

## STATEMENT OF DISCIPLINARY ACTION

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### A. The Disciplinary Action

1. Pursuant to section 37CA of the Accounting and Financial Reporting Council Ordinance (**AFRCO**), the Accounting and Financial Reporting Council (**AFRC**) has:
  - 1.1 publicly reprimanded each of Ting Ho Kwan & Chan (**THKC**), Mr Chan Shu Kin (also known as **Albert Chan**), Ms Chan Kwan Ying (also known as **Amy Chan**) and Mr Wong Kam Chuen (also known as **Tony Wong**);
  - 1.2 imposed a pecuniary penalty of **HK\$914,000** against THKC;
  - 1.3 imposed a pecuniary penalty of **HK\$495,000** against Albert Chan;
  - 1.4 imposed a pecuniary penalty of **HK\$130,000** against Amy Chan; and
  - 1.5 imposed a pecuniary penalty of **HK\$216,000** against Tony Wong.
2. This disciplinary action was taken in relation to the audits of the consolidated financial statements of REXLot Holdings Limited (**REXLot**) (in liquidation) and its subsidiaries (collectively, the **Group**) for the years ended 31 December 2013 and 31 December 2014 (**2013 Financial Statements** and **2014 Financial Statements** respectively).
3. THKC<sup>1</sup> conducted both of these audits (**2013 Audit** and **2014 Audit** respectively), and issued an unmodified audit opinion in both years.
4. Albert Chan<sup>2</sup> was the engagement partner for both the 2013 and 2014 Audits. Collectively, Albert Chan and THKC are referred to as the **Auditor**.
5. Amy Chan<sup>3</sup> and Tony Wong<sup>4</sup> were the engagement quality control reviewers (**EQCRs**) for the 2013 Audit and 2014 Audit respectively.
6. The AFRC found multiple deficiencies across both audits regarding the Auditor's assessment of whether certain subsidiaries should be consolidated into the Group, treated as associates, or given a different accounting treatment. Most significantly, the Auditor:

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<sup>1</sup> THKC is registered as a CPA firm (0631) with the AFRC.

<sup>2</sup> Albert Chan is a HKICPA member (F01215) but has not held a practising certificate since 1 January 2022 (previous PC No. P01297).

<sup>3</sup> Amy Chan is a HKICPA member (A11601) and currently holds a practising certificate (PC No. P05065).

<sup>4</sup> Tony Wong is a HKICPA member (A23490) and currently holds a practising certificate (PC No. P06175).

- 6.1 failed to obtain a key piece of audit evidence, which it knew was important for making this assessment;
  - 6.2 largely overlooked a presumption arising under the accounting standards which was key to making this assessment;
  - 6.3 persistently placed an inappropriate reliance on management representations without obtaining appropriate corroborative evidence, even in the face of apparent inconsistencies and clear signs that management had an incentive to make such representations in order to avoid a modified audit opinion; and
  - 6.4 as a result, failed to obtain sufficient appropriate audit evidence to support its audit opinions.
7. Based on the audit documentation reviewed and matters known by Amy Chan and Tony Wong, they ought to have identified that the Auditor lacked sufficient appropriate audit evidence, but failed to do so.
  8. The deficiencies in the work of the Auditor, Amy Chan and Tony Wong constituted not only failures to observe, maintain or otherwise apply the PAO professional standards (as defined by section 2 of the AFRCO) but also amounted to negligence in the conduct of their profession, in that they failed to meet the standard of care expected of a reasonably competent auditor or EQCR respectively. Those deficiencies therefore constitute professional irregularities pursuant to sections 3B(1)(c) and (g) of the AFRCO, and in turn, constitute CPA misconduct pursuant to section 37AA(1)(a) of the AFRCO.<sup>5</sup>
  9. The PAO professional standards which they failed to observe, maintain or otherwise apply were as follows:
    - 9.1 The Auditor failed to observe, maintain or otherwise apply:
      - 9.1.1 *HKSA 200 (Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing)*;
      - 9.1.2 *HKSA 260 (Communication with Those Charged with Governance)*;
      - 9.1.3 *HKSA 500 (Audit Evidence)*;
      - 9.1.4 *HKSA 700 (Forming an Opinion and Reporting on Financial Statements)*; and

