composition of a Disciplinary Committee

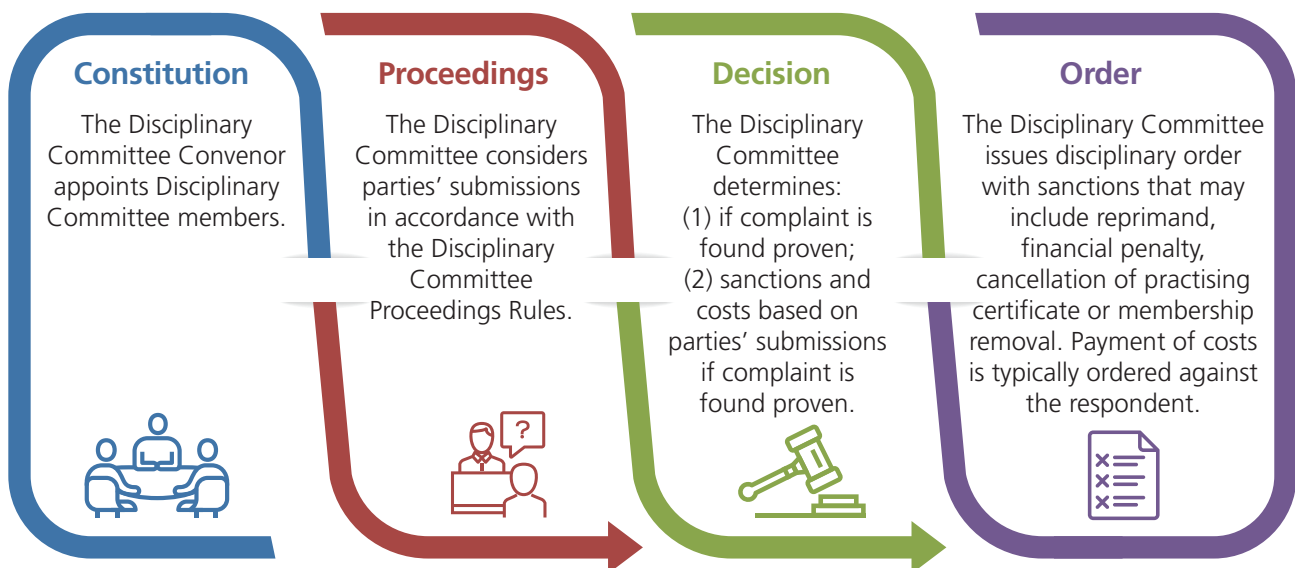


Three lay members appointed by the government, one of whom is selected as the committee chair.



Two CPAs, one of whom must be a practising CPA.

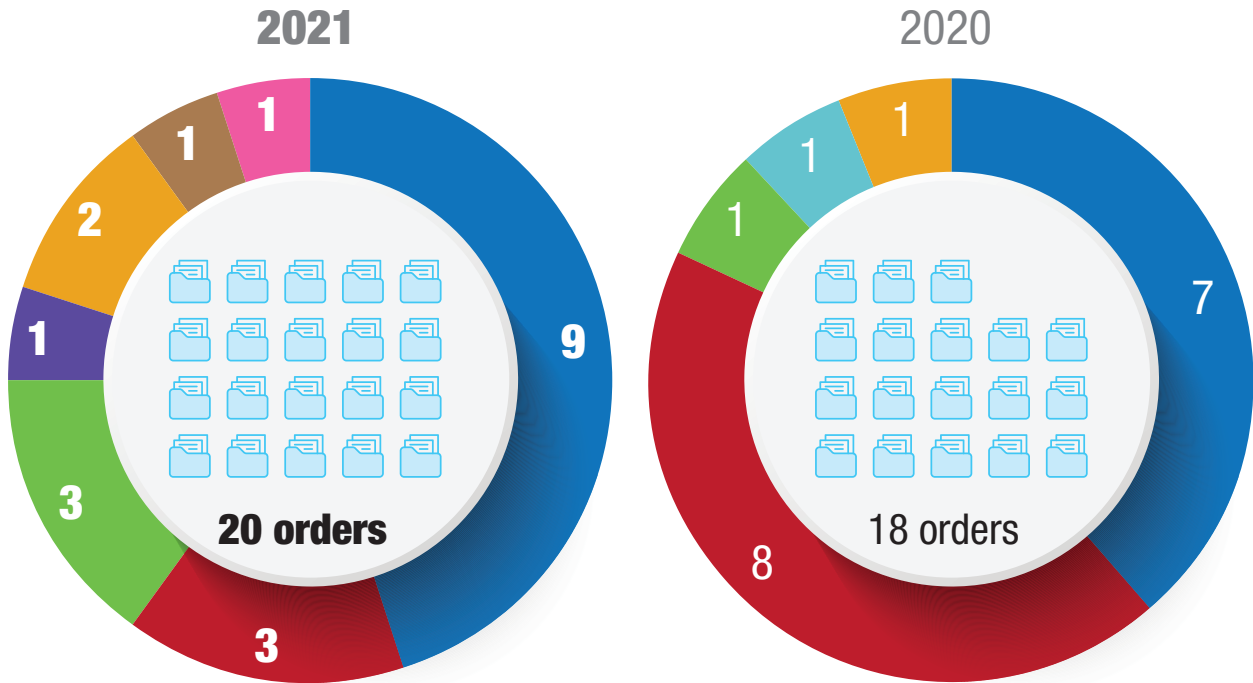
Process



For details on the disciplinary process, visit: <https://www.hkicpa.org.hk/en/Standards-and-regulation/Compliance/Disciplinary>


Disciplinary outcomes

A summary of the 20 disciplinary orders issued during the period is presented in Appendix 3.



