

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.

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.

STATEMENT OF DISCIPLINARY ACTION

The Disciplinary Action

1. The Accounting and Financial Reporting Council (**AFRC**) has publicly reprimanded and imposed a pecuniary penalty of HK\$80,000 on CCTH CPA Limited (**CCTH**)¹ pursuant to section 37D of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (**AFRCO**).
2. The disciplinary action is taken according to an agreement under section 37I(1) of the AFRCO dated 28 November 2023 in relation to CCTH's contravention of a requirement issued by the Inspection Department of the AFRC pursuant to section 21H(b) of the AFRCO (**Requirement**).² The Requirement imposed five corrective actions (**Corrective Actions**) on CCTH to remediate deficiencies identified by the AFRC following an inspection on CCTH. CCTH failed to complete four of the Corrective Actions within the timeframes set out in the Requirement.
3. By failing to comply with the Requirement, CCTH committed FR misconduct under section 37A(c) of the AFRCO.

Summary of Facts

4. In 2021, the AFRC conducted an inspection (**Inspection**) into CCTH's quality control system and two completed PIE engagements (**Two PIE Engagements**). The Inspection revealed a number of audit deficiencies in relation to the Two PIE Engagements.
5. On 24 February 2022, the AFRC required CCTH to provide, among other things, a written plan with an appropriate timescale to remediate the findings from the Inspection (**Inspection Findings**).
6. CCTH submitted its responses to the AFRC on 17 March 2022, 20 May 2022, 2 September 2022 and 23 September 2022. On 7 October 2022, CCTH submitted a finalised remediation plan (**Remediation Plan**) setting out its proposed remedial actions to address the Inspection Findings.
7. On 9 November 2022, the AFRC issued a letter to CCTH (**9 November 2022 Letter**). The 9 November 2022 Letter was delivered to CCTH's registered office address in Hong Kong by hand, for the attention of CCTH's Managing Director. CCTH acknowledged receipt of the letter on the same day by stamping its company chop on the courier slip.

¹ CCTH is currently registered with the AFRC as a public interest entity (**PIE**) auditor with registration number M0386.

² Section 21H(b) of the AFRCO states that the AFRC may, having regard to an inspection report in relation to a PIE auditor, require the auditor to take a measure or corrective action regarding compliance with a provision of the AFRCO or a professional standard.

8. The 9 November 2022 Letter enclosed the Requirement to complete five Corrective Actions within the specified timeframe as follows:

Corrective Actions	Timeframe
1. Finalisation of the report on CCTH's 2022 annual inspection of its Independence Compliance Programme (Corrective Action 1)	30 November 2022
2. Development of new templates for and sample working papers of expected credit loss assessment (Corrective Action 2)	31 December 2022
3. Launch of a new e-learning course "Working with Expert" for directors and managers (Corrective Action 3)	31 December 2022
4. Launch of a new series of e-learning courses, which provides a practical guide on the application of detailed review and general (or overriding) review of working papers (Corrective Action 4)	30 November 2022
5. Launch of the updated e-learning course for Engagement Quality Control Reviewer (EQCR) (Corrective Action 5)	30 November 2022

9. The 9 November 2022 Letter also required CCTH to submit a first monitoring report on the implementation progress of the Corrective Actions by 9 February 2023.

Summary of Findings

CCTH's contravention of the Requirement

10. CCTH completed Corrective Action 1 within the timeframe set out in the Requirement. However, the completion of Corrective Actions 2 to 5 was late by 1.5 to 2.5 months,³ despite the fact that these Corrective Actions were proposed by CCTH in its Remediation Plan, and the timeframes for Corrective Actions 2, 4 and 5 set out in the Requirement were identical to the timeframes proposed by CCTH in its Remediation Plan.
11. Accordingly, CCTH failed to complete Corrective Actions 2 to 5 within the timeframes specified in the Requirement. By failing to comply with the Requirement, CCTH committed FR misconduct under section 37A(c) of the AFRCO.

³ Corrective Actions 2 to 5 were completed on 9 February 2023, 20 February 2023, 16 February 2023 and 10 February 2023 respectively.

12. CCTH gave inconsistent explanations for its failure to complete Corrective Actions 2 to 5 within the timeframes specified in the Requirement:
 - 12.1. On 1 February 2023, CCTH indicated that an extension of time to submit the first monitoring report was required due to “*some delays in completing some remedial actions*” and its reprioritisation of the resources of its technical department.
 - 12.2. Subsequently, on 15 June 2023, CCTH asserted, for the first time, that the reason for failing to complete the Corrective Actions within the timeframes specified in the Requirement was because the 9 November 2022 Letter had been inadvertently mislaid by CCTH’s Managing Director’s personal assistant, and was only brought to the attention of CCTH’s senior management on 30 January 2023.
13. As stated in paragraph 7 above, the 9 November 2022 Letter enclosing the Requirement was delivered by hand to CCTH’s registered office in Hong Kong, and CCTH confirmed receipt of it on the same day. Accordingly, the Requirement was duly served on CCTH in accordance with section 60(2)(b)(ii) of the AFRCO,⁴ and CCTH’s representation that the Requirement escaped the attention of CCTH’s senior management is irrelevant in assessing whether CCTH had complied with the Requirement.