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<sup>5</sup> This disciplinary matter was handled in accordance with section 72(3) of the Accounting and Financial Reporting Council (Transitional and Saving Provisions and Consequential Amendments) Regulation (Cap. 588B). THKC, Albert Chan, Amy Chan and Tony Wong were treated as if they were professional persons under the AFRCO.

- 9.1.5 HKSA 705 (*Modifications to the Opinion in the Independent Auditor's Report*).<sup>6</sup>
- 9.2 In addition to the above, Albert Chan also failed to observe, maintain or otherwise apply *The Code of Ethics for Professional Accountants (Code of Ethics)*.
- 9.3 Amy Chan and Tony Wong failed to observe, maintain or otherwise apply:
- 9.3.1 HKSA 220 (*Quality Control for an Audit of Financial Statements*); and
- 9.3.2 the Code of Ethics.

## **B. Summary of Facts**

10. REXLot was incorporated in Bermuda and listed on the Main Board of The Stock Exchange of Hong Kong Limited. The Group was principally engaged in the business of developing lottery systems and games, and distributing and marketing lottery products, in Mainland China. REXLot was subject to a winding up order by the High Court of Hong Kong on 20 August 2020, and subsequently delisted on 10 May 2021.
11. In September 2013, the Group and a third party known as People.cn Co., Ltd (**PRC Shareholder**) established a new company called People Okooo Limited (**PRC Company**), to operate the Okooo.com online lottery platform in Mainland China.
12. A majority, 60% equity interest in the PRC Company was held by an entity known as Beijing Okooo Technology Co., Ltd (**Beijing Okooo**), which in turn was majority-owned by REXLot. The remaining 40% equity interest in the PRC Company was held by the PRC Shareholder, which was a subsidiary of People's Daily and principally engaged in the operation of a leading news website in Mainland China.
13. The PRC Company recorded substantial business, amounting to turnover of HK\$20 million in 2013 and HK\$432 million in 2014 in its management accounts.<sup>7</sup> The Group:

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<sup>6</sup> All references to accounting and auditing standards in this Statement of Disciplinary Action are references to the versions applicable at the time of the relevant audits.

<sup>7</sup> It is noteworthy that the PRC Shareholder is a company listed on the Shanghai Stock Exchange, and had consolidated the PRC Company in its consolidated financial statements for the years ended 31 December 2013 and 31 December 2014 respectively. However, the PRC Shareholder reported much lower amounts of net assets, turnover and profit in respect of the PRC Company in 2014, as compared to the PRC Company's management accounts.

- 13.1 consolidated the PRC Company in the 2013 Financial Statements, on the basis of management's view that REXLot had control over the PRC Company via Beijing Okooo; but
- 13.2 deconsolidated it in the following year, in the 2014 Financial Statements, on the basis of management's view that REXLot had lost both control and significant influence over the PRC Company (meaning that it could not be accounted for as either a consolidated subsidiary or as an associate respectively). Management considered that this loss of control and significant influence had arisen from a "withdrawal of support" by Beijing Okooo management.
14. Another of the Group's investees, being a BVI company known as Winrest International Limited (**Web Subsidiary**) and a wholly-owned subsidiary of Beijing Okooo, had also recorded substantial business in 2014, amounting to turnover of HK\$515 million in its management accounts. This was attributable to a purported referral business for internet lottery sales (**Referral Business**) conducted through the Web Subsidiary from April 2014 onwards. The substance of this business remains unclear, but it apparently involved the Web Subsidiary entering into cooperation agreements with website operators for promoting the sale of lottery tickets in return for sales commissions.
15. Despite the Referral Business being a newly established business, which had only operated for nine months of the 2014 year, the Web Subsidiary recorded higher turnover than each of the Group's more well-established subsidiaries. However, the Auditor was unable to audit the Web Subsidiary's turnover (or its accounts more generally), as REXLot's management was unable to provide any accounting records in support.
16. During 2014, the Group also paid out very substantial funds in respect of the Referral Business, amounting to at least RMB 480 million. The purpose of these payments remains unclear, as they are variously described in different work papers as being either "*deposits for issuing the lottery tickets*" (i.e. working capital) or prepayments for future projects/acquisitions.
17. The Group had consolidated the Web Subsidiary and its Referral Business transactions in the interim 2014 financial statements but decided to not consolidate them in the 2014 Financial Statements. This was based on management's view that REXLot had lost both control and significant influence over the Referral Business, again due to the "withdrawal of support" by Beijing Okooo management.
18. THKC concurred with management's accounting treatment of the PRC Company and the Web Subsidiary in the 2013 and 2014 Financial Statements during the course of the 2013 and 2014 Audits. THKC accordingly issued unmodified audit opinions in both years.

