

## Press Release

24 November 2023

### **AFRC imposes its first ever permanent non-issuance of practising certificate order and pecuniary penalty of HK\$300,000 against Chan Kam Kwan for serious CPA misconduct**

The Accounting and Financial Reporting Council (**AFRC**) has imposed sanctions on Mr Chan Kam Kwan (**Chan**)<sup>1</sup> in relation to multiple professional irregularities arising from the practice review (**Practice Review**)<sup>2</sup> on Chan Kam Kwan & Company (**CKK & Co**)<sup>3</sup> conducted by the Hong Kong Institute of Certified Public Accountants (**HKICPA**) during the period from 19 April 2022 to 6 June 2022.

Chan was at all material times the sole proprietor and the only staff of CKK & Co. Chan admitted that he had blindly signed off and issued 11 auditor's reports of private companies, and provided false and/or misleading information to the HKICPA prior to the commencement of the Practice Review. In addition, multiple deficiencies were identified on both system-wide and engagement levels in the Practice Review.

As a result, the AFRC found that Chan had committed professional irregularities under section 3B(1)(c) of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (**AFRCO**) by failing to observe, maintain or otherwise apply the following standards:

- (i) the fundamental principle of integrity under the Code of Ethics for Professional Accountants (**COE**), which requires a professional accountant to, among other things, be straightforward and honest in their professional and business relationships, and not knowingly be associated with false or misleading information;
- (ii) the fundamental principle of professional competence and due care under the COE, which requires a professional accountant to, among other things, act diligently and in accordance with applicable technical and professional standards;

---

<sup>1</sup> Chan was first registered as a member of the HKICPA in 1999 (membership number: A16333) and first issued with a practising certificate in 2008 (practising certificate number: P05094). He has ceased to be a member of the HKICPA and a practising certificate holder since 1 January 2023.

<sup>2</sup> Practice review was a quality assurance programme administered by the then Quality Assurance Department of the HKICPA to monitor practice units to determine whether they have observed, maintained and applied professional standards. After the further regulatory reform of the accounting profession, the Inspection Department of the AFRC has taken over this regulatory function.

<sup>3</sup> CKK & Co was first registered as a CPA firm in Hong Kong in 2008 (firm registration number: 2055). It has ceased to be a registered CPA firm in Hong Kong since 1 January 2023.

- (iii) paragraph 6 of Hong Kong Standard on Auditing (**HKSA**) 500 *Audit Evidence*, which provides that an auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence;
- (iv) paragraphs 10 and 11 of HKSA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*, which provide that the auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework, and to obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error;
- (v) paragraph 32 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**), which requires a firm to establish policies and procedures to, among other things, provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements; and
- (vi) paragraph 48 of HKSQC 1, which provides that a firm shall establish a monitoring process designed to provide it with reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively.

By making a statement in respect of a document that is material and that Chan knows to be false or does not believe to be true, Chan has also committed a professional irregularity under section 3B(1)(b) of the AFRCO.

Further, Chan's multiple serious failures fall significantly short of the standard expected of a professional accountant and amount to professional misconduct. Accordingly, Chan has committed a professional irregularity under section 3B(1)(h) of the AFRCO.

In light of the above, Chan is found guilty of CPA misconduct. Pursuant to section 37CA of the AFRCO, which provides for the sanctions for CPA misconduct, the AFRC has reprimanded Chan, imposed a pecuniary penalty of HK\$300,000,<sup>4</sup> and ordered that Chan not be issued with a practising certificate permanently and pay the costs and expenses of, and incidental to, the investigation in relation to Chan, in the sum of HK\$25,532.

---

<sup>4</sup> Under section 37CA(2)(b) of the AFRCO, the maximum pecuniary penalty for a CPA misconduct is HK\$500,000.

Ms Hester Leung, Head of Discipline, said, “Integrity, professional competence and due care are fundamental requirements expected of professional accountants. Blindly signing off audit reports is alarming conduct that amounts to serious dereliction of duty of a professional accountant. Any attempt to undermine regulatory oversight by providing false and/or misleading information is very serious misconduct and warrants severe sanctions. The AFRC has zero tolerance towards such behaviour and will take robust action against the wrongdoers to maintain public confidence.”

## **Multiple serious misconduct**

### **1. Blindly signing off audit reports**

The AFRC found that Chan had blindly signed off and issued 11 auditor’s reports of nine private companies. Chan admitted that he simply signed on the signature pages of the auditor’s reports without performing any audit work at all or retaining any copies of the financial statements for eight private companies, and only performed a land search and reviewed the financial statements for the remaining one, which was grossly inadequate.

Auditors are required to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. Such evidence serves as the basis for the auditors’ conclusions in the audit opinion and provides reasonable assurance on the accuracy and fairness of the financial statements. Chan’s deliberate omission of audit work and blind issuance of auditor’s reports constitute repeated breaches of the relevant auditing standards (HKSA 500.6, HKSA 700.10 and 700.11), as well as the fundamental principle of integrity under the COE.

