
COMPLIANCE

Rules

Compliance

Laws

Practices

Audit

2017 ANNUAL REPORT

Regulations



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

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Abbreviations used

CPA	Certified Public Accountant
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
RAB	Regulatory Accountability Board
ROB	Regulatory Oversight Board
RBA	Resolution by Agreement
CPRR	Corporate Practices (Registration) Rules

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, member practices and registered students.

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 the ethical and professional conduct of CPAs. Integrated within its function are systems for continuous process 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" under which fraudulent representations in relation to the designation "certified public accountant" and "CPA" are made.

This report sets out the Compliance Department's key activities and statistics for 2017 and 2016.

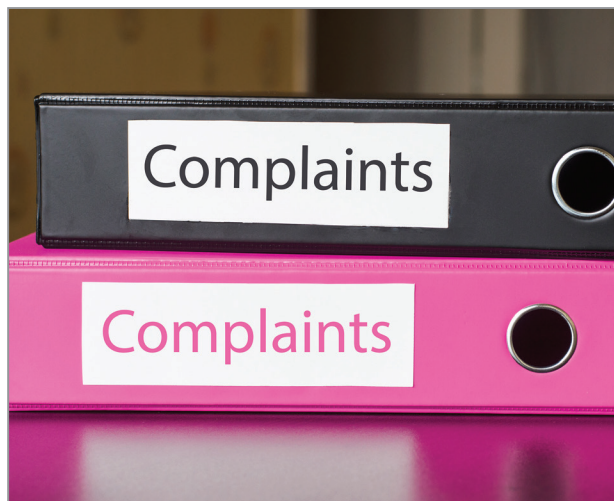


COMPLAINTS

What is a complaint?

The Institute's power to regulate its members, under the Professional Accountants Ordinance, 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.

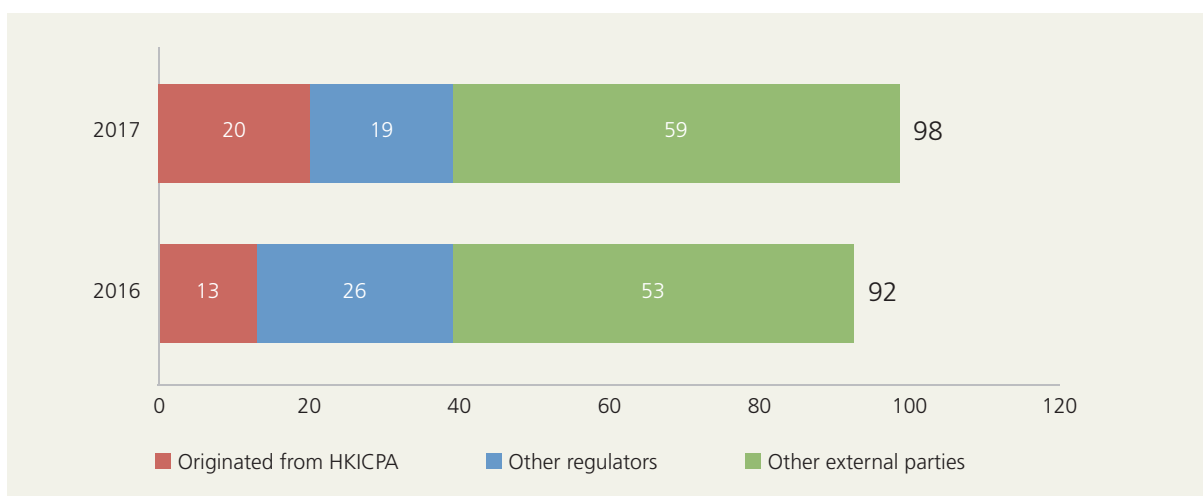


A person who lodges any allegation against a CPA may opt to act as a complainant or an informant.

If Council decides that the matter warrants disciplinary action, a person acting as a complainant would be responsible for prosecuting the complaint before a Disciplinary Committee and bearing any associated costs.

A person acting as an informant will provide all available information and acknowledge that the Institute will act as the complainant should regulatory action be considered necessary by the Institute's Council.

Sources of complaints



Complaint handling process

Complaints are objectively 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.



To ensure a fair and due process, representations are sought from members throughout the complaint handling process, as needed.

Information gathered by the Compliance Department together with the analysis and recommended action thereof are reported 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/>.

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:

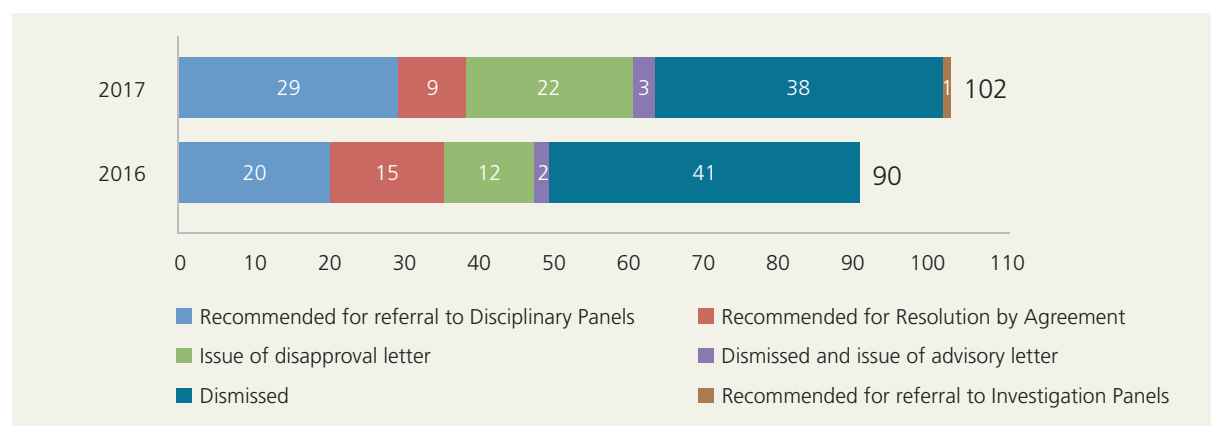
- evaluates each case in light of the circumstances and expected conduct of the member under the relevant professional standards; and
- makes decisions in the context of the Institute's commitment to uphold the quality of professional standards and the positive public perception of the profession in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

