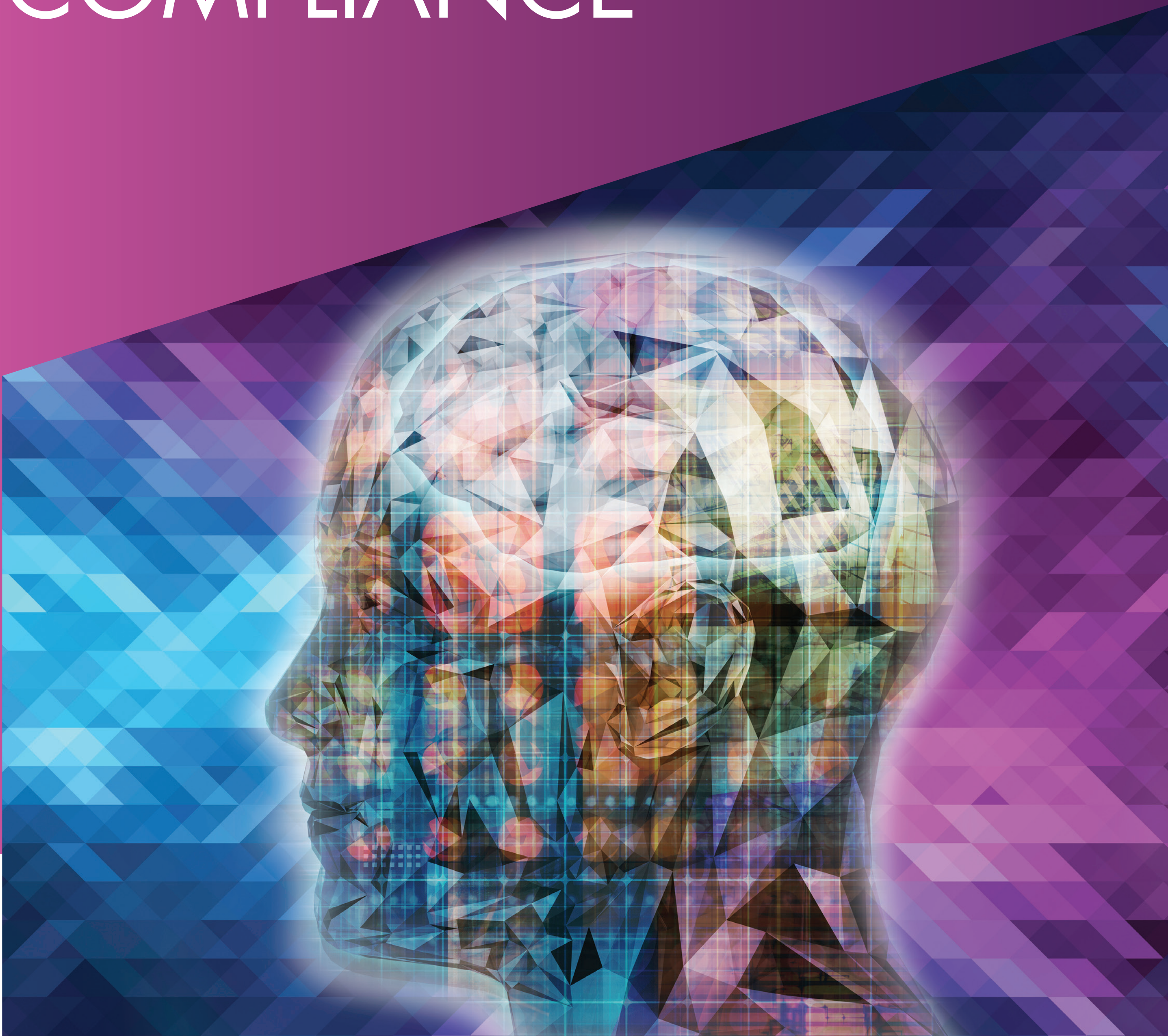
COMPLIANCE



Operations Report

Regulating the Profession

1 January 2019 to 30 June 2020

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

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Abbreviations used

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

FOREWORD

To align with the Institute's financial year end and to ensure consistencies in reporting the activities and work results of the Compliance Department, we have changed our reporting period end date from 31 December to 30 June. This report therefore covers the period from 1 January 2019 to 30 June 2020.

One of the most significant developments over this 18-month reporting period was the passing in January 2019 of the Financial Reporting Council (Amendment) Ordinance, which took effect on 1 October 2019. The amended ordinance gives the Financial Reporting Council ("FRC") the inspection, investigation and disciplinary powers needed to regulate public interest entity ("PIE") auditors. Under the new regime, audit irregularities related to PIE financial statements issued after 30 September 2019 will no longer be referred to the Institute for regulatory action but will be dealt with by the FRC. The Compliance Department continues to handle referrals from the FRC under the previous regime, i.e. audit irregularities related to financial statements issued before 1 October 2019 of which the auditors are subject to regulatory action by the Institute.

After the amended Anti-Money Laundering and Counter-Terrorist Financing Ordinance ("AMLO") became effective on 1 March 2018, the Institute has assumed the regulatory responsibilities over the accounting profession as detailed under the AMLO. The enactment of the AMLO may result in more complaints relating to breaches of Members' duties under the anti-money laundering and counter-terrorist financing requirements.

To minimize the impact of COVID-19 on the activities of the Compliance Department, electronic alternatives have been utilized, such as virtual disciplinary hearings and virtual committee meetings. During the period, the department developed and released a webinar entitled *2020 Compliance Forum: A Closer Look at Professional Skepticism*. The webinar is available to members for free subscription until August 2021.

We will continue our efforts to contribute to the regulatory function of the Institute.

Linda Biek
Director, Compliance
October 2020

REGULATING THE PROFESSION

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

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

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

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

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

This report sets out the Compliance Department's key activities and statistics for the 18 months ended 30 June 2020.

ANATOMY OF THE COMPLAINT PROCESS

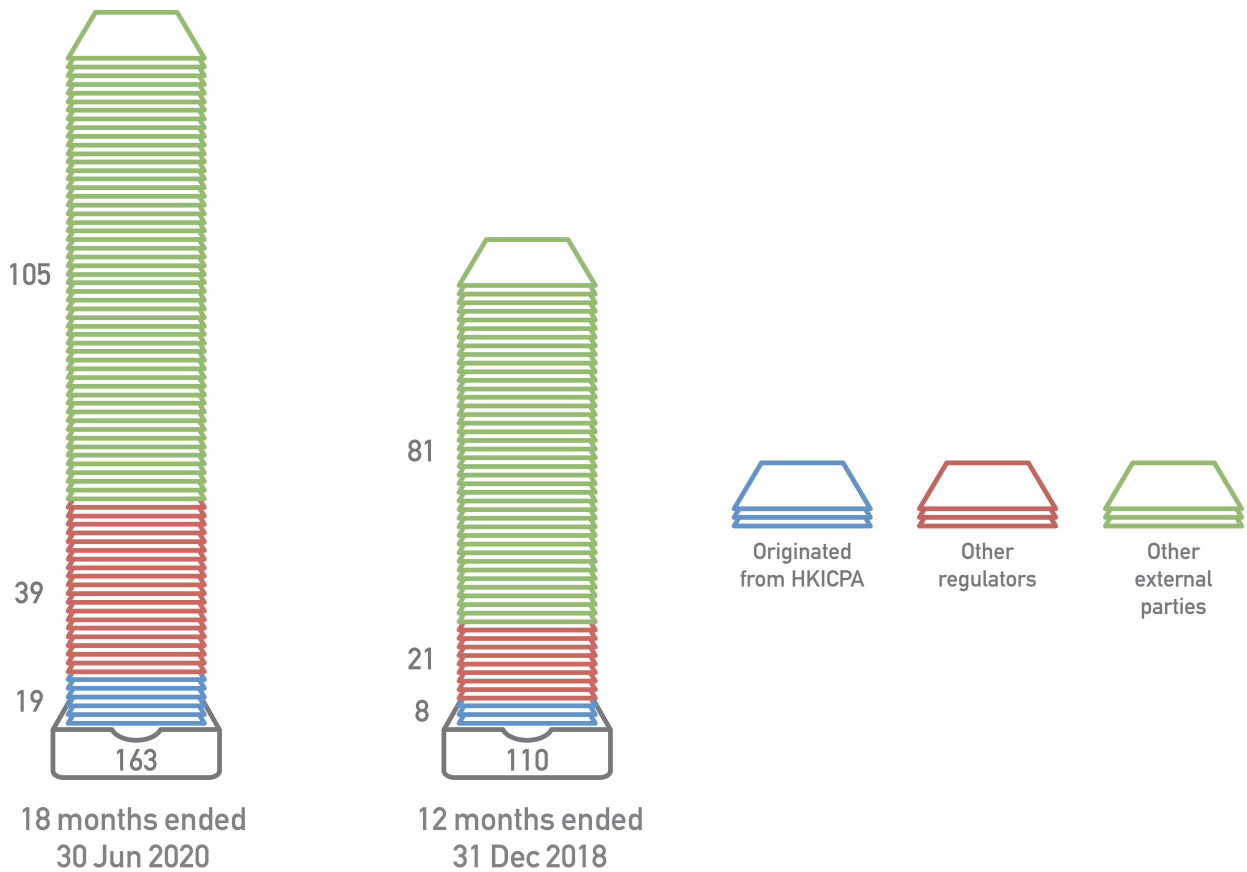
What is a complaint?

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

Any complaint received by the Institute (whether made anonymously or not) may indicate potential misconduct by a member and will be handled in accordance with the Institute's complaint handling process.

The Institute's complaint handling process is also governed by the General policy on Anonymous Complaints and the policy on Confidentiality and Protection of Identity.

Complaint sources



Processing complaints

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 standards.

To ensure a fair and due process, enquiries are sought from members in accordance with the complaint handling process. On conclusion of enquiry and analysis, the Compliance Department will submit a report on its findings, conclusion and recommended action to the 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 measure of good performance, the Compliance Department targets completion of all phases of the complaint handling process, excluding disciplinary proceedings, within 12 months of case receipt. Actual achievement of this metric for the reporting period was 98% (2018: 94%).

