COMPLIANCE

2018 ANNUAL REPORT

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

CONTENTS

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
ROB	Regulatory Oversight Board
RBA	Resolution by Agreement

INTRODUCTION

Regulating CPAs

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 addresses complaints concerning ethical and professional 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 being imposed for serious breaches of professional standards.

Compliance Department

The Compliance Department carries out the Institute's function of regulating ethical and professional conduct of members. Integrated within its function are systems for continuous monitoring supported by an independent process review carried out by the Regulatory Oversight Board.

The core activities of the department are handling complaints against members of the Institute, supporting the Professional Conduct Committee in the form of case assessment and investigation, and also assisting in the disciplinary proceedings handled by Disciplinary Committees.

To protect the public image of the profession, the department also supports the Institute in handling "section 42 offences" involving fraudulent representations of the designation "certified public accountant" and "CPA".

This report sets out the Compliance Department's key activities and statistics for 2018 and 2017.

COMPLAINTS

What is a complaint?

The Institute's power to regulate its members, under the Professional Accountants Ordinance (PAO), Cap. 50, allows the organization to pursue complaints against members.

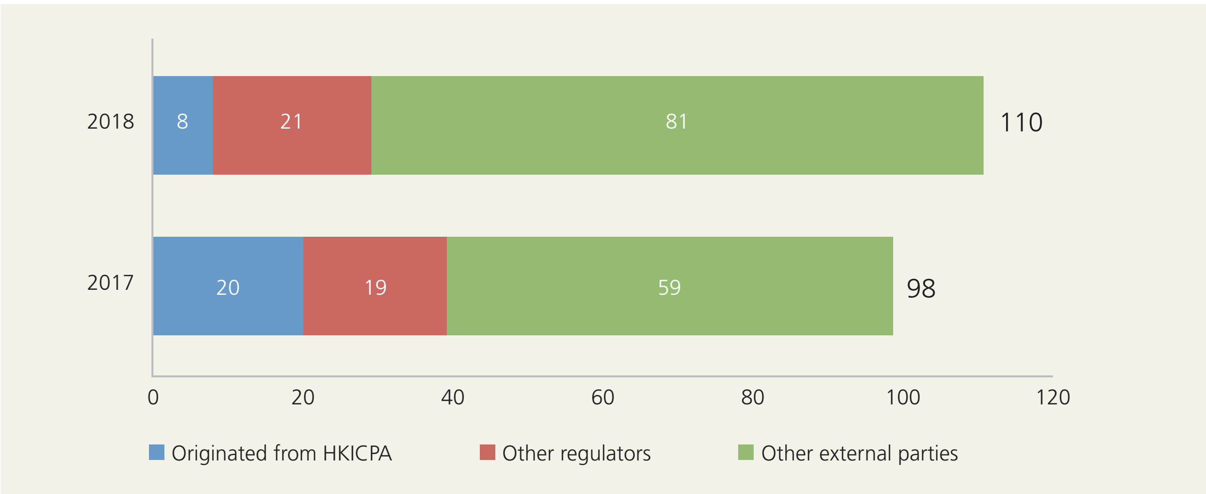
A complaint must be in writing, supported by adequate evidence indicating that the member failed to follow professional standards issued by the Institute or committed other improper acts.

A person who lodges an allegation against a member may opt to act as complainant or informant.

Under PAO section 34(1AAA), a complainant would be responsible for prosecuting the complaint if it is referred to a Disciplinary Committee and would bear costs associated with prosecution and outcome of the matter.

An informant would provide all available information and authorize the Institute to act as the complainant should regulatory action be considered necessary by the Institute's Council.

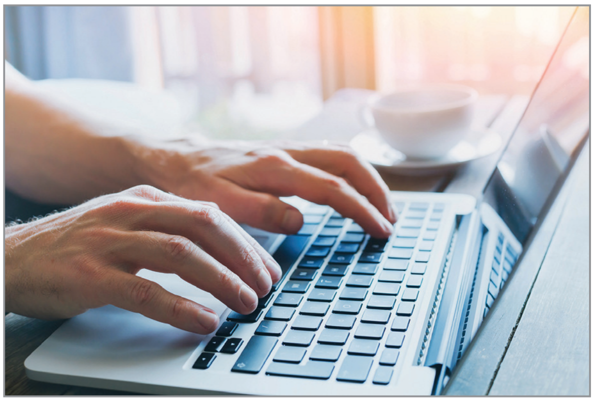
Sources of complaints



Complaint handling process

Complaints are analyzed 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 professional standards or committed improper conduct.



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 Professional Conduct Committee for consideration of appropriate action.

For details of the complaint process, visit: http://www.hkicpa.org.hk/en/standards-and-regulations/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 measurement of good performance, the Compliance Department's target is to complete 100% of cases within 12 months of receipt, excluding those that will enter disciplinary proceedings. The actual achievement during 2018 was 94%.

PROFESSIONAL CONDUCT COMMITTEE

What does the Professional Conduct Committee do?

The Professional Conduct Committee comprises CPAs in public practice and in business. They evaluate each complaint independently, based on information gathered by the Compliance Department.

When deliberating cases, the PCC:

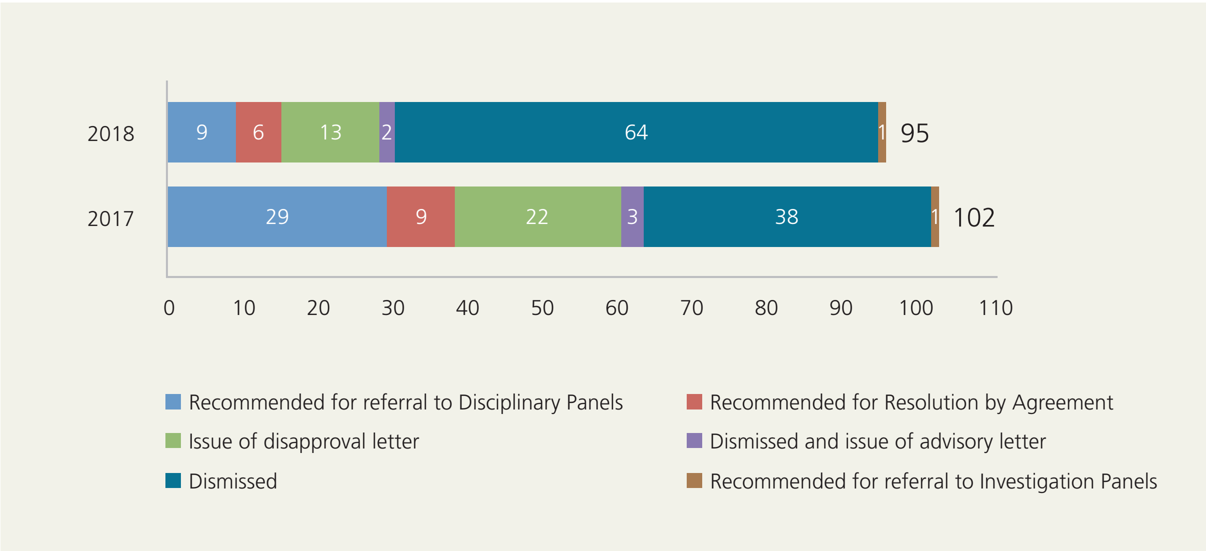
- evaluates each case in light of the circumstances and expected conduct of the member under the relevant professional standards; and
- makes decisions in the context of the Institute's commitment to uphold the quality of professional standards and the positive public perception of the profession in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