- Reprimand and penalty
- Reprimand, cancellation of practising certificate and penalty
- Removal of membership
- Reprimand and removal of membership
- Cancellation of practising certificate only
- Reprimand and cancellation of practising certificate
- Reprimand, cancellation of practising certificate, removal of membership and penalty
- Reprimand and non-issuance of practising certificate

Level of penalty

| Type of penalty | Level of penalty | Number of orders | |
|---|---------------------------|------------------|------|
| | | 2021 | 2020 |
| Financial penalty¹  | ≤ HK\$50,000 | 4 | 4 |
| | HK\$50,001 – HK\$100,000 | 3 | 5 |
| | HK\$100,001 – HK\$200,000 | 4 | 1 |
| | HK\$200,001 – HK\$400,000 | 1 | 2 |
| | HK\$400,001 – HK\$500,000 | 0 | 2 |
| | > HK\$500,000 | 1 | 1 |

| Type of penalty | Level of penalty | Number of orders | |
|--|------------------|------------------|------|
| | | 2021 | 2020 |
| Cancellation of practising certificate / No issuance of practising certificate  | < 1 year | 2 | 2 |
| | 1 - 3 years | 5 | 8 |

| Type of penalty | Level of penalty | Number of orders | |
|---|------------------|------------------|------|
| | | 2021 | 2020 |
| Removal of membership  | 1 - 3 years | 4 | 1 |
| | 4 - 6 years | 1 | 0 |

¹ Aggregate amount of financial penalties imposed on all respondents in an order.

SETTLEMENTS

In certain circumstances, the interests of the public, the profession, and the Institute's regulatory objective may be best served by early resolution of complaints which are either expected to result in disciplinary proceedings or are already the subject of disciplinary proceedings. Parties who are subject to potential disciplinary action may seek to negotiate settlement of a complaint with the Institute. Settlement may be proposed and negotiated at any stage during the process, although a respondent wishing to settle the matter should approach the Institute as early as possible to ensure timely consideration.

The key principle of a settlement is that it represents a just and proper resolution of the complaint.

The following criteria will be taken into account when considering whether it is appropriate for the Institute to agree to a settlement proposal:

- (a) The public interest in:
 - preserving the integrity, reputation and status of the accountancy profession;
 - ensuring members of the profession adhere to professional standards and members of the public are protected from harm; and
 - the swift resolution of disciplinable complaints.
- (b) Nature and seriousness of the alleged conduct.
- (c) Likely sanctions that would have been imposed by the Disciplinary Committee had the complaint been proved.

All settlements will be subject to publicity, by publication in *A Plus*, press releases and/or such other means deemed appropriate by the Institute or the Council. Starting from March 2021, settlements are also published on the Institute's website for five years.

During the year, the Institute approved three settlements (2020: nil).

For details of the settlements, visit <https://www.hkicpa.org.hk/en/Standards-and-regulation/Compliance/Settlements>

CONSTITUTION OF INVESTIGATION COMMITTEES

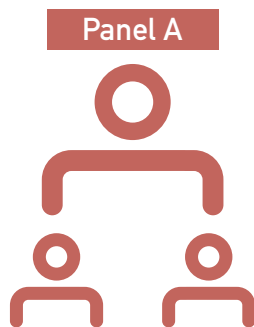
What is an investigation?

Council may constitute an Investigation Committee when:

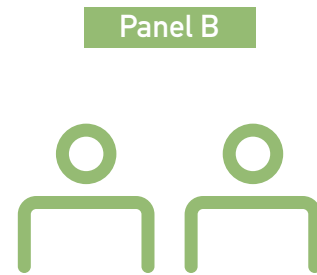
- it has reasonable suspicion that a member has not followed professional standards issued by the Institute or has committed other improper acts; and
- the Investigation Committee's powers are needed to assist the Council in determining if a case should be referred to the Disciplinary Panels.



Composition of an Investigation Committee



Three lay members appointed by the government, one of whom is selected as the committee chair.



Two CPAs, one of whom must be a practising CPA.

Process

- The Compliance Department provides support and gathers evidence according to the committee's instructions.
- The responsibility for investigation of matters involving listed entities is with the FRC. Accordingly, the Institute is only responsible for investigations of non-listed entities and those involving listed entities that commenced before July 2007.
- No investigation committee was constituted during the period (2020: nil).

SECTION 42 OFFENCES

Section 42 of the PAO makes it an offence for individuals or companies to fraudulently hold themselves out as CPAs / CPA practices or offer services that only practising CPAs are qualified to provide.

As the statutory licensing body of the accounting profession in Hong Kong, the Institute not only regulates the conduct of CPAs but also protects the public image of the profession by taking action against section 42 offenders. In this connection, the Institute encourages its members and members of the public to forward evidence of suspected section 42 violations.

During the period, regulatory actions were taken against 6 offenders (2020: 6 offenders).

Process

When the Institute receives promotional materials that suggests section 42 violations, the Compliance Department undertakes the regulatory actions below:



Communication Projects

Information acquired from the complaint and disciplinary processes is used to promote good practice and raise awareness of regulatory issues through seminars and articles in *A Plus*.

The Compliance Department's webinar entitled *A Closer Look at Professional Skepticism* attracted approximately 6,700 enrolments. The webinar explained the concept of professional skepticism and showed how it works in practice by taking viewers through some commonly encountered situations in the audit process.

A representative of the Compliance Department gave a presentation at the 2020 SMP Symposium held in November 2020, and highlighted key complaint findings that were relevant to small and medium practitioners. The live webinar symposium attracted over 320 attendees.

The Director, Compliance presented on professional ethics at audit workshops in March and June 2021. Highlights of the sessions included overview of the conceptual framework and case studies.

The Compliance Department published articles and other practice alerts periodically to alert members on regulatory issues identified during the complaint and disciplinary process. The publications during the period were: *What are Practice Promotion Pitfalls and Section 42 Offences*, *E-learning Course on Professional Scepticism*, *Solicitors' Accounts Reporting Pitfalls*, *Responsibility of CPAs Who Prepare Corporate Financial Statements*, and *Beware of Expectation Gaps When Auditing the Financial Statements of Owners' Corporations in Hong Kong*.

The Compliance Department will continue its efforts to alert members of the regulatory findings, in an attempt to promote technical ability and professional behaviour in the accounting profession.

To maintain an efficient and effective disciplinary system, the department held a virtual Disciplinary Panel Briefing Session in June 2021. Over 40 members from the Institute's Disciplinary Panels attended the session. The briefing session explained the function of a disciplinary committee and highlighted key elements of the disciplinary process. Practical issues and challenges faced by the disciplinary committees in conducting the disciplinary proceedings were shared with the panel members.