Types of actions under PCC's terms of reference:

Dismiss	<ul style="list-style-type: none"> ▪ Insufficient evidence to show a <i>prima facie</i> case ▪ Outside jurisdiction ▪ Issue advisory letters
Adjudicate minor complaints	<ul style="list-style-type: none"> ▪ Issue disapproval letters for minor <i>prima facie</i> cases ▪ Direct other course of action as appropriate
Recommend actions for serious complaints	<ul style="list-style-type: none"> ▪ Recommend Resolution by Agreement for <i>prima facie</i> cases of moderate severity ▪ Recommend referral of serious <i>prima facie</i> cases to the Disciplinary Panels

Statistics

Complaints resolved by PCC



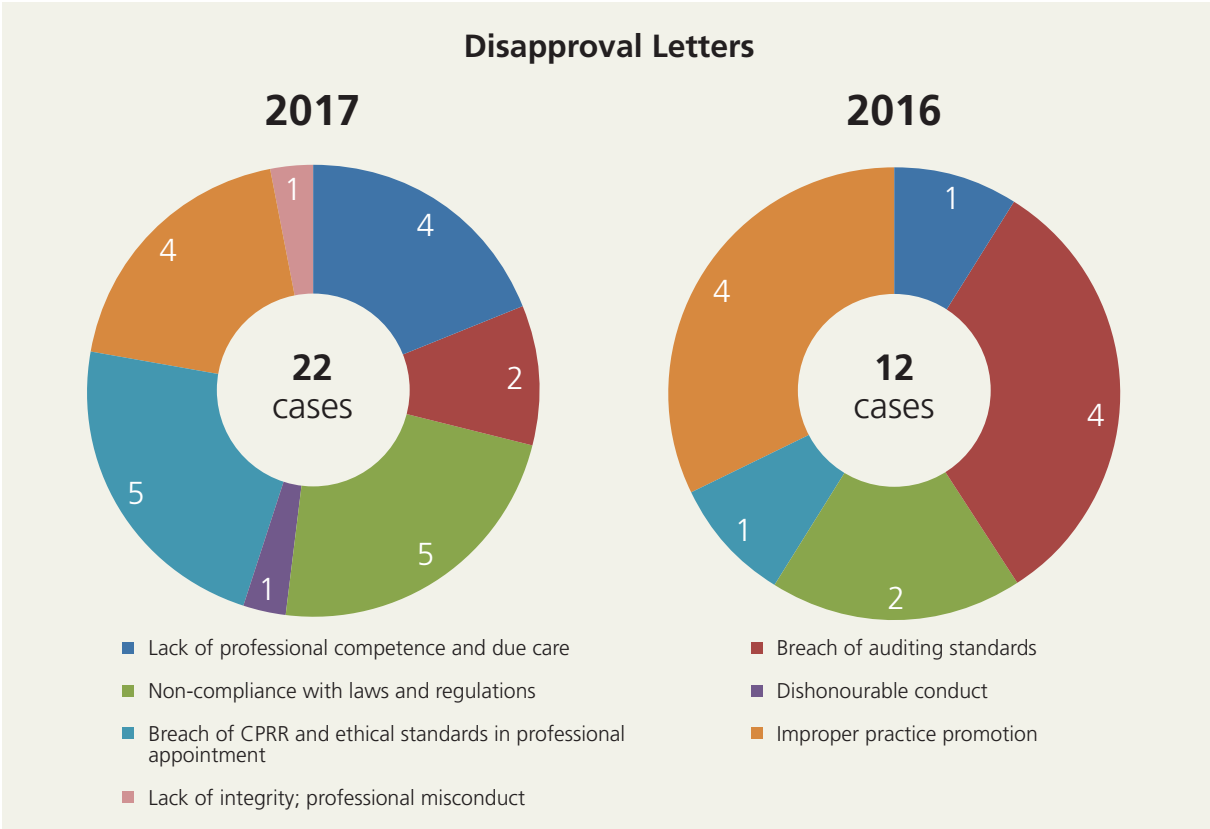
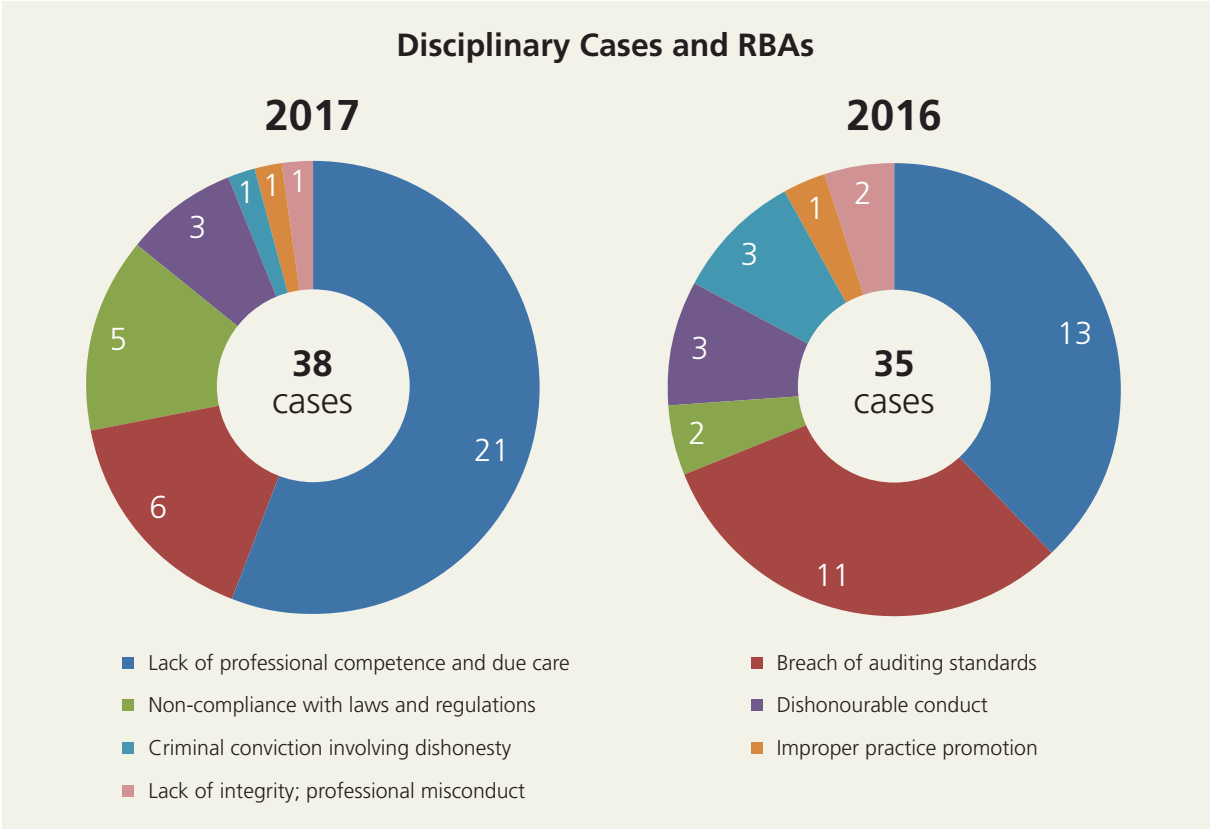
Resolution by Agreement (RBA)

