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## Enforcement News

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3 November 2004

### SFC Reprimands Chan Ngok Ming Securities Limited for Internal Control Failures

The SFC has reprimanded Chan Ngok Ming Securities Limited (CNMSL), a licensed corporation, for internal control failures.

An SFC inspection of the business operations of CNMSL in late 2002 revealed a number of internal control weaknesses in CNMSL's operations, including the following:

- client payment dates recorded in its settlement system were earlier than the actual receipt dates;
- the settlement system could not record the exact amount received from a client if it was different from the client's outstanding balance;
- input errors in the settlement system in relation to dealing transactions could not be properly rectified due to the system's design, which led to errors in client accounts and client statements;
- mistakes in relation to client transactions were identified in CNMSL's settlement records; and
- statements to clients failed to show dividend payments.

The SFC found that a considerable number of CNMSL's internal control weaknesses were caused by its outdated and defective computer system and the lack of employee supervision.- The SFC concludes that the fitness and properness of CNMSL has been called into question and decides to reprimand it.

In deciding to reprimand CNMSL, the SFC has taken into account that no client of CNMSL has suffered any financial loss, and CNMSL has taken a number of rectification measures including the implementation of a new computer system and appointment of new supervisory staff to strengthen its internal control procedures.- Had these measures not been taken, the penalty imposed would have been more severe.

Mr Alan Linning, SFC's Executive Director of Enforcement, said: "Internal control failings make fraud easy to conceal and difficult to detect, which harm the interest of the investing public and the integrity of markets.- As repeatedly stated in our recent press releases, we do not tolerate firms with internal control failures and where such failures caused clients' losses or otherwise facilitated serious misconduct, we will not hesitate to impose a fine, or in the most serious cases, a lengthy suspension or even a revocation of the licence of the brokerage firm and the management concerned."

"The current case is significantly mitigated by the absence of clients' losses and staff misconduct.- CNMSL has also taken steps to improve its internal control procedures.- If clients had suffered losses as a result of the internal control failures, a proportionate suspension would have been appropriate,"- Mr Linning added.

**-Ends**

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