



**ORDER**

**II.**

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement (the "Offers") that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to entry of this Order Instituting Disciplinary Proceedings, Making Findings and Imposing Sanctions ("Order") as set forth below.<sup>3</sup>

**III.**

On the basis of Respondents' Offers, the Board finds<sup>4</sup> that:

**A. Respondents**

1. Anthony Kam & Associates Limited is, and at all relevant times was, a limited liability corporation headquartered in the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"). The Firm has been registered with the Board pursuant to Section 102 of the Act and PCAOB Rules since December 17, 2009. The Firm is registered with the Hong Kong Institute of Certified Public Accountants ("HKICPA") (Certificate No. M0332). At all relevant times, the Firm was the external auditor for the issuer identified below.

2. From its registration with the Board through 2017, AKAL issued 20 audit reports for 13 different issuers (publicly traded companies that are required to file audited financial statements with the U.S. Securities and Exchange Commission

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<sup>3</sup> The findings herein are made pursuant to Respondents' Offers and are not binding on any other persons or entities in this or any other proceeding.

<sup>4</sup> The Board finds that Respondents' conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5), which provides that certain sanctions may be imposed in the event of (1) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (2) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

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("Commission")).<sup>5</sup> All but five of those issuers reported having operations in Mainland China. Because of the position taken by authorities in Mainland China with respect to audit documentation concerning such operations, the Board has not had access to the information that is necessary to be able to inspect the Firm's issuer audit work as required by the Act and PCAOB Rules.<sup>6</sup>

3. Anthony KAM Hau Choi, CPA, age 52, is a resident of Hong Kong and a Practising Member of the HKICPA (Practising Certificate No. P02558). At all relevant times, Kam was the Managing Director of AKAL, and served as the engagement partner on the audits discussed below. Kam is, and at all relevant times was, an associated person of a registered public accounting firm as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

### **B. Summary**

4. This matter concerns Respondents' violations of the Exchange Act and PCAOB rules and standards in connection with Respondents' issuance of unqualified audit reports on the December 31, 2012, 2013 and 2014 financial statements of Sino Agro Food, Inc. ("SIAF" or the "Company").

5. The Firm violated Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder, by issuing an audit report containing an unqualified audit opinion concerning SIAF's December 31, 2012 financial statements stating that its audit had been conducted in accordance with PCAOB rules and standards. The Firm did so when it knew, or was reckless in not knowing, the statements therein were false. Kam took or omitted to take actions that he knew, or was reckless in not knowing, would directly and substantially contribute to the Firm's violations of Section 10(b) and Rule 10b-5, and thereby violated PCAOB Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations*.

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<sup>5</sup> See Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii) (defining "issuer").

<sup>6</sup> In the absence of that obstacle to access, the Board, in the normal course, would have inspected AKAL (including a selection of its audits and a review of its system of quality control) at least twice in the period from 2009 to 2017. Since October 2010, the Board has considered this obstacle to access when evaluating new registration applications from firms in Hong Kong (among other jurisdictions) and has not approved any new applications from Hong Kong firms.

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6. With respect to the 2013 and 2014 fiscal year audits of SIAF, Respondents failed to exercise due professional care and professional skepticism, and failed to obtain sufficient appropriate audit evidence to provide a reasonable basis for an opinion regarding the financial statements of the Company.

**C. Respondents Violated the Securities Laws, PCAOB Rules and Auditing Standards**

7. In connection with the preparation or issuance of an audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing standards and related professional practice standards.<sup>7</sup> An auditor may express an unqualified opinion on an issuer's financial statements only when the auditor has formed such an opinion on the basis of an audit performed in accordance with PCAOB standards.<sup>8</sup> Among other things, those standards require that an auditor exercise due professional care, including professional skepticism, and obtain sufficient appropriate audit evidence to provide a reasonable basis for an opinion regarding the financial statements under audit.<sup>9</sup> In addition, the auditor must document the procedures performed, evidence obtained, and conclusions reached with respect to relevant financial statement assertions, and clearly demonstrate that the work was in fact performed.<sup>10</sup>