ASSESSING COMPLAINTS

Professional Conduct Committee

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

When deliberating cases, the PCC:

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

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

Dismiss

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

Adjudicate minor complaints

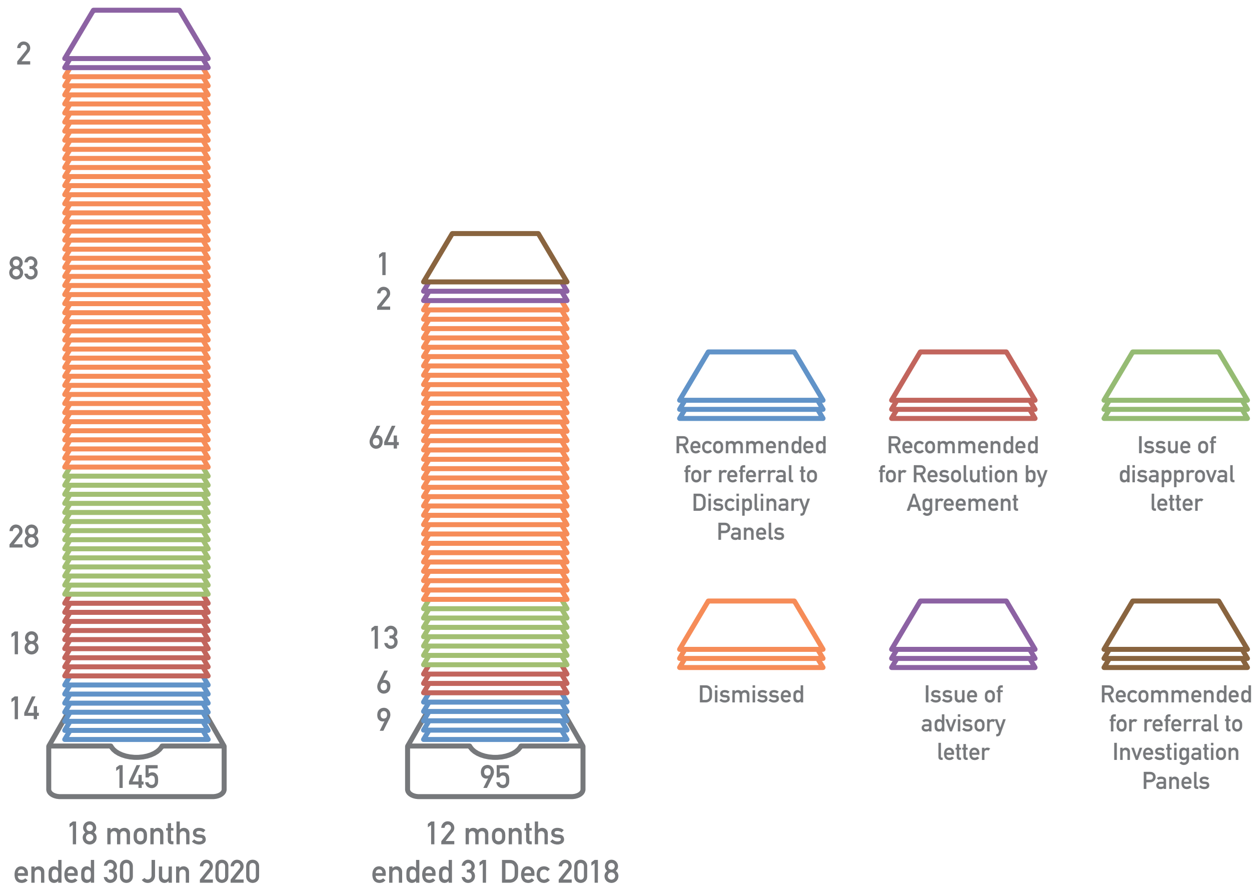
- Issue disapproval letters for minor *prima facie* cases
- Direct other course of action as appropriate

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

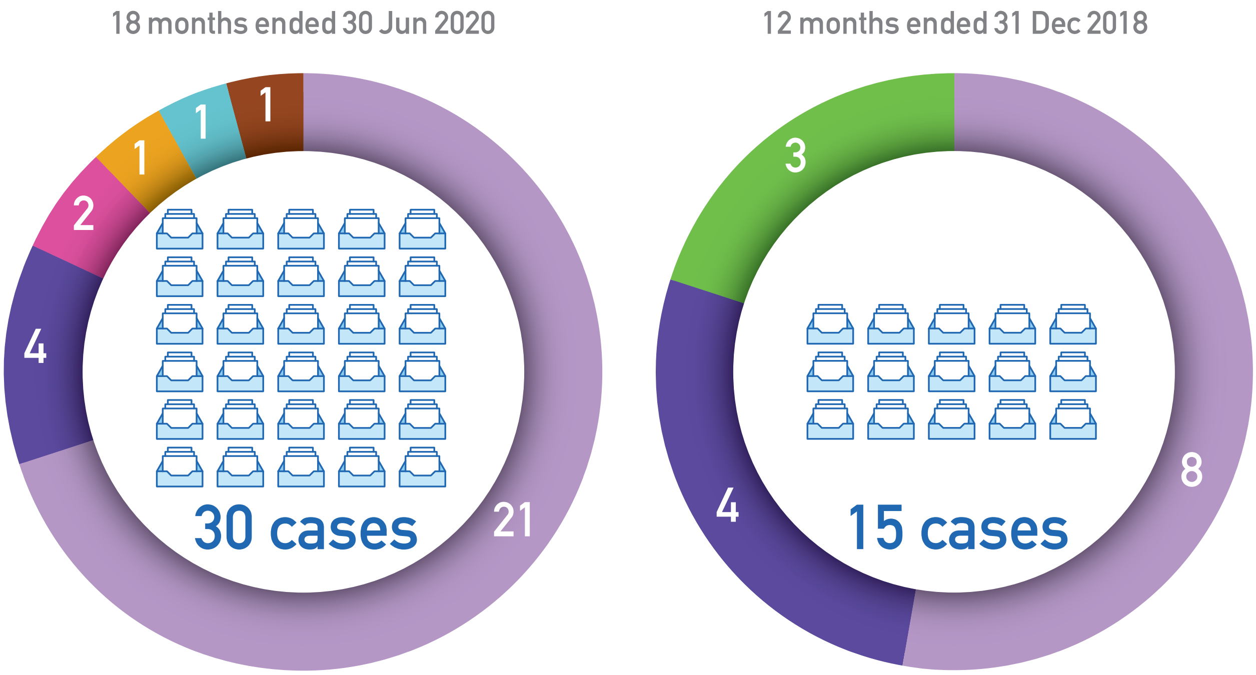
Recommendations and outcomes

Complaints decided by PCC



Disciplinary Cases and RBAs

(Recommended by the PCC)



- Breach of auditing standards
- Lack of professional competence and due care
- Lack of integrity
- Non-compliance with laws and regulations
- Dishonourable conduct
- Breach of anti-money laundering and counter-terrorist financing requirements
- Lack of independence

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 and effective alternative for resolving potential disciplinary cases which meet the pre-determined criteria.

Criteria:

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

Other factors:

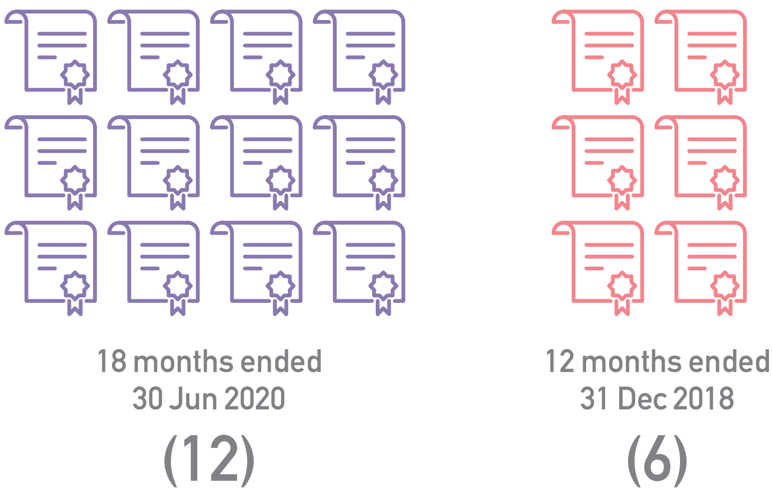
- Nature and seriousness of a complaint.
- Relevant precedent cases.
- Past disciplinary records of the respondents.
- Aggravating or mitigating circumstances.

Applicable terms:

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

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

No. of completed RBAs



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

DISCIPLINARY MATTERS

What is a disciplinary proceeding?

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

Composition of a disciplinary committee

Panel A

Chairman

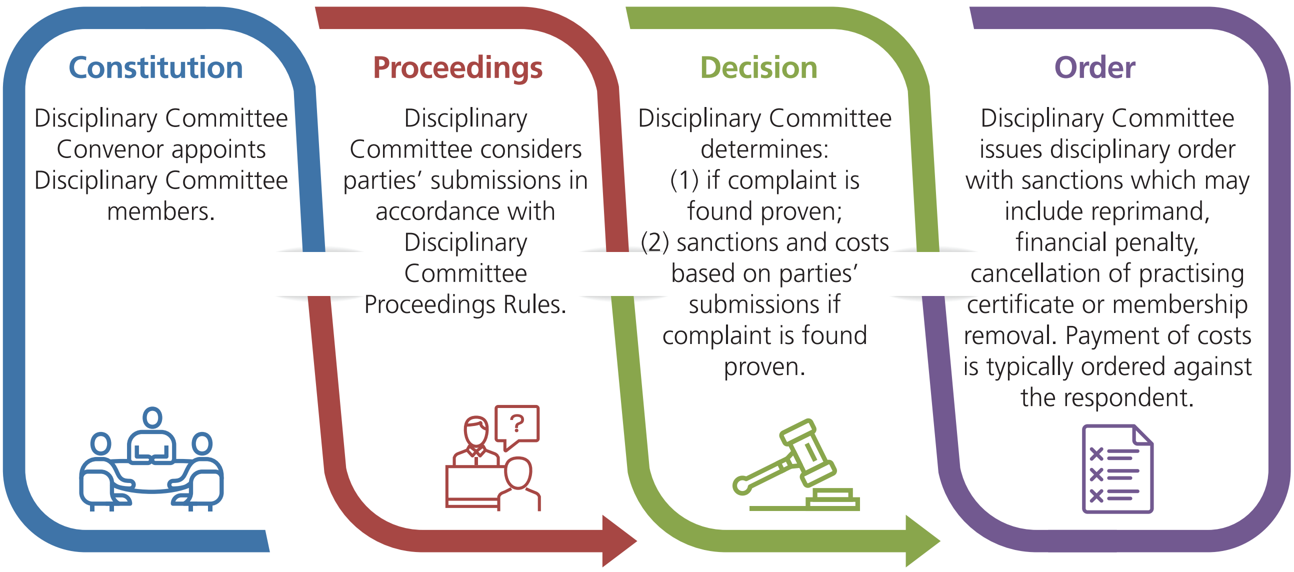
Three lay members appointed by the government, one of whom is selected as the Committee chair