Types of actions under PCC's terms of reference:

Dismiss	■ Insufficient evidence to show a *prima facie* case ■ Outside jurisdiction ■ Advisory letter may be issued
Adjudicate minor complaints	■ Issue disapproval letters for minor *prima facie* cases ■ Direct other course of action as appropriate
Recommend actions for more serious complaints	■ Recommend Resolution by Agreement (RBA) for *prima facie* cases of moderate severity ■ Recommend referral of serious *prima facie* cases to the Disciplinary Panels

Statistics

Complaints resolved by PCC



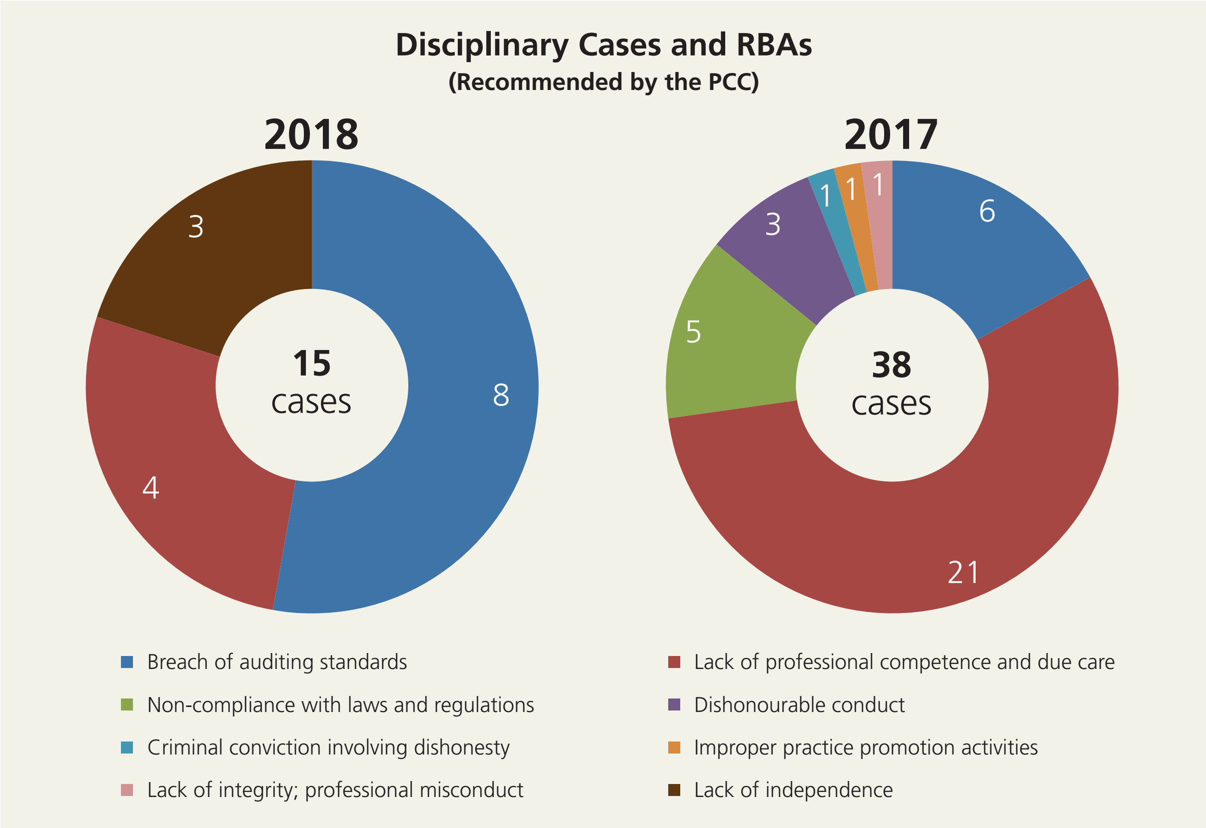
Resolution by Agreement (RBA)

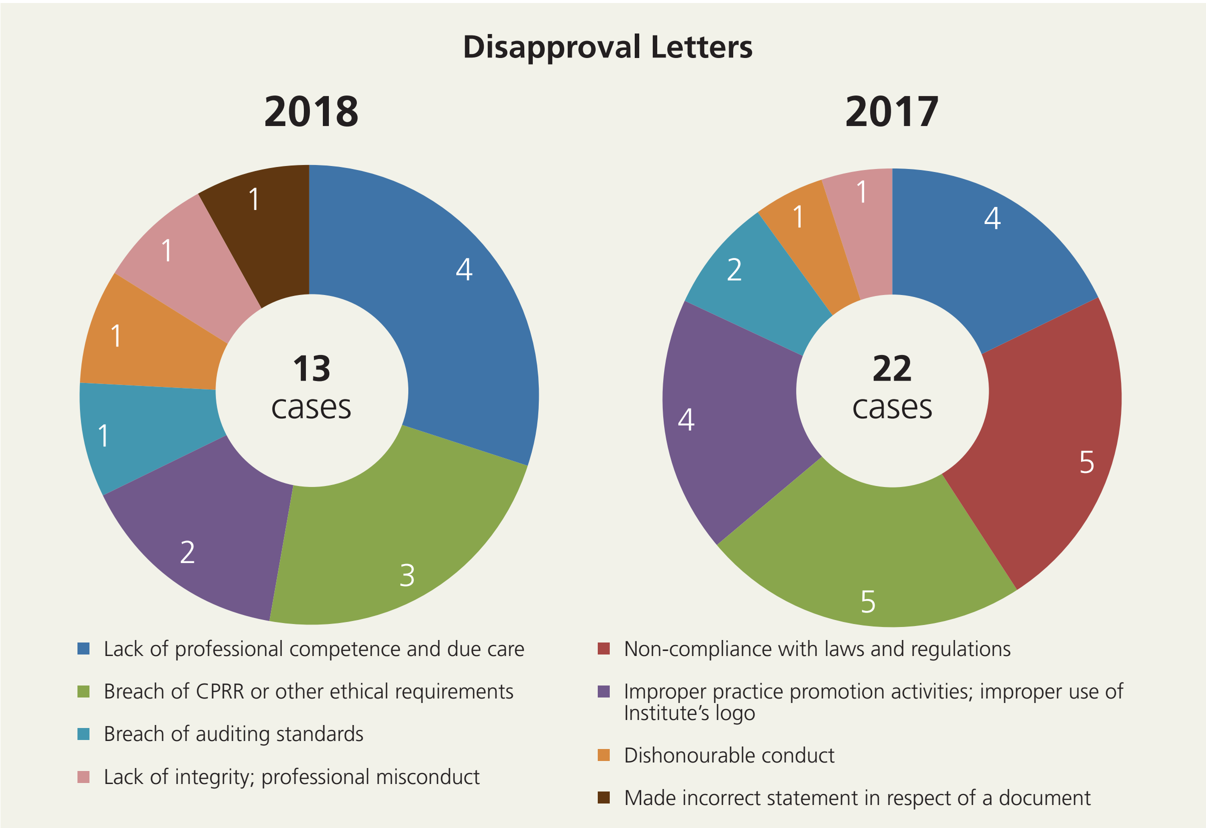
The RBA was established to conclude potential disciplinary cases of moderate severity in lieu of disciplinary proceedings. This allows an efficient, effective alternative for potential disciplinary cases which meet the pre-determined criteria.

