

# Application of New Auditing Standards<sup>1</sup>

Effective for audits of financial statements for periods beginning on or after  
15 December 2004 (and 15 June 2005)

17 October 2006

**The Society of Chinese Accountants and Auditors**  
香港華人會計師公會

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<sup>1</sup> This set of Sample Documents is designed for training and discussion purpose only. All the entities, persons and figures in the set documents are fictitious and are used only as a basis for training and discussion. It is not intended to cover all auditing and assurance standards and accounting practices generally accepted in Hong Kong nor designed for a particular entity or industry. Endeavour has been made to provide accurate information but no guarantee can be made to ensure that the information is accurate and complete all the times. Users of this set of statements should have their own research and analysis and exercise their own judgements. Appropriate professional advice on their situation would be required before using or acting on the information.

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# **I. Sample Planning and Control Document**

**Sample Planning and Control Document**

Client: _____	Engagement partner: _____ (responsible for overall quality, HKSA 220.6)
Year/period end: _____	Reviewer: _____
Date of audit plan: _____	Engagement in charge (EIC): _____
Date of review: _____	Engagement team members: _____

A complete set of planning and control document is composed of:

	<u>Sch. ref.</u>
1. Preliminary engagement activities	_____
2. The overall audit strategy	_____
3. The audit plan	_____
3.1 General	_____
3.2 Notes on risk assessment procedures and sources of information about the client's entity and its environment, including its internal control	_____
3.3 Notes on understanding the client's entity and its environment, including its internal control	_____
3.4 Notes on assessing the risks of material misstatements	_____
3.5 Auditor's procedures in response to assessed risks	_____
3.6 Evaluating the sufficiency and appropriateness of audit evidence obtained	_____
4. Engagement performance (direction, supervision and review) and control	_____

The following documents are also normally included:

- Notes of pre-audit meeting *(not addressed in this seminar)* \_\_\_\_\_
- Copy of the client's latest management accounts and last year's audited financial statements *(not addressed in this seminar)* \_\_\_\_\_
- Standard (or tailored) audit programmes *(only sample audit programme on SME-FRS in respect of PPE is illustrated)* \_\_\_\_\_
- Audit budget and time cost summary *(not addressed in this seminar)* \_\_\_\_\_
- Audit differences and/or error evaluation summary *(not addressed in this seminar)* \_\_\_\_\_
- Completion memorandum *(not addressed in this seminar)* \_\_\_\_\_
- Points to be covered in the management letter *(not addressed in this seminar)* \_\_\_\_\_
- Review report and clearance from engagement quality control review *(not addressed in this seminar)* \_\_\_\_\_
- Notes of final audit meeting *(not addressed in this seminar)* \_\_\_\_\_
- Debriefing points carried forward to next or other engagements *(not addressed in this seminar)* \_\_\_\_\_

**1. Preliminary Engagement Activities<sup>2</sup>**

	<u>Partner's initials</u>	<u>Date</u>
1. Acknowledge to take responsibility for the overall quality on the engagement (HKSA 220.6)	_____	_____
2. All the members of the engagement team have complied with the ethical requirements (HKSA 220.8 and HKSA 300.6)	_____	_____
3. Conclude on compliance with independence requirements that apply to the audit engagement <ul style="list-style-type: none"> <li>○ Obtain relevant information from the firm and network firms, if any to identify and evaluate circumstances and relationships that create threats to independence (provided in separate schedule for significant information)</li> <li>○ No information on identified breaches of the firm's independence policies and procedures observed (if such information observed, evaluate it and determine whether they create a threat to independence for the engagement by using separate documentation) (HKSA 220.12 and HKSA 300.6)</li> </ul>	_____	_____
4. Satisfy that appropriate procedures regarding the acceptance and continuance of client relationships and specific audit engagements have been followed, and that conclusions reached in this regard are appropriate (HKSA 220.14 and HKSA 300.6)	_____	_____
5. Satisfy that the engagement team collectively has the appropriate capabilities, competence and time to perform the audit engagement in accordance with professional standards and regulatory and legal requirements, and to enable an auditor's report that is appropriate in the circumstances to be issued (HKSA 220.19)	_____	_____
6. Acknowledge taking responsibility for the direction, supervision and performance of the audit engagement in compliance with professional standards and regulatory and legal requirements, and for the auditor's report that is issued to be appropriate in the circumstances (HKSA 220.21)	_____	_____
7. Be responsible for the engagement team undertaking appropriate consultation on difficult or contentious matters (HKSA 220.30a)	_____	_____
8. Establish an understanding of the terms of the engagement (HKSA 300.6) <ul style="list-style-type: none"> <li>○ Agree the terms of the engagement with the entity (HKSA 210.2)</li> <li>○ Confirm that the engagement letter was issued within appropriate interval and is still appropriate (date of engagement letter: _____)</li> </ul>	_____	_____

<sup>2</sup> HKSA 300.6 sets out 3 preliminary engagement activities and this document expanded them by combining them with those set out in HKSA 220.

