

STATEMENT OF DISCIPLINARY ACTION

The Disciplinary Action

1. Pursuant to section 37CA of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (**AFRCO**), the Accounting and Financial Reporting Council (**AFRC**) has imposed the following sanctions against Mr Chan Kam Kwan (**Chan**):
 - 1.1. public reprimand;
 - 1.2. pecuniary penalty of **HK\$300,000**;
 - 1.3. order that Chan not be issued with a practising certificate **permanently**; and
 - 1.4. order that Chan pays the costs and expenses of, and incidental to, the investigation in relation to Chan, in the sum of **HK\$25,532**.
2. The disciplinary action was taken in relation to the professional irregularities arising from the practice review (**Practice Review**) on Chan Kam Kwan & Company (**CKK & Co**) conducted by the then Quality Assurance Department (**Reviewer**) of the Hong Kong Institute of Certified Public Accountants (**HKICPA**) during the period from 19 April 2022 to 6 June 2022.

Summary of Facts and Breaches

A. Background

3. Chan was first registered as a member of the HKICPA in 1999¹ and first issued with a practising certificate in 2008.² He has ceased to be a member of the HKICPA and a practising certificate holder since 1 January 2023.
4. CKK & Co was first registered as a CPA firm in Hong Kong in 2008³ and has ceased to be a registered CPA firm in Hong Kong since 1 January 2023. At all material times, Chan was the sole proprietor and the only audit staff of CKK & Co.
5. During the Practice Review, the Reviewer identified significant deficiencies on system-wide and audit engagement levels, evidencing non-compliance with professional standards.

B. Issuance of auditor's reports with no or minimal audit work performed

6. Paragraph 6 of Hong Kong Standard on Auditing (**HKSA**) 500 *Audit Evidence* provides that an auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

¹ Membership number: A16333.

² Practising certificate number: P05094.

³ Firm registration number: 2055.

7. Paragraphs 10 and 11 of HKSA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements* provide that the auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.
8. The fundamental principle of integrity under paragraphs 110.1 A1(a), R111.1 and R111.2 of Chapter A of the Code of Ethics for Professional Accountants (**COE**) requires a professional accountant to, among other things, be straightforward and honest in all professional and business relationships, not knowingly be associated with information where the accountant believes that the information contains false or misleading statement, or statement or information provided recklessly.
9. The AFRC found that Chan had blindly signed off and issued 11 auditor's reports in nine audit engagements of private companies (**Nine Engagements**), whereby he simply signed on the signing page of the auditor's reports without performing any audit work at all for eight audit engagements, and performed only minimal audit work for the remaining one.
10. Chan's deliberate omission of audit work in the Nine Engagements constitutes:
 - 10.1. a failure to design and perform audit procedures that were appropriate in the circumstances of the Nine Engagements for the purpose of obtaining sufficient appropriate audit evidence, in breach of HKSA 500.6;
 - 10.2. a failure to obtain sufficient appropriate audit evidence to conclude that the financial statements of the Nine Engagements were free from material misstatement as a whole, in breach of HKSA 700.10 and 700.11; and
 - 10.3. a breach of the fundamental principle of integrity under paragraphs 110.1 A1(a), R111.1 and R111.2 of Chapter A of the COE.

C. Audit deficiencies in relation to two audit engagements

11. During the Practice Review, the Reviewer conducted reviews on CKK & Co's audits of (i) the financial statements of a Client P for the year ended 31 December 2020 and (ii) the financial statements of a Client S for the year ended 31 March 2021. Both Client P and Client S were private companies incorporated in Hong Kong.
12. In respect of the audit engagement of Client P, the AFRC found that CKK & Co had failed to perform appropriate audit procedures in relation to a number of material aspects, including the balances of inventories and trade receivables. There was also no evidence of audit work performed for other material items including trade payables, amount due to the parent company, accruals and other payables, costs of sales and operating expenses.

