

STATEMENT OF DISCIPLINARY ACTION

A. The Disciplinary Action

1. Pursuant to sections 37D, 37E and 37I(1) of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (**AFRCO**), the Accounting and Financial Reporting Council (**AFRC**) has:
 - 1.1. publicly reprimanded each of Jon Gepsom CPA Limited (**Jon Gepsom**, formerly known and referred to as McM (HK) CPA Limited) (**McM**),¹ Wong Ka Bo, Jimmy (**Wong**) and Lo Ka Ki (**Lo**);
 - 1.2. imposed a pecuniary penalty of **HK\$210,000** against Jon Gepsom;
 - 1.3. imposed a pecuniary penalty of **HK\$70,000** against Wong; and
 - 1.4. imposed a pecuniary penalty of **HK\$35,000** against Lo(collectively, **Disciplinary Sanctions**).
2. The Disciplinary Sanctions were imposed in relation to practice irregularities committed by Jon Gepsom, Wong and Lo (**Regulatees**) under section 4 of the AFRCO while conducting the audit of the consolidated financial statements of China 33 Media Group Limited (**Company**) and its subsidiaries for the year ended 31 December 2020 (**Relevant Audit**).
3. The AFRC found that Jon Gepsom failed or neglected to observe, maintain or otherwise apply the professional standards² below:
 - 3.1. paragraph R523.1 of Chapter A of the applicable version of the Code of Ethics for Professional Accountants (**COE**), which required the firm to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 of the COE to identify, evaluate and address threats to independence; and
 - 3.2. paragraphs R120.7 and R120.10 of the applicable version of the COE, which required the firm to evaluate whether the threat to independence was at an acceptable level, and if not, take steps to address the threat by eliminating it or reducing it to an acceptable level.
4. The AFRC also found that Jon Gepsom contravened section 20V of the AFRCO by authorising, in addition to Lo, an unregistered person to carry out activities as the engagement quality control reviewer (**EQCR**) of the firm

¹ References are made to "McM" insofar as they pertain to the conduct and factual circumstances occurring at the material times, unless the context otherwise requires.

² As defined in section 2 of the AFRCO.

for the Relevant Audit.

5. The AFRC further found that Wong failed or neglected to observe, maintain or otherwise apply paragraphs 11 and 12 of the applicable version of Hong Kong Standard on Auditing 220 – *Quality Control for an Audit of Financial Statements (HKSA 220)*, which required the engagement partner to form a conclusion on compliance with independence requirements under the COE that apply to the audit engagement by, among other things, identifying and evaluating circumstances that create threats to independence; and taking appropriate action to eliminate the circumstances that create such threats or reduce them to an acceptable level by applying safeguards.
6. The AFRC also found that Lo failed or neglected to observe, maintain or otherwise apply paragraph 21 of HKSA 220, which required the EQCR to, among other things, assess the engagement team’s evaluation of the firm’s independence in relation to the audit engagement.
7. Jon Gepsom has contravened the AFRCO and committed practice irregularities, which constitute FR misconduct under sections 37A(a) and (e) of the AFRCO respectively. Wong and Lo have also committed practice irregularities that constitute FR misconduct under section 37B(d) of the AFRCO.

B. Summary of Facts

The Regulatees

8. McM³ was registered as a corporate practice on 6 March 2020, and subsequently as a PIE auditor on 11 March 2020. McM subsequently changed its name to Jon Gepsom on 22 March 2024.
9. Wong⁴ was first registered as the managing director of McM on 11 November 2020. He is and was, at all material times, a registered engagement partner of McM and the holder of 1% of its shares.
10. Lo⁵ has been the practising director of McM since its registration as a corporate practice on 6 March 2020. He has also been the managing director of McMillan Woods (Hong Kong) CPA Limited (**McMillan Woods**), a network firm of McM, since 14 October 2019. At all material times, he is and was a registered EQCR of McM, and a majority shareholder holding 97% shares in McM and 99.94% shares in McMillan Woods.

³ Jon Gepsom (formerly known as McM) is registered as a corporate practice with the AFRC (Corporate Practice No. M0786).

⁴ Wong is a member of the HKICPA (Membership No. A36300) and a practicing certificate holder (Practising Certificate No. P07560).