Seriousness of CCTH’s contravention

14. CCTH’s failure to comply with the deadlines in the Requirement is a serious matter.
15. The primary objective of requiring CCTH to take Corrective Actions 2 to 5 within the specified timeframes was to ensure that CCTH could remediate the audit deficiencies identified in the Two PIE Engagements in a timely manner, so that such deficiencies would not be repeated in CCTH’s other ongoing and future PIE engagements.
16. More specifically:
 - 16.1. Corrective Action 2 (to develop new templates for and sample working papers of expected credit loss assessment) and Corrective Action 3 (e-learning course on working with expert) were imposed on CCTH for complying with paragraph A107 of Hong Kong Standard on Auditing (**HKSA**) 540 (Revised) *Auditing Accounting Estimates and Related Disclosures*, which provides that when using information provided by the entity, the auditor should evaluate whether the information is sufficiently reliable for the auditor’s purposes.

⁴ The service of a notice or document under the AFRCO is governed by section 60 of the AFRCO. Pursuant to section 60(2)(b)(ii) of the AFRCO, a notice or document required or permitted to be given, sent or issued under the AFRCO is taken to be given, sent or issued to a company if it is left at, or sent by post to, the company’s registered office in Hong Kong.

16.2. Corrective Action 4 (e-learning course on review of working papers) and Corrective Action 5 (e-learning course for EQCR) were imposed on CCTH for complying with:

16.2.1. paragraph 17 of HKSA 220 *Quality Control for an Audit of Financial Statements (HKSA 220)*, which requires the engagement partner to, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued; and

16.2.2. paragraph 20 of HKSA 220, which provides that the EQCR shall perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the auditor's report.

17. The above professional standards are not engagement-specific. Rather, they are fundamental and crucial to the audit quality of PIE engagements.

18. As of 1 January 2023, CCTH was a Category B audit firm.⁵ CCTH's failure to complete Corrective Actions 2 to 5 within the timeframes specified in the Requirement increases the risk of non-compliance with the relevant professional standards in its audit work for PIE engagements. Such risk of non-compliance may in turn affect audit quality, damage the public interest and undermine public confidence in the profession.

CCTH's cooperation with the AFRC

19. On 19 July 2023, CCTH (through its legal representatives) admitted to its contravention of the Requirement and committing FR misconduct, and indicated its intention to reach an agreement with the AFRC under section 371(1) of the AFRCO to dispose of the matter in a frank and amicable manner.

20. The AFRC recognises the cooperation provided by CCTH when determining sanctions.

Conclusion

21. Having considered all the circumstances, the AFRC is of the view that CCTH is guilty of FR misconduct under section 37A(c) of the AFRCO.

22. In deciding the disciplinary sanctions set out in paragraph 1 above, the AFRC has had regard to the 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. The AFRC has taken into account all relevant circumstances, including:

⁵ A Category B audit firm performs audits on 10 to 99 listed entities in a year.

- 22.1. the FR misconduct involved a failure to comply with a requirement issued pursuant to the AFRCO, which is of itself a serious matter as it adversely affects the credibility and effectiveness of the AFRC's regulation of the accountancy profession;
- 22.2. the need to send a strong deterrent message to the market that failing to comply with a requirement issued by the AFRC in a timely manner is unacceptable;
- 22.3. the failure to comply with remediation requirements following an inspection in a timely manner created a risk of CCTH not complying with the relevant professional standards in its other ongoing and future PIE engagements, which could potentially damage the public interest and undermine public confidence in the standards of conduct of the profession;
- 22.4. aggravating factor of CCTH's inconsistent explanations to the AFRC for its failure to comply with the Requirement (see paragraph 12 above) indicate that CCTH did not exercise sufficient care in ensuring that information provided to the AFRC is accurate or complete; and
- 22.5. mitigating factors, including:
 - 22.5.1. CCTH's admission of liability facilitated an early resolution of the matter;
 - 22.5.2. the contravention being an isolated incident;
 - 22.5.3. no evidence to suggest that CCTH's failure to comply with the Requirement was intentional, dishonest, deliberate or reckless;
 - 22.5.4. the delay in the completion of all Correction Actions was less than three months, and CCTH completed all the Corrective Actions by mid-February 2023; and
 - 22.5.5. CCTH's clean disciplinary record with the Hong Kong Institute of Certified Public Accountants and the AFRC.