COMPLIANCE DEPARTMENT - PROCESS REVIEW REPORT 2021

A. Introduction

1. The Regulatory Oversight Board (“ROB”) oversees the performance and outcomes of regulatory functions, and provides advice on policies, priorities and resource allocation in respect of the Institute’s regulatory matters. This includes review of the activities of the Compliance Department (“Compliance”) to ensure that these activities are carried out in accordance with strategies and policies determined by Council, and in the public interest.
2. As part of its oversight function, the ROB conducts an annual process review of the operations of Compliance and the disciplinary proceedings handled by the Legal Department (“Legal”). The objective of the review is to ensure the departments perform their work demonstrating due process, timeliness, and quality of case handling. This report on the 2021 Process Review highlights the observations from ROB members (“Reviewers”) and responses from management. Where appropriate, suggestions for improvements from Reviewers are also incorporated into Compliance’s action plans.
3. A total of 128 cases, completed from 1 July 2020 to 30 June 2021, comprised the population from which the 2021 Process Review cases were selected. The case mix consisted of 24 disciplinary cases, 15 Resolutions by Agreement (“RBA”), and 3 settlement cases. The remaining 86 cases were either resolved with a Disapproval Letter (“DL”) or dismissed.
4. From the 128 completed cases, the ROB Chair selected 12 for review. Consideration of completion times and case outcomes drove the selection process. The sample of 12 contained four disciplinary cases, two settlement cases, two RBA cases, two DL cases, and two dismissal cases.
5. After receiving the case files from Compliance and Legal, Reviewers referred to existing guidance on due process, statutory requirements, and applicable rules to conduct the process review.
6. As the review focuses exclusively on process, Reviewers did not consider the propriety of case judgements and conclusions. That assessment would be beyond the scope of the process review.

B. Reviewers' Observations and Compliance's Responses**(i) Compliance with due process**

7. Reviewers assessed whether Compliance had followed the established complaint handling process. They concluded that complaint allegations were appropriately addressed and considered in the resolution of the complaints.

Reviewers' Observations

8. All selected cases were handled in accordance with established procedures.

Compliance's response

9. Compliance will continue to assess matters in accordance with due process, seeking out opportunities for improvement.

(ii) Timeliness

10. Reviewers examined the amount of time each complaint took as it traveled through the complaint handling process and, if necessary, the disciplinary process. They assessed whether the time spent was within established targets and, if not, whether circumstances justified the delays.

Reviewers' Observations

11. Of the 12 cases reviewed, three were processed in accordance with the projected time frame. Delays in eight of the cases are considered reasonable under the circumstances, or beyond the control of the Institute. Three of the cases were delayed by the Chairs of the disciplinary committees ("DC") in handing down the sanctions order, or scheduling difficulties concerning DC members to conduct hearings. Of the remaining five cases in which delays were considered reasonable or beyond the Institute's control, further observations for two cases are highlighted in paragraphs 12 and 13 below.
12. One Investigation Committee ("IC") case took 13 years to complete due to a series of circumstances that added to the delay in finalizing the IC Report, which was reported to Council in March 2018. The matter was reported to Council for referral to the disciplinary panels in February 2019 and the DC was constituted in August 2019. The disciplinary order was issued in April 2021. The Reviewer found that the process was relatively smooth once the complaint entered the disciplinary proceedings, with the exception of extensive delays caused by the inaction of the DC Chair to tend to the case, which led to the ultimate replacement of the DC Chair.

13. For an RBA case in which the respondents employed delaying tactics by requesting multiple extensions when making submissions to the Institute, the Reviewer suggested that the Institute could toughen the terms for granting extensions in order to improve efficiency, and consider citing those tactics as an aggregating factor when proposing RBA sanctions.
14. The case handler's workload, which contributed to the delay in one dismissal case, was not considered reasonable given the simple nature of the case.

Compliance's responses

15. In response to paragraphs 11 and 12 above, delays in disciplinary proceedings caused by the DC are outside the control of the Institute. DC Clerks maintain regular contact with DC Chairs throughout the disciplinary proceedings to promote efficiency. If extensive delays or non-responsiveness occur, the DC Convenor or ROB Chair would be asked to contact DC Chairs about the delays. In extreme cases, the Institute would request the government to refrain from reappointing the individual to the disciplinary panel in the future. This has only happened on rare occasions.
16. In relation to paragraph 13 above, Compliance acknowledges the Reviewer's suggestions and will consider respondent's delaying tactics when determining appropriate RBA sanctions, and assessing the number of extension requests and length of extension times.
17. Compliance acknowledges the finding in paragraph 14 above, and will consider ways to improve project management for case handlers dealing with multiple projects.

(iii) Quality of case handling

18. Reviewers assessed whether complaint allegations were adequately identified and considered by case handlers. For dismissal cases, Reviewers assessed whether reasons for dismissing complaints were adequately explained.

Reviewers' Observations

19. Overall, Reviewers found good quality of work in the Institute's case handling. It was found that:
 - (a) The complaint handling process was done thoroughly and the cases were handled in a professional manner. Where appropriate, disciplinary proceedings for cases which involved the same respondents and same subject company were combined for efficiency.
 - (b) Compliance has taken into account all relevant factors into consideration when proposing any course of action.
 - (c) DC Clerks provided adequate support to the disciplinary committees.

APPENDIX 2

20. Where appropriate, justification for the costs and expenses of the Complainant were given with clarity to the disciplinary committee.
21. For one settlement case, the Reviewer remarked that it was disappointing to note how actively Council was involved in this case, given the strength of the original process. It would appear appropriate for Council to be involved on material matters but not details.
22. One of the cases that was reviewed involved three respondents, and a circuitous route to completion. The Reviewer found it difficult to locate certain documents in the file, and also to follow the events concerning one of the respondents. A DL was issued to this respondent in July 2019 but was subsequently withdrawn in July 2020. As the withdrawal of the DL was linked to events leading to the issuance of the DL to the other two respondents in June 2020, the Reviewer found it difficult to follow the events linking all three respondents in the resolution of the case, and suggested that file documentation be improved.