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<sup>7</sup> See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200T, *Interim Auditing Standards*. All references to PCAOB rules and standards are to the versions of those rules and standards in effect at the time of the relevant audits. As of December 31, 2016, the PCAOB reorganized its auditing standards using a topical structure and a single, integrated numbering system. See *Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules*, PCAOB Release No. 2015-002 (Mar.31, 2015); see also *PCAOB Auditing Standards Reorganized and Pre-Reorganized Numbering* (January 2017).

<sup>8</sup> See AU § 508.07, *Reports on Audited Financial Statements*.

<sup>9</sup> See AU § 150.02, *Generally Accepted Auditing Standards*; AU § 230.07-.09, *Due Professional Care in the Performance of Work*; and Auditing Standard No. 15 ("AS 15"), *Audit Evidence*, at ¶ 4.

<sup>10</sup> See Auditing Standard No. 3, *Audit Documentation*, at ¶ 6.

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8. Section 10(b) of the Exchange Act and Rule 10b-5 thereunder prohibit a person, in connection with the purchase or sale of a security, from making an untrue statement of a material fact or from omitting to state a material fact necessary to make statements made, in light of the circumstances under which they were made, not misleading. To violate Section 10(b) or Rule 10b-5, a respondent must act with scienter,<sup>11</sup> which the United States Supreme Court has defined as "a mental state embracing intent to deceive, manipulate, or defraud."<sup>12</sup> Scienter encompasses knowing or intentional conduct, or recklessness.<sup>13</sup> An auditor violates Section 10(b) of the Exchange Act and Rule 10b-5 thereunder by issuing an audit report stating that the audit has been performed in accordance with PCAOB standards when it knows, or is reckless in not knowing, that the statement is false.<sup>14</sup> Such a misstatement is clearly material, as "[f]ew matters could be more important to investors than that of whether an issuer's financial statements, contained in its filings with the Commission, had, in fact, been subjected to an annual audit conducted in accordance with [PCAOB standards] in all material respects."<sup>15</sup>

9. As detailed below, Respondents failed to comply with the aforementioned rules, standards, and Exchange Act.

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<sup>11</sup> See *Aaron v. SEC*, 446 U.S. 680, 695, 701-02 (1980).

<sup>12</sup> See *Ernst & Ernst v. Hochfelder*, 425 U.S. 185, 193 n.12 (1976).

<sup>13</sup> See, e.g., *IIT v. Cornfeld*, 619 F.2d 909, 923 (2d Cir. 1980).

<sup>14</sup> See *In the Matter of Eugene M. Egeberg III, CPA*, Exchange Act Release No. 71348, at \*7-9 (Jan.17, 2014); *In the Matter of Hood & Associates CPAs, P.C., and Rick C. Freeman, CPA*, PCAOB Release No. 105-2013-012, at \*16-17 (Nov. 21, 2013); *In the Matter of Harris F Rattray CPA, PL, and Harris F. Rattray, CPA*, PCAOB Release No. 105-2013-009, at \*4-5 (November 21, 2013); *P. Parikh & Associates, Ashok B. Rajagiri, CA, Sandeep P. Parikh, CA, and Sundeeep P S G Nair, CA*, PCAOB Release No. 105-2013-002, at \*7 (Apr. 24, 2013); *In re Richard P. Scalzo, CPA*, Exchange Act Release No. 48328, 2003 SEC LEXIS 3490, at \*51-53 (Aug. 13, 2003).

<sup>15</sup> *Scalzo*, 2003 SEC LEXIS 3490, at \*52-53.

