

## STATEMENT OF DISCIPLINARY ACTION

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### A. 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:
  - 1.1. publicly reprimanded Grant Thornton Hong Kong Limited (**GT**);
  - 1.2. imposed a pecuniary penalty of **HK\$2,320,000** against GT; and
  - 1.3. ordered GT to pay the costs and expenses of, and costs and expenses incidental to, the investigation in the sum of **HK\$64,066**  
  
(collectively, **Disciplinary Action**).
2. The Disciplinary Action was taken in relation to the findings of an inspection by the AFRC on GT in 2023 (**2023 Inspection**).
3. The AFRC found that:
  - 3.1. in respect of the 2023 Inspection, GT had failed to comply with the 60-day file assembly requirement in relation to 11 PIE audit engagements and 480 Non-PIE<sup>1</sup> audit engagements, in breach of paragraphs 14 and A21 of the applicable versions of Hong Kong Standard on Auditing 230 *Audit Documentation* (**HKSA 230**);
  - 3.2. GT's quality control / management measures failed to prevent the repeated instances of late file assembly. GT was therefore in breach of:
    - 3.2.1 paragraphs 45 and A54 of the applicable versions 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**); and
    - 3.2.2 paragraphs 31(f) and A83 of the applicable versions of Hong Kong Standard on Quality Management 1 *Quality Management for Firms that Perform Audits or Reviews of*

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<sup>1</sup> "Non-PIE" is defined as "private and/or non-equity listed companies" in this Statement of Disciplinary Action, which is different from the technical definition of this term set out in section 3 of the AFRCO.

*Financial Statements, or Other Assurance or Related Services Engagements (HKSQM 1); and*

3.3. in the circumstances, GT committed practice irregularities under section 4 and professional irregularities under section 3B of the AFRCO.

4. Based on the above, GT committed FR misconduct under section 37A and was also guilty of CPA misconduct under section 37AA of the AFRCO.

**B. Summary of Facts**

5. This case stemmed from the findings made against GT as a result of the 2023 Inspection.

**B.1 2021 Inspection**

6. The findings from the 2021 Inspection do not form part of this disciplinary case. Brief details of the findings are provided for background context only.

7. The 2021 Inspection covered the evaluation of GT's quality control system under the applicable versions of HKSQC 1 and the audit quality of selected PIE audit engagements completed by GT.

8. The then Financial Reporting Council (**FRC**) issued an Inspection Report dated 31 May 2022 in relation to the 2021 Inspection (**2021 Inspection Report**) which, among other things, noted that 26 PIE engagements had failed to comply with the 60-day archive rule, of which 22 were related to the late archive of manual audit files.

**B.2 2023 Inspection**

9. The 2023 Inspection covered, among other things, the effectiveness of the remedial actions proposed by GT following the 2021 Inspection and the compliance of GT's system of quality management with the applicable versions of HKSQM 1.

10. For the purpose of the 2023 Inspection, GT provided two versions of the "Grant Thornton – Quality Management Manual" (**QMM**), being internal quality management policies, to the AFRC. The two versions both follow the recommendations in paragraph A21 of HKSA 230, as well as, respectively, paragraph A54 of HKSQC 1 and paragraph A83 of HKSQM 1, and set the relevant time limit for archiving to 60 days.

11. The findings of the 2023 Inspection were set out in an Inspection Report dated 14 May 2024 (**2023 Inspection Report**) which, among other things, found that GT did not comply with the archiving policy in the QMM of completing the assembly of final engagement files within 60 days from the dates of the

engagement reports as established by GT pursuant to paragraph 45 of HKSQC 1 and paragraph 26 of HKSQM 1 (**Archiving Policy**) for:

