

## STATEMENT OF DISCIPLINARY ACTION

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### The Disciplinary Action

1. Pursuant to sections 37CA, 37D and 37I of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (**AFRCO**), the Accounting and Financial Reporting Council (**AFRC**) has imposed the following sanctions:
  - 1.1. public reprimand against BOFA CPA Limited (**BOFA**); and
  - 1.2. pecuniary penalty of **HK\$175,000** against BOFA.
2. The disciplinary action was taken in relation to professional irregularity and practice irregularity committed by BOFA under sections 3B and 4 of the AFRCO respectively, in that it failed to observe, maintain or otherwise apply the Code of Ethics for Professional Accountants (Revised January 2022) (**COE**) and HKSA 230 Audit Documentation (Revised December 2021) (**HKSA 230**) applicable at the relevant time of the misconduct.
3. By committing the professional and practice irregularities set out in paragraph 2 above, BOFA is guilty of CPA misconduct and FR misconduct respectively under sections 37AA and 37A of the AFRCO.

### Summary of Facts

#### A. Background

4. The AFRC carried out an inspection (**Inspection**) on BOFA pursuant to sections 20ZZB and 21B of the AFRCO between 11 April 2023 and 28 February 2024.
5. The Inspection covered the evaluation of:
  - 5.1. the compliance of two completed engagements (**Selected Engagements**), namely (i) the audit of the consolidated financial statements of a PIE company<sup>1</sup> (**PIE A**), for the year ended 31 December 2021, and (ii) the audit of the financial statements and assurance work on compliance matters of a private company<sup>2</sup> (**Company A**), for the year ended 31 March 2022;
  - 5.2. the compliance of BOFA's system of quality management with the Hong Kong Standards on Quality Management; and
  - 5.3. BOFA's compliance with the anti-money laundering and counter-terrorist financing requirements set out in the Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (**HKICPA**).

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<sup>1</sup> Listed on the Main Board of The Stock Exchange of Hong Kong Limited.

<sup>2</sup> A licensed corporation registered with the Securities and Futures Commission.

6. BOFA was at all material times registered as a corporate practice with the HKICPA,<sup>3</sup> and is registered with the AFRC as a public interest entity (**PIE**) auditor.<sup>4</sup>
7. Upon conclusion of the Inspection, an inspection report was issued on 6 June 2024 (**Inspection Report**). Among other findings, the inspectors identified that the audit working papers for both Selected Engagements included audit programmes relating to audit planning – specifically risk assessment and audit strategy – which were sourced from the Audit Practice Manual issued by the HKICPA on 28 September 2022 (**HKICPA 2022 APM**). These could not have existed as at the relevant auditor’s report dates. It therefore raises serious concerns about breaching the COE and HKSA 230.

**B. Audit of PIE A**

8. PIE A was incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. The principal activities of PIE A and its subsidiaries are the provision of integrated business software solutions, including software maintenance and other services and sale of software license and other products.
9. The consolidated financial statements of PIE A for the year ended 31 December 2021 (**PIE A’s Financial Statements**) were prepared in accordance with International Financial Reporting Standards and were audited by BOFA in accordance with International Standards on Auditing. This was an initial audit engagement of BOFA on PIE A. BOFA expressed an unmodified opinion on PIE A’s Financial Statements.

**C. Audit of Company A**

10. Company A was incorporated in Hong Kong and is a licensed corporation registered with the Securities and Futures Commission. The principal activities of Company A are provision of securities broking services.
11. The financial statements of Company A for the year ended 31 March 2022 (**Company A’s Financial Statements**) were prepared in accordance with Hong Kong Financial Reporting Standards and were audited by BOFA in accordance with Hong Kong Standards on Auditing (**HKSA**) and with reference to Practice Note 820 (Revised) *The Audit of Licensed Corporations and Associated Entities of Intermediaries* issued by the HKICPA. In relation to the audit engagement, BOFA expressed an unmodified opinion on Company A’s Financial Statements.