Compliance's responses

23. In respect of paragraph 22 above, Compliance notes the Reviewer's recommendation to improve documentation of case chronology by ensuring that key events concerning all respondents are captured, and cross-referencing be added.
24. Compliance notes Reviewers' comments, and will continue to strive to improve the quality of case handling.

Members of the Regulatory Oversight Board in 2021

| Name | Position | Company |
|---|----------|--|
| Mr. LEUNG, Kai Cheong, Kenneth (Appointed 8 January 2021) | Chairman | Lewis Silkin |
| Dr. AU, King Lun | Member | Financial Services Development Council |
| Mr. CHAN, Kam Wing, Clement | Member | BDO Limited |
| Ms. CHAN, Mei Bo, Mabel | Member | Grant Thornton (Hong Kong) Limited |
| Mr. CHENG, Chung Ching, Raymond (Appointed 8 January 2021) | Member | HLB Hodgson Impey Cheng Limited |
| Ms. CHOI, Heung Kwan, Agnes | Member | - |
| Ms. HUI, Grace | Member | Hong Kong Exchanges and Clearing Limited |
| Mr. POGSON, Timothy Keith | Member | Ernst & Young |
| Dr. SO, Shiu Tsung Thomas (Appointed 5 February 2021) | Member | Mayer Brown |
| Ms. TSUI, Lai Ching, Kitty (Appointed 8 January 2021) | Member | Companies Registry |

APPENDIX 3

Disciplinary Orders

Excluding two orders (2020: 2 orders) under appeal, 20 disciplinary orders were issued in 2021 (2020: 18 orders). These orders are summarized below:

| Nature of complaint | | Sanction |
|--|---|--|
| <i>Disciplinary orders involving removal from membership</i> | | |
| 1 | <p>Guilty of dishonourable conduct.</p> <p>The respondent was convicted in the Magistrates' Court in June 2019 of the offence of committing an act outraging public decency. He was sentenced to imprisonment.</p> | <ul style="list-style-type: none"> ■ Removal for 1 year ■ Costs of HK\$29,178 |
| 2 | <p>Failure or neglect, without reasonable excuse, to comply with a direction issued by the Practice Review Committee (PRC) under section 32F(2)(b) of the PAO, and breach of the fundamental principle of integrity in sections 100.5(a) and 110 of the Code of Ethics for Professional Accountants.</p> <p>The respondent's practice was subject to a follow-up practice review. The PRC issued a direction requiring him to provide the necessary information to enable the practice review to be conducted. The respondent failed to comply with the PRC's direction, claiming falsely that his office was in disarray after typhoon devastation. As a result, the follow-up practice review could not be conducted.</p> | <ul style="list-style-type: none"> ■ Removal for 1 year ■ Costs of HK\$64,012 |
| 3 | <p>Guilty of professional misconduct and dishonourable conduct.</p> <p>The respondent was a CPA practising full-time in her own name. The Institute was unable to carry out a practice review on her due to her continuous non-cooperation and failure to submit documents required for the review. Copies of a Practice Review Committee direction mailed to her registered addresses were all returned unclaimed. The respondent's failure to maintain a valid registered office address as required under section 31(1) of the Professional Accountants Ordinance would amount to a criminal offence.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Removal for 3 years ■ Costs of HK\$66,051.50 |

| Nature of complaint | | Sanction |
|---------------------|---|---|
| 4 | <p>Failure or neglect, without reasonable excuse, to comply with a direction issued by the Practice Review Committee (PRC) under section 32F(2)(b) of the Professional Accountants Ordinance.</p> <p>The respondent had been practising in her own name on a part-time basis and was subject to a practice review. The practice reviewer made numerous attempts to obtain information from the respondent for the purpose of the review. However, the respondent refused to provide the information requested.</p> <p>Subsequently, the PRC issued a direction under section 32F(2)(b) of the Ordinance to the respondent requiring her to cooperate with the Institute to facilitate a practice review and provide certain information for the review. The respondent did not comply with the direction.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Cancellation of practising certificate and removal from the register of CPAs for 3 years ■ Penalty of HK\$30,000 ■ Costs of HK\$55,105 |
| 5 | <p>Failure or neglect to observe, maintain or otherwise apply the fundamental principle of integrity under sections 110.1 A1(a), R110.2, and R111.2 under Chapter A of the Code of Ethics for Professional Accountants.</p> <p>The respondent provided copies of two medical certificates purportedly issued by a hospital in support of her sick leave applications to her employer. The employer subsequently discovered that the medical certificates were not issued by the hospital and the respondent had not attended the hospital or any of its polyclinics. The employer referred the matter to the Institute. The respondent was not very cooperative with the Institute during its investigation.</p> | <ul style="list-style-type: none"> ■ Removal for 5 years ■ Costs of HK\$44,590 |

APPENDIX 3

| Nature of complaint | Sanction |
|--|---|
| <i>Disciplinary orders involving cancellation of practising certificates and no issuance of practising certificates</i> | |
| <p>6 Failure or neglect to observe, maintain or otherwise apply the fundamental principle of integrity in sections 100.5(a), 110.1 and 110.2 of the Code of Ethics for Professional Accountants (Code of Ethics), the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code of Ethics and Hong Kong Standard on Quality Control 1 <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements</i>, and being guilty of professional misconduct.</p> <p>The respondent was the sole proprietor of a practice and was responsible for the practice's quality control system and the quality of its audit engagements. A practice review was conducted on the practice in December 2018, which revealed significant deficiencies both in the quality control system and in a number of audit engagements. Furthermore, the practice reviewer found that the respondent had created certain audit documents for the practice review. Those audit documents were created after the audits had been completed and the relevant file assembly periods had passed.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Cancellation of practising certificate and no practising certificate shall be issued to the respondent for 6 months ■ Penalty of HK\$100,000 ■ Costs of HK\$69,464 |
| <p>7 Failure or neglect to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants, Hong Kong Standard on Auditing (HKSA) 300 <i>Planning an Audit of Financial Statements</i>, HKSA 315 <i>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</i>, HKSA 500 <i>Audit Evidence</i>, HKSA 700 <i>Forming an Opinion and Reporting on Financial Statements</i> and Hong Kong Standard on Quality Control 1 <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements</i>, and being guilty of professional misconduct.</p> <p>The respondent was the sole practitioner of a de-registered firm and the managing director of a corporate practice. The practices shared the same quality control system, audit methodology and staff resources. The respondent was responsible for the quality control system of the practices. An initial practice review conducted on the practices revealed a number of deficiencies both in the practices' quality control system and the firm's audit and compliance engagements.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Cancellation of practising certificate and no practising certificate shall be issued to the respondent for 10 months ■ Costs of HK\$111,134 |