**2. The Overall Audit Strategy**

The auditor should establish the overall audit strategy, which sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan. (HKSA 300.8 and 300.9 and reference is made to Appendix to HKSA 300)

	<u>Sch.</u> <u>ref.</u>	<u>Initials</u>	<u>Date</u>
2.1 Determine the characteristics of the engagement that define the scope, (e.g. HKFRS used, reporting under the Companies Ordinance, location of the components of the entity, industry specific reporting requirements): please specify or provide sch. ref.: _____ _____	_____	_____	_____
2.2 Ascertain the reporting objectives: <ul style="list-style-type: none"> <li>○ Deadline for interim reporting: _____</li> <li>○ Deadline for final reporting: _____</li> <li>○ Other key dates: _____</li> </ul>	_____	_____	_____
2.3 Determine the focus of the engagement team’s efforts (if any, please specify below or in a separate schedule): <ul style="list-style-type: none"> <li>○ Determination of appropriate materiality levels (please specify or provide sch. ref: _____)</li> <li>○ Preliminary identification of areas where there may be higher risks of material misstatement (please specify or provide sch. ref: _____)</li> <li>○ Preliminary identification of material components and account balances (please specify or provide sch. ref: _____)</li> <li>○ Evaluation of whether there is a plan to obtain evidence regarding the effectiveness of internal control (please specify or provide sch. ref: _____)</li> <li>○ Identification of recent significant entity-specific, industry, financial reporting or other relevant developments (please specify or provide sch. ref: _____)</li> </ul>	_____	_____	_____
2.4 Determine the auditor’s response to the identified issues above (e.g. the use of experienced team members, the no. of team members, the location of visit, the timing of visit and the extent of work and review) (HKSA 300.10)	_____	_____	_____
2.5 Consider the results of preliminary engagement activities and the experience gained on other engagements, if any, in developing the above audit strategy	_____	_____	_____
2.6 The overall audit strategy should be updated and changed as necessary during the course of the audit ( <i>delete as appropriate</i> ) <ul style="list-style-type: none"> <li>○ Not required to update and change, or</li> <li>○ Required to update/change, please specify or provide sch. ref: _____                              _____ (HKSA 300.16 and 300.22)</li> </ul>	_____	_____	_____

**3. The Audit Plan**

Planning an audit is a continual and iterative process throughout the audit engagement. (HKSA 300.5 and 300.17) The auditor should develop an audit plan for the audit in order to reduce audit risk to an acceptably low level. (HKSA 300.13) The audit plan is more detailed than the audit strategy and includes the nature, timing and extent of audit procedures to be performed by engagement team members in order to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level. (HKSA 300.14)

**3.1 General**

	<u>Sch. ref.</u>	<u>Initials</u>	<u>Date</u>
3.1.1 A description of the nature, timing and extent of planned risk assessment procedures sufficient to assess the risks of material misstatement	3.2 3.3	_____ _____	_____ _____
3.1.2 A description of the nature, timing and extent of planned further audit procedures at the assertion level for each material class of transactions, account balance, and disclosure	3.5	_____	_____
3.1.3 Such other audit procedures required to be carried out for the engagement in order to comply with HKSAs (HKSA 300.15)	_____	_____	_____
3.1.4 Consider the risks of material misstatements in the financial statements due to fraud in planning and performing the audit to reduce audit risk to an acceptably low level (HKSA 240.3)	_____	_____	_____
3.1.5 The audit plan should be updated and changed as necessary during the course of the audit ( <i>delete as appropriate</i> )	_____	_____	_____
<ul style="list-style-type: none"> <li>○ Not required to update and change, or</li> <li>○ Required to update/change, please specify or provide sch. ref.: _____ _____ (HKSA 300.16 and 300.22)</li> </ul>	_____	_____	_____

**3.2 Risk Assessment Procedures**

Risk assessment procedures refer to audit procedures to obtain an understanding of the entity and its environment, including its internal control. (HKSA 315.6)