The RBA mechanism 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.

	2017	2016
No. of completed RBAs	10	14

For details of RBAs, visit: <http://www.hkicpa.org.hk/en/standards-and-regulations/compliance/resolution-agreement/>.

Nature of prima facie cases



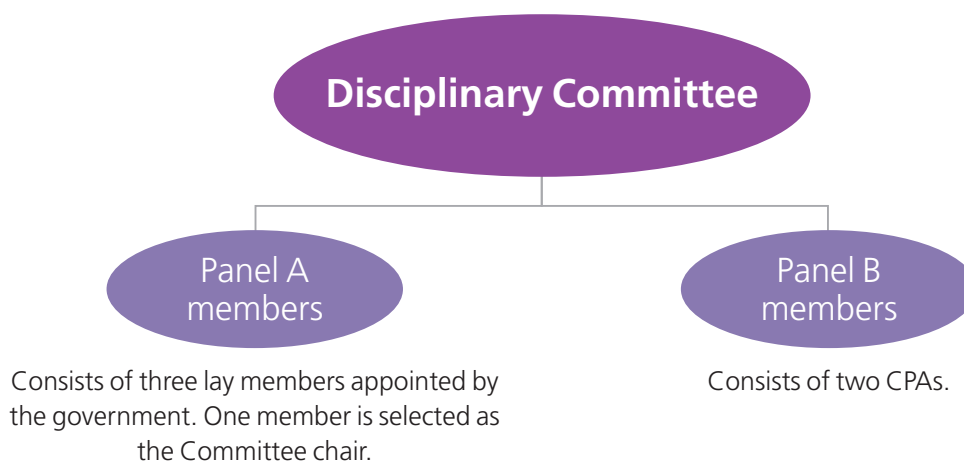
DISCIPLINARY PROCEEDINGS

What is a disciplinary proceeding?

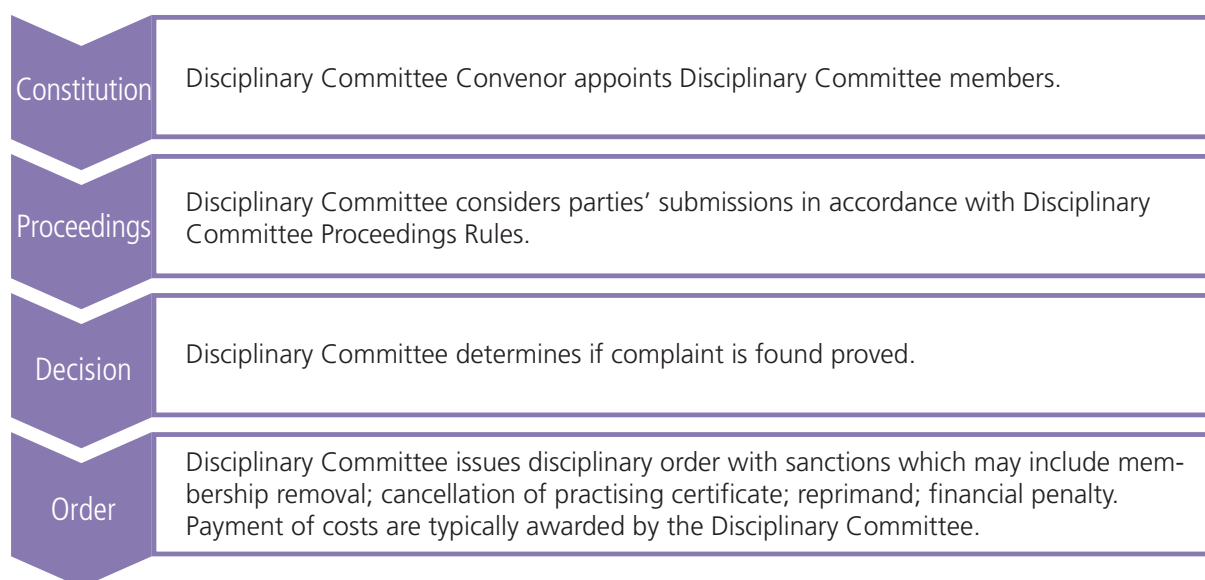
A Disciplinary Committee is constituted when Council concludes that a complaint is serious enough to warrant referral to the Disciplinary Panels. The sequence of steps by which the matter is adjudicated would be referred to as disciplinary proceedings.