### **2. Providing false and/or misleading information**

Before the commencement of the Practice Review, Chan provided false and/or misleading information to the HKICPA by stating that CKK & Co had:

- (i) performed a monitoring review of its quality control system and a completed engagement in December 2019;
- (ii) established written policies and procedures regarding suspicious transaction reporting, financial sanctions and terrorist financing; and
- (iii) performed sanctions screening of clients before establishing client relationships and on an ongoing basis.

However, the HKICPA subsequently discovered that:

- (i) the last monitoring review of CKK & Co’s quality control system was performed in 2018;

- (ii) CKK & Co only developed its Anti-Money Laundering and Counter-Terrorist Financing (**AML / CTF**) Policy Manual on the day before the commencement of the Practice Review; and
- (iii) no sanctions screening of clients had been performed.

Such conduct could have misled the HKICPA as to CKK & Co's risk profile and obscured its chance of being selected for practice review.

Accordingly, Chan has breached the fundamental principle of integrity under the COE, and has committed a professional irregularity for making statements, in respect of a document, that are material and he knows to be false or does not believe to be true under section 3B(1)(b) of the AFRCO.

### 3. Breaches of professional standards on system-wide and audit engagement levels

In addition, the AFRC found that Chan, as the sole proprietor and the only audit staff of CKK & Co, had committed other breaches of professional standards on both system-wide and audit engagement levels.

On a system-wide level, a deficient quality control system of CKK & Co was evidenced by Chan's failure to:

- (i) establish policies and procedures designed to provide CKK & Co with reasonable assurance that engagements were performed in accordance with professional standards and applicable legal regulatory requirements (HKSQC 1.32); and
- (ii) establish proper policies and procedures for CKK & Co's monitoring review process (HKSQC 1.48).

On an audit engagement level, in relation to two audit engagements of CKK & Co which were selected for review in the Practice Review, Chan failed to design and perform appropriate audit procedures and obtain sufficient appropriate audit evidence in relation to the material aspects of inventories, trade receivables and other material items (HKSA 500.6, HKSA 700.10 and 700.11).

### 4. Overall assessment of misconduct

The AFRC considers Chan's misconduct as a whole to be very serious. Chan's conduct demonstrates his blatant disregard of professional standards and constitutes egregious breaches of ethical requirements on integrity, professional competence and due care, which amount to professional misconduct under section 3B(1)(h) of the AFRCO.

Ms Leung added, “A sound system of quality management is crucial for consistent performance of high quality audits and ensures compliance with professional standards for large and small firms alike. When establishing policies and procedures in respect of engagement performance, practitioners are encouraged to consider and take benefit of the appropriate use of tools such as programmes and checklists to ensure adherence to standards and audit quality, without which a firm may be put at relatively higher risk of non-compliance.”

### **Our sanctions and the rationale**

The AFRC has imposed the following sanctions against Chan:

- (i) public reprimand;
- (ii) pecuniary penalty of **HK\$300,000**;
- (iii) order for **permanent** non-issuance of practising certificate; and
- (iv) order for investigation costs of **HK\$25,532**.

A significant pecuniary penalty and permanent non-issuance of practising certificate order were imposed to protect the public from and deter future misconduct, as well as to maintain public confidence in the profession and uphold the standards of conduct among regulatees.

In deciding the sanctions against Chan, the AFRC considered all relevant circumstances. In particular, the AFRC highlights the following:

- (i) Chan’s conduct amounts to a very serious case of CPA misconduct which significantly falls below the standards of integrity, professional competence and due care.
- (ii) Blindly signing off auditor’s reports and the provision of materially false and/or misleading information in response to a regulatory request are unacceptable conduct.
- (iii) There was a lack of an adequate and effective quality control system which is fundamental to the audit quality of engagements performed by an audit firm.

The AFRC also highlights the following aggravating and mitigating factors:

- (i) aggravating factors:
  - the systemic failures of CKK & Co were solely attributable to Chan as the sole proprietor and the only audit staff of CKK & Co; and

- Chan has committed repeated misconduct that amounts to serious dereliction of the duty of a professional accountant, despite being an experienced member of the profession;
- (ii) mitigating factors:
- Chan’s willingness to take responsibility for his misconduct and early acceptance of the findings of the Practice Review and the AFRC’s investigation, as well as admission of his misconduct; and
  - Chan’s clean disciplinary record with the HKICPA and AFRC.

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

### **Reminder regarding late submissions**

In this case, Chan submitted his written representations to the AFRC’s Notice of Proposed Disciplinary Action late without providing any reasonable justification. The AFRC takes this opportunity to remind regulatees of the importance of providing timely responses to the AFRC’s regulatory requests.

Regulatees are expected to fully cooperate with the AFRC in its regulatory processes, including strictly complying with all prescribed deadlines, and if necessary, seeking time extension as soon as possible. The AFRC may not take into consideration late submissions, or grant late requests for time extension, that are made without any reasonable justification.

End

## **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.

For more information about the statutory functions of the AFRC, please visit [www.afrc.org.hk](http://www.afrc.org.hk).

## **About the Discipline Department**

The Discipline Department takes appropriate and timely disciplinary action by imposing commensurate sanctions for the purposes of deterrence, investor protection, maintaining market confidence in the quality of financial reporting and audits, and upholding the standards of conduct among regulatees.