	<u>Sch. ref.</u>	<u>Initials</u>	<u>Date</u>
3.2.1 Perform the following risk assessment procedures to obtain an understanding of the entity and its environment, including its internal control (HKSA 315.7):	_____	_____	_____
<ul style="list-style-type: none"> <li>○ Inquiries of management and others within the entity</li> <li>○ Analytical procedures – apply analytical procedures as risk assessment procedures to obtain an understanding of the entity and its environment (HKSA 520.2 and 520.8)</li> <li>○ Observation and inspection (e.g. observe activities and operations, inspect business plan or strategies, visit locations and etc.)</li> <li>○ Obtain and inspect latest management accounts</li> </ul>	_____	_____	_____
3.2.2 Information about the entity obtained in prior periods has been updated to those changes that may affect the relevance of such information in the current audit (HKSA 315.12)	_____	_____	_____
3.2.3 Discuss the susceptibility of the entity’s financial statements to material misstatements (HKSA 315.14), please specify or provide sch. ref.: _____	_____	_____	_____
3.2.4 Discuss the susceptibility of the entity’s financial statements to material misstatements due to fraud (HKSA 240.27), please specify or provide sch. ref.: _____	_____	_____	_____
<ul style="list-style-type: none"> <li>○ Engagement partner considers which matters to be communicated to members of the engagement team not involved in the discussion (HKSA 240.29), please specify or provide sch. ref.: _____</li> </ul>	_____	_____	_____

**3.3 Understanding the Entity and Its Environment, Including Its Internal Control**

Obtaining an understanding of the entity and its environment, including its internal control, is a continuous, dynamic process of gathering, updating and analyzing information throughout the audit. (HKSA 315.6)

	<u>Sch.</u> <u>ref.</u>	<u>Initials</u>	<u>Date</u>
3.3.1 Obtain an understanding of the entity and its environment, including its internal control			
○ Sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, and			
○ Sufficient to design and perform further audit procedures. (HKSA 315.2)			
* <i>A template on documenting the understanding of the entity and its environment, including internal control is enclosed on page 13.</i>			

**3.4 Assessing the Risks of Material Misstatements**

	<u>Sch.</u> <u>ref.</u>	<u>Initials</u>	<u>Date</u>
<b>Risks at the Financial Statement Level</b>			
3.4.1 Identify and assess the risks of material misstatement at the financial statement level (HKSA 315.100), please specify or provide sch. ref.: _____			
<b>Risks at the Assertion Level</b>			
3.4.2 Identify and assess the risks of material misstatement at the assertion level for classes of transactions, account balances, and disclosures (HKSA 315.100), please specify or provide sch. ref.: _____			
<b>Significant Risks</b>			
3.4.3 Determine the risks identified that are, in the auditor’s judgment, risks that require special audit consideration (such risks are defined as “significant risks”) (HKSA 315.108)			
○ Specify (or provide separate schedule for) the significant risks identified, including those relate to significant non-routine transactions and judgemental matters: _____			
3.4.4 Evaluate the design of the entity’s related controls, including relevant control activities, for significant risks (to the extent the auditor has not already done so) and determine that they have been implemented (HKSA 315.113), please specify or provide sch. ref.: _____			
<b>Risks for Which Substantive Procedures Alone Are Ineffective</b>			
3.4.5 Evaluate the design and determined the implementation of the entity’s controls, including relevant control activities, over those risks for which it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (HKSA 315.115), please specify or provide sch. ref.: _____			
<b>Risks of material misstatement due to fraud</b>			
3.4.6 Identify and assess the risks of material misstatement due to fraud, and such assessed risks are significant risks:			
○ Evaluate the design of the entity’s related controls, including relevant control activities, and determine whether they have been implemented (HKSA 240.57)			
○ Presume that there are risks of fraud in revenue recognition and consider which types of revenue, revenue transactions or assertions may give rise to such risks (HKSA 240.60)			

Sch.  
ref.      Initials      Date

**Communicating with Those Charged with Governance and Management**

3.4.7 Make those charged with governance or management aware, as soon as practicable, and at an appropriate level of responsibility, of material weaknesses in the design or implementation of internal control which have been identified (HKSA 315.120), please specify or provide sch. ref.: \_\_\_\_\_

**Additional Documentation**

3.4.8 Document the discussion among the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to error or fraud, and the significant decisions reached (HKSA 315.122), please specify or provide sch. ref.: \_\_\_\_\_

**3.5 Auditor's Procedures in Response to Assessed Risks**

In order to reduce audit risk to an acceptably low level, the auditor should determine overall responses to assessed risks at the financial statement level, and should design and perform further audit procedures to respond to assessed risks at the assertion level. (HKSA 330.3)

Sch.  
ref.      Initials      Date

**Overall Responses**

3.5.1 Determine and document overall responses to address the risks of material misstatement at the financial statement level (HKSA 330.4 and 330.73), tick the appropriate alternative(s):