- 11.1. 8 out of 95, or 8%, of PIE audit engagements completed by GT between 1 January 2022 and 31 May 2023 (**Relevant Period**); and
  - 11.2. 831 out of 1,262, or 66%, of Non-PIE audit engagements completed by GT during the Relevant Period.
12. The numbers of engagements in paragraph 11 above (**Initial Engagement Numbers**) were self-reported and confirmed by GT in response to a follow-up request made by the AFRC on 22 January 2024, i.e. prior to the issuance of the 2023 Inspection Report. The confirmation was made through a spreadsheet listing GT's engagements during the Relevant Period and setting out the underlying data for those engagements, such as the date of the relevant auditor's report, the name of the engagement partner, and the length of time which each engagement had been overdue in following the relevant file assembly rules for both soft and hardcopy audit working papers (**Spreadsheet**).
  13. Based on the findings above, including the Spreadsheet provided by GT, the 2023 Inspection Report found that GT did not design and implement sufficient appropriate responses to ensure that audit documentation was assembled on a timely basis after the date of the auditor's report as required by paragraph 31(f) of HKSQM 1.

## **C. Findings**

### **C.1 Late file assembly**

14. Pursuant to paragraphs 14 and A21 of HKSA 230, the auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report. An appropriate time limit within which to complete such assembly is ordinarily not more than 60 days after the date of the auditor's report.
15. A typical audit file comprises hardcopy audit working papers and softcopy audit working papers. The AFRC considers that such a typical audit file to be assembled on time if both hardcopy and softcopy audit working papers have been assembled and archived within 60 days after the date of the auditor's report.
16. In respect of the 2023 Inspection, the AFRC has found, and GT has admitted, its failure to assemble audit documentation in an audit file and complete the required administrative process of assembling the final audit file within 60 days of the date of the auditor's report, in relation to 11 PIE audit engagements and 480 Non-PIE audit engagements.

17. The table below sets out the severity of the late file assembly in relation to the 11 PIE audit engagements and the 480 Non-PIE audit engagements:

<b>Severity</b>	<b>Count</b>
<i>PIE audit engagements</i>	
Late by a period of 1 to 180 days	11
Late by a period of 181 to 365 days	0
Late by a period of 366 days or more	0
<i>Non-PIE audit engagements</i>	
Late by a period of 1 to 180 days	166
Late by a period of 181 to 365 days	11
Late by a period of 366 days or more	303

18. By reason of the above, GT failed to comply with the 60-day file assembly requirement, in breach of paragraphs 14 and A21 of HKSA 230.

## **C.2 System of quality control and system of quality management**

### **C.2.1 Breach of standards**

19. Paragraph 45 of HKSQC 1 states that a firm shall establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalised. Paragraph A54 of HKSQC 1 further provides that the time limits for completing the file assembly would ordinarily not be more than 60 days after the date of the auditor's report.
20. Paragraph 31 of HKSQM 1 provides that a firm shall establish quality objectives that address the performance of quality engagements. The objective set out in sub-paragraph (f) requires engagement documentation to be assembled on a timely basis after the date of the engagement report, and be appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards.
21. Paragraph A83 of HKSQM 1, which is referenced in paragraph A21 of HKSA 230, further provides that the appropriate time limit within which to complete the file assembly is ordinarily not more than 60 days after the date of the auditor's report.
22. GT's breaches of HKSA 230 involved hundreds of private company audits and ten listed company audits over a period of two to three years. These breaches occurred even though the FRC had specifically cautioned GT in the 2021 Inspection Report that GT needed to address its file assembly deficiencies.

Although GT had submitted a root cause analysis and a list of remedial actions in response to the 2021 Inspection, similar breaches were found in the 2023 Inspection, indicating that the quality control and management measures implemented by GT to ensure compliance with HKSA 230 were ineffective.

23. Significantly, out of the 303 Non-PIE audit engagements where file assembly was late by over one year, 117 engagements involved an overdue period of over 1,000 days. The auditor's reports for 86 of these engagements were dated before 31 May 2022, i.e. the date of the 2021 Inspection Report. The fact that so many audit engagements were in breach, and continued to be in breach, for such a lengthy period, despite GT's awareness of the issues, indicates serious failures in GT's internal controls and remediation efforts.