| Nature of complaint | Sanction |
|---|---|
| <p>8 Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 200 <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing</i>, HKSA 230 <i>Audit Documentation</i>, HKSA 315 <i>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</i>, HKSA 330 <i>The Auditor's Responses to Assessed Risks</i>, HKSA 500 <i>Audit Evidence</i>, HKSA 505 <i>External Confirmations</i> and the fundamental principle of Professional Competence and Due Care in sections 100.5(c) and 130 of the Code of Ethics for Professional Accountants.</p> <p>The respondent audited the financial statements of five private companies for the year/period ended 31 December 2017 and expressed an unmodified auditor's opinion in each of those audits. Deficiencies were found in the audit procedures performed in verifying revenue and costs, accepting bank confirmations, and following up on a lack of response to confirmation requests sent to the companies' customers and suppliers.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ No practising certificate shall be issued to the respondent for 12 months ■ Costs of HK\$ 107,443 |
| <p>9 Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 200 <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing</i>, HKSA 230 <i>Audit Documentation</i>, HKSA 500 <i>Audit Evidence</i>, HKSA 560 <i>Subsequent Events</i> and Hong Kong Standard on Assurance Engagements 3000 <i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i>. Refusal or neglect to comply with the Corporate Practices (Registration) Rules. Further, the respondents have been guilty of professional misconduct.</p> <p>The respondents were the auditor of a licensed corporation under the Securities and Futures Ordinance for each of the three years ended 31 March 2015 to 2017. The 2nd respondent expressed unmodified auditor's opinions on the company's financial statements for each of the three years, and unqualified conclusions on the compliance reports on the company for each of the three years. The 1st respondent was the engagement director in those audit and compliance reporting engagements.</p> <p>There were various deficiencies identified in the audit and compliance reporting engagements throughout the three years in question.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Cancellation of practising certificate and no practising certificate shall be issued to the 1st respondent for 12 months ■ Joint penalty of HK\$200,000 ■ Joint costs of HK\$73,428 |

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| | Nature of complaint | Sanction |
|----|---|--|
| 10 | <p>Failure or neglect to observe, maintain or otherwise apply (i) the fundamental principle of integrity in sections 100.5(a), 110.1 and 110.2 of the Code of Ethics for Professional Accountants (Code of Ethics); (ii) the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code of Ethics; and (iii) Hong Kong Standard on Quality Control 1 <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements</i>, and being guilty of professional misconduct.</p> <p>The respondent is the sole proprietor of a practice. He is responsible for the practice's quality control system and the quality of its audit engagements. In 2015, the practice was subject to an initial practice review which identified deficiencies in its quality control system and an audit engagement selected for review.</p> <p>A follow-up practice review carried out in 2017 found a number of deficiencies, some of which were the same as or similar to those found at the initial review. The deficiencies concerned audit procedures performed on turnover, expenses and accounts receivable, and the respondent's failure to evaluate the impact of a repeated audit scope limitation on the practice's acceptance of reappointment as auditor. In addition, the respondent failed to establish and maintain an adequate system of quality control to address effective monitoring, independence threats arising from the practice's provision of accounting services to audit clients, client acceptance and continuance, and engagement performance. Further, in the self-assessment questionnaire that the respondent submitted for the practice review, he provided false or misleading answers on the quality control policies and procedures of the practice.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Cancellation of practising certificate and no practising certificate shall be issued to the respondent for 20 months ■ Penalty of HK\$50,000 ■ Costs of HK\$164,448 |

| Nature of complaint | | Sanction |
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| 11 | <p>Failure or neglect to observe, maintain or otherwise apply the fundamental principle of integrity in sections 100.5(a), 110.1 and 110.2 of the Code of Ethics for Professional Accountants (Code of Ethics), the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code of Ethics and Hong Kong Standard on Quality Control 1 <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements</i>, and being guilty of professional misconduct.</p> <p>The respondent is the sole proprietor of a practice. The first practice review conducted on the practice identified significant deficiencies in its system of quality control and in a number of its audit engagements. In addition, the respondent was found to have provided untrue answers in the self-assessment questionnaire, made false representations to the practice reviewer and retrospectively created documents in an attempt to support his false representations.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Cancellation of practising certificate and no practising certificate shall be issued to the respondent for 24 months ■ Costs of HK\$55,331.50 |
| <i>Disciplinary orders involving financial penalty</i> | | |
| 12 | <p>Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 500 <i>Audit Evidence</i> and HKSA 230 <i>Audit Documentation</i>.</p> <p>The 1st respondent is the sole proprietor of the 2nd respondent that was the auditor of a private company limited by guarantee. The 1st respondent issued unmodified audit opinion on the financial statements of the company for each of the four financial years ended 31 December 2013 to 2016. In carrying out the audits, the respondents failed to design and perform audit procedures to obtain sufficient appropriate evidence and prepare sufficient audit documentation to support their assessment of the existence and recoverability of the amounts due from executive committee members of the company. Furthermore, the respondents failed to prepare sufficient audit documentation to support their audit conclusions on salary expenses.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$50,000 ■ Costs of HK\$72,892.50 |