	2018	2017
No. of completed RBAs	6	10

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

Nature of *prima facie* cases





DISCIPLINARY PROCEEDINGS

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.

Disciplinary Committee

Disciplinary Committee

Panel A members

Consists of three lay members appointed by the government. One member is selected as the Committee chair.

Panel B members

Consists of two CPAs. One CPA must be a practising member.

Process

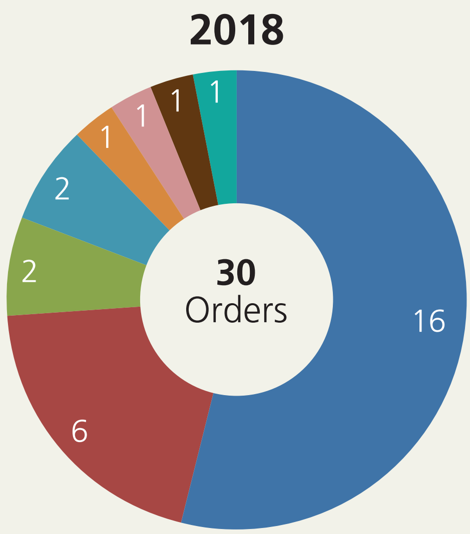
Constitution	Disciplinary Committee Convenor appoints Disciplinary Committee members.
Proceedings	Disciplinary Committee considers parties' submissions in accordance with Disciplinary Committee Proceedings Rules.
Decision	Disciplinary Committee determines: (1) if complaint is found proven; (2) sanctions and costs based on parties' submissions if complaint is found proven.
Order	Disciplinary Committee issues disciplinary order with sanctions which may include reprimand; financial penalty; cancellation of practising certificate or membership removal. Payment of costs is typically awarded by the Disciplinary Committee.

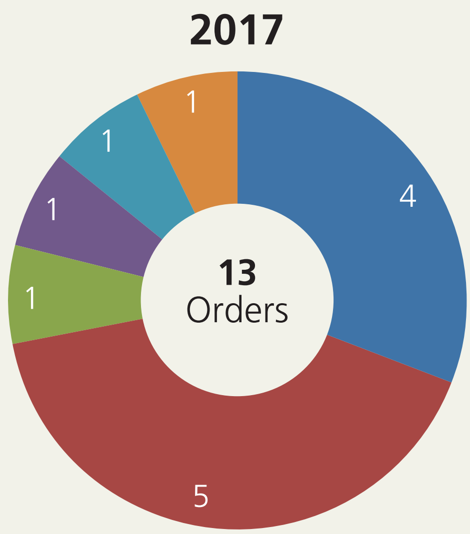
For details on the disciplinary process, visit: http://www.hkicpa.org.hk/en/standards-and-regulations/compliance/disciplinary/.

Statistics

Sanctions imposed by Disciplinary Committees

A summary of the 30 disciplinary orders issued in 2018 is presented in Appendix 1.





- Reprimand and penalty
- Cancellation of Practising Certificate only
- Reprimand and cancellation of Practising Certificate
- Reprimand, removal of membership and penalty
- No issuance of Practising Certificate to a removed CPA
- Removal of membership
- Cancellation of Practising Certificate and penalty
- Reprimand, cancellation of Practising Certificate, and penalty
- Reprimand, cancellation of Practising Certificate, removal of membership and penalty

Level of penalty

Type of penalty	Level of penalty	Number of orders	
		2018	2017
Financial penalty[1]	Not exceeding $50,000	2	3
	$50,001 – $100,000	6	1
	$100,001 – $200,000	1	2
	$200,001 – $400,000	5	-
	$400,001 – $500,000	3	-
	> $500,000	2	-
Cancellation of practising certificate / No issuance of practising certificate	< 1 year	2	1
	1 – 3 years	5	3
Removal	1 – 3 years	2	1
	4 – 6 years	4	1
	> 5 years	1	1
	Permanent	1	2

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

INVESTIGATIONS

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.

Investigation Committee

Investigation Committee

An Investigation Committee reports to Council whether there is a *prima facie* case to answer.

Panel A members

Consists of three lay members appointed by the government. One member is selected as the Committee chair.

Panel B members

Consists of two CPAs. One CPA must be a practising member.

Process

- Compliance Department provides support and gathers evidence according to the Committee's instructions.
- Following the commencement of operations by the Financial Reporting Council (FRC) in July 2007, the responsibility for investigation of matters involving listed entities has been assumed by the FRC. Accordingly, the Institute is only responsible for investigations of non-listed entities and those involving listed entities which commenced before July 2007.
- Two Investigation Committees were constituted in 2018 (*2017: nil*).

SECTION 42 OFFENCES

What is a section 42 offence?

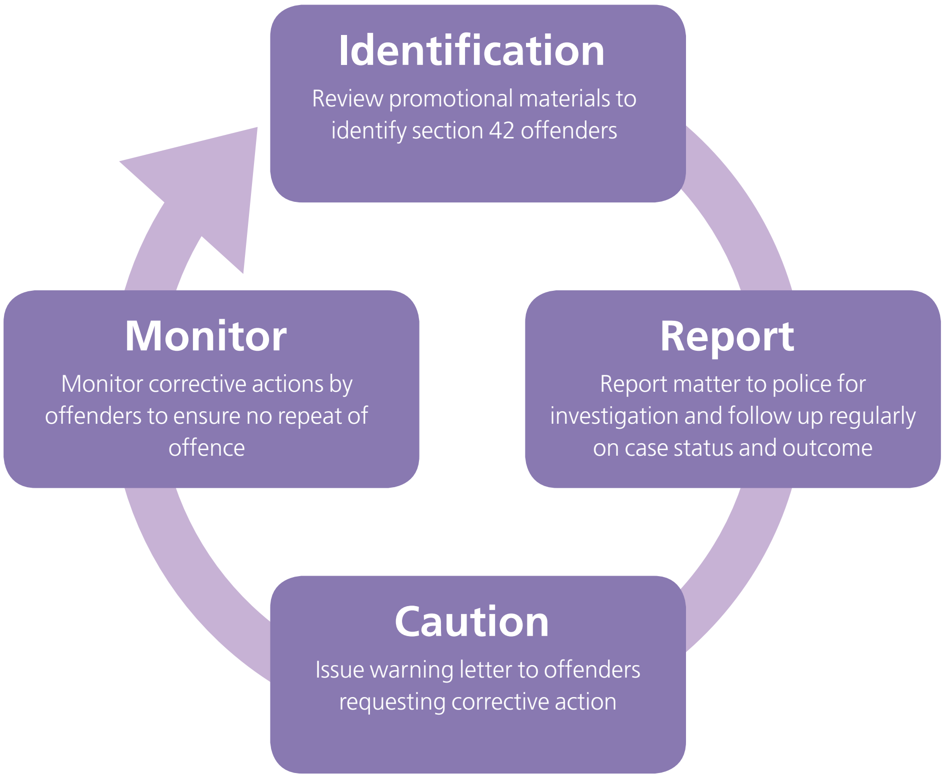
Section 42 of the PAO prohibits individuals or companies from fraudulently holding themselves out as CPAs / CPA firms or from offering services that only practising CPAs are qualified to provide.