## C. Summary of Findings

### C.1 THKC and Albert Chan

19. The AFRC's findings against the Auditor can be broadly separated into three areas, with the key findings set out as follows. In each area, however, the Auditor's conduct was consistently characterised by an inappropriate reliance on management representations and ultimately a failure to obtain sufficient appropriate audit evidence.

#### (a) *2013 Audit - PRC Company*

20. In the 2013 Audit, the Auditor concluded that REXLot controlled the PRC Company under HKFRS 10, and therefore management's decision to consolidate was appropriate.

21. At the time of the 2013 Audit, HKFRS 10 was relatively new, and was being applied by REXLot management for the first time. The assessment of control over the PRC Company was a significant audit matter, and was acknowledged as such by the Auditor during the 2013 Audit.

22. The Auditor knew that the Articles of Association (**Articles**) of the PRC Company were important audit evidence for the purpose of assessing REXLot's control over the PRC Company. However, when conducting its assessment of control, the Auditor failed to obtain those Articles.

23. As a result, the Auditor fundamentally failed to understand how power over the PRC Company was divided between REXLot and the PRC Shareholder. Most significantly, the Auditor did not realise that: (a) pursuant to the PRC Company's Articles, REXLot's majority shareholding in the PRC Company was not in fact sufficient to carry a shareholder vote; and (b) the PRC Shareholder controlled the PRC Company's Board.

24. Instead of obtaining the Articles, the Auditor relied heavily on management representations, including:

24.1 An incorrect management representation that REXLot controlled the PRC Company's Board. The Auditor could have easily discovered this was incorrect by, for example, conducting a simple internet search (a procedure which the Auditor later conducted in the subsequent 2014 Audit, with precisely this result).

24.2 Management representations that the PRC Shareholder and Beijing Okooo had an unwritten "mutual understanding" that the latter would manage the operations of the PRC Company, to the exclusion of the former. These representations were not supported by appropriate corroborative audit evidence, which could have been obtained, for

example, by simply seeking a confirmation directly from the PRC Shareholder.

