

## Press Release

28 August 2025

### **AFRC reprimands and fines Deloitte and two engagement partners over HK\$1.9 million for multiple audit deficiencies in relation to two companies formerly listed in Hong Kong**

The Accounting and Financial Reporting Council (**AFRC**) has sanctioned the following PIE audit firm and its two partners for multiple audit deficiencies related to revenue recognition and other breaches involving two companies formerly listed in Hong Kong:

- (i) Deloitte Touche Tohmatsu (**Deloitte**), as the reporting accountants preparing the accountants' report of Tianhe Chemicals Group Limited<sup>1</sup> and its subsidiaries (**Tianhe Group**) for the years ended 31 December 2011, 2012 and 2013 included in the prospectus for the company's initial public offering (**IPO**), and the auditor of Sound Global Limited<sup>2</sup> and its subsidiaries (**Sound Global Group**) for the years ended 31 December 2012 and 2013;
- (ii) Mr Wong Tin Chak Samuel (**Wong**), engagement partner for the 2011, 2012 and 2013 audits of the Tianhe Group; and
- (iii) Mr Mak Chi Lung (**Mak**), engagement partner for the 2012 and 2013 audits of the Sound Global Group.

The AFRC has issued a public reprimand to each of Deloitte, Wong and Mak (collectively, **Regulatees**), and imposed pecuniary penalties totalling HK\$1,912,000, comprising penalties of HK\$1,160,000 for Deloitte,<sup>3</sup> HK\$416,000 for Wong and HK\$336,000 for Mak.

This is the first batch of completed disciplinary cases involving Mainland audit working papers obtained through cross-boundary regulatory collaboration with the support of the Ministry of Finance of the People's Republic of China (**MoF**).

In the audits of both companies formerly listed in Hong Kong, the AFRC identified multiple deficiencies in the audit procedures concerning revenue recognition and external confirmations. These deficiencies resulted in failures to obtain sufficient

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<sup>1</sup> Previous stock code: 01619, now delisted.

<sup>2</sup> Previous stock code: 00967, now delisted.

<sup>3</sup> The pecuniary penalties of HK\$1,160,000 for Deloitte comprises of: (i) a pecuniary penalty of HK\$592,000 for audit deficiencies in the Tianhe Group case involving three audit years (2011, 2012 and 2013); and (ii) a pecuniary penalty of HK\$568,000 for audit deficiencies in the Sound Global Group case involving two audit years (2012 and 2013).

appropriate audit evidence and indicated a lack of professional skepticism to address the assessed risk of material misstatement of revenue.

The Regulatees accepted their breaches and proactively engaged in settlement negotiation and reached an early settlement with the AFRC. In light of the Regulatees' cooperative attitude, the AFRC has exercised its discretion under the [Guidance Note on Cooperation with the AFRC](#) and reduced the pecuniary penalties by 20% in each case.

### *Disciplinary decision regarding the audits of Tianhe Group*

The core business of the Tianhe Group was the manufacturing and sale of fine chemical products. In 2014, the company sought a listing on the Main Board of the Hong Kong Stock Exchange. Revenue from the sales of fine chemical products was mainly generated by a subsidiary. The subsidiary's sales amounted to RMB3.2 billion, RMB4.1 billion and RMB4.8 billion for the financial years 2011, 2012 and 2013 respectively, representing 95.3%, 97.5% and 96.1% of the respective consolidated sales of the Tianhe Group.

Deloitte and Wong were the reporting accountants for the IPO in 2014, and in that capacity, audited the financial information of the Tianhe Group for the financial years 2011, 2012 and 2013. Revenue was identified as a significant risk area and where potential risk of material misstatement due to fraud existed.