Panel B

Practising CPA

Two CPAs, one of whom must be a practising CPA

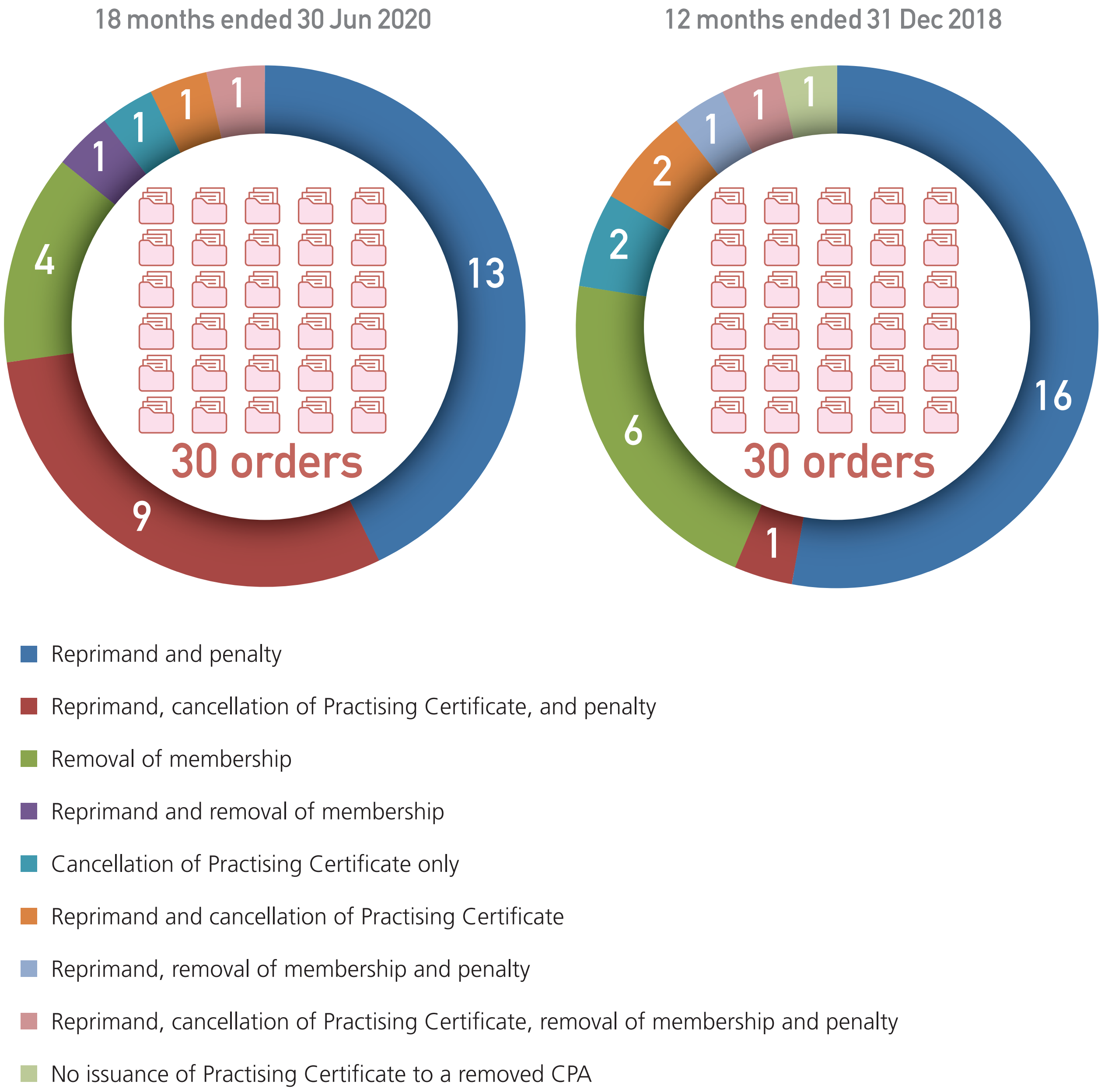
Process



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

Disciplinary outcomes

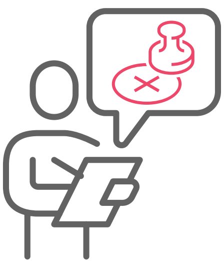
A summary of the 30 disciplinary orders issued during the period is presented in Appendix 1.



Level of penalty

Type of penalty	Level of penalty	Number of orders: 18 months ended 30 Jun 2020	Number of orders: 12 months ended 31 Dec 2018
 Financial penalty[1]	Not exceeding HK$50,000	5	2
	HK$50,001 – HK$100,000	9	6
	HK$100,001 – HK$200,000	3	1
	HK$200,001 – HK$400,000	3	5
	HK$400,001 – HK$500,000	2	3
	> HK$500,000	1	2

Type of penalty	Level of penalty	Number of orders: 18 months ended 30 Jun 2020	Number of orders: 12 months ended 31 Dec 2018
 Cancellation of practising certificate / No issuance of practising certificate	< 1 year	2	2
	1 - 3 years	10	5

Type of penalty	Level of penalty	Number of orders: 18 months ended 30 Jun 2020	Number of orders: 12 months ended 31 Dec 2018
 Removal	< 1 year	1	-
	1 - 3 years	5	2
	4 - 6 years	-	4
	> 5 years	-	1
	Permanent	-	1

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

CONSTITUTION OF INVESTIGATION COMMITTEES

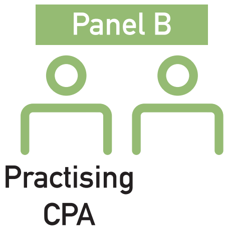
What is an investigation?

Council may constitute an Investigation Committee when:

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

Composition of an investigation committee

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



Two CPAs, one of whom must be a practising CPA

Process

- 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.
- No investigation committee was constituted during the period (2018: 2 cases).

UNDERSTANDING SECTION 42 OFFENCES

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

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

During the period, regulatory actions were taken against 10 offenders *(2018: 5 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

Compliance Department - Process Review Report 2020

A. Introduction

1. Responsibility for oversight of Compliance Department ("Compliance") activities rests with the Regulatory Oversight Board ("ROB") which oversees all of the Institute's regulatory functions. The ROB ensures that these activities are carried out in accordance with strategies and policies determined by Council, and in the public interest. It oversees the performance and outcomes of regulatory functions, and provides advice on policies, priorities and resource allocation in respect of the Institute's regulatory matters. A list of members of the ROB is at the end of this report.

2. As part of its oversight function, the ROB conducted a process review of the operations of Compliance and the disciplinary proceedings handled by the Legal Department ("Legal"). The objective of the review is to ensure the departments perform their work demonstrating due process, timeliness, and quality case handling. This report highlights the ROB's findings and recommendations, responses from each department, and action plans for adopting recommendations.

3. The 2020 Process Review covered a total of 108 cases completed from 1 July 2019 to 30 June 2020. The case mix consisted of 21 disciplinary cases and ten Resolutions by Agreement ("RBA"). The remaining 77 cases were either resolved with a Disapproval Letter or dismissed.

4. From the 108 completed cases, the ROB Chair selected 12 for review. Consideration of completion times and case outcomes drove the selection process. The final sample of 12 contained four disciplinary cases, four RBA cases, two Disapproval Letter cases, and two dismissal cases.

5. After receiving the case files from Compliance and Legal, ROB members ("Reviewers") referred to existing guidance on due process, statutory requirements, and applicable rules to conduct the process review. These materials were instrumental in evaluating procedures undertaken, and information reported to the Professional Conduct Committee ("PCC") and Council.

6. As the review focuses exclusively on process, Reviewers did not consider the propriety of case judgements and conclusions. That assessment would be beyond the scope of the process review.

B. Reviewers' Findings and Compliance's Responses

(i) Compliance with due process

7. Reviewers assessed whether Compliance had followed the established complaint handling process.

Findings and recommendations

8. Complaint allegations were adequately addressed and considered in the resolution of the complaints. All selected cases were handled in accordance with established procedures.

Compliance's responses

9. Compliance notes Reviewers' comments and will continue efforts to assess matters in accordance with due process.

(ii) Timeliness

10. 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 based on established targets and, if not, whether circumstances justified the delays.

Findings and recommendations

11. Some of the reviewed cases were completed within the expected timeframe, with others being delayed due to procedural and legal requirements. Highlights from the 12 cases reviewed are provided below.

    (a) Delays of eight cases were considered reasonable, based on explanations by case handlers and supporting documentation.

    (b) One disciplinary case took nine years to complete due to case complexities and respondent's adversarial stance. Extra time was allowed throughout the process as respondent was incarcerated and found it difficult to provide representations in a timely manner. The Institute allowed the delays in an effort to ensure the complaint was processed in a fair and just manner.

    (c) Another case, referred by the Investigation Committee ("IC") took 14 years to complete. The initial Council decision in 2005 to convene an IC was not implemented until 2009, and the IC was constituted in January 2010. The IC Report was issued in November 2017, and presented to Council for consideration in April 2018. Respondents were invited to make submissions on the complaint in October 2018. Council referred the matter to the Disciplinary Panels in February 2019, 10 months after initially receiving the IC Report.

12. Reviewers made the following recommendations in relation to timeliness.

    (a) Add a date column on internal checklists for better tracking of milestones.

    (b) Communicate more closely with legal counsel in terms of the chance of prosecution before bringing recommendation to PCC.

Compliance's responses

13. Compliance acknowledged Reviewer's recommendation on tracking milestones. The Institute's recently launched CRM will allow Compliance to track cases electronically and communicate with relevant parties more efficiently. Data analytics will be based on the information logged into CRM rather than paper files. Timing improvements are expected once the system has moved beyond the testing phase.

14. Compliance seeks advice from Legal, as needed, and includes a representative from Legal in all PCC filtering meetings. The two departments will continue to identify opportunities to discuss contentious matters at an earlier stage.