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.

In 2018, regulatory actions were taken against 5 offenders (*2017: 9 offenders*).

Process

When the Institute receives promotional materials which seem to suggest section 42 violations, the Compliance Department undertakes the regulatory action described below:



REGULATORY OVERSIGHT

Regulatory Oversight Board

The Regulatory Oversight Board (ROB) ensures that the regulatory function of the Institute is carried out in accordance with strategies and policies determined by Council, and in the public interest.

The ROB oversees the performance and provides advice on policies, priorities and resource allocation in respect of the Institute's regulatory function.

2018 Composition

The ROB consists of certified public accountants, lay members and representatives from other regulatory bodies, with a lay member serving as Chair. The Executive Director, Standards and Regulation and the Directors of Compliance and Quality Assurance Departments provide administrative support to the Board. ROB members are listed below.

Ms. Melissa BROWN, Chair	Mr. TAM Wing Pong, Deputy Chair
Mr. Clement CHAN	Ms. Angelina KWAN
Ms. Ada CHUNG	Ms. Susanna LAU
Mr. Dennis HO	Mr. Keith POGSON

Process review report

As part of its oversight function, the ROB conducted a process review of the operations of the Compliance Department in 2018. The objective is to ensure due process, timeliness, and quality of case handling within the Compliance Department. This report highlights the ROB's findings and recommendations, as well as the Compliance Department's responses for adopting the recommendations and following up on the 2017 Process Review recommendations.

Case selection

1. The population of cases available for review consisted of 109 cases completed during the period from 1 October 2017 to 30 September 2018. The case mix included 29 disciplinary cases and three RBAs. The remaining 77 cases were either resolved with a disapproval letter or dismissed.

2. From the 109 completed cases, the ROB Chair selected 12 for review. Considerations such as completion time, case mix and policy priorities were incorporated into the selection process, resulting in the final sample of four disciplinary cases, two RBA cases, four Disapproval Letter cases, and two dismissal cases.

3. After receiving case files from Compliance team members, all ROB members (Reviewers) referred to existing guidance on due process, statutory requirements, and rules/guidelines. These tools were instrumental in the evaluation of case handling procedures, and the quality of information reported to the PCC and Council to assist with their decisions.
4. The review did not address the propriety of case judgments and conclusions, as that is beyond the remit of the process review.

Highlights from process review

1. *Compliance with due process*

   Reviewers considered whether the Compliance Department followed the established complaint handling process.

   Findings and recommendations

   All selected cases were handled in accordance with established internal procedures. No deviations from due process were noted.

   One of the reviewed cases could be considered a landmark case that prompted significant changes to the complaint handling process. The original complainant rejected Council's recommendation that the matter be resolved by RBA, although the terms had been accepted by the respondent. The original complainant, however, refused to act as complainant under section 34(1AAA) of the PAO and prosecute the case in the disciplinary proceedings. As a result, the Registrar wrote to the Disciplinary Committee and applied to intervene in accordance with Rule 40 of the Disciplinary Committee Proceedings Rules. The application was granted and the disciplinary proceedings continued with the Registrar acting as the complainant.

   The issuance of acknowledgement letters from Compliance Department could be done faster. It is suggested a holding reply be issued when a complaint is received.

   Compliance Department's response

   The above case prompted Compliance Department to revise the complaint handling process so that those submitting complaints can opt to be "informants". This would allow the Institute to enquire into the matter as it deems appropriate. Although this has addressed the issue identified in the above case, the Compliance Department will consider the relevance and impact of section 34(1AAA) as the Institute proposes amendments to the PAO in the coming years.

   Compliance Department will consistently issue acknowledgement letters within seven working days after a complaint is received. Letters requesting additional information will be sent according to the timeline based on case complexity.

2. *Timeliness*

Reviewers examined the amount of time for taking each complaint through the complaint handling process. They assessed whether the time spent was reasonable and whether circumstances justified delays.

Findings and recommendations

Some of the reviewed cases took longer than expected to complete, largely due to meeting legal and procedural requirements when cases are referred to Disciplinary Panels. In other cases, occasional heavy workloads contributed to delays. It is suggested that the caseload distribution methodology be examined for improvements.

Results showed adherence to process and procedures designed to ensure timeliness. However, processing of one complaint experienced delay due to the introduction of an alternative approach. Procedural complexities of the case required lengthy consultations about bundling cases (i.e. presenting findings from various complaints against the same practice to the same Disciplinary Committee). As this was the first time bundling had been done, complications arose and extra time was needed for proper resolution.

Delay in another case was caused by Compliance Department and FRC investigating the same case. Suggestions to improve the process include whether:

a. The Institute could continue investigating the conduct of its members while FRC is investigating the complaint.

b. The case could be closed once it is referred to the FRC and re-opened after the FRC has concluded its investigation.

c. Follow-up procedures with the FRC could be formalized to facilitate regular scheduled follow-ups, such that more timely decisions on how to dispose of the case could be made.

Compliance Department's response

Cases are allocated to case handlers upon receipt, based on the departmental roster. Special considerations are given to case handlers if ad hoc projects have been added to a heavy workload. Recruitment of an individual dedicated to processing practice review complaints would improve processing time.

Members of the Compliance Department meet with FRC representatives on a quarterly basis to discuss issues of mutual interest and provide status reports on complaints in progress. The department has adopted a policy that complaints involving listed company matters will be forwarded to the FRC or Stock Exchange and not logged as a complaint until the matter is referred to the Institute as a complaint. In these circumstances, a case will only be opened if a referral is received from the FRC, Stock Exchange, or other regulators.

3. Quality of case handling

Reviewers assessed whether allegations raised by complainants were identified and addressed. For dismissed cases, Reviewers considered whether reasons for dismissing complaints were adequately explained.

Findings and recommendations

Process review did not identify any findings that would indicate a lack of quality in case handling.

Modifications to Compliance Department's correspondence were suggested, especially when information is being requested from parties who are not the Institute's members.

RBAs should be published less than two weeks after finalization. It is also suggested that the wording in the letter to the respondent be amended to clearly reflect the RBA process.