The AFRC found a multitude of deficiencies in the reporting accountants' work in the area of revenue recognition in relation to that subsidiary, including:

- failure to properly evaluate the design and implementation of internal controls in relation to the revenue cycle and obtain sufficient appropriate audit evidence as to their operating effectiveness, and wrongful conclusion that such controls were effective and reliable;
- failure to ensure the completeness of sales in the tests of controls and substantive procedures; and
- regarding the testing of the occurrence of revenue, (i) failure to obtain critical evidence of goods delivery and customers' acceptance; (ii) failure to properly design and perform audit procedures resulting in the overlooking of certain inconsistencies between the transaction amounts stated on some value-added tax invoices and other records; and (iii) failure to identify that revenue from the sales of goods was recognised in advance of the delivery of goods, which deviated from the Tianhe Group's accounting policy.

### *Disciplinary decision regarding the audits of Sound Global Group*

The Sound Global Group was principally engaged in turnkey water and wastewater treatment. According to the consolidated financial statements for the financial years 2012 and 2013, revenue from turnkey projects and services amounted to RMB2.4 billion and RMB2.9 billion, representing 92.2% and 91.8% of the total revenue of the Sound Global Group respectively.

Deloitte and Mak audited the financial information of the Sound Global Group for the financial years 2012 and 2013. The auditors had identified that there were risks of material misstatement in relation to revenue and bank balances for both the 2012 and 2013 audits.

The AFRC found multiple deficiencies in the auditors' work concerning (i) revenue from turnkey services and sales of equipment; and (ii) external confirmations relating to bank balances and trade receivables, including:

- failure to obtain sufficient appropriate audit evidence to corroborate revenue recognition in respect of turnkey projects;
- failure to properly determine the sample size for testing the completeness and occurrence of revenue from sales of equipment; and
- failure to identify and verify that some confirmations were returned from Sound Global subsidiaries, rather than from the banks or from the customer to which the external confirmations were addressed.

In deciding the appropriate disciplinary sanctions in each case, the AFRC has considered all the relevant circumstances, including the nature, seriousness, duration, frequency and impact of the misconduct. In particular, the AFRC has taken into account the following factors in these two cases:

- the conduct involved multiple breaches of auditing standards involving multiple audit years;
- there was no finding of intentional, dishonest or deliberate misconduct;
- as the subject companies were listed, or sought to be listed, on the Main Board at the material times, and the Tianhe Group case involved the initial public offering of shares, significant public interest was at stake. Deficiencies in the audit work could undermine public confidence in the audit quality;
- Deloitte's history of non-compliance with the Hong Kong Institute of Certified Public Accountants as at the time of the misconduct;
- the clean disciplinary records of Wong and Mak; and

- the Regulatees' cooperation with the AFRC, acceptance of the AFRC's findings and disciplinary action, which facilitated an early resolution of the matter.

Ms Hester Leung, Head of Discipline, stated, "Revenue is a key performance indicator in financial reporting and can be prone to manipulation by management. Deficient audit work in this critical area can increase the risk of undetected material misstatements of revenue or financial statement fraud, threatening investor interests. Further, the use of external confirmations is a critical audit procedure for verifying the financial information provided by the audited entity. External confirmations must be returned directly from the requested third parties to the auditors to ensure their reliability as audit evidence. The AFRC emphasises that auditors must maintain professional skepticism while performing audit procedures relating to revenue and external confirmations."

Ms Janey Lai, CEO of the AFRC, remarked, "The successful completion of these disciplinary cases attests to the effectiveness of the Memorandum of Understanding signed between the MoF and AFRC in 2019 in strengthening public trust in financial reporting and investor confidence. Given that a large proportion of listed companies in Hong Kong are based in Mainland China, accessing the relevant audit working papers from the Mainland is vital for our investigative and disciplinary work. The AFRC will continue to work closely with relevant authorities to enhance cross-boundary audit supervision."

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

For details of the decision regarding the audits of Sound Global Group, please refer to the [Statement of Disciplinary Action](#).

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## 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 leads the accounting profession by upholding professional standards, safeguarding the public interest, and promoting the profession's healthy development.

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

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