APPENDIX 3

| | Nature of complaint | Sanction |
|----|---|--|
| 13 | <p>The respondent audited a private company's financial statements for two consecutive years. He failed to obtain sufficient appropriate evidence, perform adequate risk assessment and prepare adequate documentation in a number of audit areas. Those areas were the company's balances with its directors and shareholders, management fee expense, related party transactions, and a material amount of dividends paid. The audit deficiencies demonstrated the respondent's failure to exercise adequate professional skepticism, maintain the required level of professional knowledge and skill, and act diligently and in accordance with applicable professional standards.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$50,000 ■ Costs of HK\$116,962 |
| 14 | <p>Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 230 <i>Audit Documentation</i>, HKSA 500 <i>Audit Evidence</i>, HKSA 540 <i>Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</i>; and the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants.</p> <p>In April 2019, the Institute completed a practice review on a corporate practice that is now de-registered. The review covered the practice's audit of the 2017 consolidated financial statements of a Hong Kong listed company and its subsidiaries. The respondent was the engagement director of the audit. The practice review found significant audit deficiencies relating to the valuations of an investment in an associate acquired, convertible notes issued as consideration for the acquisition, and certain share options granted by the company.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$80,000 ■ Costs of HK\$89,386 |

| Nature of complaint | Sanction |
|---|---|
| <p>15 Failure or neglect to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants.</p> <p>The Institute completed a practice review on a corporate practice that is now de-registered. The review covered the practice's audit of the 2017 consolidated financial statements of a Hong Kong listed company and its subsidiaries. The respondent was the engagement quality control reviewer of the audit.</p> <p>The practice review found significant audit deficiencies relating to the valuations of an investment in an associate acquired and convertible notes issued as consideration for the acquisition. The respondent failed to adequately evaluate the audit team's judgements and conclusions in those areas and review selected audit documentation, as required under Hong Kong Standard on Auditing 220 <i>Quality Control for an Audit of Financial Statements</i>.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$120,000 ■ Joint costs of HK\$39,004 |
| <p>16 Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Auditing 220 <i>Quality Control for an Audit of Financial Statements</i>.</p> <p>The respondent was the engagement quality control reviewer (EQCR) for the audit of the consolidated financial statements of a Hong Kong listed company and its subsidiaries for the year ended 31 December 2014, and the audit of the company's balance sheet as at that date.</p> <p>There were audit deficiencies in the impairment review of significant amounts due by certain subsidiaries and on two convertible bonds issued by the listed group to settle certain existing liabilities. As EQCR, the respondent failed to adequately evaluate the audit team's judgements and conclusions reached in those areas.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$150,000 ■ Costs of HK\$100,222 (including FRC costs) |

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| | Nature of complaint | Sanction |
|---------|--|--|
| 17 & 18 | <p>Failure or neglect by the 1st respondent to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 500 <i>Audit Evidence</i> and HKSA 230 <i>Audit Documentation</i>.</p> <p>Failure or neglect by the 2nd respondent to observe, maintain or otherwise apply HKSA 220 <i>Quality Control for an Audit of Financial Statements</i>.</p> <p>The 1st respondent was the engagement director, and the 2nd respondent the engagement quality control reviewer, in an audit carried out by a practice on the consolidated financial statements of a Hong Kong listed company and its subsidiaries for the year ended 31 March 2017. The audit was selected for review in 2018 as part of the Institute's practice review.</p> <p>The practice review identified significant audit deficiencies relating to impairment assessment of cash-generating units and the associated goodwill, valuation of biological assets, accounting treatment of the issuing costs and effective interest of certain bonds, and distribution expenses. The review also identified an ineffective engagement quality control review in the above audit areas. In addition, certain working papers shown to the reviewer during the practice review were not included in the originally assembled audit files.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$150,000 for the 1st respondent; and HK\$80,000 for the 2nd respondent ■ Costs of HK\$63,141 for the 1st respondent; and HK\$32,715 for the 2nd respondent |

| Nature of complaint | Sanction |
|---|--|
| <p>19 Failure or neglect by the 1st respondent to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 230 <i>Audit Documentation</i>, HKSA 500 <i>Audit Evidence</i>, HKSA 510 <i>Initial Audit Engagements-Opening Balances</i>, HKSA 570 <i>Going Concern</i> and HKSA 710 <i>Comparative Information-Corresponding Figures and Comparative Financial Statements</i>. Failure or neglect by the 2nd and 3rd respondents to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants.</p> <p>The 1st respondent audited the consolidated financial statements of a Hong Kong listed company and its subsidiaries for the year ended 31 March 2011. The 2nd respondent was the engagement director and the 3rd respondent was the engagement quality control reviewer.</p> <p>The Institute received referrals from the Financial Reporting Council about deficiencies in the audit. The audit team failed to perform sufficient audit procedures and prepare adequate documentation in relation to the classification, recognition and measurement of certain convertible bonds and notes, convertible cumulative preference shares and share options. There were also deficiencies in audit procedures and documentation regarding the accounting treatment of a subsidiary in which the company's equity interest was below 50%, the preferred shares issued by the subsidiary and the related cumulative dividends. In addition, the audit procedures and documentation on assessing the group's ability to continue as a going concern were inadequate.</p> | <ul style="list-style-type: none"> ■ Reprimand the 1st and the 2nd respondents ■ Penalty of HK\$150,000 for the 1st respondent; HK\$150,000 for the 2nd respondent; and HK\$10,000 for the 3rd respondent ■ Joint costs of HK\$225,000 (including FRC costs) |

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| | Nature of complaint | Sanction |
|----|---|--|
| 20 | <p>Failure or neglect to observe, maintain or otherwise apply Statement of Auditing Standards (SAS) 100 <i>Objective and General Principles Governing an Audit of Financial Statements</i>, SAS 230 <i>Audit Documentation</i>, SAS 300 <i>Audit Risk Assessments and Accounting and Internal Control Systems</i>, SAS 400 <i>Audit Evidence</i>, SAS 440 <i>Representations by Management</i> and SAS 460 <i>Related Parties</i>.</p> <p>The 1st respondent expressed unqualified auditor's opinions on the financial statements of a Hong Kong listed company and its subsidiaries for the three years ended 31 March 1999, 2000 and 2001. The 2nd respondent was the engagement partner in the 1999 audit and the 3rd respondent was the engagement partner in the 2000 and 2001 audits. The 4th respondent was the concurring review partner in the audits for the three years.</p> <p>Audit deficiencies were found in the areas of the listed group's prepayment of subcontracting charges, trade receivables, other receivables and China tax exposures.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ HK\$400,000 for the 1st respondent; HK\$100,000 for the 2nd respondent; HK\$150,000 for the 3rd respondent; and HK\$50,000 for the 4th respondent ■ Joint costs of HK\$215,672 |