More robust documentation in case files was requested to allow the Reviewer to gain insight into internal discussions, actions taken, and outcomes in handling delays.

Compliance Department's response

Compliance Department recognizes that timely publication of RBAs is an important part of protecting public interests. Therefore, RBA press releases will be issued within two weeks of finalization of the RBA.

Given the diverse nature of cases handled by the department, case handlers strive for a balance between standardization and flexibility in processes to ensure that case handling is transparent, the risk of judicial review is minimized, and efficiency of case handling is achieved. Compliance Department will continue to seek improvements in the area of file documentation to better facilitate an efficient and effective process review.

Follow up on 2017 Process Review recommendations

During 2018, Compliance Department reviewed their internal processes and addressed the ROB's recommendations resulting from the 2017 Process Review in the following manner.

1. **Case complexity** - Compliance Department's key performance indicators (KPIs) were set under the assumption that all cases are identical in complexity. However, statistics indicate that cases are becoming more complex, requiring additional resources for processing and consideration of legal threats.

   Upon receipt, cases are assessed based on designated complexity scale and assigned a category. Resources are allocated based on case complexity, priority, and the level of problem solving needed to properly investigate the matter. Supervisors regularly assess cases that are higher on the complexity scale to allow for early identification and resolution of potential challenges.

2. **Managing metrics** - Case mix, complexity scale, and proposed time frames are reviewed periodically to determine if adjustments to general timelines are necessary. Metrics relating to timeliness will include primarily activities that are within the direct control of the Compliance Department. The department has identified activities in which they have shared or no direct responsibility. Internal processes have been adapted to properly allocate resources in these circumstances. Further consideration should be given to recruiting additional staff.

3. **Standard procedures program** - Compliance Department has incorporated a case-handling form in all case files. Case handlers sign off each step after completion. The forms address any deviations or delays encountered by the case handler during the complaint handling process.

4. **Standard file index** - Compliance Department now includes a standard file index in all case files to ensure that all reviewers can easily access relevant information.

APPENDIX 1

Disciplinary orders

Excluding two orders (*2017: 2*) under appeal, 30 disciplinary orders were issued in 2018 (*2017: 13*). These orders are summarized below:

Nature of complaint		Sanction
Disciplinary orders involving removal from membership		
1	The respondent was the Executive Director, Chief Executive Officer and the Compliance Officer of a Hong Kong listed company. He was found by the Court of First Instance in a court action filed by Securities and Futures Commission to have breached his director's duties to the company by falsely putting forward a non-existent agreement, causing the company to wrongly pay a dividend of RMB18.69 million. The respondent was ordered to be disqualified from being a director or involved in the management of any listed or unlisted corporation in Hong Kong for five years. The respondent was found to have not complied with the Code of Ethics for Professional Accountants and was guilty of professional misconduct.	■ Removal for 3 years ■ Costs of HK$35,857
2	Guilty of professional misconduct as a result of failure to co-operate in practice review. The respondent's practice was selected for practice review. The respondent failed to respond to Institute's repeated requests to submit information required in relation to the practice review, including a direction issued by the Practice Review Committee. As a result, the practice review could not be carried out.	■ Reprimand ■ Removal for 3 years ■ Cancellation of practising certificate issued in 2018 ■ Penalty of HK$30,000 ■ Costs of HK$60,943

	Nature of complaint	Sanction
3	Convicted of an offence involving dishonesty. The respondent was convicted in the District Court in August 2014 of one count of conspiring as an agent to use a document with intent to deceive her principal, and one count of accepting an advantage as an agent. The respondent was a director of a subsidiary of a Hong Kong listed company. She conspired with another director to make a false statement in the board meeting minutes to conceal the interests of that director in a material disposal transaction entered into by the company. Accordingly, the transaction was incorrectly announced as an unconnected transaction and was not reported to the Stock Exchange of Hong Kong as a connected transaction. As a reward for her part in processing the transaction, she privately accepted the listed company's shares given to her by the other director. She later sold the shares in the market and received about HK$317,000.	■ Removal for 4 years ■ Costs of HK$36,165
4	The respondent was convicted of offences involving dishonesty. She was also in breach of the fundamental principle of Integrity under sections 100.5(a) and 110.2 of the Code of Ethics for Professional Accountants. The respondent was convicted of three counts of offences under section 9 of the Theft Ordinance (Cap 210) after she forged the signature one of her employer's directors and drew a cheque in her own favour. As a result, the company dismissed her. Subsequently, she provided false information about her professional qualifications and work experience to another employer. That employer unknowingly submitted the false information in an Application Proof to the Hong Kong Stock Exchange for listing purposes. The respondent failed to declare to the Institute that she had criminal convictions in the Institute's annual membership renewal.	■ Removal for 5 years ■ Costs of HK$72,446

APPENDIX 1

	Nature of complaint	Sanction
5	The respondent was the managing director of a corporate practice, which is now de-registered. The corporate practice audited the consolidated financial statements of three Hong Kong listed companies for financial periods ended in 2010 and 2011. The respondent was the engagement director. The Financial Reporting Council (FRC) enquired into breaches of auditing standards in the audits. The respondent failed to provide the working papers and repeatedly gave inconsistent and unbelievable explanations to the FRC as to why the working papers were unavailable. There were irregularities in the audits in relation to accounting for an acquisition, use of the going concern basis and failure to appoint an engagement quality control reviewer. The respondent was found to have breached a number of HKSAs, the Code of Ethics for Professional Accountants Ordinance and was guilty of professional misconduct.	■ Removal for 5 years ■ Costs of HK$523,697.20 (including FRC costs)
6	Guilty of dishonourable conduct. The respondent was a licensed person under the Securities and Futures Ordinance and an employee of a company which sponsored a listing on the Growth Enterprise Market board. The Securities and Futures Commission investigated into the company's submissions to the Stock Exchange of Hong Kong about due diligence work it carried out as the sponsor. The Commission found the respondent guilty of providing false and misleading information during the investigation, and prohibited him from re-entering the industry for 4 years. The Securities and Futures Appeals Tribunal subsequently dismissed the respondent's appeal and upheld the Commission's finding and decision.	■ Removal for 5 years ■ Costs of HK$262,499

Nature of complaint		Sanction
7	Failure or neglect to observe, maintain or otherwise apply the fundamental principle of Professional Behavior in the Code of Ethics for Professional Accountants and being guilty of dishonourable conduct. The respondent was convicted in the District Court of two counts of dealing with property known or believed to represent proceeds of an indictable offence, contrary to section 25(1) and (3) of the Organized and Serious Crimes Ordinance (Cap. 455). He was sentenced to imprisonment for four years and six months.	■ Removal for 10 years ■ Costs of HK$34,432
8	Guilty of dishonourable conduct. The respondent was an executive director of a financial service company which acted as financial adviser to a Hong Kong listed company. He advised or assisted the company in preparing written responses to enquiries by the Stock Exchange of Hong Kong about a fictitious project of the company and drafting a public announcement by the company. He also acted with certain other individuals to devise a purported sale of the project by the company which was in reality a sham involving a circular fund flow.	■ Reprimand ■ Permanent removal ■ Penalty of HK$375,000 ■ Costs of HK$221,039.20
Disciplinary orders involving cancellation of practising certificates and no issuance of practising certificates		
9	Failure or neglect to observe, maintain or otherwise apply a number of professional standards and being guilty of professional misconduct. The complaint arose from findings of a practice review visit on the respondent's practice. The respondent was found to have failed to establish and maintain an effective system of quality control and have misused qualified opinions to circumvent necessary audit procedures.	■ Cancellation of practising certificate and no practising certificate shall be issued to the respondent for 6 months ■ Costs of HK$25,000