25. The Auditor's failure to obtain the Articles, in circumstances where the Auditor did not obtain alternative sufficient appropriate audit evidence and proceeded to issue an unmodified audit opinion regardless, was the most significant deficiency in the 2013 Audit. It constituted breaches of:
  - 25.1 HKSA 500.6, as the Articles were obviously important audit evidence and by failing to obtain those Articles or alternative sufficient appropriate audit evidence, the Auditor failed to design and perform appropriate audit procedures; and
  - 25.2 HKSA 200.17, because in the absence of the Articles or other suitable alternative audit evidence, the Auditor did not possess sufficient appropriate audit evidence on which to base its audit opinion.
26. Further, the Auditor's over-reliance on management representations, without obtaining appropriate corroborative audit evidence, constituted breaches of:
  - 26.1 HKSA 200.15, in that the Auditor failed to apply an appropriate level of professional scepticism to management's representations;
  - 26.2 HKSA 200.16, in that the Auditor failed to exercise appropriate professional judgement by deciding to rely on management representations without appropriate corroborative audit evidence; and
  - 26.3 HKSA 500.6, in that the Auditor failed to design and perform appropriate audit procedures to corroborate management's representations.
27. As a result of these deficiencies, the Auditor failed to obtain sufficient appropriate audit evidence to support its conclusions on control. The Auditor should not have issued an unmodified audit opinion in the absence of such evidence, but did so anyway. The Auditor therefore breached:
  - 27.1 HKSA 200.16, in that the Auditor failed to exercise appropriate professional judgement in drawing the (incorrect) conclusion that it had sufficient appropriate audit evidence;
  - 27.2 HKSA 200.17, in that the Auditor failed to obtain sufficient appropriate audit evidence on which to base its opinion;
  - 27.3 HKSA 705.6, which required the Auditor to modify its audit opinion in such circumstances; and
  - 27.4 HKSA 700.11, in that the Auditor wrongly concluded it had obtained reasonable assurance that the financial statements were free from

material misstatement, when the Auditor lacked sufficient appropriate audit evidence to reach such a conclusion.

28. Separately, the Auditor also failed to discharge its obligation to communicate with REXLot's Audit Committee (**AC**) regarding: (a) the reasoning and judgements which the Auditor relied upon to support its conclusion on control; and (b) the fact that management had not provided the PRC Company's Articles, despite the AC urging management to do so. This constituted a breach of HKSA 260.16, which required the Auditor to communicate with those charged with governance regarding any significant matters arising from the audit and any significant difficulties encountered during the audit.
  29. As a result of the deficiencies in the 2013 Audit, the Auditor also failed to achieve the two overall objectives of the audit set out in HKSA 200.11, in that the Auditor:
    - 29.1 failed to obtain reasonable assurance; and
    - 29.2 issued an audit report which expressed an unmodified audit opinion despite a lack of reasonable assurance, and did not communicate the required matters to the AC.
  30. In light of the deficiencies in the 2013 Audit and the failure to achieve the overall objectives of the audit, the AFRC further found that Albert Chan, in his role as engagement partner, failed to act diligently in accordance with the applicable professional standards and thereby failed to comply with the fundamental principle of professional competence and due care, in breach of sections 100.5(c) and 130.1 of the Code of Ethics.
- (b) *2014 Audit – PRC Company*
31. During the 2014 Audit, REXLot management initially wished to account for the PRC Company as an associate, but instead decided to deconsolidate after the Auditor repeatedly warned that treating the PRC Company as an associate would trigger a modified audit opinion due to a lack of books and records.
  32. The Auditor concurred with that decision to deconsolidate, on the basis of its conclusion that REXLot had lost significant influence over the PRC Company as a result of the “withdrawal of support” by Beijing Okooo management.
  33. The Auditor's work in reaching this conclusion suffered from a range of deficiencies, including the following:
    - 33.1 Firstly, REXLot held more than 20% of the voting power in the PRC Company, which triggered a presumption of significant influence under HKAS 28.5.<sup>8</sup> This was the starting point for any consideration of

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<sup>8</sup> HKAS 28.5 provided that if an investor holds, directly or indirectly, 20% or more of the voting power of the investee, it is presumed that the investor has significant influence over the investee, unless it can be clearly demonstrated that this is not the case.

significant influence, but was almost entirely overlooked by the Auditor. Instead, the Auditor's assessment largely proceeded on the opposite basis – that the burden lay on REXLot to demonstrate that significant influence existed. The presumption was not considered (at the earliest) until the day before the audit opinion was issued.