- Adopt standard audit procedures with emphasis on substantive procedures (substantive approach)
- Use tests of controls as well as substantive procedures (combined approach) (HKSA 330.6)
- Use of computer-assisted audit techniques (CAAT)
- Others (e.g. assigning more experienced staff, providing more supervision, and etc), please provide sch. ref. or specify: \_\_\_\_\_

3.5.2 Determine and document overall responses to address the assessed risks of material misstatement due to fraud (if any) at the financial statement level (HKSA 240.61)

- Consider the assignment and supervision of personnel;
- Consider the accounting policies used by the entity; and
- Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures (HKSA 240.66)

**Audit Procedures Responsive to Risks of Material Misstatement at the Assertion Level**

3.5.3 Design, perform and document further audit procedures whose nature, timing, and extent are responsive to the assessed risks of material misstatement (including those due to fraud) at the assertion level (HKSA 330.7, 330.73 and 240.61)

- The nature of further audit procedures refers to
  - Their purpose (tests of controls or substantive procedures) and
  - Their type, that is, inspection, observation, inquiry, confirmation, recalculation, reperformance, or analytical procedures
- Timing refers to when audit procedures are performed or the period or date to which the audit evidence applies
- Extent includes the quantity of a specific audit procedure to be performed

	<u>Sch.</u> <u>ref.</u>	<u>Initials</u>	<u>Date</u>
3.5.4 Consider the following to achieve an effective response to the assessed risks of material misstatement for particular assertion(s), tick the appropriate alternative(s):			
○ Perform tests of controls only			
○ Perform substantive procedures only <sup>3</sup>			
○ Perform tailored combination of tests of controls and substantive procedures (HKSA 330.8)			
○ Follow standard audit procedures with emphasis on substantive procedures (substantive approach)			
<b>Audit Procedures Responsive to Management Override of Controls</b>			
3.5.5 To design and perform audit procedures to respond to the risk of management override of controls:			
○ Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of financial statements;			
○ Review accounting estimates for biases that could result in material misstatement due to fraud; and			
○ Obtain an understanding of the business rationale of significant transactions that the auditor becomes aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual given the auditor’s understanding of the entity and its environment (HKSA 240.76)			
<b>Tests of Controls</b>			
<i>(In case an expectation formed that controls are operating effectively or substantive procedures alone are ineffective)</i>			
3.5.6 Perform tests of control to obtain sufficient appropriate audit evidence (additional reference to be made to HKSA 330.22 to 330.47)			
<b>Substantive Procedures</b>			
3.5.7 To follow standard audit procedures with emphasis on substantive procedures (substantive approach)			
3.5.8 Design and perform substantive procedures for each material class of transactions, account balance, and disclosure (HKSA 330.49) please provide sch. ref. and list such material class of transactions, account balance, and disclosure: _____			
3.5.9 Agree or reconcile the financial statements to the underlying accounting records (HKSA 330.50)			
3.5.10 Examine material journal entries and other adjustments made during the course of preparing the financial statements (HKSA 330.50)			
3.5.11 Perform substantive procedures that are specifically responsive to the significant risk(s) identified in 3.4.3 above (HKSA 330.51)			
3.5.12 Perform further substantive procedures or substantive procedures combined with tests of controls (when substantive procedures are performed at an interim date) to cover the remaining period that provide a reasonable basis for extending the audit conclusions from the interim date to the period end (HKSA 330.56)			
3.5.13 Perform audit procedures to evaluate whether the overall presentation of the financial statements, including the related disclosures, are in accordance with the applicable financial reporting framework (HKSA 330.65)			

<sup>3</sup> HKSA 330.9 clarifies that “in the case of very small entities, there may not be many control activities that could be identified by the auditor. For this reason, the auditor’s further audit procedures are likely to be primarily substantive procedures. In such cases, in addition to the matters referred to in paragraph 8 above, the auditor considers whether in the absence of controls it is possible to obtain sufficient appropriate audit evidence.”

