

Press Release

20 December 2024

AFRC reprimands BDO Limited and two others for serious audit breaches, imposes fines totalling HK\$1.456 million and gives its first direction for additional CPD in disciplinary case

The Accounting and Financial Reporting Council (**AFRC**) has sanctioned the following PIE auditor and its practising directors for multiple breaches of auditing standards in relation to the audits of China Water Affairs Group Limited (**Company**), a Hong Kong listed company, and its subsidiaries (collectively, **Group**) for six consecutive years ended 31 March 2011 to 31 March 2016 (**2011 to 2016 Audits** respectively):

- (i) BDO Limited (registration number M0200) (**BDO**);
- (ii) Mr Lo Ngai Hang (**Lo**), engagement partner for the 2011 and 2012 Audits; and
- (iii) Mr Lam Hung Yun Andrew (**Lam**), engagement partner for the 2013 to 2016 Audits.

The AFRC has (a) issued a public reprimand to BDO, Lo and Lam (collectively, **Regulatees**), (b) imposed pecuniary penalties totalling HK\$1,456,000, comprising penalties of HK\$840,000 for BDO, HK\$196,000 for Lo and HK\$420,000 for Lam, and (c) directed each of Lo and Lam to undertake additional Continuing Professional Development (**CPD**) hours¹.

The Regulatees accepted their breaches in full, proactively engaged in settlement negotiation and reached an early settlement with the AFRC. They fully accepted the above disciplinary sanctions and direction for additional CPD. In light of the Regulatees' cooperative attitude, the AFRC has exercised its discretion under the [Guidance Note on Cooperation with the AFRC](#) (**Guidance Note on Cooperation**) and reduced the pecuniary penalties by 30% (i.e. the maximum reduction permitted by the AFRC for early settlement).

This case concerns the accounting of various water supply arrangements which form the core operation of the Group. The AFRC found that during the 2011 to 2016 Audits, the Regulatees failed to perform adequate audit procedures, obtain sufficient appropriate audit evidence, and exercise appropriate professional judgment in evaluating the accounting of the relevant water supply arrangements. Notwithstanding the apparent inconsistencies between the management's view and other audit evidence, the Regulatees failed to critically assess and challenge the management's judgments with professional skepticism. Besides, the Regulatees failed to critically evaluate the accounting of some of the relevant water supply arrangements in forming the unmodified auditor's opinions. Further, BDO and Lam also failed to critically assess whether various

¹ Specifically, Lo and Lam shall undertake 30 additional verifiable CPD hours on specified areas within 12 months from the date of the issuance of the Decision Notices to Lo and Lam respectively, and shall provide the AFRC with evidence of compliance.

legal opinions obtained were relevant or sufficient in the 2015 and 2016 Audits. In light of the aforesaid, there were multiple serious breaches of auditing standards during the relevant years of audits, and the Regulatees are guilty of CPA misconduct.

Ms Hester Leung, Head of Discipline, said, “The AFRC has repeatedly emphasised the need for professional skepticism in audits. This involves adopting a questioning mindset and critically assessing audit evidence in relation to management’s assessment. Failure to identify material misstatements in relation to the accounting treatment may have a significant impact on financial statements and undermine public confidence in audit quality and financial reporting.”

In deciding the appropriate disciplinary sanctions, the AFRC has considered all the relevant circumstances, including:

- the nature, seriousness, duration, frequency and impact of the misconduct. Among other things, this case involves multiple serious audit deficiencies, and the Regulatees have admitted that their breaches resulted in material misstatements in all the relevant financial statements;²
- BDO’s prior disciplinary records and history of non-compliance suggest a tendency of repeated failures to comply with auditing and professional standards; and
- in light of the Regulatees’ cooperation in this case, the AFRC has exercised its discretion under the Guidance Note on Cooperation and reduced the pecuniary penalties by 30%.

Ms Janey Lai, CEO, remarked, “This marks the AFRC’s first settlement case concerning audit deficiencies by a listed entity auditor, and our first direction for additional CPD in a disciplinary case. As stated in the Guidance Note on Cooperation, the AFRC places importance on cooperation to meet its regulatory objectives, expedite case resolutions, and promote a culture of self-improvement among regulatees. We encourage regulatees to voluntarily propose meaningful remedial actions to reduce the risk of future misconduct.”

For details of the decision, please refer to the [Statement of Disciplinary Action](#).

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² The Company subsequently made prior year adjustments to (a) reclassify the relevant water supply infrastructure previously classified as property, plant and equipment to other intangible assets, and (b) recognise the relevant revenue and costs relating to construction or upgrade services in connection with the relevant water supply infrastructure. Among other things, (i) the amount of property, plant and equipment was restated and significantly reduced from HK\$6,716 million to HK\$590 million as at 31 March 2016, (ii) the amount of other intangible assets was restated and significantly increased from HK\$764 million to HK\$8,041 million as at 31 March 2016, (iii) the amount of revenue was restated and increased from HK\$4,033 million to HK\$4,740 million for the year ended 31 March 2016, (iv) the amount of profit for the year was restated and increased from HK\$1,003 million to HK\$1,100 million for the year ended 31 March 2016, and (v) the amount of cost of sales was restated and increased from HK\$2,132 million to HK\$2,642 million for the year ended 31 March 2016.

About the Accounting and Financial Reporting Council

The Accounting and Financial Reporting Council (**AFRC**) is an independent body established under the Accounting and Financial Reporting Council Ordinance. As an independent regulator, the AFRC spearheads and leads the accounting profession to constantly raise the level of quality of professional accountants, and thus protects the public interest and promotes the healthy development of the accounting profession.

For more information about the statutory functions of the AFRC, please visit <http://www.afrc.org.hk>.

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