

Press Release

12 March 2024

AFRC reprimands Chan Steven Kwok Keung and Sino Corp CPA Limited and imposes pecuniary penalties totalling HK\$100,000 for CPA misconduct

The Accounting and Financial Reporting Council (**AFRC**) has imposed sanctions on Mr Chan Steven Kwok Keung (**Chan**)¹ and Sino Corp CPA Limited (**Sino Corp**)² (together, **Regulatees**) in relation to the professional irregularity arising from the preparation and issuance of an accountant's report (**Accountant's Report**) for a solicitor's firm (**Law Firm**)³ for the year ended 31 March 2021 (**Accounting Period**).

Following a complaint by the Law Society, the AFRC's investigation found that Chan and Sino Corp have failed to act diligently when preparing and issuing the Accountant's Report. In particular, they failed to conduct proper procedures in determining the Law Firm's compliance with the Solicitors' Accounts Rules (Cap. 159F) (**SAR**), which are designed to protect client's money entrusted to solicitor's firms. As a result, Chan and Sino Corp have committed a professional irregularity⁴ and are guilty of CPA misconduct under section 37AA(1)(a) of the AFRCO.

Pursuant to section 37CA of the AFRCO, the AFRC has reprimanded Chan and Sino Corp, imposed pecuniary penalties of HK\$50,000 each,⁵ and ordered them to each pay the costs and expenses of, and incidental to, the investigation. In determining the sanctions imposed, the AFRC had considered all relevant circumstances, including that there is no evidence of intentional, dishonest, deliberate or reckless misconduct, nor evidence of any loss to third parties as a result of the misconduct, as well as the Regulatees' clean disciplinary record.

Ms Hester Leung, Head of Discipline, said, "Professional accountants play an important gate-keeping role in examining a solicitor's firm's books of account to test compliance with the Solicitors' Accounts Rules, which are designed to protect the

¹ Chan is a current member of the Hong Kong Institute of Certified Public Accountants (**HKICPA**) (membership number: F02965) and current practising certificate holder (practising certificate number: P03251).

² Sino Corp has been registered as a corporate practice in Hong Kong since 2010 (corporate practice registration number: S0384). Chan was at all material times, and is currently, the sole practising director of Sino Corp.

³ The practice of the Law Firm was intervened by The Law Society of Hong Kong (**Law Society**).

⁴ Section 3B(1)(c) of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (**AFRCO**) states that a professional person commits a professional irregularity if a person fails to observe, maintain or otherwise apply a PAO professional standard.

⁵ Under section 37CA(2)(b) of the AFRCO, the maximum pecuniary penalty for a CPA misconduct is HK\$500,000.

interests of clients and the public. A failure to act diligently when preparing and issuing an accountant's report increases the risk of any potential misuse of client's money being undetected, thereby harming the public interest. The AFRC will continue to hold the wrongdoers accountable to enhance public confidence in the standards of conduct maintained by professional accountants."

Background

Sino Corp was engaged by the Law Firm to issue the Accountant's Report for the Accounting Period in accordance with the Accountant's Report Rules (Cap. 159A) (**ARR**) with reference to Practice Note 840 (Revised) *Reporting on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules (PN 840)*.

Rule 4 of the ARR requires an accountant to, among other things, undertake a general test examination of a solicitor's firm's books of account to determine compliance with the SAR and include in the accountant's report details of any contravention.

On 27 September 2021, Chan, as the engagement director, issued the Accountant's Report under the letterhead of Sino Corp, stating that he was:

- (i) satisfied that the Law Firm had complied with the provisions of the SAR with no exceptions during the Accounting Period; and
- (ii) not aware of any matter which appeared to affect adversely any client account or any trust money held by the Law Firm to a material extent.

Regulatees' misconduct

The AFRC found that the Regulatees have failed to observe, maintain or otherwise apply the fundamental principle of professional competence and due care under paragraphs 110.1 A1(c) and R113.1 of Part 1 of Chapter A of the Code of Ethics for Professional Accountants, in that they have failed to act diligently in accordance with Rule 4 of the ARR and PN 840 when preparing and issuing the Accountant's Report. Specifically, the Regulatees have:

- (i) failed to conduct proper procedures in determining the Law Firm's compliance with Rule 7 of the SAR, which is intended to prevent a solicitor's firm from overdrawing client's money from a client account;
- (ii) failed to report the Law Firm's breach of Rule 1A(c) (read in conjunction with Rule 2) of the SAR regarding its omission of the word "client" in the title of a client account; and
- (iii) failed to prepare sufficient documentation in relation to the asserted procedures taken in determining the Law Firm's compliance with Rule 10 of the SAR

regarding timely recording of dealings with clients' money.

Our rationale for sanctions

In deciding the sanctions against the Regulatees,⁶ the AFRC considered all relevant circumstances, including:

- (i) an accountant's work to undertake a general test examination of a solicitor's firm's books of account to determine compliance with the SAR is important, as those are rules designed to prevent a solicitor's firm from improperly handling client's money entrusted to the firm. The Regulatees' failure to design proper procedures to test compliance with the SAR increases the risk of any potential misuse of client's money being undetected;
- (ii) there is no evidence of intentional, dishonest, deliberate or reckless misconduct;
- (iii) there is no evidence that client's money of the Law Firm has been lost or misappropriated, or that the Regulatees have caused any loss to third parties, as a result of the misconduct; and
- (iv) the mitigating factor of the Regulatees' clean disciplinary record with the HKICPA and AFRC.

For details of the decision, please refer to the [Statement of Disciplinary Action](#).

End

⁶ The AFRC's decision in this case concerns only Chan and Sino Corp and their professional conduct, and should not be taken as a conclusion on the conduct of other parties, including any solicitor's firm.

About the Accounting and Financial Reporting Council

The Accounting and Financial Reporting Council (**AFRC**) is an independent body established under the Accounting and Financial Reporting Council Ordinance. As an independent regulator, the AFRC spearheads and leads the accounting profession to constantly raise the level of quality of professional accountants, and thus protects the public interest.

For more information about the statutory functions of the AFRC, please visit www.afrc.org.hk.

About the Discipline Department

The Discipline Department takes appropriate and timely disciplinary action by imposing commensurate sanctions for the purposes of deterrence, investor protection, maintaining market confidence in the quality of financial reporting and audits, and upholding the standards of conduct among regulatees.