Disciplinary Committee



Process

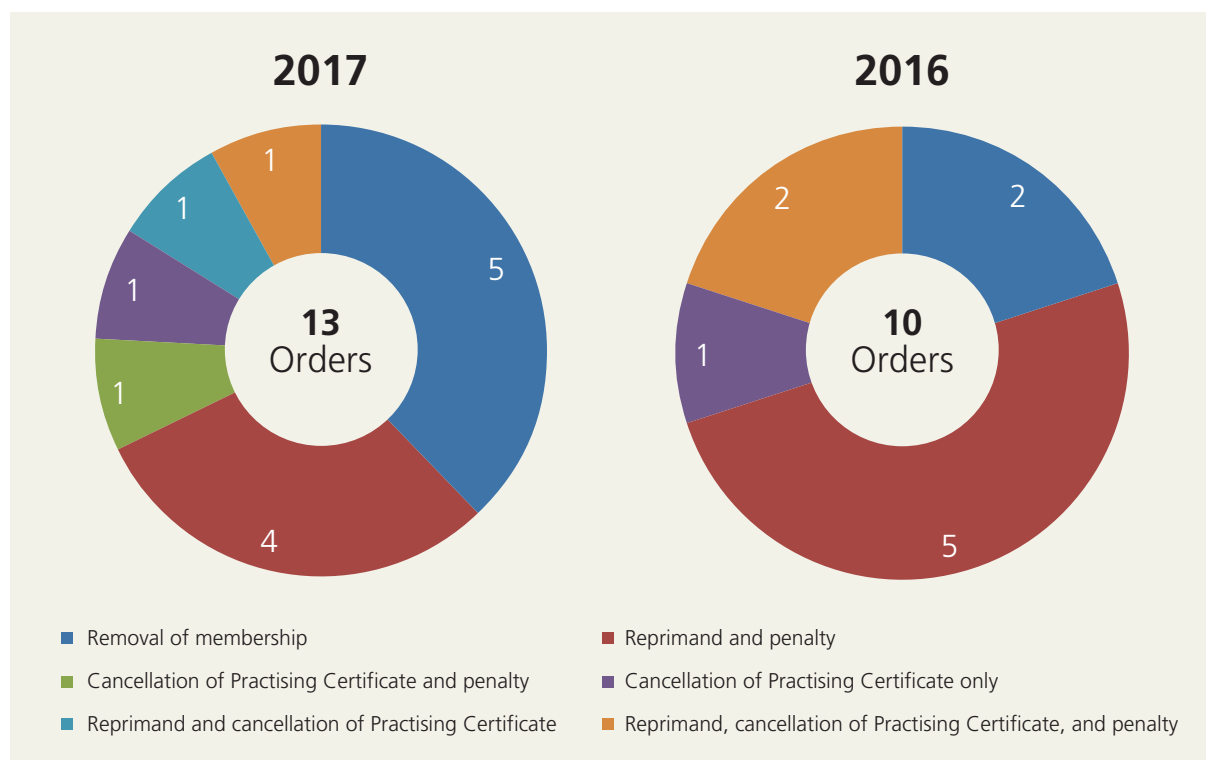


For details on the disciplinary process, visit: <http://www.hkicpa.org.hk/en/standards-and-regulations/compliance/disciplinary/>.

Statistics

Sanctions imposed by Disciplinary Committees

A summary of the 13 disciplinary orders issued in 2017 is presented in Appendix 1.



Level of penalty

Type of penalty	Level of penalty	Number of orders	
		2017	2016
Financial penalty	<\$50,000	3	4
	\$50,001 – \$100,000	2	3
	\$100,001 – \$200,000	1	-
Cancellation of Practising Certificate	< 1 year	1	-
	1 – 2 years	3	3
Removal	1 – 3 years	1	1
	3 – 5 years	1	1
	> 5 years	1	-
	Permanent	2	-

INVESTIGATIONS

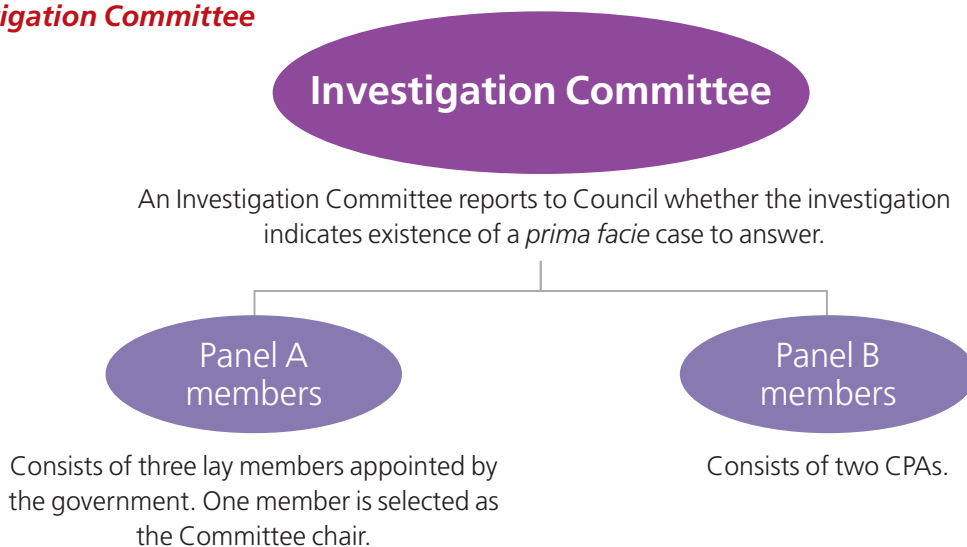
What is an investigation?

Council may constitute an Investigation Committee when:

- it has a 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



Process

- Compliance Department provides support and gathers evidence according to the Committee's instructions.
- Following the commencement of operations by the Financial Reporting Council 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.
- No Investigation Committees were constituted in 2017 (2016: nil).