⁵ Lo is a member of the HKICPA (Membership No. A40830) and a practicing certificate holder (Practising Certificate No. P06633).

The Company

11. The Company was incorporated under the laws of the Cayman Islands and its shares are and were at all material times listed on the GEM Board of The Stock Exchange of Hong Kong Limited. It was principally engaged in printed media advertising, outdoor and digital advertising, film and entertainment investment, and prepaid card business.

Breaches of independence requirements

12. Mr Yeung Man Sun (**Yeung**) was the company secretary of the Company since 18 January 2019 until he resigned from the position on 14 June 2022.
13. On 15 January 2021, Yeung became a director of McMillan Woods.
14. On 26 January 2021, McM was appointed as the auditor of the Company. McM conducted the Relevant Audit and issued the auditor's report on 29 March 2021.
15. Accordingly, McM was acting as the auditor of the Company while Yeung maintained the dual role as a practising director of McM's network firm and the company secretary of the Company.

Authorisation of an unregistered person to carry out activity as EQCR

16. On 26 January 2021, McM authorised Mr Tang Wai Leung (**Tang**), who was not a registered EQCR of McM and had never been a registered EQCR of any firm, to carry out activities as EQCR in the Relevant Audit.

C. Summary of Findings

Failure to properly evaluate and address threats to independence

17. Paragraph R523.4 of the COE explicitly states that a partner or employee of the firm or a network firm shall not serve as company secretary for an audit client of the firm, unless three conditions stated therein are met.⁶
18. The AFRC found that a network relationship existed between McM (now known as Jon Gepsom) and McMillan Woods because:
 - 18.1. Both firms were under the common ownership and control of Lo, who was the majority shareholder and a director of both McM and McMillan Woods at the material time.⁷ This common control is specifically identified as an indicator of a network under paragraph

⁶ The three conditions being (i) such practice is specifically permitted under local law, professional rules or practice; (ii) management makes all relevant decisions and (iii) the duties and activities performed are limited to those of a routine and administrative nature. The Regulatees admitted that this exception is not applicable in the present case.

⁷ At all material times, Lo is and was (i) a practicing director of McM, (ii) the managing director of McMillan Woods and (iii) a majority shareholder holding 97% shares in McM and 99.94% shares in McMillan Woods.

R400.53(b) of the COE.

- 18.2. The firms also shared significant professional resources, including the use of the same corporate email domains and the regular loaning of staff between the firms for audit and assurance engagements. These arrangements are consistent with the sharing of professional resources described in paragraph R400.53(f) of the COE.
 - 18.3. Internal documents signed by McM's staff further confirmed that McMillan Woods was recognised as a network firm.
 - 18.4. McM's own audit working papers recorded concerns about independence due to the close relationship between the firms. Such concerns would not have arisen if the firms were not operating as a network.
19. Given that McMillan Woods was a network firm of McM and Yeung concurrently served as a practicing director of McMillan Woods and as the company secretary of the Company, McM's subsequent engagement with the Company for the Relevant Audit faced an independence threat.
 20. Paragraph 523.1 of the COE requires firms to be independent and apply the conceptual framework set out in Section 120 of the COE to identify, evaluate and address threats to independence.
 21. Further, paragraphs R120.7 and R120.10 of the COE require professional accountants to (i) evaluate whether a threat to compliance with fundamental principles, when identified, is at an acceptable level, and (ii) if not, address the threat by eliminating it or reducing it to an acceptable level.
 22. Although McM had identified the independence threat, it held the misguided belief that such threat had been adequately managed and reduced to an acceptable level after implementing, among others, the following measures:
 - 22.1. authorising an external party, Tang, to act in the role of EQCR for the Relevant Audit alongside Lo;
 - 22.2. notifying the Company's audit committee of the independence threats and relevant mitigation measures implemented before signing the engagement letter for the Relevant Audit; and
 - 22.3. obtaining prior consent from the Company prior to McM's nomination as auditor for the Relevant Audit.
 23. In the circumstances, the threat to independence arising from Yeung's roles can only be mitigated through one of the following actions as stated in R120.10 of the COE:

- 23.1. eliminating the relationship giving rise to the threat;
 - 23.2. applying safeguards to reduce the threat to an acceptable level; or
 - 23.3. declining or ending the specific professional activity.
24. However, the measures taken by McM, as outlined in paragraph 22 above, were insufficient to adequately mitigate the independence threat. The self-review and self-interest threats remained unresolved, as Yeung continued to hold dual roles – both as a practising director of McM’s network firm and as company secretary of the Company – for the entire duration of the Relevant Audit.
25. In light of the above, Jon Gepsom had failed to properly evaluate the independence threats and reduce such threats to an acceptable level. It therefore committed a practice irregularity under section 4(2)(a)(v) of the AFRCO.