13. In respect of the audit engagement of Client S, the AFRC found that CKK & Co had received audit confirmations from Client S' related parties after the auditor's report date, indicating that the amounts due from Client S' related parties and the amounts due to the related parties were unsupported by such external audit evidence when Chan signed off the auditor's report. The AFRC further found that CKK & Co had not performed any audit procedure to assess the recoverability of the amounts due from those related parties.
14. Based on the findings in relation to the audit engagements of Client P and Client S, as the sole proprietor and the only audit staff of CKK & Co, Chan has failed to:
 - 14.1. design and perform audit procedures that were appropriate in the circumstances of the audit engagement of Client P in accordance with HKSA 500.6;
 - 14.2. obtain sufficient appropriate audit evidence to conclude that Client P's relevant financial statements were prepared, in all material respects, in accordance with the requirements of the Hong Kong Financial Reporting Standard for Private Entities and were free from material misstatement as a whole in accordance with HKSA 700.10 and 700.11; and
 - 14.3. obtain sufficient appropriate audit evidence in auditing Client S' closing balances with its related parties as at the year-end date in accordance with HKSA 500.6.

D. Deficient quality control system

15. Paragraph 32 of Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements (HKSQC 1)* provides that a firm shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partner issue reports that are appropriate in the circumstances.
16. In respect of the Nine Engagements and audit engagements of Client P and Client S, the AFRC found that Chan and CKK & Co did not use any programme or checklist in its audits, and had failed to perform any audit procedures at all, or performed inadequate audit procedures, to obtain sufficient appropriate evidence to provide reasonable assurance that the engagements were performed in accordance with professional standards and applicable legal and regulatory requirements. Chan admitted that the same deficiencies would be found in the other audit engagements of CKK & Co.
17. Given Chan's serious and repeated failures to perform basic audit procedures in a large number of audit engagements, the AFRC found that Chan and CKK & Co had failed to establish proper policies and procedures to provide it with reasonable assurance that professional standards have been complied with, and the reports issued by CKK & Co were appropriate in the circumstances, in breach of HKSQC 1.32.

18. Pursuant to paragraph 48 of HKSQC 1, CKK & Co was required to establish a monitoring review process that included an ongoing consideration and evaluation of its system of quality control, including an inspection of at least one completed engagement for each engagement partner on a cyclical basis.
19. The AFRC found that the last two monitoring reviews performed for CKK & Co's quality control system and completed audit engagements took place in late 2011 and late 2018. CKK & Co also failed to set out the frequency of its monitoring review in its quality control manual.
20. Taking into consideration the size of CKK & Co and the nature and complexity of its practice and organisation, (i) a seven-year gap between the two monitoring reviews performed and (ii) Chan's failure to set out the frequency of CKK & Co's monitoring review in its quality control manual reflect that CKK & Co's monitoring review process was clearly insufficient in terms of frequency and inadequate to achieve the purpose of providing reasonable assurance that the quality control policies and procedures are relevant, adequate, and operating effectively. Accordingly, Chan has failed to establish proper policies and procedures for CKK & Co's monitoring review process in accordance with HKSQC 1.48.

E. Provision of false and/or misleading information to the HKICPA

21. The AFRC found that, in relation to the Practice Review:
 - 21.1. Chan submitted to the HKICPA responses to the Audit Health Screening Checklist on or around 29 March 2020, which contained, among other things, materially false and/or misleading information that CKK & Co's audit methodology required ten out of the 11 basic audit procedures to be performed and documented for all audit engagements; and
 - 21.2. Chan also submitted to the HKICPA responses to the Self-Assessment Questionnaire on 28 July 2020, which contained, among other things, the following materially false and/or misleading information that CKK & Co:
 - 21.2.1. had performed a monitoring review of its quality control system and a completed engagement in December 2019;
 - 21.2.2. had established written policies and procedures regarding suspicious transaction reporting, financial sanctions and terrorist financing; and
 - 21.2.3. had performed sanctions screening of clients before establishing client relationships and on an ongoing basis.
22. The AFRC found that the responses set out in paragraph 21 above did not reflect the actual circumstances of CKK & Co:
 - 22.1. CKK & Co had not performed any of the 11 basic audit procedures in the two audit engagements selected for review;

- 22.2. the last monitoring review of CKK & Co's quality control system and completed audit engagements was performed in late 2018 and no monitoring review had been performed since then;
 - 22.3. CKK & Co's Anti-Money Laundering and Counter-Terrorist Financing (**AML / CTF**) Policy Manual had not been developed when the Self-Assessment Questionnaire was submitted and was only developed on the day before the commencement of the Practice Review; and
 - 22.4. no sanctions screening of clients had been performed.
23. Chan has knowingly associated CKK & Co and himself with documents which contained false and/or misleading information about CKK & Co, and were not straightforward in responding to the Audit Health Screening Checklist and Self-Assessment Questionnaire. Accordingly, Chan has failed to observe, maintain or otherwise apply the fundamental principle of integrity under paragraphs 110.1 A1(a), R111.1 and R111.2 of Chapter A of the COE.
24. Further, by making false statements in respect of the existence of CKK & Co's AML / CTF Policy Manual, Chan has committed a professional irregularity under section 3B(1)(b) of the AFRCO.