SECTION 42 OFFENCES

What is a section 42 offence?

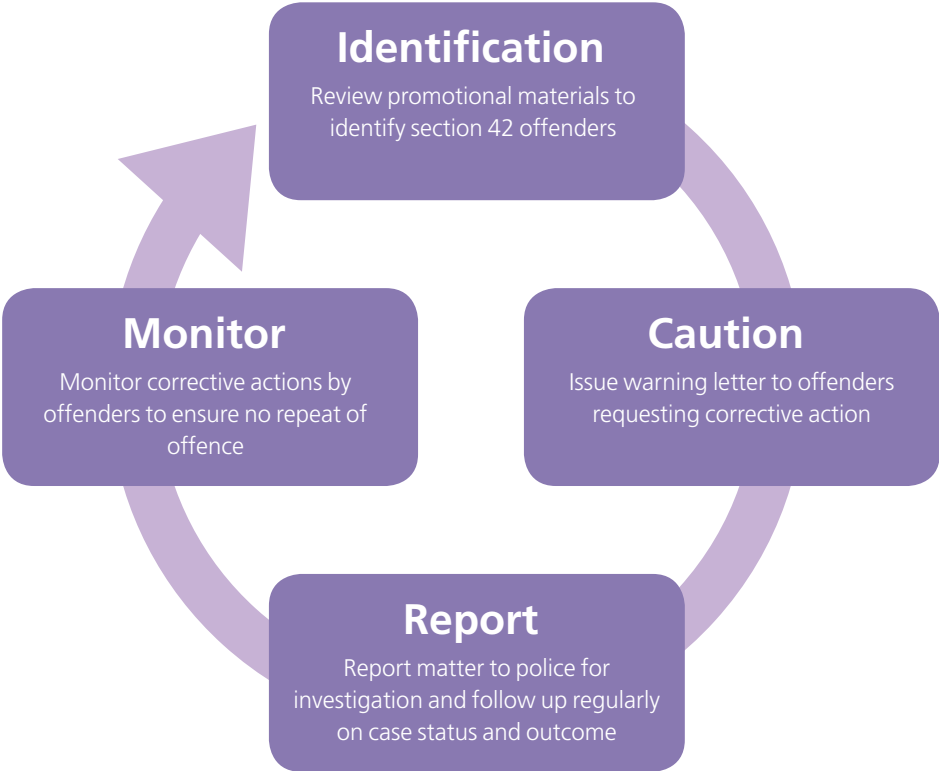
Section 42 of the PAO prohibits an individual or entity from fraudulently representing that they are registered as a CPA (practising), or from using “certified public accountant” or “CPA” in their name or in connection with their business.

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 2017, regulatory action was taken against 9 offenders (2016: 9 offenders).

Process

When the Institute receives promotional materials which seem to reveal section 42 violations, the Compliance Department undertakes the regulatory action described below to deal with the offenders.



REGULATORY OVERSIGHT

*Regulatory Oversight Board*¹

The Regulatory Oversight Board 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.

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	Mr. Nelson LAM
Ms. Ada CHUNG	Ms. Susanna LAU
Mr. Dennis HO	Mr. Keith POGSON
Ms. Angelina KWAN	

¹ Previously Regulatory Accountability Board

Process review report

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

Case selection

1. Cases were selected for review from 111 cases completed during the period from 1 October 2016 to 30 September 2017. The cases included 12 Resolutions by Agreement (RBA), 1 investigation and 44 disciplinary cases. The remaining 54 cases were either dismissed or resolved with a letter of disapproval.
2. The ROB Chair selected 12 cases from the 111 cases completed in the review period, targeting those with a longer completion time. Further evaluation, based on case mix and policy priorities, resulted in the final sample of 4 disciplinary cases, 4 RBA cases, 2 cases resolved with a letter of disapproval, and 2 dismissed 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 assisted in the evaluation of case handling procedures undertaken, and information reported to the PCC and Council to arrive at their decisions.
4. The review did not address the propriety of case judgments and conclusions.

Highlights from process review

1. Compliance with due process

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

Findings

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

Recommendations

None.

2. *Timeliness*

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

Findings

Some cases took longer than expected to complete largely due to legal and process requirements that come into place when a case goes to the Disciplinary Panels.

Recommendations

It was noted that the sample was purposely selected in order to give the ROB a better understanding of the nature of the cases that fall outside of the Compliance Department's average completion times. Where appropriate, the ROB provided recommendations to improve timeliness, such as the use of a triage system to evaluate complexity level of cases, and the use of decision tree analysis. Of greater importance, the review highlighted the extent to which the understanding of the compliance process should be re-evaluated to address changes in the case mix and the Compliance Department's need for a strategy that differentiates between common and complex cases.

Compliance Department's response

With these comments in mind, Compliance Department considered circumstances that led to delays and the ROB's recommendations to improve timeliness. Changes will be made to address unnecessary delays.

3. *Quality of case handling*

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

Findings

Process review did not identify any findings that would indicate a lack of quality in case handling. File reviews revealed appropriate communication with involved parties and sufficient evidence to support case outcomes. However, file notes may better allow Reviewers to gauge the quality of case handling.

Recommendations

Evidence suggested that investigations could be carried out in a more methodical manner which would allow for early identification of potentially challenging areas. Documentation and file organization should allow case file reviewers to understand how the evidence gathered supports the Compliance Department's recommendations.

Compliance Department's response

Recommendations will be taken under advisement and improvements will be made.

Implementation plan

Compliance Department has reviewed their internal processes and created the following plan to address the ROB's recommendations resulting from the 2017 Process Review.

1. Compliance Department's key performance indicators (KPIs) were set under the assumption that all cases are identical in complexity. However, statistics indicate that a number of recent cases involve complex issues, requiring additional resources for processing and consideration of legal threats.