APPENDIX 1

	Nature of complaint	Sanction
10	Failure or neglect to observe, maintain or otherwise apply the fundamental principle of Competence and Due Care in the Code of Ethics for Professional Accountants. The respondent issued an accountant's report on a solicitor's firm, in which he failed to report the firm's breaches of the Solicitors' Accounts Rules including rules over handling of client money. The respondent did not comply with a number of provisions of the Institute's Practice Note 840 when he carried out procedures in relation to the accountant's report.	■ Reprimand ■ Cancellation of practising certificate and no practising certificate shall be issued to the respondent for 12 months ■ Costs of HK$56,204
11	Failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute and being guilty of professional misconduct. The respondent was a former practising certified public accountant whose name was removed from the register for 5 years with effect from 22 March 2018 pursuant to an earlier disciplinary order. He was previously a director of a corporate practice, which has now been de-registered. The corporate practice audited the consolidated financial statements of a Hong Kong listed company for the year ended 31 March 2011 and the period ended 31 December 2011 and expressed unmodified auditor's opinions. The respondent was the engagement director of those audits. There were significant deficiencies in the accounting treatment of certain acquisition transactions, convertible bonds issued and share options and warrants granted which were included in the financial statements. The respondent claimed that relevant audit procedures were carried out on those items but he failed to provide any working papers, claiming that they were withheld by a third party.	■ No practising certificate shall be issued to the respondent for 12 months from 21 March 2023. ■ Costs of HK$ $277,705.60 (including FRC costs)

	Nature of complaint	Sanction
12	Failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute and being guilty of professional misconduct. The respondent is the sole proprietor of a Practice and is responsible for the Practice's quality control system and the quality of its assurance engagements. When carrying out a practice review, the reviewer found that the Practice failed to established and maintain an effective system of quality control. In addition, the reviewer found significant deficiencies in the Practice's audit and assurance engagements.	■ Cancellation of practising certificate and no practising certificate shall be issued to the respondent for 16 months ■ Costs of HK$38,665
13	Failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. The respondents were the directors of a corporate practice, which is now de-registered. The results of a practice review revealed that the Practice failed to implement an effective system of quality control. Additionally, the practice reviewer found significant deficiencies in the audit of a Hong Kong listed company by the 1st respondent and the compliance audit of a regulated company by the 2nd respondent.	■ Reprimand ■ Cancellation of practising certificate and no practising certificate shall be issued to the 1st respondent and 2nd respondent for 18 months and 9 months respectively ■ Costs of HK$91,127 for the 1st respondent; and HK$54,721 for the 2nd respondent
14	Failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. The 3rd respondent issued an unqualified auditor's opinion on the 2012 financial statements of a Hong Kong listed company, and its subsidiaries. The 1st respondent was the engagement director and the 2nd respondent was the engagement quality control reviewer of the audit. There were non-compliance with financial reporting standards and auditing irregularities in relation to an acquisition recorded in the financial statements.	■ Reprimand ■ Cancellation of practising certificate and no practising certificate shall be issued to the 1st respondent and 2nd respondent for 2 years and 18 months respectively ■ Penalty of HK$100,000 for the 1st respondent; HK$75,000 for the 2nd respondent; and HK$150,000 for the 3rd respondent ■ Costs of HK$103,483.20 (including FRC costs)

APPENDIX 1

Nature of complaint		Sanction
Disciplinary orders involving financial penalty		
15	Failure or neglect to observe, maintain or otherwise apply auditing standards issued by the Institute. The 2nd respondent audited the financial statements of a renovation project of a residential building. The 1st respondent was the engagement director. The respondents failed to understand the scope of the audit engagement and plan it accordingly. They also failed to obtain sufficient evidence and adequately document audit procedures. The complaint was made under section 34(1AAA) of the Professional Accountants Ordinance.	■ Reprimand ■ Penalty of HK$35,000 ■ Costs of HK$10,000
16	Breach by the 3rd respondent of Hong Kong Standard on Auditing (HKSA) 700 and HKSA 230, and breach by the 1st and 2nd respondents of the fundamental principle of Professional Competence and Due Care in the Code of Ethics for Professional Accountants. The 3rd respondent issued an unmodified auditor's opinion on the 2009 financial statements of a Hong Kong listed company. The 1st respondent was the engagement director and the 2nd respondent was the engagement quality control reviewer (EQCR). The company failed to recognize a significant decline in the fair value of two listed, available-for-sale investments as an impairment loss in the financial statements, contrary to Hong Kong Accounting Standard 39. The 3rd respondent failed to detect this departure from accounting standards.	■ Reprimand ■ Penalty of HK$55,000 ■ Costs of HK$104,517.80 (including FRC costs)

	Nature of complaint	Sanction
17	Failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. The respondent is the sole proprietor of two practices. He is responsible for the practices' quality control system and the quality of the practices' audit engagements. When carrying out a practice review, the reviewer found that the practices failed to implement an adequate system of quality control. Also, a number of significant deficiencies were found in an audit engagement. In addition, the respondent was found to have provided false and/or misleading information during the practice review and in the electronic self–assessment questionnaire which was submitted to the reviewer.	■ Reprimand ■ Penalty of HK$60,000 ■ Costs of HK$34,175
18	Failure or neglect to observe, maintain or otherwise apply sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants. The 1st respondent was the sole proprietor of the 2nd respondent which expressed unmodified auditor's opinions on the financial statements of a private company for each of the years 2010 to 2015. There was non-compliance with accounting standards in the accounting of property, plant and equipment in the 2010 to 2015 financial statements, and income tax in the 2014 and 2015 financial statements. Further, there were numerous casting errors, incorrect and missing cross-references, incomplete disclosures and inconsistencies in the financial statements, auditor's reports and other information attached.	■ Reprimand ■ Penalty of HK$70,000 ■ Costs of HK$49,746