#### C.2.2 GT's lack of explanation for its breaches

24. For the purposes of the investigation, on 11 June 2025, the AFRC issued requirements pursuant to sections 25 and 20ZZJ of the AFRCO to GT (**First Requirement**). Among other things, GT was required to explain why GT's root cause analysis and remedial actions nevertheless resulted in the widespread findings in the 2023 Inspection.
25. GT's response was that its steps and measures were mainly focused on "*those areas related to PIE engagements, which are the Firm's priority*". Despite this response, GT did not address why there were still eight (subsequently revised to 11) PIE audit engagements with late file assembly identified in the 2023 Inspection. GT also did not give any explanation as to the 831 (subsequently revised to 480) Non-PIE engagements with late file assembly.
26. When given a further opportunity to comment after the AFRC issued the dated draft investigation report, GT did not make any representations in this regard (or at all).
27. In general, GT has not made any credible submissions to justify or explain its misconduct. The breadth and severity of the misconduct make it clear that the firm as a whole holds responsibility for such widespread failures.
28. By reason of the above, GT failed to establish effective policies and procedures to comply with the requirements under HKSQC 1 and HKSQM 1. Such failure led to the multiple breaches of HKSA 230.
29. Accordingly, GT committed practice irregularities under section 4 and professional irregularities under section 3B of the AFRCO.

#### C.3 **GT's admissions**

30. GT has accepted the above findings, including the FR misconduct and CPA misconduct found by the AFRC.

#### **D. Uncooperative conduct of GT**

31. In the First Requirement, the AFRC required GT to confirm the Initial Engagement Numbers (which had been provided by GT to the AFRC as early as the 2023 Inspection) and the data in the Spreadsheet, for the purposes of the investigation. In a letter dated 9 July 2025, GT confirmed that the data was “*true and accurate and valid for the purposes of these investigations*”. No revisions were proposed.
32. As the Initial Engagement Numbers could not be reconciled with the Spreadsheet, on 28 July 2025, the AFRC issued a second round of requirements to GT, requiring GT to check its previously submitted data. In a letter dated 11 August 2025, GT admitted that the Initial Engagement Numbers were incorrect. Specifically, the previously confirmed number of Non-PIE audit engagements with late file assembly was reduced from 831 to 480, whereas the number of PIE audit engagements with late file assembly was revised from 8 to 11. The significant reduction in the figure for Non-PIE audit engagements evidences GT’s lack of care in providing accurate and complete information to the AFRC.
33. Even then, GT’s response to the second round of requirements, in the form of a spreadsheet, still contained a number of errors, including but not limited to:
  - 33.1. two PIE audit engagements incorrectly categorised as Non-PIE audit engagements;
  - 33.2. an incorrectly categorised PIE audit engagement, which was in fact a non-listed subsidiary of one of the PIEs mentioned in paragraph 33.1 above, and should have been categorised as such; and
  - 33.3. numerous typographical errors in the names and details of the Non-PIE audit engagements.
34. Further, GT failed to promptly remediate the instances of late file assembly:
  - 34.1. out of the 480 Non-PIE audit engagements with late file assembly, a majority (294) only completed archival after the AFRC’s investigation had commenced and the first round of investigation requirements issued on 11 June 2025; and
  - 34.2. a further four Non-PIE audit engagements only completed archival procedures after the second round of requirements was issued on 28 July 2025.
35. The AFRC considers GT’s uncooperative conduct to be serious, and finds that GT:

- 35.1. lacked care in ensuring that information provided to the AFRC in both the 2023 Inspection and the subsequent investigation was accurate and complete;
- 35.2. failed to take prompt and timely remedial actions for its breaches, when the breaches themselves had already been self-reported by GT in the 2023 Inspection;
- 35.3. failed to take prompt and timely remedial action in relation to the underlying systemic failures, which had been initially identified as early as the 2021 Inspection, and also self-reported by GT as a recurring finding in the 2023 Inspection; and
- 35.4. by not verifying its data despite specifically being required by the AFRC to do so, unnecessarily prolonged the investigation as the AFRC had to incur significant time and effort to identify and resolve the errors in the information provided to the AFRC.