In the future, case complexity will drive the proposed timelines and resource allocation for each complaint filed with the Compliance Department. Upon receipt, cases will be assessed based on the designated complexity scale. Resources will be allocated based on case complexity, priority, and the level of problem solving needed to properly investigate the matter. A supervisor will periodically assess cases that are higher on the complexity scale to allow for early identification of any challenges that may arise.

2. Case mix, complexity scale, and proposed time frames will be reviewed periodically to determine if any adjustments are necessary. Metrics relating to timeliness will include primarily activities that are within the direct control of the Compliance Department. Compliance Department will identify activities in which they have shared or no direct responsibility. These will be evaluated under a different performance measurement.
3. Compliance Department will develop a case-handling form, similar to an audit program, which will identify standard procedures. Case handlers will sign off on each step after completion. The form will be included in all case files and will address any deviations or delays encountered by the case handler during the complaint handling process.
4. Compliance Department will develop a standard filing index and include it in all case files to ensure that all reviewers can easily access the relevant information.

APPENDIX 1

Disciplinary orders

Excluding the two orders (2016: 2) under appeal, 13 disciplinary orders were issued in 2017 (2016: 10). These orders are summarized below:

Nature of complaint	Sanction
<i>Disciplinary orders involving removal from membership</i>	
<p>1 The respondent was convicted of an offence involving dishonesty and was guilty of conduct which renders her unfit to become a certified public accountant under by-laws 34(1)(b) and 34(1)(d) of the Professional Accountants By-Laws.</p> <p>The respondent was registered as a student. She falsified a reference letter purporting that it was issued by her former employer and used the letter to successfully apply for a job. The respondent was convicted in the Magistrates' Courts of obtaining pecuniary advantage by deception under the Theft Ordinance. In replying to the Institute's enquiry of her about the matter, the respondent made untruthful submissions.</p>	<ul style="list-style-type: none"> ■ Removal from student register ■ Costs of HK\$46,908
<p>2 The respondent failed to comply with a direction issued by the Practice Review Committee requiring him to cooperate with the practice reviewer to confirm a date for the site visit when his practice was selected for a practice review.</p>	<ul style="list-style-type: none"> ■ Removal for 1 year ■ Costs of HK\$40,825
<p>3 The respondent failed to comply with the Corporate Practices (Registration) Rules and Corporate Practices (Professional Indemnity) Rules. He was also in breach of section 110.2 of the Code of Ethics for Professional Accountants and guilty of dishonourable conduct.</p> <p>The respondent was the sole practising director and shareholder of a corporate practice. He failed to renew Professional Indemnity Insurance ("PII") cover of his practice for four consecutive years and arrange run-off cover upon the de-registration of the practice. In addition, the respondent falsely declared to the Institute that the practice had PII cover when he applied for renewal of the practice's registration for each of the four years.</p>	<ul style="list-style-type: none"> ■ Removal for 5 years ■ Costs of HK\$53,225

	Nature of complaint	Sanction
4	<p>The respondent was guilty of dishonourable conduct under section 34(1)(a)(x) of the Professional Accountants Ordinance.</p> <p>The respondent was convicted of conspiracy to offer advantages to the chairman of a listed company in Hong Kong. The advantages were offered to induce the chairman to act in a fraudulent scheme concerning the company's substantial acquisition of a mining business. The respondent actively participated in that scheme.</p>	<ul style="list-style-type: none"> ■ Removal for 8 years ■ Costs of HK\$22,618
5	<p>The respondent was convicted of theft in the District Court. He also falsified or caused to be falsified certain documents.</p> <p>The respondent misappropriated a total sum of about HK\$12 million during his employment with two companies. He falsified certain documents to cover up his misappropriation.</p>	<ul style="list-style-type: none"> ■ Permanent removal ■ Costs of HK\$17,130
<i>Disciplinary orders involving cancellation of practising certificates</i>		
6	<p>Failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute and guilty of professional misconduct.</p> <p>There were deficiencies in the audits of the financial statements of five private companies carried out by the respondent's firm. The audit areas involved were related party transactions, deferred tax, inventory and evaluation of whether the financial statements were prepared in accordance with the applicable financial reporting framework. In addition, the respondent also breached the principle of independence when his firm acted as auditor of one of the companies which had a close business relationship with the firm.</p>	<ul style="list-style-type: none"> ■ Reprimand ■ Cancellation of practising certificate for 6 months ■ Penalty of HK\$50,000 ■ Costs of HK\$123,108

APPENDIX 1

Nature of complaint	Sanction
<p>7 The 1st and the 2nd respondents failed to comply with a number of professional standards in their audits and were guilty of professional misconduct as a result of their multiple and repeated failures.</p> <p>The 1st respondent was the sole proprietor of a CPA firm and the 2nd respondent was the auditor of an approved charitable institution in Hong Kong. The 2nd respondent expressed an unqualified opinion in each of the auditor's reports issued on the Company's financial statements for six consecutive years. Deficiencies were found in the audit work carried out by the respondents in all six years.</p>	<ul style="list-style-type: none"> ■ Cancellation of practising certificate for 1 year for the 1st respondent ■ Reprimand the 2nd respondent ■ Costs of HK\$77,140
<p>8 Failure or neglect to observe, maintain or otherwise apply professional standards and guilty of professional misconduct.</p> <p>The respondent was the sole proprietor of a CPA firm which audited the financial statements of a company for four consecutive periods. The company was registered and regulated under the Trustee Ordinance to provide trust services. There were significant deficiencies in planning the audits, obtaining evidence and preparing audit documentation. As a result, the respondent did not properly verify the company's compliance with the relevant legal and regulatory framework, the nature of significant balances between the company and related parties, and the implications of large sums of the company's client monies not being held separately at a bank.</p>	<ul style="list-style-type: none"> ■ Cancellation of practising certificate for 1 year ■ Costs of HK\$60,069
<p>9 Failure or neglect to observe, maintain or otherwise apply HKSQC 1 and the fundamental principle of integrity under paragraphs 100.5(a) and 110.2 of the Code of Ethics for Professional Accountants, and guilty of professional misconduct.</p> <p>The complaint arose from practice review findings. The respondent was found to have failed to establish, maintain and document an effective system of quality control and to have provided false or misleading answers and/or furnished information recklessly in the electronic practice review self-assessment questionnaire.</p>	<ul style="list-style-type: none"> ■ Reprimand ■ Cancellation of practising certificate for 2 years ■ Penalty of HK\$50,000 ■ Costs of HK\$51,628