(iii) Quality of case handling

15. Reviewers assessed whether allegations raised by informants/complainants were adequately identified and considered by case handlers. For dismissed cases, Reviewers assessed whether reasons for dismissing complaints were adequately explained.

Findings and recommendations

16. For cases which involved complex facts, all relevant issues were distilled and properly addressed in reports to PCC and complaint letters. Reviewers did not identify any findings that would indicate a lack of quality in case handling. In general, results were properly communicated to the relevant parties.

17. For the disciplinary cases noted in 11(c) above, the Reviewer noted the following.

    (a) The submission on sanctions contained a typographical error which was subsequently rectified. Suggestions were also made to summarize certain information in the IC Report more clearly, and provide more details behind Council's resolution to refer the matter for prosecution.

    (b) The partner of a CPA firm served as one of the Disciplinary Committee ("DC") members, while partners of that same firm were conflicted out of Council and PCC discussions when the case was considered.

Compliance's responses

18. Compliance noted the Reviewer's comments, and will continue to improve conflict of interest assessments. In mid-2019, Compliance amended the conflict of interest materials to improve guidance and clarify individual's responsibilities for declaring conflicts.

Members of the Regulatory Oversight Board in 2020

Name	Position	Company
Ms. HO, Shuk Yee, Susie	Chairman	
Dr. AU, King Lun (Appointed 24 January 2020)	Member	Financial Services Development Council
Mr. CHAN, Kam Wing, Clement	Member	BDO Limited
Ms. CHAN, Mei Bo, Mabel	Member	Grant Thornton (Hong Kong) Limited
Ms. CHUNG, Lai Ling (Resigned 16 September 2020)	Member	Government of HKSAR
Mr. HO, Chiu Ping, Dennis	Member	PricewaterhouseCoopers
Ms. HUI, Grace (Appointed 24 January 2020)	Member	Hong Kong Exchanges and Clearing Limited
Mr. POGSON, Timothy Keith	Member	Ernst & Young
Mr. SUN, Tak Kei, David (Appointed 24 January 2020)	Member	
Mr. YIH, Lai Tak, Dieter, JP	Member	Kwok Yih & Chan

Compliance Department - Process Review Report 2019

A. Introduction

1. 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. It oversees the performance and outcomes of regulatory activities, and provides advice on policies, priorities and resource allocation in respect of the Institute's regulatory function.

<u>2019 Composition</u>

2. The ROB consists of certified public accountants, lay members and representatives from other regulatory bodies, with a lay member serving as Chair. ROB members are listed below.

Ms. Susie HO, Chair	Mr. Dennis Ho
Mr. Clement CHAN	Mr. Paul Michael KENNEDY
Ms. Mabel CHAN	Ms. Susanna LAU
Mr. Vincent CHUI	Mr. Keith POGSON
Ms. Ada CHUNG	Mr. Dieter YIH

3. As part of its oversight function, the ROB conducted a process review of the operations of the Compliance Department ("Compliance") in the fall of 2019. The objective of the review is to ensure compliance with due process, timeliness, and quality of case handling within the department. This report highlights the ROB's findings and recommendations, as well as Compliance's responses, including plans for adopting applicable recommendations.

4. At its July 2019 meeting, the ROB endorsed the change in cut-off date for the process review period from 30 September to 30 June, which would align with the Institute's fiscal year-end. As such, the 2019 Process Review covered a total of 81 cases completed during the nine-month period from 1 October 2018 to 30 June 2019. The case mix consisted of 18 disciplinary cases and seven Resolutions by Agreement ("RBA"). The remaining 56 cases were either resolved with a Disapproval Letter or dismissed.

5. From the 81 completed cases, the ROB Chair selected nine for review. Consideration of completion time and case outcomes drove the selection process. The final sample of nine contained three disciplinary cases, three RBA cases, two Disapproval Letter cases, and one dismissal case.

6. After receiving the case files from Compliance, ROB members ("Reviewers") referred to existing guidance on due process, statutory requirements, and applicable rules to conduct the process review. These materials were instrumental in evaluating case handling procedures undertaken, and information reported to the Professional Conduct Committee ("PCC") and Council to assist with decision-making on case outcome.

7. As the review focuses exclusively on process, it did not address the propriety of case judgements and conclusions. That assessment would be beyond the remit of the process review.

B. Reviewers' Findings and Compliance's Responses

(i) Compliance with due process

8. Reviewers assessed whether Compliance had followed the established complaint handling process.

Findings and recommendations

9. All selected cases were handled in accordance with established procedures. One minor deviation from due process was noted. In that case, the conclusion letter to the informant was sent several months after the matter had been concluded, due to oversight.

10. In another case referred by the Financial Reporting Council ("FRC"), the Reviewer considered additional analysis by Compliance was not the best use of the Institute's resources. Given FRC had already conducted an investigation, the Institute seemed to have duplicated the efforts in performing additional analysis when the nature of the complaint and the proposed RBA action suggested the breaches were only moderately serious.

Compliance's responses

11. Compliance continues to strive to ensure that due process is followed in all cases. The communication procedures have been updated to ensure the appropriate parties are notified when an RBA or disciplinary order has been published. Compliance will also implement procedures to ensure case handlers consistently communicate relevant information to informants.

12. Under the current complaint handing process, Compliance is required to conduct an independent assessment of the breaches identified by FRC to ensure that a prima facie case exists and the related charges are prosecutable. Cases that are deemed moderately serious are recommended for RBA. An RBA is only executable when its terms have been agreed by both Council and the respondent(s). In the event that either party rejects the proposed RBA, the case would typically be recommended for referral to the disciplinary panels.

(ii) Timeliness

13. 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 based on established targets and, if not, whether circumstances justified the delays.

Findings and recommendations

14. In general, results showed adherence to process and procedures designed to ensure timeliness.

15. For two of the disciplinary cases reviewed, Reviewers noted that the involvement of a Legal Liaison, who was tasked with preparing complaint letters but was not the case handler, resulted in inefficiencies in the process.

16. Also, submission of one case to Council with a recommendation for referral to the disciplinary panels seemed to take longer than necessary. The complaint letter was eventually re-drafted by the Legal Department as it had decided to take an approach that differed from the AIB Report.

17. Reviewers made the following recommendations in relation to timeliness:

    (a) to automate the issuance of acknowledgement letters to expedite the process;

    (b) to provide an update to the informant/complainant on progress when the processing of the case is being delayed;

    (c) to initiate enquiries with the preparers of financial statements and company's directors stemming from FRC cases once a prima facie case is identified; and

    (d) to interact with Legal Department at an earlier stage to ensure complaint letters are being prepared in an efficient manner.

Compliance's responses

18. Reviewers noted during the process review that the issue relating to the role of Legal Liaison had been rectified. Recognizing the procedural inefficiencies, this role was phased out in July 2018. Case handlers are now tasked with the responsibility of preparing complaint letters and supporting Legal Department in the disciplinary proceedings until the matter has been concluded.

19. To address Reviewers' recommendations, Compliance will:

    (a) take steps to automate the issuance of acknowledgement letters as an administrative process; and

    (b) initiate enquiries with financial statements preparers and board members at an earlier stage.

20. Compliance will continue to seek ways to streamline the processing of FRC cases referred to the Institute. One such proposal is to accelerate RBA cases at the investigation stage via targeted checklist procedures. It is anticipated that the processing time of these moderately serious cases would be expedited by adopting a precise, risk-based approach that would secure respondents' acceptance of an RBA on a "without prejudice" basis. This would minimize the time spent on building a case for the purpose of prosecution as the risk of prosecution would be minimal. In the unlikely event that the RBA is rejected, traditional steps would be taken to develop a complaint letter and obtain Rule 5 submissions. Therefore, only cases which will be recommended for referral to the disciplinary panels would require analysis by the Legal Department, freeing up resources for both departments to be spent on projects with higher risk.

21. Further, Compliance continues to work with the Legal Department to enhance procedures and protocols with the objective of improving efficiency in managing the disciplinary process.

(iii) Quality of case handling

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

Findings and recommendations

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

24. In general, results were properly communicated to the relevant parties. However, Compliance is encouraged to provide more customized responses to informants/complainants explaining reasons for case dismissal.

25. For one of the dismissed cases, the Reviewer considered that unsubstantiated allegations pertaining to the respondent's investment services could be more thoroughly addressed in the PCC Report. The Reviewer also suggested that the conclusion letter to the respondent should have conveyed the message that the respondent fell short of the expectations of a professional accountant.

26. With respect to the case noted in paragraph 10 above, given no material misstatements were identified, the Reviewer questioned the value of issuing the associated press release more than ten years after the relevant audits. Further, it is considered that case assessment could be enhanced by forming a subjective view on the materiality of the accounting issue to assist in assessing the gravity of the case.

Compliance's responses

27. Compliance noted the recommendations and will provide more substantive content in conclusion letters, as warranted.

28. In response to paragraph 25, Compliance's focus of investigation was whether the conduct of the respondent led to any breaches of professional standards. Certain matters, such as fee arrangements and details of the underlying transaction, were included in the PCC Report for information but were outside the scope of the case assessment. As such, the respondent's standard of performance in relation to these matters was not highlighted in the PCC Report or the conclusion letter to the respondent.

29. In response to paragraph 26, the Institute's RBA policy requires publication of all regulatory actions. This is an important step as FRC publicizes information about investigations that have been forwarded to the Institute. To promote transparency, the Institute would be expected to report disciplinary or regulatory actions to the public. This process also mirrors that of publicizing disciplinary orders and promotes consistency. Compliance noted that forming a subjective view on the materiality of an accounting issue assists in assessing the impact of allegations relating to the financial statements, and is part of the pre-determined criteria Compliance follows in assessing the gravity of the case. Other considerations include whether the offence is an isolated or repeated case, the significance of the breach, the impact on the reputation of the profession, and the extent of public interest.

