

STATEMENT OF DISCIPLINARY ACTION

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 Forvis Mazars CPA Limited (formerly known as Mazars CPA Limited) (**Mazars**);
 - 1.2. imposed a pecuniary penalty of **HK\$1,400,000** against Mazars; and
 - 1.3. ordered Mazars to pay the costs and expenses of, and costs and expenses incidental to, the investigation in the sum of **HK\$41,488**(collectively, **Disciplinary Action**).
2. The Disciplinary Action was taken in relation to the findings of an inspection by the then Financial Reporting Council (**FRC**) and the AFRC on Mazars in 2020 and 2023 respectively (**2020 Inspection** and **2023 Inspection**).
3. The AFRC found that:
 - 3.1. in respect of the 2020 Inspection, Mazars had failed to comply with the 60-day file assembly requirement in relation to 12 PIE 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. in respect of the 2023 Inspection, Mazars had failed to comply with the 60-day file assembly requirement in relation to 48 PIE audit engagements, 339 Non-PIE¹ audit engagements and 14 assurance engagements, in breach of paragraphs 14 and A21 of the applicable versions of HKSA 230;
 - 3.3. Mazars' quality control / management measures failed to prevent the repeated instances of late file assembly. Mazars was therefore in breach of:

¹ "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.

- 3.3.1 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
- 3.3.2 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 Financial Statements, or Other Assurance or Related Services Engagements (HKSQM 1)*; and
- 3.4. in the circumstances, Mazars committed practice irregularities under section 4 and professional irregularities under section 3B of the AFRCO.
- 4. Based on the above, Mazars 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 Mazars as a result of the 2020 Inspection and the 2023 Inspection.

B.1 2020 Inspection

- 6. The 2020 Inspection covered the evaluation of Mazars' quality control system under the applicable versions of HKSQC 1 and two completed PIE audit engagements.
- 7. The findings of the 2020 Inspection were set out in an Inspection Report dated 23 March 2021 (**2020 Inspection Report**) which, among other things, noted that:
 - 7.1. certain PIE audit engagements failed to comply with the 60-day archive rule; and
 - 7.2. Mazars failed to perform an effective root cause analysis and/or carry out effective remedial actions on findings from a practice review performed by the Hong Kong Institute of Certified Public Accountants (**HKICPA**) in 2019, which, among other things, had recorded at least two audit engagements that had breached the 60-day file assembly rule.
- 8. Mazars subsequently submitted a remediation plan to the FRC in response to the 2020 Inspection Report (**Remediation Plan**). The Remediation Plan pledged that Mazars would identify and address the root causes of its failure to comply with the 60-day archive rule.

B.2 2023 Inspection

9. The 2023 Inspection covered, among other things, the effectiveness of the remedial actions proposed by Mazars following the 2020 Inspection and the compliance of Mazars' system of quality management with the applicable versions of HKSQM 1.
10. The findings of the 2023 Inspection were set out in an Inspection Report dated 27 May 2024 (**2023 Inspection Report**) which, among other things, found that:
 - 10.1. Mazars did not comply with the archiving policy of completing the assembly of final engagement files within 60 days from the dates of the engagement reports as established by Mazars (including the Mazars Quality Assurance Manual) according to paragraph 45 of HKSQC 1 and paragraph 26 of HKSQM 1 (**Archiving Policy**) for: (i) certain PIE audit engagements completed by Mazars between 1 July 2020 and 28 February 2023; (ii) certain Non-PIE audit engagements completed by Mazars between 1 March 2022 and 28 February 2023; and (iii) certain engagements in relation to the issuance of assurance reports for Non-PIE audit clients between 1 March 2022 and 28 February 2023. Some of these engagements had not yet completed the assembly of the final audit files as at the date of issuance of the 2023 Inspection Report; and
 - 10.2. Mazars' system of quality control did not provide reasonable assurance that Mazars' engagement teams complied with the Archiving Policy to ensure Mazars' compliance with paragraph 45 of HKSQC 1. In addition, Mazars' system of quality management did not provide reasonable assurance that the specified quality objective in relation to the timely assembly of final engagement files, as stated in paragraph 31(f) of HKSQM 1, was achieved.