APPENDIX 1

Nature of complaint	Sanction
<i>Disciplinary orders involving financial penalty</i>	
<p>10 The respondent was convicted of an offence involving dishonesty because he took another person's mobile phone which had been left unattended on the counter at a restaurant. He notified the Institute of the conviction in accordance with his membership requirement.</p>	<ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$5,000 ■ Costs of HK\$21,497
<p>11 Failure or neglect to observe, maintain or otherwise apply auditing standards.</p> <p>The respondent is a practising director of a corporate practice and the engagement director for the relevant audit engagement. The practice was selected for a practice review and significant deficiencies were found in evidence gathering and documentation in the audit of a Hong Kong listed company.</p>	<ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$60,000 ■ Costs of HK\$33,004
<p>12 The 1st and 2nd respondents were in breach of auditing standards and the fundamental principle of <i>Professional Competence and Due Care</i> under sections 100.5(c) and 130 of the Code of Ethics for Professional Accountants. The 3rd respondent was in breach of HKSA 220 <i>Quality Control for an Audit of Financial Statements</i>.</p> <p>The 1st respondent audited the financial statements of a Hong Kong listed company and its subsidiaries for the years ended 31 December 2010 and 2011 and expressed an unmodified auditor's opinion for each of the two years. The 2nd respondent was the engagement director for both years. The 3rd respondent was the engagement quality control reviewer for the 2011 audit.</p> <p>The complaint concerned deficiencies in the audit work conducted on impairment assessment of the company's interests in natural resource extraction and mining projects included in the financial statements.</p>	<ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$80,000 for the 1st respondent; HK\$50,000 for the 2nd respondent; and HK\$60,000 for the 3rd respondent ■ Costs of HK\$42,580 (HKICPA) and HK\$82,805 (FRC)

APPENDIX 1

	Nature of complaint	Sanction
13	<p>The 1st respondent, a practice unit, expressed an unqualified audit opinion on the consolidated financial statements of a U.S. listed company and its subsidiaries for the year ended 31 December 2009. The audit was purportedly conducted in accordance with the standards of the Public Company Accounting Oversight Board (“PCAOB”). The 2nd respondent was the engagement director of the audit. The 3rd respondent, acting as director-in-charge, reported to the engagement director and was significantly involved in the audit.</p> <p>The Securities and Exchange Commission (“Commission”) initiated disciplinary proceedings against the respondents after finding they had breached PCAOB auditing standards. The respondents failed to properly report on material transactions between the company and its directors, and revise the audit plan regarding potential risks in light of those transactions. The respondents agreed with the Commission that sanctions be imposed on them without their admission of the audit deficiencies.</p> <p>After considering the information available, the Institute lodged a complaint against the respondents. The respondents admitted the complaint against them, and were found to have breached the fundamental principle of <i>Professional Competence and Due Care</i> under sections 100.4(c) and 130.1 of the Code of Ethics for Professional Accountants.</p>	<ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$100,000 for the 1st respondent; HK\$70,000 for the 2nd respondent; and HK\$30,000 for the 3rd respondent ■ Costs of HK\$300,000

For details of the disciplinary orders, visit: <http://www.hkicpa.org.hk/en/standards-and-regulations/compliance/disciplinary/recent-order/>.

Resolution by Agreement

10 RBAs were issued in 2017 (2016:14). These RBAs are summarized below:

	Nature of complaint	Sanction
1	<p>Failure or neglect to observe, maintain or otherwise apply sections 450.10, 450.12 and 450.22 of the Code of Ethics for Professional Accountants when performing practice promotion activities.</p> <p>The respondent arranged the sending of unsolicited promotional emails. In addition, the promotional emails and certain websites advertising the respondent's services contained a number of misleading descriptions. The respondent used "CPA" initials in conjunction with names of his de-registered practices, and made a misleading claim that his practice could "guarantee" the opening of bank accounts in Hong Kong for its clients.</p>	<ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$50,000 ■ Costs of HK\$10,000
2	<p>Failure or neglect by the 1st and the 2nd respondents to observe, maintain or otherwise apply the fundamental principle of <i>Professional Competence and Due Care</i> in the Code of Ethics for Professional Accountants.</p> <p>The 1st respondent was the engagement partner and the 2nd respondent was the engagement quality control reviewer of a firm which audited the consolidated financial statements of a Hong Kong listed company and its subsidiaries for the year ended 31 December 2014. They accepted that an impairment of the company's financial assets was not required to be recognised in profit or loss by selecting an inappropriate benchmark for determining materiality under the firm's internal materiality guideline.</p>	<ul style="list-style-type: none"> ■ Reprimand ■ Joint costs of HK\$10,000