Disciplinary Orders

Excluding four orders *(2018: 2 orders)* under appeal, 30 disciplinary orders were issued from 1 January 2019 to 30 June 2020 *(2018: 30 orders)*. These orders are summarized below:

Nature of complaint		Sanction
Disciplinary orders involving removal from membership		
1	Failure or neglect to observe, maintain or otherwise apply paragraphs 2 and 4 of Statement 1.200 Professional Ethics Explanatory Foreword and being guilty of dishonourable conduct. The respondent was the company secretary and financial controller of a company formerly listed in Hong Kong. He was also a "qualified accountant" of the group under the then GEM listing rules. As a result of accounting fraud perpetrated by other members of the senior management, the group's audited financial statements for the years 2000 to 2004 contained materially false information pertaining to certain subsidiaries in mainland China. At the time, the respondent tried to remove himself from any responsibility for the subsidiaries' activities, accepted a limitation of his role as financial controller, entered into a self-imposed compromise with the directors and failed to implement the group auditor's recommendations concerning the finance department's financial supervision and control over the group subsidiaries. The Market Misconduct Tribunal found the respondent negligent in relation to the financial statements and, therefore, culpable of market misconduct. It issued sanctions against the respondent in 2017 and recommended referring the findings to the Institute.	■ Reprimand ■ Removal for 6 months ■ Costs of HK$56,494

	Nature of complaint	Sanction
2	Failure or neglect to observe, maintain or otherwise apply the fundamental principle of professional behaviour in sections 100.5(e) and 150.1 of the Code of Ethics for Professional Accountants. The respondent was the financial controller, company secretary and compliance officer of a Hong Kong listed company. In those positions, the respondent had a statutory obligation to ensure that the company complied with the relevant disclosure requirements under the Securities and Futures Ordinance (Cap. 571) (SFO). In August 2012, the company announced its interim results and stated that it expected significant growth and increasing profitability in the second half of the year. However, the company's full year results announcement in March 2013 revealed that performance had in fact deteriorated significantly. The company had therefore breached the relevant disclosure requirements by not issuing any profit warning announcement in the intervening period. The Market Misconduct Tribunal found that the respondent was reckless in failing to ensure the company's timely disclosure, and that he failed to put in place a system to enable the timely identification and disclosure of price sensitive information. The Tribunal found the respondent had breached sections 307G(2)(a) and 307G(2)(b) of the SFO and issued sanctions against him. They also recommended referring the findings to the Institute.	■ Removal for 1 year ■ Costs of HK$32,496
3	Guilty of professional misconduct and dishonourable conduct. The Institute's practice reviewers attempted to contact the respondent through her registered contact addresses in 2016 to arrange for a practice review, but they were unable to obtain her response. However, the respondent was able to receive the Institute's documents for registration renewal which were sent to those same addresses, and successfully renewed her membership and practising certificate for 2017. In May 2017, the Practice Review Committee of the Institute issued a direction to the respondent in respect of practice review. The respondent failed to comply with the direction and did not respond to the Institute's communications concerning the matter.	■ Removal for 1 year ■ Costs of HK$34,447

	Nature of complaint	Sanction
4	Failure or neglect to observe, maintain or otherwise apply sections 100.5, 110 and 130.1 of the Code of Ethics for Professional Accountants, HKSQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and being guilty of professional misconduct. The respondent is the sole proprietor of his practice. He was responsible for the practice's quality control system and the quality of its audit engagements. When carrying out a practice review, the reviewer identified significant deficiencies in the practice's system of quality control and in two of its audit engagements. In addition, the respondent attempted to mislead the practice reviewer by creating new working papers or changing other working papers after the audit report date, and making untrue statements in a meeting with the reviewer. He also falsely or recklessly provided untrue answers in a self-assessment questionnaire submitted in relation to the practice review.	■ Reprimand ■ Removal for 1 year ■ No practising certificate shall be issued to the respondent for 2 years ■ Penalty of HK$80,000 ■ Costs of HK$44,053
5	Failure or neglect to observe, maintain or otherwise apply the fundamental principles of (i) integrity under sections 100.5(a) and 110.2 of the Code of Ethics for Professional Accountants and (ii) professional behaviour under sections 100.5(e) and 150.1 of the Code; and being guilty of professional misconduct. The respondent was appointed as the Chairman, and later re-designated as a non-executive director of a Hong Kong listed company. In 2012, the Securities and Futures Commission filed a court action against the respondent and others for their breach of director's duties to the company. The breach concerned falsely putting forward a non-existent agreement between the company and a third party for the distribution of dividends in connection with an acquisition undertaken by the company. This caused the company to wrongly pay a dividend of RMB18,692,000 to the third party. The Court found the respondent breached his duties as a director under the GEM Listing Rules and common law, and disqualified him from being a director or involved in the management of any listed or unlisted corporation in Hong Kong for four years.	■ Removal for 2 years ■ Costs of HK$37,000

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	Nature of complaint	Sanction
6	Failure or neglect to observe, maintain or otherwise apply the fundamental principles of (i) integrity under sections 100.5(a), 110.1 and 110.2(a) of the Code of Ethics for Professional Accountants and (ii) professional behaviour under sections 100.5(e) and 150.1 of the Code; and being guilty of professional misconduct. The respondent was the sole director and shareholder of a foreign private company, which was holding shares of two Hong Kong listed companies with a market value of HK$146 million. He facilitated sale of the shares at a substantial discount, under terms that were unfavorable to the company. Also, in the sold notes for the shares, he falsely stated that the shares were sold for full market value and that the consideration had been received.	■ Removal for 2 years ■ Costs of HK$128,202
Disciplinary orders involving cancellation of practising certificates and no issuance of practising certificates		
7	Failure or neglect to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in the Code of Ethics for Professional Accountants, HKSQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements,* HKSA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing,* HKSA 500 *Audit Evidence and* HKSA 700 *Forming an Opinion and Reporting on Financial Statements*, and being guilty of professional misconduct. The respondent is the sole shareholder of a corporate practice. A first practice review of his practice identified a number of significant deficiencies in its system of quality control. The respondent also failed to maintain professional knowledge and skill at the required level, and to comply with professional standards, in a number of audit and assurance engagements examined by the practice reviewer.	■ Cancellation of practising certificate and no practising certificate shall be issued to the respondent for 4 months ■ Costs of HK$55,477

	Nature of complaint	Sanction
8	Failure or neglect by the 1st and 3rd respondents to observe, maintain or otherwise apply HKSA 500 *Audit Evidence*, HKSA 510 *Initial Audit Engagements – Opening Balances*, HKSA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* and HKSA 710 *Comparative Information – Corresponding Figures and Comparative Financial Statements*. Failure or neglect by the 2nd respondent to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*. Further, the respondents were guilty of professional misconduct. The 3rd respondent was newly appointed as auditor which expressed an unmodified auditor's opinion on the consolidated financial statements of a listed group for the year ended 30 June 2012. The 1st respondent was the engagement director and the 2nd respondent was the engagement quality control reviewer. The listed group undertook an acquisition in the previous year and the consideration paid would be adjusted if the guaranteed level of profits was not achieved. The respondents failed to identify that the consideration adjustment had not been accounted for as a contingent consideration in accordance with relevant accounting requirements. Further, they failed to identify that the group had wrongly treated the consideration adjustment as a cash flow item and wrongly recognized it in the financial year after the one in which the relevant profit shortfall arose.	■ Reprimand ■ Cancellation of practising certificate and no practising certificate shall be issued to the 1st respondent and 2nd respondent for 9 months and 6 months respectively ■ Penalty of HK$50,000 for the 1st respondent; HK$50,000 for the 2nd respondent; HK$100,000 for the 3rd respondent ■ Costs of HK$247,577.10 (including FRC costs)
9	Failure or neglect to observe, maintain or otherwise apply HKSQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, the fundamental principle of integrity in sections 100.5(a), 110.1 and 110.2 of the Code of Ethics for Professional Accountants, the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code and being guilty of professional misconduct. The respondent is the sole shareholder of a practice and is responsible for the practice's quality control system and the quality of its audit engagements. A first practice review conducted on the practice identified significant deficiencies in its system of quality control and in two of its audit engagements. In addition, the respondent falsely or recklessly provided untrue answers in the self-assessment questionnaire and "Audit Health Screening Checklist" submitted to the Institute in relation to practice review.	■ Reprimand ■ Cancellation of practising certificate and no practising certificate shall be issued to the respondent for 15 months ■ Penalty of HK$50,000 ■ Costs of HK$41,802

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	Nature of complaint	Sanction
10	Failure or neglect to observe, maintain or otherwise apply HKSQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*; HKSA 500 *Audit Evidence;* HKSA 705 *Modifications to the Opinion in the Independent Auditor's Report*; section 410.52 of the Code of Ethics for Professional Accountants; and the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code. The Institute conducted a follow-up practice review on the respondent's sole proprietor practice. The review revealed that a number of deficiencies identified in the initial practice review had not been appropriately addressed. It also identified new significant audit deficiencies. The findings reflected the respondent's failure to maintain an adequate quality control system for the practice, and raised concerns about the quality of the practice's audit engagements and the professional competence of the respondent.	▪ Reprimand ▪ Cancellation of practising certificate and no practising certificate shall be issued to the respondent for 15 months ▪ Costs of HK$44,514
11	Failure or neglect to observe, maintain or otherwise apply sections 100.5(a), 100.5(c), 110.1 and 130.1 of the Code of Ethics for Professional Accountants, HKSQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagement* and being guilty of professional misconduct. The respondent was the sole proprietor of a firm which was selected by the Institute for its first practice review in August 2017. The practice review revealed significant deficiencies in the firm's quality control system and in one audit selected for review, which showed the respondent's lack of professional competence and due care. Further, the respondent compromised his integrity when he furnished answers in a checklist required by practice review either falsely or recklessly, and created working papers which misled the reviewers.	▪ Reprimand ▪ Cancellation of practising certificate and no practising certificate shall be issued to the respondent for 18 months ▪ Penalty of HK$50,000 ▪ Costs of HK$47,642

	Nature of complaint	Sanction
12	Failure or neglect to observe, maintain or otherwise apply HKSA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, HKSA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements;* HKSA 500 *Audit Evidence*, HKSQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants. The Institute completed a practice review on a practice of which the respondent was the sole proprietor. The review identified significant deficiencies in the practice's quality control system and two audit engagements reviewed by the practice reviewer.	■ Reprimand ■ Cancellation of practising certificate and no practising certificate shall be issued to the respondent for 18 months ■ Penalty of HK$50,000 ■ Costs of HK$51,785
13	Failure or neglect to observe, maintain or otherwise apply HKSQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, the fundamental principle of integrity in sections 100.5(a), 110.1 and 110.2 of the Code of Ethics for Professional Accountants, and the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code, and being guilty of professional misconduct. The respondent was practising in his own name and was responsible for his practice's quality control system and the quality of its audit engagements. In a follow-up practice review, the reviewer found that the practice failed to rectify the deficiencies previously identified in the first practice review. Significant deficiencies were also found in procedures conducted on revenue recognition, external confirmations and forming the auditor's opinion in the practice's audit of a private company. In addition, the respondent knowingly misrepresented to the reviewer that certain working papers were prepared, and documented procedures performed, before the auditor's report was issued.	■ Reprimand ■ Cancellation of practising certificate and no practising certificate shall be issued to the respondent for 22 months ■ Penalty of HK$30,000 ■ Costs of HK$30,000