**3.6 Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained**

	<u>Sch. ref.</u>	<u>Initials</u>	<u>Date</u>
3.6.1 Determine the assessments of the risks of material misstatement at the assertion level remain appropriate based on the audit procedures performed and the audit evidence obtained (HKSA 330.66) <ul style="list-style-type: none"> <li>○ If the above conclusion cannot be supported, please explain in details separately</li> </ul>	_____	_____	_____
3.6.2 Consider whether analytical procedures that are performed at or near the end of the audit when forming an overall conclusion as to whether the financial statement as a whole are consistent with the knowledge of the business indicate a previously unrecognized risk of material misstatement due to fraud (HKSA 240.85)	_____	_____	_____
3.6.3 Consider whether any misstatement identified may be indicative of fraud <ul style="list-style-type: none"> <li>○ If there is such an indication, consider the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of management representations (HKSA 240.86)<sup>4</sup></li> </ul>	_____	_____	_____
3.6.4 Consider the implications for the audit when evidence confirms that, or it is unable to conclude whether, the financial statements are materially misstated as a result of fraud (HKSA 240.89)	_____	_____	_____
3.6.5 Conclude sufficient appropriate audit evidence has been obtained to reduce to an acceptably low level the risk of material misstatement in the financial statements (HKSA 330.70) <ul style="list-style-type: none"> <li>○ If above conclusion cannot be supported, please explain in details separately and attempt to obtain further audit evidence</li> <li>○ If unable to obtain sufficient appropriate audit evidence, a qualified opinion or a disclaimer of opinion should be expressed (HKSA 330.72) (<i>delete and further explain as appropriate</i>)</li> </ul>	_____	_____	_____
<b>Documentation</b>			
3.6.6 Document: <ul style="list-style-type: none"> <li>○ The overall response to address the assessed risks of material misstatement at the financial statement level</li> <li>○ The nature, timing, and extent of the further audit procedures</li> <li>○ The linkage of the further audit procedures with the assessed risks at the assertion level</li> <li>○ The results of the audit procedures (HKSA 330.73)</li> </ul>	_____	_____	_____
3.6.7 Document the reasons for the conclusion (if any) that the presumption that there is a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement (HKSA 240.110), please specify or provide sch. ref.: _____	_____	_____	_____

<sup>4</sup> If any misstatement due to fraud is identified or suspected, further audit procedures and consideration should be made reference to HKSA 240. The management representation and the communication with the management in respect of fraud should also be made reference to HKSA 240 additionally.

**4. Engagement Performance (Direction, Supervision and Review) and Control**

(to be completed during the course and towards the end of field work)

	<u>Sch. ref.</u>	<u>Partner's initials</u>	<u>Date</u>
4.1 Satisfy the nature, timing and extent of direction and supervision of engagement team members and review of their work are appropriate (HKSA 220.21) <ul style="list-style-type: none"> <li>○ Reference has been made to HKSA 220.21 to 220.29 and HKSA 300.18 to 300.21</li> </ul>	_____	_____	_____
4.2 Acknowledge taking responsibility for the auditor's report that is issued to be appropriate in the circumstances. (HKSA 220.21)	_____	_____	_____
4.3 Satisfy, through review of the audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued (HKSA 220.26)	_____	_____	_____
4.4 Satisfy that appropriate consultation on difficult or contentious matters have been undertaken during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm <ul style="list-style-type: none"> <li>○ Satisfy that the nature and scope of, and conclusions resulting from, such consultations are documented and agreed with the party consulted; and</li> <li>○ Determine that conclusions resulting from consultations have been implemented (HKSA 220.30b to 220.30d)</li> </ul>	_____	_____	_____
4.5 Determine that Engagement Quality Control Reviewer (EQCR) is required / not required ( <i>delete as appropriate</i> ) and if EQCR is required: <ul style="list-style-type: none"> <li>○ Name of EQCR appointed (please specify: _____)</li> <li>○ Discussed significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the EQCR; and</li> <li>○ Not issue the auditor's report until the completion of the engagement quality control review. (HKSA 220.36)</li> </ul>	_____	_____	_____
4.6 Apply analytical procedures in the overall review at or near the end of the audit when forming an overall conclusion as to whether the financial statements as a whole are consistent with the auditor's understanding of the entity (HKSA 520.2 and 520.13) <ul style="list-style-type: none"> <li>○ Investigate and obtain adequate explanations and appropriate corroborative audit evidence when analytical procedures identified significant fluctuations or relationship that are inconsistent with other relevant information or that deviate from predicted amounts (HKSA 520.17)</li> </ul>	_____	_____	_____
4.7 Determine the relevant persons who are charged with governance and with whom audit matters of governance interest are communicated (HKSA 260.5) <ul style="list-style-type: none"> <li>○ Communicate those matters with those persons (HKSA 260.11) on a timely basis (HKSA 260.13), please specify the persons and matters or provide sch. ref.: _____)</li> <li>○ Inform those persons of those uncorrected misstatements aggregated by the auditor during the audit that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole (HKSA 260.11a), please specify or provide sch. ref.: _____)</li> </ul>	_____	_____	_____
4.8 Complete the assembly of the final audit file 60 days after the date of the auditor's report (HKSA 230.25 and 230.26) <ul style="list-style-type: none"> <li>○ Not to delete or discard audit documentation before the end of its retention period (HKSA 230.28)</li> </ul>	_____	_____	_____

## **II. Template on Understanding An Entity**

**A. Understanding the Entity and Its Environment (Its Internal Control Included in Part B)**

The auditor is required to obtain an understanding of an entity and its environment, including its internal control under HKSA 315. HKSA 315 Appendix 1 contains examples of matters that the auditor may consider in obtaining an understanding of the entity and its environment.