- 33.2 Secondly, the Auditor again failed to obtain the PRC Company's Articles during the 2014 Audit, despite their apparent importance in assessing significant influence. Those Articles would have made it clear that despite any purported "withdrawal of support", REXLot retained a range of powers under the Articles which would have allowed it to exercise significant influence, including by voting on shareholder resolutions and nominating two of the PRC Company's directors.
- 33.3 Thirdly, instead of obtaining the Articles, the Auditor relied upon a combination of management representations and other audit evidence to support its view that significant influence had been lost. The Auditor placed critical reliance on those representations, despite: (a) knowing that management had a strong incentive to make those representations in order to avoid a modified audit opinion; (b) a lack of corroborative evidence; and (c) apparent inconsistencies in the audit evidence which the Auditor failed to resolve.
- 34. The Auditor's failure to obtain the Articles, in circumstances where the Auditor did not obtain alternative sufficient appropriate audit evidence and proceeded to issue an unmodified audit opinion regardless, was a significant deficiency in the 2014 Audit. It constituted breaches of HKSA 500.6 and HKSA 200.17, similar to the 2013 Audit (see paragraph 25 above).
- 35. Further, the Auditor's inappropriate reliance on management representations, without obtaining appropriate corroborative audit evidence or resolving apparent inconsistencies, constituted breaches of:
  - 35.1 HKSA 200.15, in that the Auditor failed to apply an appropriate level of professional scepticism to management's representations. The Auditor should have, but failed to, exercise an increased level of scepticism given management's strong incentive to make those representations in order to avoid a modified audit opinion, and the inconsistencies in the audit evidence;
  - 35.2 HKSA 200.16, in that the Auditor failed to exercise appropriate professional judgement by deciding to rely on management representations without appropriate corroborative audit evidence and without resolving the apparent inconsistencies;

- 35.3 HKSA 500.6, in that the Auditor failed to design and perform appropriate audit procedures to corroborate management's representations; and
- 35.4 HKSA 500.11, in that the Auditor failed to resolve inconsistencies in the audit evidence.
36. As a result of these deficiencies, the Auditor failed to obtain sufficient appropriate audit evidence to support its conclusions on significant influence. The Auditor should not have issued an unmodified audit opinion in the absence of such evidence, but did so anyway. The Auditor therefore breached HKSA 200.16, HKSA 200.17, HKSA 705.6 and HKSA 700.11, similar to the 2013 Audit (see paragraph 27 above).
37. Separately, the Auditor also failed to discharge its obligation to communicate to the AC, regarding: (a) the reasoning and judgements which management and the Auditor relied upon to support their conclusions on significant influence; and (b) the presumption of significant influence arising under HKAS 28.5; and (c) the Auditor's inability to obtain the PRC Company's Articles. This constituted a breach of HKSA 260.16, similar to the 2013 Audit (see paragraph 28 above).
38. As a result of the deficiencies in the 2014 Audit regarding the PRC Company, the Auditor also failed to achieve the two overall objectives of the audit set out in HKSA 200.11, similar to the 2013 Audit (see paragraph 29 above).
39. In light of those deficiencies and the failure to achieve the overall objectives of the audit, the AFRC further found that Albert Chan, in his role as engagement partner, breached sections 100.5(c) and 130.1 of the Code of Ethics, similar to the 2013 Audit (see paragraph 30 above).
- (c) *2014 Audit – Web Subsidiary*
40. The Web Subsidiary was a highly material part of the Group, due to its significant turnover and the substantial amounts paid out by the Group (see paragraphs 14 to 16 above).
41. However, it appears that the Auditor was only made aware of the existence of the Referral Business less than three weeks before the issuance of the audit opinion. At that point, the Auditor recognised it was a significant audit issue and began making repeated requests for the books and records necessary to audit the Web Subsidiary. Management was consistently unable to provide those books and records, and was not even able to provide an explanation of how the Referral Business supposedly operated until the last week of the audit.
42. After it became clear that any decision to consolidate the Web Subsidiary in the absence of those books and records would likely trigger a modified audit opinion, management decided to deconsolidate the Web Subsidiary.