APPENDIX 1

	Nature of complaint	Sanction
19	Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 260, HKSA 320, HKSA 500, HKSA 550, HKSA 580 and the fundamental principle of *Professional Competence and Due Care* in the Code of Ethics for Professional Accountants. The 1st respondent is the sole proprietor of the 2nd respondent which expressed an unmodified auditor's opinion on the financial statements of an approved charitable institution for the year ended 31 March 2009. The audit procedures contained deficiencies relating to audit materiality, related party transactions, bank confirmations and certain income and expenditure items. The respondents also failed to adequately document communication with those charged with governance on some audit issues.	■ Reprimand ■ Penalty of HK$80,000 ■ Costs of HK$60,956
20	Failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. The respondent issued Accountant's Reports on a firm of solicitors for three years, in which he failed to report the firm's breaches of the Solicitors' Accounts Rules. The firm did not prepare client account reconciliations, client ledgers and office ledgers. During the Institute's enquiry, the respondent was unable to provide copies of his working papers, claiming that the hardcopies were misplaced and his computer hard disk had failed.	■ Reprimand ■ Penalty of HK$100,000 ■ Costs of HK$49,335

Nature of complaint		Sanction
21	Failure or neglect to observe, maintain or otherwise apply HKSA 500. The 2nd respondent audited the financial statements of a listed company and its subsidiaries for the year ended 31 March 2012 and issued an unmodified auditor's opinion with an emphasis of matter paragraph. The 1st respondent was the audit engagement director. The company acquired a target group in 2012, and a major shareholder of the company had injected a sum of RMB200 million into the acquired group prior to the acquisition. The respondents did not perform additional audit procedures to resolve an apparent inconsistency between certain evidence showing the injected sum as equity of the acquired group and other evidence suggesting that the sum was a liability of the acquired group.	▪ Reprimand ▪ Penalty of HK$100,000 ▪ Costs of HK$134,394.60 (including FRC costs)
22	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 of the Code of Ethics for Professional Accountants. The 2nd respondent issued unmodified auditor's opinions on the financial statements of a Hong Kong listed company which contained misstatements of earnings per share, contrary to Hong Kong Accounting Standard 33. The 1st respondent was the EQCR and he reviewed the earnings per share calculation, but neither he nor the audit team identified the errors.	▪ Reprimand ▪ Penalty of HK$60,000 for the 1st respondent; and HK$90,000 for the 2nd respondent ▪ Costs of HK$70,656

APPENDIX 1

	Nature of complaint	Sanction
23	Failure or neglect by the 1st and 2nd respondents to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 230, HKSA 500 and HKSA 620. Failure or neglect by the 2nd and 3rd respondents to observe, maintain or otherwise apply the fundamental principle of Professional Competence and Due Care under sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants. The 1st respondent was also guilty of professional misconduct. The 1st respondent issued an unmodified auditor's opinion on the financial statements of a Hong Kong listed company for the year ended 31 December 2010. The 2nd respondent was the engagement director and the 3rd respondent was the engagement quality control reviewer of the audit. The respondents failed to perform adequate audit procedures and prepare adequate audit documentation in respect of the carrying amounts of mining rights and goodwill, which were material assets included in the financial statements.	■ Reprimand ■ Penalty of HK$250,000 for the 1st respondent; and HK$50,000 each for the 2nd respondent and the 3rd respondent ■ Costs of HK$124,914.10 (including FRC costs)
24	Failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. The 1st respondent was in breach of a number of auditing standards and HKSQC1. The 2nd respondent failed to act diligently in accordance with sections 100.4(c) and 130.1 of the Code of Ethics for Professional Accountants. The 1st respondent audited the financial statements of a Hong Kong listed company and its subsidiaries for the year ended 31 May 2006 The 2nd respondent was the director who had substantial involvement in the audit.	■ Reprimand ■ Penalty of HK$250,000 for the 1st respondent; and HK$100,000 for the 2nd respondent ■ Costs of HK$156,669.90 (including FRC costs)

Nature of complaint		Sanction
25	Failure or neglect by the 3rd respondent to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 230 and HKSA 500. Failure or neglect by the 1st respondent to act diligently in accordance with section 100.5 (c) as elaborated in section 130.1 of the Code of Ethics for Professional Accountants (COE). Failure or neglect by the 2nd respondent to act diligently in accordance with section 100.5 (c) as elaborated in section 130.1 of the COE for failure to carry out an objective engagement quality control review under HKSA 220. The 3rd respondent audited the financial statements of a Hong Kong listed company and its subsidiaries for the years ended 30 June 2011 and 2012. The 1st respondent was the engagement director who issued the auditor's reports on behalf of the 3rd respondent and the 2nd respondent was the engagement quality control reviewer.	■ Reprimand ■ Penalty of HK$100,000 each for the 1st respondent and the 2nd respondent; and HK$180,000 for the 3rd respondent ■ Costs of HK$154,567.90 (including FRC costs)
26	Failure or neglect to observe, maintain or otherwise apply the fundamental principle of Professional Behavior of the Code of Ethics for Professional Accountants. The 1st respondent was the sole proprietor of the 2nd respondent, a firm which is now de-registered. The respondents breached their employer's obligation to make provident fund contributions for employees under the Mandatory Provident Fund Schemes Ordinance on three occasions. They were fined by the relevant authorities for the breaches.	■ Reprimand ■ Penalty of HK$414,463.40 ■ Costs of HK$32,781

APPENDIX 1

	Nature of complaint	Sanction
27	Failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. The 3rd respondent was in breach of a number of auditing standards and HKSQC1. The 1st and 2nd respondents failed to act diligently in accordance with section 100.4 (c), as elaborated in sections 130.1 of the Code of Ethics for Professional Accountants. In addition, the 1st respondent was in breach of HKSA220. The 3rd respondent audited the financial statements of a Hong Kong listed company and its subsidiaries for the years ended 31 December 2008 and 2009. The 1st respondent was the director who issued the auditor's reports on behalf of the 3rd respondent and the 2nd respondent, as a senior audit team member, was substantially involved in the audits of the financial statements.	■ Reprimand ■ Penalty of HK$100,000 each for the 1st respondent and the 2nd respondent; and HK$250,000 for the 3rd respondent ■ Costs of HK$14,912 for the 2nd respondent; HK$124,448.3 for all respondents (including FRC costs)
28	Failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. The 3rd respondent was a newly appointed auditor who audited the consolidated financial statements of a Hong Kong listed company and its subsidiaries for the year ended 31 March 2012. The 1st respondent was a director of the corporate practice who issued the auditor's report. The 2nd respondent was a director of the corporate practice who was substantially involved in the audit. The group's financial statements in previous years included errors in the accounting treatment of a substantial acquisition. Those errors affected the 2012 financial statements. Deficiencies were found in the audit procedures conducted by the respondents on the balances pertaining to the acquisition. Further, the 3rd respondent did not have adequate policies and procedures for clear designation of engagement director and appointment of an engagement quality control reviewer in the subject audit.	■ Reprimand ■ Penalty of HK$100,000 each for the 1st respondent and the 2nd respondent; and HK$250,000 for the 3rd respondent ■ Costs of HK$117,372.20 (including FRC costs)