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	Nature of complaint	Sanction
14	Failure or neglect by the 1st respondent to observe, maintain or otherwise apply HKSA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing,* HKSA 260 *Communication with Those Charged with Governance,* HKSA 540 *Auditing Accounting Estimates Including Fair Value Accounting Estimates, and Related Disclosures and* HKSA 700 *Forming an Opinion and Reporting on Financial Statements*. Failure or neglect by the 1st and 2nd respondents to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements* and the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants. The 1st respondent was the sole proprietor of a firm (now de-registered) which audited the consolidated financial statements of a Hong Kong listed company and its subsidiaries for the year ended 31 December 2013 and expressed an unmodified auditor's opinion. The 2nd respondent was the engagement quality control reviewer (EQCR) of the audit. The listed group entered into a sale transaction which allowed the buyer to settle the payment by interest-free instalments over 10 years. The group did not correctly account for the arrangement as a financing transaction under Hong Kong Accounting Standard 18 Revenue. The respondents failed to identify the accounting non-compliance. The 1st respondent failed to communicate his evaluation of the transaction to the audit committee. The 2nd respondent performed certain audit work and reported her work to the 1st respondent, which impacted her independence as the EQCR.	▪ Reprimand ▪ No practising certificate shall be issued to 1st respondent for 2 years ▪ Penalty of HK$50,000 for the 2nd respondent ▪ Costs of HK$80,568.50 for the 1st respondent; HK$25,648.50 for the 2nd respondent; and joint FRC costs of HK$20,095.60

	Nature of complaint	Sanction
15	Failure or neglect to observe, maintain or otherwise apply the fundamental principles of integrity, and professional competence and due care in sections 100.5(a), 100.5(c), 110.2 and 130.1 of the Code of Ethics for Professional Accountants; Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information and Related Conforming Amendments*; HKSA 500 *Audit Evidence,* HKSA 600 *Special Consideration - Audits of Group Financial Statements (Including the Work of Component Auditors)*, HKSA 700 *Forming an Opinion and Reporting on Financial Statements*; and HKSQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*. The respondent was the former managing director of the practice and responsible for its quality control system. A practice review of the practice found that the respondent colluded with a client to backdate an auditor's report in order to mislead the Inland Revenue Department. The practice review also revealed multiple deficiencies in the assurance and audit engagements carried out on an insurance broker and two other private companies. Those deficiencies demonstrated that the respondent failed to ensure the practice had established and maintained a quality control system. They also cast serious doubts on the respondent's ability to maintain the level of professional competence and due care expected of him.	■ Reprimand ■ Cancellation of practising certificate and no practising certificate shall be issued to the respondent for 2 years ■ Penalty of HK$70,000 ■ Costs of HK$67,776

Nature of complaint		Sanction
16	Failure or neglect by the 1st respondent to observe, maintain or otherwise apply HKSA 200 *Objective and General Principles Governing an Audit of Financial Statements,* HKSA 230 *Audit Documentation*, HKSA 240 *The Auditor's Responsibilities to Consider Fraud in an Audit of Financial Statements*, HKSA 300 *Planning an Audit of Financial Statements,* HKSA 315 *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement,* HKSA 500 *Audit Evidence*, HKSA 520 *Analytical Procedures*, HKSA 550 *Related Parties* and HKSA 700 *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*. Failure or neglect by the 2nd respondent to observe, maintain or otherwise apply HKSA 220 *Quality Control for Audits of Historical Financial Information* and HKSA 230. Further, both respondents were guilty of professional misconduct. The respondents were partners of a deregistered firm which audited the consolidated financial statements of a Hong Kong listed group for the years ended 30 June 2008 to 2010. The 1st respondent was the engagement partner and the 2nd respondent was the engagement quality control reviewer. The respondents failed to conduct the audits with an attitude of professional skepticism in circumstances that indicated a heightened risk of irregularities. This resulted in significant deficiencies in audit procedures performed on revenue and on transactions and balances with suppliers and a major customer.	■ Reprimand the 2nd respondent ■ Cancellation of practising certificate and no practising certificate shall be issued to the 1st respondent for 3 years ■ Penalty of HK$100,000 for the 2nd respondent ■ Joint costs of HK$350,000 (including FRC costs)

Nature of complaint		Sanction
17	Failure or neglect by the 1st respondent and the 3rd respondent to observe, maintain or otherwise apply HKSA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing,* HKSA 230 *Audit Documentation*, HKSA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*, HKSA 330 *The Auditor's Responses to Assessed Risks*, HKSA 500 *Audit Evidence*, HKSA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* and HKSA 700 *Forming an Opinion and Reporting on Financial Statements*. Failure or neglect by the 2nd respondent to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*. Failure or neglect by the 1st and 2nd respondents to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in the Code of Ethics for Professional Accountants. The 3rd respondent audited the consolidated financial statements of a listed group for the years ended 30 June 2011 and 2012. The 1st respondent was the engagement director and the 2nd respondent was the engagement quality control reviewer. The respondents failed to identify incorrect classification and measurement of a contingent consideration payable by the group in one of its acquisitions. In addition, the respondents failed to perform sufficient audit procedures and prepare adequate documentation in respect of assessing impairment of goodwill and intangible assets arising from the group's acquisitions.	■ Reprimand ■ Cancellation of practising certificate and no practising certificate shall be issued to the 1st respondent and 2nd respondent for 3 years and 2 years respectively ■ Penalty of HK$150,000 for the 1st respondent; HK$110,000 for the 2nd respondent; and HK$200,000 for the 3rd respondent ■ Joint costs of HK$466,869.60 (including FRC costs)

<table>
<tr><th colspan="2">Nature of complaint</th><th>Sanction</th></tr>
<tr><td colspan="3">Disciplinary orders involving financial penalty</td></tr>
<tr><td>18</td><td>Failure or neglect by the 1st respondent to observe, maintain or otherwise apply HKSA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures and HKSA 700 Forming an Opinion and Reporting on Financial Statements. Failure or neglect by the 2nd and 3rd respondents to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants.

The 1st respondent audited the consolidated financial statements of a Hong Kong listed company and its subsidiaries for the year ended 30 June 2013. The 2nd respondent was the engagement director and the 3rd respondent was the engagement quality control reviewer of the audit.

The company breached Hong Kong Accounting Standard (HKAS) 39 Financial Instruments: Recognition and Measurement by failing to recognise an impairment loss on its available-for-sale listed investment, which had resulted from a significant drop in the investment's quoted market price. In their audit, the respondents failed to report the non-compliance with HKAS 39 in the auditor's report.</td><td>▪ Reprimand
▪ Joint penalty of HK$60,000
▪ Joint costs of HK$117,055.40 (including FRC costs)</td></tr>
<tr><td>19</td><td>Failure or neglect to observe, maintain or otherwise apply HKSA 220 Quality Control for an Audit of Financial Statements.

The respondent was the engagement quality control reviewer in an audit of the consolidated financial statements of a listed company and its subsidiaries. A practice review identified significant audit deficiencies in the areas of impairment assessment of investment property and prepayments of production expenses. The respondent failed to perform an effective engagement quality control review to evaluate the significant judgements made and conclusions reached by the audit team.</td><td>▪ Reprimand
▪ Penalty of HK$70,000
▪ Costs of HK$42,960</td></tr>
</table>

	Nature of complaint	Sanction
20	Failure or neglect to observe, maintain or otherwise apply HKSA 210 *Agreeing the Terms of Audit Engagements*, HKSA 500 Audit Evidence, HKSA 580 *Written Representations*, HKSA 700 *Forming an Opinion and Reporting on Financial Statements* and sections 100.5(c) and 130 of the Code of Ethics for Professional Accountants. The 1st respondent is the sole proprietor of the 2nd respondent which audited the financial statements of three private companies for two years. There were a number of audit deficiencies identified in the areas of failure to agree the terms of the engagements with the companies' management, the audit procedures conducted on bank confirmations and income statements, failure to obtain written representations from management and failure to state the date in two of their auditor's reports.	■ Reprimand ■ Joint penalty of HK$80,000 ■ Joint costs of HK$31,931
21	Failure or neglect to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants. The 1st respondent is the sole proprietor of the 2nd respondent which issued an unmodified auditor's opinion on the consolidated financial statements of a Hong Kong listed company and its subsidiaries for the year ended 30 June 2015. The company's financial statements disclosed basic and diluted loss per share that incorrectly included profits attributable to non-controlling interests. In addition, the diluted loss per share wrongly took into account potential ordinary shares which had an anti-dilutive effect. As a result of the errors, there was non-compliance with Hong Kong Accounting Standard 33 *Earnings Per Share*. In their audit, the respondents failed to identify the incorrect amounts of loss per share disclosed in the financial statements.	■ Reprimand ■ Penalty of HK$80,000 ■ Costs of HK$36,630

Nature of complaint		Sanction
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 audited the consolidated financial statements of a listed group for the year ended 31 December 2015. The 1st respondent was the engagement director. The 2nd respondent undertook a review of the listed group's preliminary announcement of its final results for the financial year. The published announcement contained an incorrect statement that the auditor had agreed the financial figures included in the announcement with those in the listed group's consolidated financial statements. The respondents were aware of the incorrect statement in the announcement but they failed to follow the relevant guidance in the Institute's Practice Note 730 *Guidance for Auditors Regarding Preliminary Announcements of Annual Results* and take appropriate actions in the circumstances.	■ Reprimand ■ Penalty of HK$35,000 for the 1st respondent; and HK$50,000 for the 2nd respondent ■ Joint costs of HK$93,078
23	Failure or neglect to observe, maintain or otherwise apply HKSA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*, HKSA 220 *Quality Control for an Audit of Financial Statements*, HKSA 510 *Initial Audit Engagements – Opening Balances*, HKSA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, HKSA 700 *Forming an Opinion and Reporting on Financial Statements* and the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants. The respondent was the sole practising director of a corporate practice (now de-registered). The corporate practice 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 2014. The group failed to correctly account for a deferred payment arrangement in a prior-year sale and this affected the opening balances and comparative information in the 2014 financial statements. The respondent failed to properly evaluate the transaction and the balances pertaining to it. Further, the respondent failed to appoint an engagement quality control reviewer for the audit.	■ Reprimand ■ Penalty of HK$100,000 ■ Costs of HK$59,374.20 (including FRC costs)