**D. Inspection findings on BOFA’s engagements with PIE A and Company A**

12. The AFRC requested BOFA to provide all audit documentation of its engagement with PIE A and Company A on 11 April 2023 and 3 May 2023, respectively, and to ensure that all information provided is true, accurate and complete. In

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<sup>3</sup> Registered since 24 May 2019.

<sup>4</sup> Registration number M0749, first registered on 7 September 2020.

response, BOFA provided the following information to the AFRC's inspectors:

- 12.1. the audit report of PIE A was signed on 31 March 2022, and the audit report of Company A was signed on 29 July 2022 (collectively, **Audit Reports and Report Dates**); and
- 12.2. the assembly of the final audit file of PIE A occurred on 25 May 2022, and that of Company A occurred on 27 September 2022 (collectively, **Assembly Dates**).
13. Various audit working papers provided by BOFA to the AFRC's inspectors indicated that they had been prepared and reviewed before the Audit Reports were signed on the respective Report Dates.
14. However, these audit working papers were prepared based on audit programmes derived from the HKICPA 2022 APM,<sup>5</sup> specifically relating to audit planning, including risk assessment and audit strategy. As such, they could not have come into existence before 28 September 2022. In other words, they must have been created after 28 September 2022.
15. Upon the AFRC's inspectors' requests for clarification, BOFA represented that its engagement team updated certain audit programmes and mistakenly applied the HKICPA 2022 APM and the team finally completed the entire file archiving work in October 2022, after the Assembly Dates.
16. Despite the AFRC's inspectors' request, BOFA was unable to produce the superseded audit programmes and/or evidence of the existence of such superseded audit programmes.
17. Accordingly, it is undisputed that BOFA created audit programmes after 28 September 2022 and backdated these audit programmes to various dates before the Report Dates, and the final audit files could only be finalised thereafter.

## Summary of Findings

18. The AFRC found that BOFA committed CPA misconduct and FR misconduct under sections 37AA and 37A of the AFRCO respectively, for it committed professional irregularity and practice irregularity pursuant to sections 3B and 4 of the AFRCO. In particular:
  - 18.1. in relation to the audit of PIE A, BOFA committed practice irregularity under section 4(2)(a)(v) of the AFRCO by failing to observe, maintain or otherwise apply the COE and HKSA 230;<sup>6</sup> and
  - 18.2. in relation to the audit of Company A, BOFA committed professional irregularity under section 3B(1)(c) of the AFRCO by failing to observe,

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<sup>5</sup> As mentioned above, the HKICPA 2022 APM was issued by the HKICPA on 28 September 2022.

<sup>6</sup> Section 4(2)(a)(v) of the AFRCO provides that a corporate practice, being a PIE auditor, commits a "practice irregularity" if, in relation to a PIE engagement, the auditor "*fail[s] or neglect[s] to observe, maintain or otherwise apply a professional standard*", which include the COE and HKSA 230 applicable at the material times.

maintain or otherwise apply the COE and HKSA 230.<sup>7</sup>

A. Non-compliance with COE

19. Based on the inspection findings as set out in paragraphs 12 to 17 above, the AFRC is satisfied that BOFA failed to comply with paragraphs 110.1 A1, R110.2, R111.1, and R111.2 of the COE.

20. Paragraph R110.2 of the COE provides that a professional accountant shall comply with each of the fundamental principles as set out in paragraph 110.1 A1 of the COE, which include:

*“(a) Integrity – to be straightforward and honest in all professional and business relationships.”*

21. Specifically, paragraph R111.1 of the COE requires an accountant to *“comply with the principle of integrity, which requires an accountant to be straightforward and honest in all professional and business relationships”*. Paragraph 111.1 A1 further elaborates that integrity involves *“fair dealing, truthfulness and having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organizational consequences”*.