	Nature of complaint	Sanction
29	Failure or neglect to observe, maintain or otherwise apply Statement of Auditing Standards 100, 200, 230 and 400; Statement 1.200 Professional Ethics - Explanatory Foreword and Statement 3.340 Auditing Guideline - Prospectuses and the reporting accountant. The 3rd respondent was the reporting accountant and auditor of three listed companies in Hong Kong. The 1st and 2nd respondents were the engagement partners. Deficiencies were found in the respondents' audit work in the areas of sales and receipts for sales, purchases and related cash disbursements, long-term investments, preceding auditors' work review and analytical procedures.	■ Reprimand ■ Penalty of HK$200,000 for the 1st respondent; HK$100,000 for the 2nd respondent; and HK$400,000 for the 3rd respondent ■ Costs of HK$1,527,416
30	Failure or neglect by the 1st and 2nd respondents to observe, maintain or otherwise apply Standard on Assurance Engagements 200 "High Level Assurance Engagements" (SAE 200). Failure or neglect by the 1st and 3rd respondents to observe, maintain or otherwise apply SAE 200 and Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information". The 1st respondent issued compliance reports on a corporation engaged in securities dealing under the Securities and Futures Ordinance (Cap. 571) and the preceding Securities Ordinance (Cap. 333) for three years. The 2nd respondent was the engagement partner in the first year. The 3rd respondent was the engagement partner in the second and third years. The complaints against the three respondents relate to breaches of the standards of assurance practices and sufficiency of documentation in the work undertaken by the respondents for the securities firm for three relevant fiscal years.	■ Reprimand ■ Penalty of HK$400,000 for the 1st respondent; and HK$300,000 each for the 2nd and the 3rd respondents ■ Costs of HK$3,000,000

For details of the disciplinary orders, visit:
https://www.hkicpa.org.hk/en/Standards-and-regulation/Compliance/Disciplinary/Disciplinary-Orders

APPENDIX 2

Resolutions by Agreement

Six RBAs were issued in 2018 (*2017: 10*). These RBAs are summarized below:

	Nature of complaint	Sanction
1	Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 220, HKSA 240 and HKSA 500. The respondents audited the financial statements of a private company for the years ended 31 March 2013 and 2014. In the circumstances that there were questions about the integrity of management, the respondents failed to assess whether continuing the client relationship was appropriate. In addition, the respondents failed to obtain sufficient evidence relating to a fixed asset. They also failed to maintain professional skepticism by accepting that the 2014 financial statements were approved by the board when evidence indicated otherwise.	■ Reprimand ■ Joint penalty of HK$20,000 ■ Joint costs of HK$10,000
2	Failure or neglect to observe, maintain or otherwise apply professional standards. The 2nd respondent expressed an unmodified auditor's opinion on the consolidated financial statements of a Hong Kong listed company and its subsidiaries for the year ended 31 December 2015. The 1st respondent was the engagement director for the audit. The basic and diluted loss per share disclosed in the audited financial statements was misstated due to a formulaic error in the calculation of the weighted average number of ordinary shares in issue. In March 2017, the company issued a clarification announcement disclosing the correct basic and diluted loss per share.	■ Reprimand ■ Joint penalty of HK$25,000 ■ Joint costs of HK$10,000

	Nature of complaint	Sanction
3	Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 315, HKSA 500, HKSA 700 and HKSA 710. The 1st respondent is the sole proprietor of the 2nd respondent which audited the financial statements of a private company for 2014, 2015 and 2016. The respondents failed to articulate the reasons for a disclaimer of opinion on the 2014 financial statements. In addition, they failed to obtain sufficient evidence about the principal activity of the company stated in the 2015 and 2016 financial statements and to modify the auditor's opinions on those financial statements when matters leading to the disclaimer of opinion in the preceding period remained unresolved.	■ Reprimand ■ Joint penalty of HK$40,000 ■ Joint costs of HK$10,000
4	Failure or neglect to observe, maintain or otherwise apply HKSQC 1. Replying to the Institute's enquiries, the 2nd respondent claimed that there had been unauthorised deletion and consequent permanent loss of the relevant audit documentation which was kept in electronic form in the practice's computer server. The Institute's review of the 2nd respondent's policies and procedures revealed that it had failed to design and implement proper control policies to ensure the integrity and retention of assembled audit documentation. The 1st respondent is the manager director of the 2nd respondent and was the engagement director of the relevant audits.	■ Reprimand ■ Joint penalty of HK$40,000 ■ Joint costs of HK$10,000

APPENDIX 2

	Nature of complaint	Sanction
5	Failure or neglect to observe, maintain or otherwise apply professional standards. The 2nd respondent expressed unqualified auditor's opinions on the consolidated financial statements of a U.S. listed company and its subsidiaries for the years ended 31 December 2013 and 2014 and the comparative figures in each of those financial statements. The 1st respondent was the engagement director for the audits. The U.S. Public Company Accounting Oversight Board (PCAOB) found that the respondents had violated PCAOB rules and standards as well as the Securities Exchange Act of 1934, and imposed disciplinary sanctions on them. The respondents expressed an unqualified auditor's opinion on the 2012 comparative figures included in the 2013 financial statements without performing sufficient procedures to support the opinion. Instead, they relied exclusively on a management representation letter that they had obtained and the predecessor auditor's 2012 audit documentation. In addition, the respondents did not gather sufficient evidence to support revenue, certain journal entries and other accounting adjustments included in the 2013 and 2014 financial statements.	■ Reprimand ■ Penalty of HK$25,000 each for the 1st respondent and the 2nd respondent ■ Joint costs of HK$10,000
6	Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Auditing 500 Audit Evidence. The 2nd respondent audited the financial statements of a Hong Kong listed company and its subsidiaries (collectively Group) and the 1st respondent was the engagement partner. The Group's audited financial statements for the years 2014 and 2015 recorded an impairment loss on an investment in a listed company. This loss was inappropriately recorded, as the excess of market value of the investee's shares over their carrying amount indicated there was no impairment in the two years. As a result, the Group's net assets were understated in those financial statements.	■ Reprimand ■ Penalty of HK$50,000 each for the 1st respondent and the 2nd respondent ■ Joint costs of HK$10,000

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

APPENDIX 3

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 held two forums, one in April 2018 and one in June 2018. The theme of the forums was *Right Today, Better Tomorrow*, which attracted respectively 150 attendees to the English session and 300 attendees to the Cantonese session. The Forums highlighted and discussed complaints against auditors and professional accountants in business that resulted in disciplinary actions and resolutions by agreement.

A representative of the Compliance Department gave a presentation at the 2018 SMP Symposium held in November 2018, and highlighted key complaint findings that were relevant to small and medium practitioners. The symposium attracted over 360 attendees.

The Department also published articles in the Institute's magazine, *A Plus*, to alert members on regulatory issues identified during the complaint and disciplinary process. Two articles were published in 2018. They were *Failure to make MPF contributions for employees may lead to serious consequences* and *Common deficiencies in auditing issuers' accounting for convertible bonds*.

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, two Disciplinary Panel Briefing sessions were held in April and October 2018. Over 30 members from the Institute's Disciplinary Panels attended each session. The briefing sessions covered the regulatory framework of the Institute, and assisted panel members to familiarize themselves with the statutes, rules and guidelines that govern the disciplinary proceedings. Panel members were reminded of the importance of processing cases in an expeditious manner.

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