

## Press Release

28 November 2023

### **AFRC reprimands and imposes pecuniary penalty of HK\$80,000 against CCTH CPA Limited for delay in fulfilling a requirement issued by the AFRC**

The Accounting and Financial Reporting Council (**AFRC**) has reprimanded and imposed a pecuniary penalty of HK\$80,000 against CCTH CPA Limited (M0386) (**CCTH**) pursuant to section 37D of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (**AFRCO**) for its failure to complete corrective actions within the timeframes specified in a requirement issued by the Inspection Department of the AFRC pursuant to section 21H(b) of the AFRCO (**Requirement**). As a result of CCTH's failure to comply with the Requirement, CCTH committed a misconduct under section 37A(c) of the AFRCO, which states that a PIE auditor commits a misconduct if it has contravened a requirement imposed under a provision of the AFRCO.

#### **CCTH's misconduct**

In 2021, the Inspection Department conducted an inspection into CCTH's quality control system and two completed PIE engagements, and identified multiple deficiencies and areas for improvement. Following the inspection, CCTH submitted five rounds of proposals between March and October 2022 to remediate the deficiencies identified.

Based on the final remediation plan submitted on 7 October 2022, the AFRC issued the Requirement to CCTH on 9 November 2022 to complete five corrective actions within specified timeframes, ranging from three to seven weeks from the date of the Requirement. The corrective actions included the development of new templates and sample working papers for expected credit loss assessment and the launch of three new e-learning courses. These corrective actions were designed to ensure CCTH's compliance with fundamental auditing standards, including evaluating whether the information provided by listed companies is sufficiently reliable, which are key to quality audits.

However, CCTH only completed one of the five corrective actions on time. It was late in completing four corrective actions by around 1.5 to 2.5 months, despite the fact that the timeframes specified in the Requirement for three out of four such corrective actions were proposed by CCTH in its final remediation plan.

CCTH's failure to comply with the deadlines in the Requirement is a serious matter. Inspections by the AFRC play a key role in monitoring and improving the quality of audits, and contribute to the protection of the interests of investors and the wider public. It is vital that regulatees remediate the deficiencies in a timely manner to deter

the recurrence of such deficiencies. CCTH's failure to complete the corrective actions within the timeframes specified in the Requirement increases the risk of non-compliance with relevant professional standards in its future PIE engagements.

Ms Hester Leung, Head of Discipline, said, "We expect all regulatees to strictly comply with regulatory deadlines and fully cooperate with the AFRC in the discharge of its regulatory functions. Failure to comply with our requirements issued under the AFRCO is a serious matter. The sanctions in this case have reflected CCTH's cooperation with the AFRC through its early admission and settlement initiation during the investigation stage and agreement to our proposed sanctions at the disciplinary stage. The pecuniary penalty has been reduced to reflect such cooperation, without which the sanctions imposed would have been more severe."

## Settlement

For any settlement cases, the AFRC will apply the principles set out in the [Guidance Note on Cooperation with the AFRC \(Guidance Note on Cooperation\)](#). As mentioned in the [Consultation Conclusions](#) in relation to the AFRC's Disciplinary Process and Sanctions Approach published on 23 June 2022, the most appropriate way of providing guidance to regulatees as to how we apply our published policies and guidelines is through the experience of the operation of our disciplinary process and decided cases. This is our first disciplinary case which is resolved through settlement and will provide application guidance to regulatees.

The AFRC has discretion to settle a case with a regulatee if it considers it appropriate to do so in the interest of the investing public or in the public interest. Resolving a disciplinary case through settlement offers a number of benefits, including expediting the disciplinary process, saving time and resources for both the AFRC and the regulatee, ensuring that the AFRC's concerns on the regulatee's conduct can be addressed in a timely manner, and enabling the AFRC to promptly communicate the disciplinary outcome to the public for it to better understand the application of our regulatory principles.

Under the Guidance Note on Cooperation, as a general principle, the AFRC may, at its discretion, reduce the sanctions by up to 30% if settlement is reached with the AFRC before the issuance of a Notice of Proposed Disciplinary Action (**NPDA**). In general, the later a settlement is reached during the disciplinary process, the smaller the reduction in sanctions.

CCTH facilitated an early resolution of this case by way of early admission to the misconduct and settlement initiation prior to the issuance of an NPDA. In recognition of CCTH's proactive cooperation in this case, the AFRC has reduced the pecuniary penalty imposed on CCTH in accordance with the Guidance Note on Cooperation.

## **Our rationale for sanctions**

Full compliance by regulatees with our statutory requirements is crucial to the effectiveness of our role in upholding audit quality and enhancing public trust in the quality of financial reporting in Hong Kong. The AFRC's inspection function plays a pivotal role in monitoring and upholding audit quality. An inspection focuses on how a regulatee conducted its audit engagements and on the effectiveness of its quality control system to determine whether the applicable professional standards and legal and regulatory requirements have been complied with.

Where the Inspection Department issues requirements regarding corrective actions to address the deficiencies identified during an inspection, it is of utmost importance that regulatees complete the required actions in a timely manner in order to uphold audit quality. Otherwise, the deficiencies identified in the inspection would persist and recur in future engagements.

Our disciplinary action also sends a clear message to regulatees that non-compliance with our requirements issued under the AFRCO and the prescribed deadlines can constitute serious misconduct.

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

Ms Leung further remarked, "We expect full cooperation from all regulatees when performing our regulatory duties. We are concerned when regulatees adopt a lax attitude towards meeting regulatory deadlines, or even employ delaying tactics and engage in uncooperative behaviour that may affect the proper discharge of our regulatory functions. The AFRC adopts a zero tolerance approach to uncooperative conduct. Regulatees who engage in uncooperative conduct commit serious misconduct and can expect legal consequences commensurate with such misconduct."

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.