Client Name: _____		Sch.
Year/Period end: _____	<u>Understanding Obtained (With Initials)</u>	<u>Ref.</u>
1. Relevant industry, regulatory, and other external factors including the applicable financial reporting framework (HKSA 315.22)		
○ How is the entity complying with the legal and regulatory framework applicable to the entity and the industry (HKSA 250.15)		
○ To perform further audit procedures (HKSA 250.18) <i>(a template is enclosed on page 21)</i>	_____	_____
2. The nature of the entity (HKSA 315.25)		
○ The entity's operations		
○ The entity's ownership and governance		
○ The types of investments that the entity is making and plans to make		
○ The structure of the entity		
○ How is the entity financed	_____	_____
3. The entity's selection and application of accounting policies (HKSA 315.28)		
○ Considered whether they are appropriate for its business and consistent with the applicable financial reporting framework and accounting polices used in the relevant industry	_____	_____
4. The entity's objectives and strategies, and the related business risks that may result in material misstatement of the financial statements (HKSA 315.30)		
○ Objectives – the overall plans for the entity		
○ Strategies – the operational approaches by which management intends to achieve its objectives		
○ Business risks, broader than the risk of material misstatement of the financial statements, result from significant conditions, events, circumstances, actions or inactions that could adversely affect the entity's ability to achieve its objectives and execute its strategies, or through the setting of inappropriate objectives and strategies.		
○ Consider whether a business risk may result in material misstatement.	_____	_____
5. The measurement and review of the entity's financial performance (HKSA 315.35)		
○ Consider whether any performance measures (whether external or internal) that create pressures on the entity and may motivate management to take action to improve the business performance or to misstate the financial statements and whether such pressures result in management actions that may have increased the risks of material misstatement	_____	_____

**B. Understanding the Entity’s Internal Control**

HKSA 315 Appendix 2 contains a detailed explanation of the internal control components.

Client Name: \_\_\_\_\_

Year/Period end: \_\_\_\_\_

Understanding Obtained (With Initials)

Sch.  
Ref.

**1. Control Environment**

The control environment includes

- the governance and management functions and
- the attitudes, awareness, and actions of those charged with governance and management concerning the entity’s internal control and its importance in the entity (HKSA 315.67)

\_\_\_\_\_

Considers the following elements and how they have been incorporated into the entity’s processes (HKSA 315.69)

- Communication and enforcement of integrity and ethical values
- Commitment to competence
- Participation by those charged with governance
- Management’s philosophy and operating style
- Organizational structure
- Assignment of authority and responsibility
- Human resource policies and practices

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Consider whether the strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control, and are not undermined by control environment weaknesses (HKSA 316.73)

\_\_\_\_\_

Application to smaller entities

Small entities may implement the control environment elements differently than larger entities. For example, small entities might not have a written code of conduct but, instead, develop a culture that emphasizes the importance of integrity and ethical behavior through oral communication and by management example. Similarly, those charged with governance in small entities may not include an independent or outside member.

\_\_\_\_\_

Client Name: \_\_\_\_\_

Year/Period end: \_\_\_\_\_

Understanding Obtained (With Initials)

Sch.  
Ref.

**2. The Entity's Risk Assessment Process**

The entity's process for identifying business risks (examples refer to HKSA 315 Appendix 2.6) relevant to financial reporting objectives and deciding about actions to address those risks, and the results thereof (HKSA 315.76)

- Determine how management identifies business risks relevant to financial reporting, estimates the significance of the risks, assesses the likelihood of their occurrence, and decides upon actions to manage them in evaluating the design and implementation of the entity's risk assessment process (HKSA 315.77)
- Inquire about business risks that management has identified and considers whether they may result in material misstatement (HKSA 315.78)
- Discuss with management (of a smaller entity without formal risk assessment process) how risks to the business are identified by management and how they are addressed (HKSA 315.79)


Application to smaller entities

The basic concepts of the entity's risk assessment process are relevant to every entity, regardless of size, but the risk assessment process is likely to be less formal and less structured in small entities than in larger ones.