	Nature of complaint	Sanction
24	Failure or neglect by the 1st and 3rd respondents to observe, maintain or otherwise apply HKSA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*, HKSA 230 *Audit Documentation*, HKSA 250 *Consideration of Laws and Regulations in an Audit of Financial Statements,* HKSA 500 *Audit Evidence*, HKSA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, HKSA 620 *Using the Work of an Auditor's Expert* and HKSA 700 *Forming an Opinion and Reporting on Financial Statements*. Failure or neglect by the 2nd respondent to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*. Failure or neglect by the 1st and 2nd respondents to observe, maintain or otherwise apply sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants. The 3rd respondent audited the consolidated financial statements of a Hong Kong listed company and its subsidiaries for the year ended 31 May 2011. The 1st respondent was the engagement director and the 2nd respondent was the engagement quality control reviewer of the audit. The listed group held interests in a company which had acquired several dairy farms in New Zealand. The request for the local authority's retrospective consent to the acquisition of the dairy farms was refused, and hence the farms were subject to a risk of compulsory disposal by court order. In their audit, the respondents failed to address the potential impact of the matter on the investment, and failed to evaluate whether proper disclosures about the matter had been made in the financial statements. In addition, the respondents did not prepare sufficient documentation of audit procedures performed on the group's revenue recognition.	■ Reprimand ■ Joint penalty of HK$150,000 ■ Joint costs of HK$221,501 (including FRC costs)

Nature of complaint		Sanction
25	Failure or neglect to observe, maintain or otherwise apply section 290.128 of the Code of Ethics for Professional Accountants. The 2nd respondent audited the financial statements of a private company for the period / years ended from 31 March from 2005 to 2012. The 1st respondent was the engagement director. At the time of the audits, an immediate family member of the 1st respondent was a director of the client company. The 1st respondent failed to withdraw from the audit team, resulting in a significant compromise of the independence of the audits.	■ Reprimand ■ Joint penalty of HK$200,000 ■ Joint costs of HK$35,134
26	Failure or neglect to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants. The 3rd 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 March 2015. The 1st respondent was the engagement director and the 2nd respondent was the engagement quality control reviewer. Loss per share disclosed in the financial statements was misstated as a result of including the effect of the company's offer of shares which was still open at the date of issuance of the financial statements and therefore should not have been taken into account under Hong Kong Accounting Standard 33 *Earnings Per Share*. In their audit, the respondents failed to identify the error and ensure the loss per share was properly disclosed in the consolidated financial statements.	■ Reprimand ■ Penalty of HK$50,000 for the 1st respondent; HK$100,000 for the 2nd respondent; and HK$100,000 for the 3rd respondent ■ Joint costs of HK$99,269

Nature of complaint		Sanction
27	Failure or neglect to observe, maintain or otherwise apply HKSA 450 *Evaluation of Misstatements Identified during the Audit*, and the fundamental principle of professional competence and due care in sections 100.5 (c) and 130 of the Code of Ethics for Professional Accountants. The 4th respondent audited the financial statements of a Hong Kong listed company and its subsidiaries for the four years ended 31 December 2010 to 2013 and issued an unqualified opinion on each of those financial statements. The 1st respondent and the 2nd respondent were respectively the engagement partners of the 2010 and 2011 audits, and the 3rd respondent was the engagement partner of the 2012 and 2013 audits. Convertible bonds issued by the company in an acquisition exercise in 2010 were wrongly valued due to the use of incorrect currency exchange rates. This led to misstatements in goodwill, gain from disposal of subsidiaries, effective interest expenses and exchange differences in the financial statements for the four years. During the audits, the 4th respondent identified the misstatements but it did not accumulate the misstatements and communicate them to management or request management to take appropriate actions.	■ Reprimand ■ Penalty of HK$60,000 for the 1st respondent and 2nd respondent; HK$80,000 for the 3rd respondent; and HK$150,000 for the 4th respondent ■ Joint costs of HK$121,867.70 (including FRC costs)

	Nature of complaint	Sanction
28	Failure or neglect by the 1st and 2nd respondents to observe, maintain or otherwise apply section 290 of the Code of Ethics for Professional Accountants. Failure or neglect by the 3rd respondent to observe, maintain or otherwise apply HKSQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*. The 3rd respondent was the auditor of a private company from 2009 to 2016. The 1st respondent was the engagement partner from 2009 to 2013. The 2nd respondent was the engagement partner from 2014 to 2016 while the 1st respondent acted as the engagement quality control reviewer in those audits. Throughout the engagements, the 1st respondent's close family members were directors and shareholders of the client company. The 1st respondent also became a shareholder of the company in 2014. As a result, there were significant threats to the auditor's independence. The 1st and 2nd respondents failed to properly address those threats, while the 3rd respondent failed to establish adequate policies and procedures to ensure compliance with independence requirements.	■ Reprimand ■ Penalty of HK$120,000 for the 1st respondent; HK$120,000 for the 2nd respondent; and HK$100,000 for the 3rd respondent ■ Joint costs of HK$44,866
29	Failure or neglect to observe, maintain or otherwise apply Statement of Auditing Standards (SAS) 100 *Objective and General Principles Governing an Audit of Financial Statements*, SAS 230 Documentation and SAS 400 *Audit Evidence*. The 1st respondent expressed unmodified auditor's opinions on the consolidated financial statements of a Hong Kong listed company and its subsidiaries for the nine months ended 31 December 2002 and for the year ended 31 December 2003. The 2nd respondent was the engagement partner of the audits. Audit deficiencies were found in the areas of the listed group's sales, tax liabilities, and loans and prepayments to third parties.	■ Reprimand ■ Penalty of HK$350,000 for the 1st respondent; and HK$100,000 for the 2nd respondent ■ Joint costs of HK$184,690

	Nature of complaint	Sanction
30	Failure or neglect by the 1st and 3rd respondents to observe, maintain or otherwise apply HKSA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*, HKSA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, HKSA 500 *Audit Evidence* and HKSA 550 *Related Parties*. Failure or neglect by the 2nd and 3rd respondents to observe, maintain or otherwise apply HKSA 200, HKSA 500 and HKSA 705 *Modifications to the Opinion in the Independent Auditor's Report*. The 3rd respondent audited the consolidated financial statements of a Hong Kong listed company and its subsidiaries for the years ended 31 March 2011 and 2012. The 1st respondent was the engagement director in 2011 and the 2nd respondent was the engagement director in 2012. The respondents failed to perform sufficient audit procedures regarding the group's accounting treatment of a construction contract and fees paid for consultancy services. The 1st and 3rd respondents also failed to maintain adequate professional skepticism and perform sufficient audit procedures regarding significant advances made by the group to third-parties.	■ Reprimand ■ Penalty of HK$ HK$220,000 for the 1st respondent; HK$150,000 for the 2nd respondent; and HK$400,000 for the 3rd respondent ■ Joint costs of HK$234,018 (including FRC costs)

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

12 RBAs were issued from 1 January 2019 to 30 June 2020 *(2018: 6 RBAs)*. These RBAs are summarized below:

	Nature of complaint	Sanction
1	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 respondent was an executive director and the chief financial officer of a Hong Kong listed company. He supervised the company's financial reporting team and was responsible for preparing the group's consolidated financial statements for consideration and approval by the board of directors. The group's audited consolidated financial statements for the year ended 31 March 2011 and nine months ended 31 December 2011 contained material errors in the accounting of assets and liabilities acquired in two acquisitions, several convertible bonds issued by the company and the company's share options and warrants. The errors represented breaches of Hong Kong Accounting Standard 39 and Hong Kong Financial Reporting Standards 2 and 3.	■ Reprimand ■ Costs of HK$10,000
2	Failure or neglect to observe, maintain or otherwise apply HKSA 230 *Audit Documentation* and HKSA 500 *Audit Evidence*. The 1st respondent is the sole proprietor of the 2nd respondent which expressed an unmodified auditor's opinion on the financial statements of a private company for the year ended 31 December 2017. The company engaged in consignment sales of books. During their audit, the respondents failed to obtain sufficient evidence on the company's rental income derived from consigned books stored in its warehouse and on the amount due from a consignor. They also failed to adequately document audit procedures performed in those two areas.	■ Reprimand ■ Joint penalty of HK$20,000 ■ Joint costs of HK$15,000

	Nature of complaint	Sanction
3	Failure or neglect to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*. The respondent was the engagement quality control reviewer in the audit of the consolidated financial statements of a Hong Kong listed company and its subsidiaries for the year ended 31 December 2014. The respondent failed to perform an adequate engagement quality control review in relation to valuation of biological assets, prepaid land lease payments and impairment assessment of intangible assets. Those areas were material and involved significant judgements made by the audit team.	■ Reprimand ■ Penalty of HK$20,000 ■ Costs of HK$80,530 (including FRC costs)
4	Failure or neglect to observe, maintain or otherwise apply HKSA 500 *Audit Evidence*. The respondent audited the financial statements of a private company for the year ended 31 December 2016 and expressed an unmodified auditor's opinion. In the audit, she failed to obtain sufficient evidence on the company's accounts receivable, accounts payable and administrative expenses.	■ Reprimand ■ Penalty of HK$25,000 ■ Costs of HK$15,000

	Nature of complaint	Sanction
5	Failure or neglect by the 1st and 3rd respondents to observe, maintain or otherwise apply HKSA 200 (Clarified) *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*, HKSA 500 (Clarified) *Audit Evidence* and HKSA 510 (Clarified) *Initial Audit Engagements – Opening Balances*. Failure or neglect by the 2nd respondent to observe, maintain or otherwise apply HKSA 220 (Clarified) *Quality Control for an Audit of Financial Statements*. The 3rd respondent audited the consolidated financial statements of a Hong Kong listed company and its subsidiaries for the years ended 31 March 2014 to 2017. The 1st respondent was the engagement partner and the 2nd respondent was the engagement quality control reviewer. In 2012, the listed company issued a convertible note to its controlling shareholder and chairperson, the terms of which contained contingent settlement provisions which would obligate the company to redeem the unconverted outstanding balance of the note in cash when certain events occurred. Notwithstanding this, the company recognized its contractual obligation to pay interest for the note as a financial liability and the residual balance as an item in equity, whereas it should have comprised embedded derivative financial instruments and a financial liability. In their initial audit for 2014, the respondents concurred with the opening balances pertaining to the convertible note and failed to properly evaluate whether that accounting treatment complied with Hong Kong Accounting Standard 32 *Financial Instruments: Presentation*. In 2017, the note matured and part of it had to be settled by cash. The company then reassessed the initial accounting treatment of the note, and after discussion with the respondents, made relevant prior year adjustments.	▪ Reprimand ▪ Joint penalty of HK$35,000 ▪ Joint costs of HK$62,828 (including FRC costs)