## **E. Conclusions**

36. Having considered all relevant circumstances, the AFRC is of the view that GT committed FR misconduct under section 37A(e) and was also guilty of CPA misconduct under section 37AA(1)(a) of the AFRCO.
37. In determining the Disciplinary Action, the AFRC has had regard to the Sanctions Policy for PIE Auditors and Registered Responsible Persons, Guidelines for Exercising the Power to Impose a Pecuniary Penalty for PIE Auditors and Registered Responsible Persons, Sanctions Policy for Professional Persons, Guidelines for Exercising the Power to Impose a Pecuniary Penalty for Professional Persons and the Guidance Note on Cooperation with the AFRC (**Guidance Note on Cooperation**).

### **E.1 Nature, seriousness, duration, frequency and impact of the misconduct**

38. Having considered the admitted facts and circumstances, the AFRC takes the view that GT's breaches were serious:
  - 38.1. The scale of these breaches (i.e. 491 instances of late file assembly) is significant. 294 out of the 480 Non-PIE audit engagements with late file assembly were not remediated until after the AFRC issued statutory requirements to GT in the investigation stage to confirm the information reported by GT in the inspection stage.
  - 38.2. The AFRC found breaches of not only HKSA 230 (for individual instances of late file assembly), but also HKSQC 1 and HKSQM 1 (on the systemic level). The latter is particularly serious because the systemic issues had been identified by the Inspection Department in the 2021 Inspection, repeated in the 2023 Inspection, and proven to

be ineffective for the same reason that 294 Non-PIE audit engagements remained in breach for a long time despite GT ostensibly having had the benefit of reviewing the 2023 Inspection Report. GT had full knowledge of its breaches given that it provided the Inspection Department with the relevant data in the first place.

39. In terms of frequency and duration:

39.1. In its response to the second round of requirements issued by the AFRC in the investigation stage, GT provided a spreadsheet that listed out a total of 795 Non-PIE audit engagements, which was the sample considered by the Inspection Department in the 2023 Inspection. The final finding of 480 Non-PIE engagements with late file assembly means that late file assembly occurred in over 60% of all engagements within scope. As for PIE engagements, the reported frequency was 11 out of 92 engagements within scope (11.9%). The frequency of the misconduct, in particular for the Non-PIE engagements, was therefore very high, and the breaches identified are pervasive.

39.2. With regards to duration, the 11 PIE engagements were relatively minor, with all of them under 180 days overdue. However, 303 Non-PIE audit engagements were over one year overdue, and 117 Non-PIE engagements had overdue periods of over 1,000 days.

40. As for impact, there is no known adverse consequence suffered by any third party as a result of the instances of late file assembly.

41. The AFRC does not make any finding of intentional, dishonest or deliberate misconduct by GT.

## **E.2 Aggravating and mitigating circumstances**

42. The AFRC has considered whether there are any aggravating and mitigating factors in this case, including the following.

### **E.2.1 GT's uncooperative conduct during the investigation stage**

42.1. As noted in paragraph 35 above, GT engaged in uncooperative conduct including lacking care in ensuring information provided to the AFRC was accurate and complete, failing to take prompt and timely remedial actions, and unnecessarily prolonging the AFRC's investigation.

### **E.2.2 Mitigating circumstances**

42.2. GT's recent remediation work, including the development and implementation of a monitoring system for its electronic audit platform, and the inclusion of quality and compliance as a material weighting in

its directors' and other senior staff members' annual performance evaluation, which factors into promotion, salary increments, and bonus considerations.

42.3. GT's cooperation in this disciplinary action, including:

42.3.1 early admission of the findings in full; and

42.3.2 proactive approach to resolution, including by making a constructive proposal for early resolution by consent pursuant to section 37I of the AFRCO; and

42.4. GT's clean disciplinary record with the Hong Kong Institute of Certified Public Accountants and the AFRC.

43. Having considered all relevant circumstances and the Guidance Note on Cooperation, the AFRC is of the view that a reduction of 10% to the original pecuniary penalty assessed against GT is appropriate, and that it is in the interest of the investing public and the public interest for the AFRC to enter into an agreement pursuant to sections 37I(1A) and 37I(1) of the AFRCO with GT.