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Client Name: \_\_\_\_\_

Year/Period end: \_\_\_\_\_

Understanding Obtained (With Initials)

Sch.  
Ref.

**4. Control Activities**

Control activities are the policies and procedures that help ensure that management directives are carried out and examples include:

- Authorization,
- Performance reviews
- Information processing
- Physical controls
- Segregation of duties (HKSA 315.90)
  
- Assess whether sufficient understanding obtained to assess the risks of material misstatement at the assertion level and to design further audit procedures responsive to assessed risks (HKSA 315.90)
  
- Consider whether, and how, the specific control activity (examples as follows), individually or in combination with others, prevents, or detects and corrects, material misstatements in classes of transactions, account balances, or disclosures (HKSA 315.91)
  
- How does the entity respond to risks arising from IT (HKSA 315.93)
  
- Consider whether the entity has responded adequately to the risks arising from IT by establishing effective general IT-controls and application controls (HKSA 315.94)
  
- General IT-controls are policies and procedures that relate to many applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems.
  
- Application controls apply to the processing of individual applications.


Application to smaller entities

The concepts underlying control activities in small entities are likely to be similar to those in larger entities, but the formality with which they operate varies. Further, small entities may find that certain types of control activities are not relevant because of controls applied by management.

Client Name: \_\_\_\_\_

Year/Period end: \_\_\_\_\_

Understanding Obtained (With Initials)

Sch.  
Ref.

**5. Monitoring of Controls**

Monitoring of controls is a process to assess the effectiveness of internal control performance over time (HKSA 315.97) and examples include:

- Ongoing monitoring activities
- Internal auditors
- Communication with external parties
  
- Major types of activities that the entity uses to monitor internal control over financial reporting, including those related to those control activities relevant to the audit, and how the entity initiates corrective actions to its controls (HKSA 315.96)

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Application to smaller entities

Ongoing monitoring activities of small entities are more likely to be informal and are typically performed as a part of the overall management of the entity's operations. Management's close involvement in operations often will identify significant variances from expectations and inaccuracies in financial data leading to corrective action to the control.

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## **III. Template on Consideration of Laws and Regulations**

**Template on Consideration of Laws and Regulations**

In accordance with HKSA 200, “Objective and General Principles Governing an Audit of Financial Statements” the auditor should plan and perform the audit with an attitude of professional skepticism recognizing that the audit may reveal conditions or events that would lead to questioning whether an entity is complying with laws and regulations. (HKSA 315.6)

Client Name: \_\_\_\_\_

Year/Period end: \_\_\_\_\_

Sch.		
<u>ref.</u>	<u>Initials</u>	<u>Date</u>

**Understanding for planning**

1. Obtain:
  - A general understanding of the legal and regulatory framework applicable to the entity and the industry and
  - How the entity is complying with that framework (HKSA 250.15)

_____	_____	_____
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**Further audit procedures**

2. Perform further audit procedures to help identify instances of non-compliance with those laws and regulations where non-compliance should be considered when preparing financial statements, specifically:
  - (a) Inquiring of management as to whether the entity is in compliance with such laws and regulations, summarise any findings in separate schedule if necessary; and
  - (b) Inspecting correspondence with the relevant licensing or regulatory authorities (HKSA 250.18), summarise any findings in separate schedule if necessary
3. Obtain sufficient appropriate audit evidence about compliance with those laws and regulations generally recognized to have an effect on the determination of material amounts and disclosures in financial statements
  - Have a sufficient understanding of these laws and regulations in order to consider them when auditing the assertions related to the determination of the amounts to be recorded and the disclosures to be made (HKSA 250.19)
4. Obtain written representations that management has disclosed all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements (HKSA 250.23)

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**Template on Consideration of Laws and Regulations**  
**– Non-Compliance Suspected or Discovered**