	Nature of complaint	Sanction
6	Failure or neglect by the 1st and 3rd respondents to observe, maintain or otherwise apply HKSA 230 *Audit Documentation*, and failure or neglect by the 2nd respondent to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*. The 3rd respondent audited the consolidated financial statements of a Hong Kong listed company and its subsidiaries (collectively, Group) for the year ended 31 December 2012 and expressed an unmodified auditor's opinion. The 1st respondent was the engagement director and the 2nd respondent was the engagement quality control reviewer. The carrying amounts of goodwill, mining rights and other related assets pertaining to the Group's acquired coal mines were allocated to relevant cash generating units (CGUs) for impairment testing purposes. The respondents agreed with management's estimates and assumptions adopted in the valuations of the CGUs but they did not prepare sufficient audit documentation to record the audit procedures performed and evaluation made.	■ Reprimand ■ Joint penalty of HK$50,000 ■ Joint costs of HK$105,564.50 (including FRC costs)
7	Failure or neglect to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*. The respondent was the engagement quality control reviewer in the audit of the consolidated financial statements of a Hong Kong listed company and its subsidiaries for the year ended 31 December 2014. The listed group entered into a very substantial acquisition during the year, and the assets acquired included a hotel in mainland China of which the right to operate, manage and maintain had been granted to a hotel management company. The audit engagement team failed to properly plan the audit to address the risks of material misstatement associated with the acquisition. Consequently, the team failed to properly evaluate the fair values of the assets acquired, and failed to identify the non-compliance with accounting requirements in relation to the gain on bargain purchase and the erroneous classification of the hotel. Those areas were material and involved significant judgements. The respondent failed to perform an adequate engagement quality control review on those areas.	■ Reprimand ■ Penalty of HK$50,000 ■ Costs of HK$50,403 (including FRC costs)

	Nature of complaint	Sanction
8	Failure or neglect by the 1st and 3rd respondents to observe, maintain or otherwise apply HKSA 230 *Audit Documentation*, HKSA 500 *Audit Evidence* and HKSA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*. Failure or neglect by the 2nd respondent to observe, maintain or otherwise apply HKSA 220 *Quality Control* for an *Audit of Financial Statements*. The 3rd respondent audited the consolidated financial statements of a Hong Kong listed group for the year ended 31 December 2013 and expressed an unmodified auditor's opinion. The 1st respondent was the engagement director and the 2nd respondent was the engagement quality control reviewer. The group acquired a subsidiary in mainland China which had entered into a project for exploration, development and production of oil and natural gas in the mainland. Approval to begin development of the project had not been obtained from the Chinese government. However, the group's interest in the project and the exploration costs incurred were recognized as assets in the financial statements. The audit team did not perform adequate procedures, or prepare adequate documentation, in respect of assessing certain assumptions in the valuation of the project. Those assumptions related to forecast production and sales volumes, expected selling price of products and discount and risk premium rates used.	■ Reprimand ■ Penalty of HK$25,000 each for the 1st respondent, the 2nd respondent and the 3rd respondent ■ Joint costs of HK$172,537.50 (including FRC costs)

	Nature of complaint	Sanction
9	Failure or neglect by the 1st and 3rd respondents to observe, maintain or otherwise apply HKSA 200 (Clarified) *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*, HKSA 230 (Clarified) *Audit Documentation*, HKSA 330 (Clarified) *The Auditor's Responses to Assessed Risks*, HKSA 500 (Clarified) *Audit Evidence* and HKSA 530 (Clarified) *Audit Sampling*. Failure or neglect by the 2nd respondent to observe, maintain or otherwise apply HKSA 220 (Clarified) *Quality Control for an Audit of Financial Statements*. The 3rd respondent audited the consolidated financial statements of a Hong Kong listed company and its subsidiaries for the years ended 31 March 2010 to 2012 and expressed unmodified auditor's opinions. The 1st respondent was the engagement partner and the 2nd respondent was the engagement quality control reviewer. The audit irregularities concerned revenue recognition and a convertible note. The listed group recognized the unutilized portion of prepaid service contracts as revenue when customers changed contracts before expiry, and the underlying service treatments had not yet been delivered. This was contrary to Hong Kong Accounting Standard (HKAS) 18 *Revenue*. In the 2010 and 2011 audits, the respondents failed to consider the relevant risk of material misstatement, and failed to plan and perform audit procedures to test the relevant revenue transactions and the related internal controls. In the 2012 audit, the respondents identified the accounting non-compliance and, through audit tests performed, calculated the expected misstatements. Management determined an amount based on the respondents' calculation, and adjusted the financial statements accordingly. However, the respondents failed to justify that the management's adjusted amount was sufficiently precise to correct the misstatements.	■ Reprimand ■ Penalty of HK$40,000 for the 1st respondent; HK$10,000 for the 2nd respondent; and HK$50,000 for the 3rd respondent ■ Joint costs of HK$283,748 (including FRC costs)

	Nature of complaint	Sanction
	Further, in 2012, the listed company issued a convertible note to its controlling shareholder and chairperson, the terms of which contained contingent settlement provisions which would obligate the company to redeem the unconverted outstanding balance of the note in cash when certain events occurred. Notwithstanding this, the company recognized its contractual obligation to pay interest for the note as a financial liability and the residual balance as an item in equity, whereas it should have comprised embedded derivative financial instruments and a financial liability. In their audit, the respondents failed to properly evaluate those contingent settlement provisions against HKAS 32 *Financial Instruments: Presentation*, and prepare sufficient audit documentation on the classification of the note.	
10	Failure or neglect to observe, maintain or otherwise apply HKSA 230 *Audit Documentation*, HKSA 330 *The Auditor's Procedures in Response to Assessed Risks* and HKSA 500 *Audit Evidence*. The 2nd respondent audited the consolidated financial statements of a Hong Kong listed company and its subsidiaries (collectively, Group) for the years ended 31 March 2006 to 2009 and expressed unmodified auditor's opinions. The 1st respondent was the engagement partner in those audits. The Group entered into prepaid service contracts with customers and recognized the unutilized portion of prepayments as revenue when customers changed the service type or transferred the unutilized service treatments to other customers before contract expiry, where the underlying service treatments had not yet been delivered. This was contrary to Hong Kong Accounting Standard 18 Revenue. The respondents failed to design and perform procedures to appropriately test such revenue recognition, and failed to document their evaluation of management's discussion with the Group's legal advisors concerning the legal and contractual position of prepaid contracts.	■ Reprimand ■ Penalty of HK$50,000 each for the 1st respondent and the 2nd respondent ■ Joint costs of HK$117,599 (including FRC costs)

Nature of complaint		Sanction
11	Failure or neglect by the 1st and 3rd respondents to observe, maintain or otherwise apply HKSA 230 *Audit Documentation*, HKSA 500 *Audit Evidence* and HKSA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*. Failure or neglect by the 2nd respondent to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*. The 3rd respondent audited the consolidated financial statements of a Hong Kong listed company and its subsidiaries for the year ended 31 December 2015 and expressed an unmodified auditor's opinion. The 1st respondent was the engagement director and the 2nd respondent was the engagement quality control reviewer. In the audit, the respondents failed to obtain sufficient evidence of the assumptions adopted by the valuer in valuing an option acquired by the company, and to prepare adequate documentation of their purported discussions with management concerning the option and other audit procedures purportedly carried out on it. In addition, the respondents failed to identify the inadequate financial statement disclosures relating to the option.	■ Reprimand ■ Penalty of HK$35,000 for the 1st respondent; HK$20,000 for the 2nd respondent; and HK$50,000 for the 3rd respondent ■ Joint costs of HK$173,241.20 (including FRC costs)

Nature of complaint		Sanction
12	Failure or neglect by the 1st and 3rd respondents to observe, maintain or otherwise apply HKSA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing,* HKSA 300 *Planning an Audit of Financial Statements,* HKSA 330 *The Auditor's Responses to Assessed Risks*, HKSA 500 *Audit Evidence*, HKSA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, HKSA 620 *Using the Work of an Auditor's Expert and* HKSA 700 *Forming an Opinion and Reporting on Financial Statements*. Failure or neglect by the 2nd respondent to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*. The 3rd respondent audited the consolidated financial statements of a Hong Kong listed group for the year ended 31 May 2012 and expressed an unmodified auditor's opinion. The 1st respondent was the engagement director and the 2nd respondent was the engagement quality control reviewer. The respondents failed to perform sufficient appropriate audit procedures concerning an investment in a dairy business overseas and convertible notes issued as consideration for the investment, and the appropriate accounting treatment of securities issued to a manager appointed for the dairy operations. There were also audit deficiencies identified in the areas of sales revenue and assessing impairment of the company's interests in subsidiaries.	■ Reprimand ■ Penalty of HK$50,000 each for the 1st respondent, the 2nd respondent and the 3rd respondent ■ Joint costs of HK$53,078 (including FRC costs)

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

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 one forum in April 2019. The theme of the forum was *Compliance, Everyday, Everywhere* which attracted approximately 200 attendees to the session. The forum 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 2019 SMP Symposium held in June 2019, and highlighted key complaint findings that were relevant to small and medium practitioners. The symposium attracted over 230 attendees.

The Director, Compliance participated in a panel discussion session entitled "Managing Regulatory Compliance as a Public Company" at the AICPA & CIMA SEC Conference in Hong Kong in September 2019. Highlights of the session included high-risk audit areas and common audit deficiencies to which auditors and directors should be alert.

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 2019. They were *Review of Annual Financial Reports of Non-Governmental Organizations* and *Auditing the Financial Statements of Charitable Institutions*. The Director, Compliance also contributed two articles in *A Plus*, they were *What are the emerging risks facing professionals in the future?* and *Can professional scepticism be taught?*

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 May 2019 and March 2020. 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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