Contravention of section 20V of the AFRCO

26. The AFRCO sets out prohibitions concerning the engagement of unregistered persons to carry out activities in relation to PIE engagements. Under section 20V of the AFRCO, a registered PIE auditor must not authorise a person, who is not a registered EQCR of the auditor, to carry out any activity for the auditor as an EQCR.
27. The AFRC found, and it was admitted by Jon Gepsom, that:
- 27.1. McM engaged and authorised Tang, as one of the EQCRs for the Relevant Audit;
 - 27.2. Tang carried out activities as an EQCR for the Relevant Audit; and
 - 27.3. Tang was not, and has never been, a registered EQCR of McM or any other firm.
28. In light of the above, Jon Gepsom contravened section 20V of the AFRCO as it should not have authorised Tang to carry out any activity as EQCR for the Relevant Audit.

Wong’s failure to take appropriate actions after identifying independence threats

29. The AFRC found, and it was admitted by Wong, that:
- 29.1. as the engagement partner of the Relevant Audit, he was aware of the independence threat;
 - 29.2. the measures implemented by McM were deficient but he erroneously concluded that the measures were adequate; and

- 29.3. he failed to properly evaluate, eliminate and/or reduce such independence threat to an acceptable level.
30. As a result, Wong was in breach of paragraphs 11 and 12 of HKSA 220 and therefore committed practice irregularities pursuant to section 4(3)(a) of the AFRCO.

Lo's failure to assess the engagement team's evaluation of the independence threats

31. The AFRC found, and it was admitted by Lo, that:
- 31.1. he was aware of the relevant independence threat;
- 31.2. he, as the EQCR for the Relevant Audit, was obliged to consider the engagement team's evaluation of McM's independence in relation to the Relevant Audit; and
- 31.3. he incorrectly concluded that the independence threat had been mitigated to an acceptable level following the implementation of the measures mentioned in paragraph 22 above. As such, he failed to properly assess the engagement team's evaluation.
32. Accordingly, Lo was in breach of paragraph 21 of HKSA 220 and therefore committed practice irregularities pursuant to section 4(3)(a) of the AFRCO.

The Regulatees' Admission

33. The Regulatees have each accepted the above findings in full and admitted the FR misconduct found by the AFRC.

D. Conclusion

34. Having considered all relevant circumstances, the AFRC is of the view that the Regulatees are guilty of FR misconduct under sections 37A(a) and (e), and 37B(d) of the AFRCO.
35. In determining the Disciplinary Sanctions, the AFRC has had regard to its 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, and Guidance Note on Cooperation with the AFRC, and has taken into account all relevant circumstances, including:
- 35.1. Jon Gepsom took up the engagement with the public interest entity audit client knowing that an independence threat would arise due to the company secretary of the audit client being also a practising director of its network firm. While Jon Gepsom took steps to address the independence threat, such steps were inadequate in the circumstances and did not have the intended mitigating effect.

- 35.2. In attempting to address the independence threat, the firm authorised an individual to carry out activities as an EQCR for the Relevant Audit without registration, contrary to a statutory prohibition.
- 35.3. The misconduct undermined, or could have undermined, public confidence in the standards of conduct of the Regulatees and the reputation of the accounting profession.
- 35.4. A strong deterrent message needs to be sent to the accounting profession that breaches of statutory registration requirements and/or fundamental ethical principles, including the principle of independence, are unacceptable.
- 35.5. The Regulatees' clean disciplinary records with the AFRC and the HKICPA.
- 35.6. The Regulatees admitted their liabilities in full and initiated resolution discussions with the AFRC. They further accepted the Disciplinary Sanctions against them and entered into an agreement with the AFRC pursuant to section 371(1) of the AFRCO before the issuance of a Notice of Proposed Disciplinary Action.