Client Name: \_\_\_\_\_

Year/Period end: \_\_\_\_\_

	<u>Sch.</u>	<u>Initials</u>	<u>Date</u>
	<u>ref.</u>		
<b>Non-compliance suspected and/or discovered</b>			
5. When become aware of information concerning a possible instance of non-compliance			
○ Obtain an understanding of the nature of the act and the circumstances in which it has occurred, and sufficient other information to evaluate the possible effect on the financial statements. (HKSA 250.26)	_____	_____	_____
6. Believe there may be non-compliance			
○ Documented the findings and			
○ Discussed them with management. (HKSA 250.28)	_____	_____	_____
7. When adequate information about the suspected non-compliance cannot be obtained			
○ Consider the effect of the lack of sufficient appropriate audit evidence on the auditor’s report (HKSA 250.30)			
○ Consider the implications of non-compliance in relation to other aspects of the audit, particularly the reliability of management representations (HKSA 250.31)	_____	_____	_____
<b>Reporting non-compliance</b>			
8. Communicate with those charged with governance, or obtain audit evidence that they are appropriately informed, regarding non-compliance that comes to the auditor’s attention, as soon as practicable (HKSA 250.32)			
○ Communicate the finding without delay if non-compliance is believed to be intentional and material (HKSA 250.33)			
○ Report the matter to the more higher level of authority at the entity (say audit committee or a supervisory board if any) if members of senior management are suspected to be involved in non-compliance (HKSA 250.34)	_____	_____	_____
<b>Implication of the auditor’s report</b>			
9. Consider the implication of the non-compliance on the financial statements			
○ Express a qualified or an adverse opinion			
▪ If such non-compliance has a material effect on the financial statements and has not been properly reflected in the financial statements (HKSA 250.35)			
○ Express a qualified opinion or a disclaimer of opinion on the financial statements on the basis of a limitation on the scope of the audit			
▪ If precluded by the entity from obtaining sufficient appropriate audit evidence to evaluate whether non-compliance that may be material to the financial statements, has, or is likely to have, occurred (HKSA 250.36)			
▪ Consider the effect on the auditor’s report if it is unable to determine whether non-compliance has occurred because of limitations imposed by the circumstances rather than by the entity (HKSA 250.37)	_____	_____	_____

## **IV. Sample Audit Programme on Property, Plant and Equipment under SME-FRS**



**IV. Sample Audit Programme on Property, Plant and Equipment under SME-FRS**

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
5. Plant, machinery and other assets <ul style="list-style-type: none"> <li>▪ Physically inspect assets (from PPE to PPE summary and vice versa), in particular, additions for the period.</li> <li>▪ Examine motor vehicle registration documents.</li> <li>▪ Enquire about assets no longer in use, or otherwise sold/scrapped.</li> </ul>	E, R,C			
6. Depreciation <ul style="list-style-type: none"> <li>▪ Ensure that depreciation rates are reasonable and consistent.</li> <li>▪ Check that the major components of items of PPE are accounted for separately with the PPE and are depreciated based on their useful lives (SME-FRS 3.9)</li> <li>▪ Review the useful life and the depreciation method applied annually (SME-FRS 3.15 &amp; 16)</li> <li>▪ Test check depreciation calculations or review reasonableness of depreciation.</li> </ul>	V			
7. Impairment <ul style="list-style-type: none"> <li>▪ Obtain and review any schedule of impairment, consider the reasonableness and check the calculation of material impairment made</li> <li>▪ Assess whether there is any indications of impairment on other PPE</li> </ul>	V			
8. Other procedures <ul style="list-style-type: none"> <li>▪ Determine whether the items of PPE are properly classified in the financial statements</li> <li>▪ Examine insurance coverage and ensure its adequacy.</li> <li>▪ Ascertain the existence and amounts of restriction on title of PPE, and PPE pledged as security.</li> </ul>	A, PD			
9. Capital commitments <ul style="list-style-type: none"> <li>▪ Obtain a schedule of outstanding capital expenditure and examine supporting documentation and check the amount by reviewing board and other minutes, outstanding orders, fixed assets budgets, assets for which part payment is made (including those recorded under prepayments or deposits), etc.</li> </ul>	PD			
10. Review the presentation and disclosures in the financial statements and ensure that they are adequate and in accordance with the SME-FRS 3.20 and 3.21	PD			
11. Agree or reconcile the financial statements to the underlying accounting records (HKSA 330.50)				
12. Examine material journal entries and other adjustments made during the course of preparing the financial statements (HKSA 330.50)				

**IV. Sample Audit Programme on Property, Plant and Equipment under SME-FRS**

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
<p>13. Based on the audit procedures performed and the audit evidence obtained, evaluate whether the assessments of the risks of material misstatement at the assertion level remain appropriate. (HKSA 330.66)</p> <p>Reassess the risks of material misstatement throughout the course of audit and modify the overall audit strategy, audit plan and audit programmes if considered appropriate.</p> <p>14. Other tailored further audit procedures:</p>				

**Completion, comments and conclusion:**

In our opinion, the audit procedures on PPE responsive to the assessed risks of material misstatements are complete and the audit evidence obtained is sufficient and appropriate to reduce the risks of material misstatements to an acceptably low level. The above audit objectives have been satisfactorily achieved by the performance of the audit procedures.

Additional comments:

Signed	Date
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