C. Findings

C.1 Late file assembly

11. 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.
12. 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.
13. In relation to the 2020 Inspection and the 2023 Inspection, Mazars had provided the Inspection Department with two spreadsheets (**2020 Spreadsheet** and **2023**

Spreadsheet) containing Mazars’ collated underlying data relating to the engagements which had not complied with the 60-day archive rule.

- 14. As part of its investigations into the findings of the 2020 Inspection and the 2023 Inspection, the AFRC required Mazars to, among other things, confirm the data in the 2020 Spreadsheet and the 2023 Spreadsheet, and to the extent that the data needed to be updated, provide explanations and supporting documentation.
- 15. Mazars confirmed the truth and accuracy of the 2020 Spreadsheet and the 2023 Spreadsheet subject to updates due to Mazars’ ongoing remediation efforts and addressing minor clerical errors. Mazars also submitted supporting documentation, in the form of warehouse storage slips for hardcopy audit working papers and screenshots for softcopy working papers.
- 16. Mazars has admitted to the following 413 instances of late file assembly:

Type of Engagement	Count
<i>2020 Spreadsheet</i>	
PIE audit engagements	12
<i>2023 Spreadsheet</i>	
PIE audit engagements	48
Non-PIE audit engagements	339
Assurance engagements	14

- 17. The severity of the late file assembly in relation to the 12 PIE audit engagements in the 2020 Spreadsheet is set out in the table below. The two most severe cases involved (a) 1,590 days overdue before the softcopy audit working papers were archived; and (b) 1,735 days overdue before both the hardcopy and softcopy audit working papers were archived.

Severity	Count
Late by a period of 1 to 180 days	9
Late by a period of 181 to 365 days	0
Late by a period of 366 days or more	3

- 18. The severity of the late file assembly in relation to the 48 PIE audit engagements, 339 Non-PIE audit engagements and 14 assurance engagements in the 2023 Spreadsheet is set out in the table below. The two most severe cases were late by 1,431 days and 1,275 days to archive their softcopy audit working papers.

Severity	Count
<i>PIE audit engagements</i>	
Late by a period of 1 to 180 days	31
Late by a period of 181 to 365 days	4
Late by a period of 366 days or more	13
<i>Non-PIE audit engagements or assurance engagements</i>	
Late by a period of 1 to 180 days	223
Late by a period of 181 to 365 days	50
Late by a period of 366 days or more	80

19. Mazars represented that the instances of late file assembly were due to an audit platform software that was “*inefficient, time consuming*”. The audit teams of Mazars were using a “*practical workaround*” to address the inefficiency, which involved “*work outside the audit tool*” for various stages of the audits. Mazars also cited COVID-19 as a reason for late file assembly.
20. The AFRC considers that the root causes of the late file assembly put forward by Mazars do not constitute adequate excuses or justification. Given that the audit teams were using practical workarounds, it is clear that the issue had been well known to Mazars and its audit staff, but Mazars failed to address it. Further, there were instances where both the hardcopy and softcopy audit working papers were assembled late, but only the inefficient audit tool (which affected softcopy audit working papers only) was cited as a justification. In any event, HKSA 230 does not require or specify any medium, platform or location for the assembly of the final audit file, and Mazars cannot rely on the poor quality of its software to excuse its file assembly breaches.
21. As for COVID-19, Mazars did not provide any evidence or documentation as to its supposed effect on the administrative procedure of file assembly.
22. By reason of the above, Mazars failed to comply with the 60-day file assembly requirement in respect of 60 PIE audit engagements, 339 Non-PIE audit engagements and 14 assurance engagements, in breach of paragraphs 14 and A21 of HKSA 230.

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

23. Paragraphs 45 and A54 of HKSQC 1 and paragraphs 31(f) and A83 of HKSQM 1 provide that a firm shall establish quality objectives that address the performance of quality engagements, which include the assembly of engagement documentation on a timely basis after the date of the finalized engagement report, and to be appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant requirements, or

professional standards. If no limits are prescribed in law or regulation, the appropriate time limit is ordinarily not more than 60 days.