22. Further, paragraph R111.2 of the COE provides that:

*“A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the accountant believes that the information:*

*(a) Contains a materially false or misleading statement;*

*(b) Contains statements or information provided recklessly; or*

*(c) Omits or obscures required information where such omission or obscurity would be misleading.”*

23. The AFRC is of the view that, BOFA’s practice fell short of the principle of integrity required of an auditor. The relevant practice involved:

23.1. misrepresenting the Assembly Dates;

23.2. creating and backdating audit programmes to various dates before the Report Dates; and/or

23.3. altering the respective final audit files after the Assembly Dates by creating and backdating new audit programmes.

24. These create the false impression that such working papers were prepared and reviewed by the engagement team during the course of the respective audits.

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<sup>7</sup> Section 3B(1)(c) of the AFRCO provides that a professional person commits a “professional irregularity” if the person *“fails to observe, maintain or otherwise apply a PAO professional standard”*, which include the COE and HKSA 230 applicable at the material times. A “professional person” is defined in section 2 of the AFRCO to mean a certified public accountant or a practice unit, which includes a corporate practice.

B. Non-compliance with HKSA

25. Furthermore, HKSA 230.14 requires an auditor to assemble the final audit file on a timely basis after the date of the auditor's report. In cases where there are reasons for modifying existing audit documentation after the assembly of the final audit file, HKSA 230.16 requires the auditor to document (a) the specific reasons for making such modifications, and (b) when and by whom they were made and reviewed.
26. BOFA did not comply with HKSA 230, because:
- 26.1. the final audit files were not assembled on a timely basis in accordance with HKSA 230.14; and/or
- 26.2. the final audit files were altered but the reasons and details for such modification had not been documented, in contravention of HKSA 230.16.
27. As a result, the AFRC found that BOFA failed or neglected to observe, maintain or otherwise apply the professional standards below:
- 27.1. paragraphs 110.1 A1, R110.2, R111.1, and R111.2 of the COE; and
- 27.2. paragraphs 14 and 16 of HKSA 230.

**Admission by BOFA**

28. BOFA has accepted without reservation the AFRC's findings in full and admitted the CPA misconduct and FR misconduct found by the AFRC as summarised in paragraphs 4 to 27 above.

**Conclusion**

29. By failing or neglecting to observe, maintain or otherwise apply the above professional standards, BOFA's conduct amounts to a professional irregularity and a practice irregularity within the meaning of sections 3B and 4 of the AFRCO respectively.
30. Accordingly, BOFA is guilty of CPA misconduct and FR misconduct under sections 37AA and 37A of the AFRCO respectively.
31. In deciding the sanctions set out in paragraph 1 above, the AFRC has had regard to its Sanctions Policy for PIE Auditors and Registered Responsible Persons, Sanctions Policy for Professional Persons, Guidelines for Exercising the Power to Impose a Pecuniary Penalty for PIE Auditors and Registered Responsible Persons, Guidelines for Exercising the Power to Impose a Pecuniary Penalty for Professional Persons, and Guidance Note on Cooperation with the AFRC, and has taken into account all relevant circumstances, including:
- 31.1. The nature, seriousness, duration, frequency and impact of the misconduct. Having considered the admitted facts and circumstances,

the AFRC takes the view that the breaches were serious, particularly as the improper act of backdating constitutes a breach of the fundamental principle of integrity. Although there is no evidence of a direct correlation between the misconduct and any audit deficiencies, nor any resulting impact on the reliability of the audited financial statements, the misconduct could have undermined public confidence in the profession.

- 31.2. Mitigating factors. The AFRC has taken into account BOFA's clean disciplinary record with the HKICPA and the AFRC, and the cooperation provided by BOFA in the disciplinary process. BOFA accepted the sanctions against it and entered into an agreement with the AFRC pursuant to section 371 of the AFRCO before the issuance of the Notice of Proposed Disciplinary Action. The AFRC is of the view that a 30% reduction to the original pecuniary penalty assessed against BOFA is appropriate, and that it is in the interest of the investing public and in the public interest for the AFRC to enter into such an agreement.