F. Lack of professional competence and due care

25. The fundamental principle of professional competence and due care under paragraphs 110.1 A1(c) and R113.1 of Chapter A of the COE requires a professional accountant to, among other things:
- 25.1. attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organisation receives competent professional service, based on current technical and professional standards and relevant legislation; and
 - 25.2. act diligently and in accordance with applicable technical and professional standards, where diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.
26. Based on the multiple serious deficiencies found in the quality control system and audit engagements of CKK & Co discussed in paragraphs 6 to 24 above, Chan has 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 Chapter A of the COE.

G. Professional misconduct

27. The above findings of Chan's conduct display the following features:
- 27.1. deliberate omission of audit work in the Nine Engagements;

- 27.2. multiple serious breaches of ethical requirements on integrity;
 - 27.3. blatant disregard of professional standards;
 - 27.4. significant deficiencies in a large number of audit engagements; and
 - 27.5. a lax attitude towards audit work.
28. Chan's conduct falls significantly short of the standard expected of a professional accountant, and is sufficiently serious to be described as misconduct going to fitness to practise. Such conduct amounts to professional misconduct under section 3B(1)(h) of the AFRCO.

Conclusion

29. By failing to observe, maintain or otherwise apply the PAO professional standards (as defined under section 2 of the AFRCO), Chan has committed professional irregularities under section 3B(1)(c) of the AFRCO.
30. By making a statement, in respect of a document, that is material and that Chan knew to be false or do not believe to be true, Chan has also committed a professional irregularity under section 3B(1)(b) of the AFRCO.
31. Further, Chan's multiple serious failures fall significantly short of the standard expected of a professional accountant and amount to professional misconduct. Accordingly, Chan has committed a professional irregularity under section 3B(1)(h) of the AFRCO.
32. Having considered all relevant circumstances, the AFRC is of the view that Chan has committed professional irregularities set out in paragraphs 29 to 31 above, and accordingly, he is guilty of CPA misconduct pursuant to section 37AA(1)(a) of the AFRCO.
33. In deciding the sanctions set out in paragraph 1 above, the AFRC has had regard to its Sanctions Policy for Professional Persons and Guidelines for Exercising the Power to Impose a Pecuniary Penalty for Professional Persons, and has taken into account all relevant circumstances, including:
- 33.1. Chan's repeated, deliberate omission of audit work, which demonstrates blatant disregard of professional standards and ethical requirements on integrity;
 - 33.2. the serious and repeated breaches on system-wide and engagement levels, indicating a general failure of CKK & Co's quality control system;
 - 33.3. there was a lack of an adequate and effective quality control system which is fundamental to the audit quality of engagements performed by an audit firm;

- 33.4. blindly signing off auditor's reports and the provision of materially false and/or misleading information in response to a regulatory request are unacceptable conduct;
- 33.5. there is no evidence that Chan has obtained any personal monetary gains or caused any loss to third parties as a result of his misconduct;
- 33.6. the absence of damage to the interest of the investing public since the relevant audit engagements involved private companies;
- 33.7. the following aggravating factors:
 - 33.7.1. the systemic failures of CKK & Co were solely attributable to Chan as the sole proprietor and the only audit staff of CKK & Co; and
 - 33.7.2. Chan has committed repeated misconduct that amounts to serious dereliction of the duty of a professional accountant, despite being an experienced member of the profession; and
- 33.8. the following mitigating factors:
 - 33.8.1. Chan's willingness to take responsibility for his misconduct and early acceptance of the findings of the Practice Review and the AFRC's investigation, as well as admission of his misconduct; and
 - 33.8.2. Chan's clean disciplinary record with the HKICPA and AFRC.