24. Mazars' own internal quality control and quality management policies in effect at the material times required final engagement files to be assembled not more than 60 calendar days after the date of the auditor's report, unless another stricter deadline is specified by country law.
25. Mazars' breaches of HKSA 230 and its own internal policies involved a few hundred private company audits and assurance engagements, as well as tens of listed company audits, over a period of three to four years (2019-2023).
26. Mazars admitted that its newly implemented quality control / management measures failed to prevent the repeated instances of late file assembly. The Remediation Plan submitted in response to the 2020 Inspection Report, which ostensibly aimed to identify and address such systemic issues, completely failed to prevent the breaches uncovered in the 2023 Inspection.
27. The AFRC considers that Mazars' file assembly breaches are so numerous and widespread that it is likely that multiple aspects of its system of quality control / management had failed, including but not limited to the communication of the relevant policies and procedures to the staff members responsible for implementation and the monitoring and remediation processes. In particular, there were no consequences for non-compliance with the file assembly rules at the material time.
28. By reason of the above, Mazars 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, Mazars committed practice irregularities under section 4 and professional irregularities under section 3B of the AFRCO.

C.3 Mazars' admissions

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

D. Conclusions

31. Having considered all relevant circumstances, the AFRC is of the view that Mazars committed FR misconduct under section 37A(e) and was also guilty of CPA misconduct under section 37AA(1)(a) of the AFRCO.
32. 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**), and has taken into account all relevant circumstances, including those summarised in paragraphs 33 to 37 below.

D.1 Nature, seriousness, duration, frequency and impact of the misconduct

33. Having considered the admitted facts and circumstances, the AFRC takes the view that Mazars' breaches were serious:
 - 33.1. The present case involves a few hundred instances of late file assembly with some being late for a number of years, in addition to HKSQM 1 / HKSQC 1 breaches, with such breaches first being identified in 2020.
 - 33.2. The AFRC found breaches under 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 FRC in the 2020 Inspection. Mazars had implemented the Remediation Plan to remedy those systemic issues, but it failed to prevent further instances of late file assembly.
34. In terms of frequency and duration:
 - 34.1. For the 2023 Inspection, Mazars provided a spreadsheet listing out 137 PIE audit engagements, 1,123 Non-PIE audit engagements and 57 assurance engagements. The final finding for the 2023 Inspection, as set out in paragraph 18 above, is that 48 PIE audit engagements, 339 Non-PIE audit engagements and 14 assurance engagements were assembled late. In other words, late file assembly occurred in at least one-third of all engagements within scope. The frequency of the misconduct was therefore very high, and the breaches identified are pervasive.
 - 34.2. 16 PIE audit engagements and 80 Non-PIE audit or assurance engagements had overdue periods of over one year. The identification of breaches across two separate inspections indicates that late file assembly was a persistent and recurring issue, despite being previously identified.
35. As for impact, there is no known adverse consequence suffered by any third party as a result of the instances of late file assembly.
36. The AFRC does not make any finding of intentional, dishonest or deliberate misconduct by Mazars.

D.2 Aggravating and mitigating circumstances

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

D.2.1 Aggravating circumstances

37.1. There were no aggravating circumstances.

D.2.2 Mitigating circumstances

37.2. Mazars' remediation work since 2024 in response to the findings of the 2023 Inspection, including its periodic updates to the AFRC regarding the progress of its remediation. All but one of the breaches set out in paragraph 22 above had been remediated by 2 January 2025, before the AFRC's investigation commenced on 20 March 2025.

37.3. Mazars' full cooperation throughout the AFRC's investigation and disciplinary process, including:

37.3.1 early admission of the findings in full; and

37.3.2 Mazars' proactive approach to resolution, including by making a constructive proposal for early resolution by consent pursuant to section 37I of the AFRCO, and proposing training to be undertaken by all audit staff; and

37.4. Mazars' clean disciplinary record with the HKICPA and the AFRC.

38. Having considered all relevant circumstances and the Guidance Note on Cooperation, the AFRC is of the view that a reduction of 30% to the original pecuniary penalty assessed against Mazars 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 Mazars.