APPENDIX 2

	Nature of complaint	Sanction
3	<p>Failure or neglect by the three respondents to observe, maintain or otherwise apply auditing standards. The 1st and 2nd respondents were also in breach of the fundamental principle of <i>Professional Competence and Due Care</i> in the Code of Ethics for Professional Accountants.</p> <p>The 3rd respondent, a corporate practice, audited the consolidated financial statements of a Hong Kong listed company and its subsidiaries for the year ended 30 June 2011. The 1st respondent was the engagement director and the 2nd respondent was the engagement quality control reviewer.</p> <p>The 3rd respondent did not plan, perform and document sufficient appropriate audit procedures on the fair value evaluation and calculation of a contingent consideration receivable which was not reflected in the relevant financial statements. The 3rd respondent expressed a disclaimer of opinion on the financial statements for reasons that did not concern the contingent consideration receivable.</p>	<ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$10,000 each for the 1st and 2nd respondents; and HK\$30,000 for the 3rd respondent ■ Joint costs of HK\$86,823 (including FRC costs)
4	<p>Failure to comply with the fundamental principle of <i>Professional Competence and Due Care</i> under sections 100.5(c) and 130 of the Code of Ethics for Professional Accountants for failure to act in accordance with the Accountant's Report Rules (Cap.159A) ("ARR").</p> <p>The respondent issued an accountant's report for a solicitor firm ("Firm"). The ARR requires a reporting accountant to report details of a solicitor firm's non-compliance with Solicitors' Accounts Rules (Cap.159F). In the accountant's report, the respondent failed to disclose the Firm's failure to record client money transfers within three working days, prepare client account reconciliations, and ensure proper withdrawals from client accounts.</p>	<ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$25,000 ■ Costs of HK\$10,000

APPENDIX 2

Nature of complaint		Sanction
5	<p>Failure or neglect to observe, maintain or otherwise apply sections 450.10, 450.12 and 450.22 of the Code of Ethics for Professional Accountants when performing practice promotion activities.</p> <p>The 1st respondent was the sole shareholder and director of a Hong Kong private company and the 2nd respondent was the company secretary. The company was not a corporate practice registered with the Institute and therefore it could not undertake audit engagements. However, the two respondents allowed the company to hold itself out as providing audit services in its promotional emails and website. They also permitted the company to send unsolicited promotional emails to third parties.</p>	<ul style="list-style-type: none"> ■ Reprimand ■ Joint penalty of HK\$20,000 ■ Joint costs of HK\$10,000
6	<p>The respondent was a practising director of a corporate practice. He had not obtained Council's approval in writing when he allowed the practice to employ a former member of the Institute whose name had been removed from the register pursuant to an order of a Disciplinary Committee. In light of this, the Institute concluded the respondent was guilty of professional misconduct under section 28 of the Professional Accountants By-laws.</p>	<ul style="list-style-type: none"> ■ Reprimand ■ Costs of HK\$10,000
7	<p>Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Auditing 710 <i>Comparative Information - Corresponding Figures and Comparative Financial Statements</i>.</p> <p>The 3rd respondent, a corporate practice, audited the consolidated financial statements of a Hong Kong listed company and its subsidiaries for each of the five consecutive years. The 1st respondent was the engagement director, and the 2nd respondent was the engagement quality control reviewer.</p> <p>The 3rd respondent issued modified audit opinions on the financial statements for each of the two years ended 30 June 2013 and 2014 due to an audit scope limitation. The effect of the audit scope limitation remained unresolved in the year ended 30 June 2015, but the 3rd respondent issued an unmodified audit report on the financial statements for that year.</p>	<ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$50,000 each for the 1st and 3rd respondents; HK\$10,000 for the 2nd respondent ■ Joint costs of HK\$10,000

APPENDIX 2

	Nature of complaint	Sanction
8	<p>Failure or neglect to observe, maintain or otherwise apply the fundamental principle of <i>Professional Behavior</i> under sections 100.5(e) and 150.1 of the Code of Ethics for Professional Accountants.</p> <p>The respondent was formerly the company secretary and an executive director of a Hong Kong listed company. The respondent was found by a regulator to have breached the Listing Rules and the Director's Undertakings. The listed company in question failed to make an announcement, issue a circular and seek shareholders' approval when entering into a major transaction as required under the Listing Rules.</p>	<ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$35,000 ■ Costs of HK\$10,000
9	<p>Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Auditing 500 <i>Audit Evidence</i> and Hong Kong Standard on Review Engagements 2410 <i>Review of Interim Financial Information Performed by the Independent Auditor of the Entity</i>.</p> <p>The respondent was a director of a corporate practice. The practice was appointed as auditor of a Hong Kong listed company and its subsidiaries, and the respondent was the engagement director. The practice issued an unmodified audit opinion on the company's financial statements for the year ended 31 December 2014 and an unqualified review opinion on the company's interim financial statements for the six months ended 30 June 2015.</p> <p>The earnings per share of the holding company in the 2014 annual financial statements and the 2015 interim financial statements were misstated. The misstatements were caused by incorrectly calculated adjustments made for the company's share consolidation and rights issue.</p>	<ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$30,000 ■ Costs of HK\$10,000

	Nature of complaint	Sanction
10	<p>Failure or neglect to observe, maintain or otherwise apply the fundamental principle of <i>Professional Competence and Due care</i> under sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants. The respondents failed to act in accordance with applicable technical and professional standards when they provided professional services.</p> <p>The Public Company Accounting Oversight Board (“PCAOB”) found that the respondents violated PCAOB rules and standards as well as the Securities Exchange Act in the performance of the financial statement audits of a U.S. listed company for three years. The 1st and 2nd respondents were respectively the engagement director and engagement quality reviewer (“EQR”) of the audits. The 3rd respondent, acting as Director of Audit, reported to the engagement director and was significantly involved in the audits at the relevant times. The 4th respondent, a corporate practice, was the auditor of the company and was registered with the PCAOB at all relevant times.</p> <p>The PCAOB found that there were a number of audit deficiencies which included failures in indentifying related party transactions, preparing sufficient and appropriate audit documentation, and identifying an independence violation in 2012. In addition, there was a breach of the relevant objectivity rules and standards by the EQR; and of PCAOB’s quality control standards by the engagement director which resulted in his failure to identify the EQR’s lack of objectivity in performing his role in the audits.</p>	<ul style="list-style-type: none"> ■ Reprimand ■ Penalty of HK\$25,000 each for the 1st and 4th respondents ■ Joint costs of HK\$10,000

For details of the RBAs, visit: <http://www.hkicpa.org.hk/en/standards-and-regulations/compliance/resolution-agreement/>.

This Annual Report is intended for general guidance only. No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this Annual Report can be accepted by the Hong Kong Institute of Certified Public Accountants.

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