43. The Auditor concurred with that decision to deconsolidate, on the basis of its conclusion that REXLot had lost control over the Referral Business. However, the Auditor's work in reaching this view suffered from a range of deficiencies, including the following:
- 43.1 The Auditor relied almost entirely upon management representations, while doing very little work to corroborate them. The Auditor did so despite knowing that management had a strong incentive to make those representations in order to avoid a modified audit opinion (similar to the PRC Company).
  - 43.2 There were a number of apparent inconsistencies in the management representations and other audit evidence relied upon by the Auditor, which the Auditor failed to resolve. For example, management representations and a purported intercompany memorandum, which addressed how the Web Subsidiary came to be involved with the Referral Business, were contradicted by the Web Subsidiary's own share certificates and share transfer instruments.
44. This over-reliance on management representations, without obtaining appropriate corroborative audit evidence and without identifying and resolving the apparent inconsistencies, constituted breaches of:
- 44.1 HKSA 200.15, in that the Auditor failed to apply an appropriate level of professional scepticism to management's representations, including questioning the reliability of documents and information from management. The Auditor should have, but failed to, exercise an increased level of scepticism, not least due to: (a) management's strong incentive to make those representations; and (b) the apparent inconsistencies in the audit evidence;
  - 44.2 HKSA 200.16, in that the Auditor failed to exercise appropriate professional judgement by deciding to rely on management's representations without appropriate corroborative audit evidence and without resolving the apparent inconsistencies in the audit evidence;
  - 44.3 HKSA 500.6, in that the Auditor failed to design and perform appropriate audit procedures to corroborate management's representations; and
  - 44.4 HKSA 500.11, in that the Auditor failed to resolve the inconsistencies in the audit evidence.
45. As a result of the audit deficiencies regarding the Web Subsidiary, the Auditor's conclusions in respect of the same were not supported by sufficient appropriate audit evidence. The absence of such evidence provided a further basis for not issuing an unmodified audit opinion (in addition to the lack of sufficient appropriate audit evidence in respect of the PRC Company) in the 2014 Audit.

The Auditor nonetheless proceeded to (incorrectly) issue an unmodified opinion. The Auditor therefore breached HKSA 200.16, HKSA 200.17, HKSA 705.6 and HKSA 700.11, similar to the 2013 Audit (see paragraph 27 above).

46. The impact of the Auditor's failure to modify its audit opinion was exacerbated by the fact that: (a) the 2014 Financial Statements made no disclosures about the Web Subsidiary and Referral Business; and (b) a modification of the audit opinion, accompanied by the necessary explanations, would have informed users of the financial statements about the (purported) existence of the highly material Referral Business and the decision to not consolidate its transactions.
47. Further, the Auditor also failed to communicate with the AC at all regarding the Referral Business. The Auditor therefore failed to discharge its obligation to communicate regarding significant matters and significant difficulties encountered during the audit, in breach of HKSA 260.16. This failure was particularly significant in light of the fact that management had apparently provided little or no information about the Referral Business to the AC. Therefore, without adequate communication from the Auditor, the AC was deprived of an opportunity to understand this aspect of the Group's operations.
48. As a result of the deficiencies in the 2014 Audit regarding the Web Subsidiary, the Auditor also failed to achieve the two overall objectives of the audit set out in HKSA 200.11, similar to the 2013 Audit (see paragraph 29 above).
49. In light of those deficiencies and the failure to achieve the overall objectives of the audit, the AFRC further found that Albert Chan, in his role as engagement partner, breached sections 100.5(c) and 130.1 of the Code of Ethics, similar to the 2013 Audit (see paragraph 30 above).