For details of the disciplinary orders, visit:

<https://www.hkicpa.org.hk/en/Standards-and-regulation/Compliance/Disciplinary/Disciplinary-Orders>

Resolutions by Agreement

15 RBAs were issued in 2021 (2020: 11 RBAs). These RBAs are summarized below:

| | Nature of complaint | Sanction |
|---|---|---|
| 1 | <p>Failure or neglect to observe, maintain or otherwise apply the Hong Kong Standard on Auditing (HKSA) 200 <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing</i>; HKSA 500 <i>Audit Evidence</i> and HKSA 700 <i>Forming an Opinion and Reporting on Financial Statements</i>.</p> <p>The respondent was the engagement partner in a firm's audit of the consolidated financial statements of a Hong Kong listed group for the year ended 30 June 2012. The firm is now de-registered.</p> <p>The financial statements included the listed group's investment in a private group that was classified as an interest in an associate. The stated accounting policy for the investment was to incorporate the results and assets and liabilities of the associate using the equity method of accounting under Hong Kong Accounting Standard 28 <i>Investments in Associates</i>. This was inconsistent with the listed group's accounting practice of stating the investment at fair value.</p> <p>The respondent failed to carry out audit procedures to resolve the inconsistency between the stated accounting policy and adopted accounting practice for the investment.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Costs of HK\$39,132 |
| 2 | <p>Failure or neglect to observe, maintain or otherwise apply section 800.3 under Chapter C of the Code of Ethics for Professional Accountants.</p> <p>The respondent does not hold a practising certificate. Accordingly, he is not allowed to carry on a business, trade or profession in a name that includes the initials "CPA" or the characters "會計師". He registered an unincorporated entity under the Business Registration Ordinance that he wholly owned, in a name that included those initials and characters, contrary to the requirements in the professional standard.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$10,000 ■ Costs of HK\$15,000 |

APPENDIX 4

| Nature of complaint | | Sanction |
|---------------------|--|---|
| 3 | <p>Failure or neglect to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in sections 110.1 A1(c) and R113.1 under Chapter A of the Code of Ethics for Professional Accountants.</p> <p>The respondents issued an accountant's report for a solicitors' firm under the Accountant's Report Rules (Cap. 159A). In conducting the reporting engagement, the respondents failed to comply with the Accountant's Report Rules and the Institute's Practice Note 840 (Revised) <i>Reporting on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules</i>. They did not perform adequate procedures to identify (i) overdrawing of client money from client bank accounts by the firm; and (ii) drawing of money from client bank accounts by the firm for disbursements not yet expended. Furthermore, they did not adequately perform checks to identify an overpayment into the client bank accounts by the firm.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Joint penalty of HK\$15,000 ■ Joint costs of HK\$15,000 |
| 4 | <p>Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 315 <i>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</i> and HKSA 500 <i>Audit Evidence</i>.</p> <p>The respondent audited the financial statements of a private company for the year ended 31 March 2019. He failed to adequately document his understanding of the nature of the company's business, and failed to obtain sufficient appropriate audit evidence on revenue and purchases recognized in the financial statements.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$20,000 ■ Costs of HK\$15,000 |

| Nature of complaint | Sanction |
|---|---|
| <p>5 Failure or neglect to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in sections 110.1 A1(c) and R113.1 under Chapter A of the Code of Ethics for Professional Accountants.</p> <p>The respondent issued an accountant's report for a solicitor's firm under the Accountant's Report Rules (Cap. 159A) (Rules). In conducting the reporting engagement, he failed to comply with the Rules and the Institute's Practice Note 840 (Revised) <i>Reporting on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules</i>. The deficient procedures related to certain long outstanding client account balances and unrepresented cheques made out to clients, evaluating the results of client account circularization, and documenting procedures to support his statement in the report.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$25,000 ■ Costs of HK\$15,000 |
| <p>6 Failure or neglect to observe, maintain or otherwise apply the fundamental principle of Professional Competence and Due Care in sections 110.1 A1(c) and R113.1 under Chapter A of the Code of Ethics for Professional Accountants.</p> <p>The respondents issued an accountant's report for a solicitor's firm under the Accountant's Report Rules (Cap. 159A). They did not conduct their procedures fully in accordance with those rules and the Institute's Practice Note 840 (Revised) <i>Reporting on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules</i>. The respondents failed to identify errors in the solicitor firm's ledger and the firm's lack of prior written notification to clients when its fees were settled by withdrawing money from clients' accounts. In addition, there were deficiencies in the respondents' procedures on testing of bank reconciliations and confirmation of bank balances.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Joint penalty of HK\$25,000 ■ Joint costs of HK\$15,000 |

APPENDIX 4

| | Nature of complaint | Sanction |
|---|---|---|
| 7 | <p>Failure or neglect to observe, maintain or otherwise apply the fundamental principle of Professional Competence and Due Care in the requirement R113.1 of the Code of Ethics for Professional Accountants.</p> <p>The respondent issued an accountant's report for a solicitors' firm under the Accountant's Report Rules (Cap. 159A). In conducting the reporting engagement, the respondent failed to comply with the Institute's Practice Note 840 (Revised) <i>Reporting on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules</i>. The deficiencies related to lack of procedures for accepting and planning the engagement and agreeing the terms of the engagement in the form of an engagement letter, and lack of tests or procedures to evaluate if the solicitors' firm had complied with the requirements under the Solicitors' Accounts Rules (Cap. 159F).</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$40,000 ■ Costs of HK\$15,000 |
| 8 | <p>Failure or neglect to observe, maintain or otherwise apply the fundamental principle of Professional Behaviour in sections 100.5(e) and 150.1 of the Code of Ethics for Professional Accountants.</p> <p>The respondent was formerly an executive director, qualified accountant and company secretary of a Hong Kong listed company. In 2018, he was sanctioned by the Stock Exchange of Hong Kong for breach of the listing rules and director's undertakings. The respondent failed to ensure that the listed company made timely disclosure and obtained shareholders' approval of a series of transactions and events involving the company's interest in a foreign listed company.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$50,000 ■ Costs of HK\$15,000 |