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**D. SIAF Audits**

10. At all relevant times, SIAF was a Nevada corporation with principal operations in the People's Republic of China. SIAF's public filings disclosed that it was an agriculture technology and natural food holding company and a vertically integrated food producer, primarily involved in beef, fish and shrimp production. SIAF's common stock was registered under Section 12(b) of the Exchange Act and was quoted on the OTC Markets. At all relevant times, SIAF was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

11. In June 2013, AKAL was engaged to provide audit services to SIAF after SIAF dismissed the predecessor auditor.<sup>16</sup> During 2014, AKAL issued three audit reports containing unqualified audit opinions regarding SIAF's financial statements for the years ended December 31, 2012 and 2013. Kam authorized the issuance of an undated, unqualified audit opinion included in a Form 10-K filed by SIAF with the Commission on April 11, 2014. Kam also authorized the issuance of two subsequent audit reports regarding SIAF's financial statements for the years ended December 31, 2012 and 2013: (a) an unqualified audit opinion, dated June 27, 2014, included in a Form 10-K/A filed by SIAF with the Commission on July 1, 2014; and (b) an unqualified audit opinion, dated December 1, 2014, included in a Form 10-K/A filed by SIAF with the Commission on December 2, 2014.

a. *Audit of SIAF's 2012 Financial Statements*

12. For the audit of SIAF's 2012 financial statements, Kam served as the engagement partner and authorized the issuance of AKAL's undated audit report expressing an unqualified audit opinion on SIAF's financial statements for the year ended December 31, 2012. Other than obtaining 2012 audit work papers from the predecessor auditor and obtaining a management representation letter from SIAF,

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<sup>16</sup> On January 15, 2015, the Board revoked the registration of Madsen & Associates CPAs, Inc., SIAF's predecessor auditor, with a right to reapply for registration after two years for failure to comply with PCAOB rules and standards in connection with the audit of SIAF's financial statements for the year ended December 31, 2011 and the audit of the financial statements of another issuer. *See In the Matter of Madsen & Associates CPAs, Inc., and Ted A. Madsen, CPA*, PCAOB Release No. 105-2015-002 (Jan. 15, 2015).

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Respondents failed to perform any audit procedures to support AKAL's unqualified opinion on the 2012 financial statements of SIAF.<sup>17</sup>

13. The Firm violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder by issuing an audit report that falsely stated that the 2012 audit had been conducted in accordance with PCAOB standards when the Firm knew, or was reckless in not knowing, that Firm personnel had not performed any audit procedures, other than obtaining 2012 audit work papers from the predecessor auditor and obtaining a management representation letter, prior to the issuance of the Firm's audit report on those financial statements.

14. Kam knew, or was reckless in not knowing, that that he was directly and substantially contributing to the Firm's violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder when he improperly authorized the issuance of the Firm's audit report regarding SIAF's 2012 financial statements. Kam accordingly violated PCAOB Rule 3502.

b. *Audits of SIAF's 2013 and 2014 Financial Statements*

15. The Firm served as SIAF's auditors for the years ended 2013 and 2014. Kam, as engagement partner, authorized the Firm's issuance of the audit reports expressing unqualified audit opinions on SIAF's financial statements for the year ended December 31, 2013, and the Firm's issuance of an audit report, dated March 31, 2015, expressing an unqualified audit opinion on SIAF's financial statements for the year ended December 31, 2014. The Firm's audit reports for 2013 and 2014 were included in SIAF's Form 10-K filed with the Commission on March 31, 2015.

16. In 2013 and 2014, SIAF's public filings reported consulting and service income from development contracts related to certain long-term arrangements for the development of fishery, prawn and beef farms, and catering facilities and restaurants. The Company accounted for these long-term arrangements using the percentage-of-completion method, recognizing revenue based on the percentage of actual costs incurred to management's estimate of the total costs upon completion ("estimates to complete") for each contract.<sup>18</sup> Components of the consulting and service income from

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<sup>17</sup> With the subsequently issued reports for fiscal year 2012, AKAL did not document any additional audit procedures.

<sup>18</sup> See FASB Accounting Standards Codification Subtopic 605-35, *Revenue Recognition – Construction-Type and Production-Type Contracts*.