## C.2 Amy Chan and Tony Wong

50. The AFRC found multiple deficiencies in the engagement quality control reviews performed by Amy Chan in the 2013 Audit and Tony Wong in the 2014 Audit respectively.
51. As the EQCRs for the 2013 and 2014 Audit respectively, Amy Chan and Tony Wong were obliged to evaluate the engagement team's significant judgements and conclusions, and whether the audit documentation they reviewed supported the conclusions reached by the Auditor, as required by HKSA 220.20 and HKSA 220.21(c) respectively. Their work in this regard was inadequate and fell significantly short of discharging this obligation, in breach of HKSA 220.20 and HKSA 220.21(c).
52. In the 2013 Audit, based on the audit documentation reviewed, Amy Chan ought to have identified that:
  - 52.1 the assessment of REXLot's control over the PRC Company was a significant matter;

- 52.2 the PRC Company's Articles were important to the assessment of control, but had not yet been obtained;
  - 52.3 the other audit evidence which the Auditor sought to rely upon in lieu of the PRC Company's Articles was not sufficient appropriate audit evidence of REXLot's control over the PRC Company; and
  - 52.4 the Auditor therefore lacked sufficient appropriate audit evidence to support its conclusion that REXLot controlled the PRC Company.
53. In the subsequent 2014 Audit, based on the audit documentation reviewed and his attendance at audit planning meetings, Tony Wong ought to have identified in respect of the PRC Company that:
- 53.1 the assessment of REXLot's control over the PRC Company was a significant matter;
  - 53.2 the engagement team's analysis had overlooked the presumption arising under HKAS 28.5, pursuant to which REXLot was presumed to have significant influence over the PRC Company;
  - 53.3 the PRC Company's Articles were important to the assessment of control and significant influence, but had not been obtained;
  - 53.4 the other audit evidence sighted by him, which the Auditor sought to rely upon in lieu of the Articles:
    - 53.4.1 included extensive management representations made in circumstances where management had a strong incentive to treat the PRC Company as an available-for-sale asset instead of an associate; and
    - 53.4.2 was not sufficient to rebut the presumption of significant influence; and
  - 53.5 the Auditor therefore lacked sufficient appropriate audit evidence to support its conclusion that REXLot did not have significant influence over the PRC Company.
54. In reality, while Tony Wong did identify that the engagement team had overlooked the presumption of significant influence in respect of the PRC Company and queried them accordingly, he failed to arrive at the conclusion that the audit evidence he sighted was not sufficient to rebut the presumption.
55. During the same 2014 Audit, Tony Wong ought to have identified in respect of the Web Subsidiary that:
- 55.1 the non-consolidation of the Referral Business was a significant matter;

- 55.2 the Auditor's conclusions were based predominantly on management representations which were largely uncorroborated, and made in circumstances where management had a strong incentive to not consolidate the Referral Business transactions in order to avoid a modified audit opinion;
- 55.3 there was at least one significant inconsistency in the audit evidence which had not been resolved; and
- 55.4 the Auditor therefore lacked sufficient appropriate audit evidence to support its conclusion that the Web Subsidiary's Referral Business transactions should not be consolidated.
56. Amy Chan and Tony Wong ought to have declined to sign off on the completion of their engagement quality control reviews in the 2013 and 2014 Audits respectively, until the lack of sufficient appropriate evidence was resolved. However, as recorded in the audit work papers for each audit, each EQCR appeared to be satisfied with the audit evidence obtained by the engagement team and their conclusions, considered there were no outstanding matters left to be resolved, and signed off accordingly. The EQCRs thereby allowed the Auditor to incorrectly issue unmodified audit opinions in the 2013 and 2014 Audits respectively.
57. By failing to comply with HKSA 220, Amy Chan and Tony Wong also breached sections 100.5(c) and 130.1 of the Code of Ethics, in that they: (a) failed to act diligently in accordance with the applicable professional standards; and (b) thereby failed to comply with the fundamental principle of professional competence and due care.

**D. Admission of misconduct by THKC, Albert Chan and Tony Wong**

58. THKC, Albert Chan and Tony Wong have each admitted the CPA misconduct found by the AFRC, and accepted the proposed public reprimands. The AFRC considers that this constitutes a form of cooperation and has accordingly taken this into account when determining sanctions.
59. THKC, Albert Chan and Tony Wong have also accepted in principle that a pecuniary penalty should be imposed upon them, but did not agree with the penalty amounts proposed by the AFRC.