| Nature of complaint | | Sanction |
|---------------------|--|---|
| 9 | <p>Failure or neglect to observe, maintain or otherwise apply the fundamental principle of Professional Competence and Due Care in sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants.</p> <p>The respondent issued an accountant's report for a solicitor's firm under the Accountant's Report Rules (Cap. 159A) (Rules). In conducting the reporting engagement, he failed to comply with the Rules and the Institute's Practice Note 840 (Revised) <i>Reporting on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules</i>. The deficient procedures related to obtaining bank certificates for client accounts, circularizing client ledger accounts, and documenting evidence of the firm's monthly reconciliation of balances of client accounts.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$50,000 ■ Costs of HK\$15,000 |
| 10 | <p>Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Review Engagements 2400 (Revised) <i>Engagements to Review Historical Financial Statements</i>.</p> <p>The firm issued an unmodified review report on the interim financial statements of a listed company and its subsidiaries for the six months ended 31 December 2018. The group made significant payments for capital expenditures during the period. Most of the payments were for land improvement contracts and were incorrectly classified as "lease prepayments for orange plantations".</p> <p>The respondents' working papers reflected insufficient understanding of the group's accounting system; insufficient assessment of the impact of the inappropriate classification; and inadequate procedures in relation to impairment assessments.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Joint Penalty of HK\$50,000 ■ Joint costs of HK\$15,000 |

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| | Nature of complaint | Sanction |
|----|--|---|
| 11 | <p>Failure or neglect to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in R113.1 and R113.2 under Chapter A of the Code of Ethics for Professional Accountants.</p> <p>The respondents issued an accountant's report for a solicitors' firm under the Accountant's Report Rules (Cap. 159A). In conducting the reporting engagement, they failed to comply with the Accountant's Report Rules and the Institute's Practice Note 840 (Revised) <i>Reporting on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules</i>. The deficient procedures related to checking of proper authorization for withdrawals of money from client accounts; inquiring into the outstanding items of bank reconciliations; circularizing client ledger accounts; checking the firm's recording of all bills of costs; and confirming the firm's computerized accounting system had complied with the relevant requirement. The respondents also failed to obtain a signed engagement letter for the reporting engagement.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Joint penalty of HK\$50,000 ■ Joint costs of HK\$15,000 |

| Nature of complaint | Sanction |
|---|---|
| <p>12 Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 500 <i>Audit Evidence</i>, HKSA 550 <i>Related Parties</i>, HKSA 560 <i>Subsequent Events</i> and the fundamental principle of Professional Competence and Due Care in sections 100.5(c) and 130 of the Code of Ethics for Professional Accountants.</p> <p>The respondent audited the financial statements of a private company for the years ended 30 June 2015 and 30 June 2016.</p> <p>For the 2015 financial year, an initial set of financial statements issued by the company with an unmodified auditor's report was later replaced by a revised set of financial statements with a modified auditor's report. The respondent failed to perform sufficient audit procedures on a revenue item and certain significant related party transactions when auditing the initial financial statements. In reporting on the revised financial statements, the respondent failed to draw attention to the changes made to the financial statements and to the initial auditor's report issued.</p> <p>For the 2016 financial year, the respondent carelessly allowed a wrong set of the company's financial statements to be printed and issued with an unmodified auditor's report. The mistake was later rectified by the issue of a set of correct financial statements with a modified auditor's report.</p> <p>For both of the years, the respondent failed to take appropriate action to prevent reliance on the initial auditor's report that had been replaced, when management had not acted adequately to this effect.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$50,000 ■ Costs of HK\$15,000 |

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| Nature of complaint | Sanction |
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| <p>13 Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 200 <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing, HKSA 500 Audit Evidence, and HKSA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures.</i></p> <p>The firm expressed an unmodified auditors' opinion on the consolidated financial statements of a listed company and its subsidiaries for the year ended 31 March 2015. Both the engagement partner and the engagement quality control reviewer of the audit have since resigned from the Institute.</p> <p>In the audit, the firm did not properly assess the method, bases and assumptions used by the company's management and valuer in valuing intangible assets acquired in a business combination. The firm also failed to identify an error made by the company during its accounting for the consideration shares issued for the business combination.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$50,000 ■ Costs of HK\$243,799 (including FRC costs) |
| <p>14 Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 230 <i>Audit Documentation, HKSA 500 Audit Evidence and HKSA 520 Analytical Procedures.</i></p> <p>The 2nd respondent was the auditor of a private company and issued an unmodified audit opinion on each of the company's financial statements for the years ended 31 March 2016 to 2019. The 1st respondent was the engagement director and signed the auditor's reports on behalf of the 2nd respondent.</p> <p>In the performance of the audits, the respondents failed to prepare adequate documentation and perform adequate procedures on the company's bank accounts, membership fee income, ongoing litigations and certain expense items.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$30,000 for each of the respondents ■ Costs of HK\$15,000 |

| Nature of complaint | Sanction |
|--|---|
| <p>15 Failure or neglect by the 1st and 3rd respondents to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 230 <i>Audit Documentation</i>, HKSA 500 <i>Audit Evidence</i> and HKSA 540 <i>Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</i>. Failure or neglect by the 2nd respondent to observe, maintain or otherwise apply HKSA 220 <i>Quality Control for an Audit of Financial Statements</i>.</p> <p>The 3rd respondent audited the consolidated financial statements of a Hong Kong listed company and its subsidiaries for the year ended 31 March 2014. The 1st respondent was the engagement director and the 2nd respondent was the engagement quality control reviewer.</p> <p>The financial statements included goodwill arising from the acquisition of a business engaged in the development and operation of a mobile phone application. In the audit, the respondents failed to obtain sufficient appropriate evidence and prepare sufficient audit documentation when assessing the impairment of the goodwill.</p> | <ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$50,000 for each of the respondents ■ Joint costs of HK\$289,594.80 (including FRC costs) |

For details of the RBAs, visit:

<https://www.hkicpa.org.hk/en/Standards-and-regulation/Compliance/Resolution-by-Agreement>

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