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development contracts reported in 2013 and 2014 were related to incomplete projects for which estimates to complete were used; these amounted to \$12 million and \$77 million, respectively.

17. The auditor's objective when evaluating accounting estimates includes obtaining sufficient appropriate evidential matter to provide reasonable assurance that accounting estimates are reasonable in the circumstances.<sup>19</sup> However, during the 2013 and 2014 audits, Respondents failed to perform any audit procedures regarding SIAF's estimates to complete related to incomplete development contracts and, accordingly, failed to obtain sufficient appropriate audit evidence to determine whether they were properly valued.<sup>20</sup>

18. In 2013 and 2014, SIAF reported revenue of approximately \$3 million and \$57 million, respectively, from its largest facility development contract. For the 2013 audit, the only audit evidence obtained by Respondents related to this particular development contract was an unexecuted, temporary contract proposal. For the 2014 audit, Respondents obtained copies of contracts that were not fully executed by all contracting parties and that did not include sufficient information such as the contract price and the tangible or intangible goods or services that were intended to be delivered. As a result, Respondents failed to perform any procedures to evaluate whether it was appropriate under U.S. Generally Accepted Accounting Principles for SIAF to recognize revenue for this contract.<sup>21</sup>

19. For both the 2013 and 2014 audits, Respondents failed to perform audit procedures to specifically address the risk of management override of controls.<sup>22</sup> Respondents failed: (a) to examine journal entries and other adjustments for evidence of possible material misstatement due to fraud;<sup>23</sup> and (b) to perform retrospective reviews of significant accounting estimates, including with respect to the significant

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<sup>19</sup> See AU § 342.07, *Auditing Accounting Estimates*; AS 15 at ¶¶ 4-6.

<sup>20</sup> See AS 15 at ¶¶ 4-6.

<sup>21</sup> See Auditing Standard No. 14 ("AS 14"), *Evaluating Audit Results*, at ¶ 30.

<sup>22</sup> See AU § 316.57-67, *Consideration of Fraud in a Financial Statement Audit*.

<sup>23</sup> See AU § 316.58-62.



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estimates related to estimates to complete, and to determine whether judgments and assumptions relating to those estimates indicated possible bias on the part of management.<sup>24</sup> Further, for both the 2013 and 2014 audits, Respondents failed to identify revenue recognition as a fraud risk, and failed to document or provide a sufficient basis to overcome the presumption that revenue recognition should have been identified as a fraud risk.<sup>25</sup>

**IV.**

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondents' Offers. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Anthony Kam & Associates Limited and Anthony KAM Hau Choi are hereby censured;
- B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Anthony KAM Hau Choi is barred from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).<sup>26</sup>

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<sup>24</sup> See AU § 316.64.

<sup>25</sup> See Auditing Standard No. 12 ("AS 12"), *Identifying and Assessing Risks of Material Misstatement*, at ¶ 68; AU §316.83.

<sup>26</sup> As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Kam. Section 105(c)(7)(B) provides: "It shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain associated with any issuer, broker, or dealer in an accountancy or a financial management capacity, and for any issuer, broker, or dealer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission."

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- C. After five (5) years from the date of this Order, Anthony KAM Hau Choi may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;
- D. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of Anthony Kam & Associates Limited is revoked;
- E. After five (5) years from the date of the Order, Anthony Kam & Associates Limited may reapply for registration by filing an application pursuant to PCAOB Rule 2101; and
- F. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$10,000 is imposed upon Anthony Kam & Associates Limited. All funds collected by the Board as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act. Anthony Kam & Associates Limited shall pay this civil money penalty within ten (10) days of the issuance of this Order by (1) wire transfer pursuant to instructions provided by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Controller, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006, and (c) submitted under a cover letter which identifies Anthony Kam & Associates Limited as a Respondent in these proceedings, sets forth the title and PCAOB release number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to the Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown  
Secretary

November 28, 2017