**E. Conclusion**

60. Having considered all relevant circumstances, the AFRC is of the view that each of THKC, Albert Chan, Amy Chan and Tony Wong have failed to observe, maintain or otherwise apply the PAO professional standards (as defined by section 2 of the AFRCO) and been negligent in the conduct of their profession. Each of them have therefore committed a professional irregularity under

sections 3B(1)(c) and (g) of the AFRCO, and are therefore guilty of CPA misconduct pursuant to section 37AA(1)(a) of the AFRCO.

61. 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 the following.

E.1 The nature and seriousness of the conduct involved

62. The Auditor's misconduct in each of the three areas set out at paragraphs 20 to 49 above was serious, involving significant failures to meet the standard of care expected of it, and breaches of the PAO professional standards. There were multiple audit deficiencies in each area, despite the Auditor recognising those areas as significant audit issues.
63. The Auditor's conduct evinces an alarming lack of understanding, at the time of the 2013 and 2014 Audits, of: (a) HKFRS 10 and HKAS 28; and (b) the auditor's basic obligations to exercise professional scepticism, resolve inconsistencies in the audit evidence, and seek corroboration for management representations where appropriate.
64. The misconduct of the EQCRs, Amy Chan and Tony Wong, also involved failures to meet the standard of care expected of them, and breaches of the PAO professional standards. However, the AFRC considers their misconduct to be only moderately serious when compared against the Auditor's misconduct.
65. That being said, the AFRC does not make any finding of intentional, dishonest or deliberate misconduct by any of the regulatees.

E.2 Impact of the misconduct

66. As a result of the Auditor's misconduct, the Auditor incorrectly issued unmodified audit opinions for two consecutive financial years for a publicly-listed company, notwithstanding that the financial statements in both years were materially misstated. The misconduct of the EQCRs in each year also contributed towards this outcome.
67. In addition to the above, the Auditor's failures to communicate with the AC also significantly hindered the latter's ability to understand the limitations of the audits and potential misstatements in the financial statements, in two consecutive years.

E.3 Aggravating factors

68. THKC failed to comply with the then FRC's statutory requirement for the production of audit work papers in 2017. THKC's production in response to that requirement was manifestly incomplete and omitted highly relevant audit work papers.

69. Albert Chan's misconduct is further aggravated by his level of professional experience and professional background. At the time of the misconduct, he had been a CPA for over 33 years and a partner of THKC for 26 years, and had previously been a member of the HKICPA's Professional Conduct Committee and Practice Review Committee. Albert Chan therefore ought to have had a more robust understanding of the professional standards and professional scepticism, and a greater appreciation of their importance.

#### E.4 Mitigating factors

70. All four regulatees have a clean disciplinary record with the HKICPA and AFRC.
71. THKC, Albert Chan and Tony Wong have each admitted the misconduct found by the AFRC, and accepted the proposed public reprimands. This constitutes a form of cooperation pursuant to the AFRC's Guidance Note on Cooperation with the AFRC.
72. Amy Chan represented at the investigation stage that the 2013 Audit was her first EQCR engagement, that at that time she had limited technical expertise and no EQCR training, and that THKC had asked her to complete the engagement quality control review within a short period of time. The AFRC does not accept that these constitute mitigating factors. Amy Chan had more than 17 years of experience as a CPA at the time of the 2013 Audit, and should not have accepted the role as EQCR if she considered that she did not have the necessary level of professional competence.

#### E.5 Financial jeopardy

73. Based on Albert Chan's representations, the AFRC considers that the pecuniary penalty originally proposed to be imposed upon him would have the effect of putting him in financial jeopardy, and have reduced that penalty accordingly.
74. THKC and Tony Wong also claimed that the pecuniary penalties originally proposed by the AFRC would put them in financial jeopardy. However, both failed to offer any meaningful evidence to support their claims, and therefore the AFRC has not granted any reduction in their pecuniary penalties for financial jeopardy.