

Application of New Auditing Standards¹ – Part 2

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

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

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Application of New Auditing Standards – Part 2
Effective for Audits of Financial Statements
For Periods Beginning On or After 15 December 2004 (and 15 June 2005)

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I. Template on The Understanding of An Entity and Its Environment, Including Its Internal Control (Simplified Version)

An Understanding of the Entity and Its Environment, including Its Internal Control (Simplified)²

Client Name: _____ Year/Period end: _____	<u>Summary of Understanding Obtained</u> (With Initials)	Sch. <u>Ref.</u>
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To obtain an understanding of the following aspects:

- | | | |
|--|--|--|
| 1. Relevant industry, regulatory, and other external factors including the applicable financial reporting framework (HKSA 315.22) | | |
| 2. The nature of the entity (HKSA 315.25), including <ul style="list-style-type: none"> ○ Its selection and application of accounting policies appropriate for its business and consistent with the applicable financial reporting framework and accounting polices used in the relevant industry | | |
| 3. The entity’s objectives and strategies , and the related business risks that may result in material misstatement of the financial statements (HKSA 315.30) | | |
| 4. The measurement and review of the entity’s financial performance (HKSA 315.35) | | |
| 5. The entity’s internal control relevant to the audit (HKSA 315.41), including <ul style="list-style-type: none"> ○ Its control environment (HKSA 315.67) ○ Its (risk assessment) process for identifying business risks relevant to financial reporting objectives and deciding about actions to address those risks, and the results thereof (HKSA 315.76) ○ Its information system, including the related business process, relevant to financial reporting, including <ul style="list-style-type: none"> ▪ Significant classes of transactions ▪ The procedures by which those transactions are initiated, recorded, processed and reported in the financial statements ▪ The related accounting records ▪ How does the information system capture events and conditions ▪ The financial reporting process used to prepare the entity’s financial statements (HKSA 315.81) ▪ How the entity communicates financial reporting roles and responsibilities and significant matters relating to financial reporting (HKSA 315.89) ○ Control activities (sufficient to assess risks of material misstatement at the assertion level) (HKSA 315.90) <ul style="list-style-type: none"> ▪ How the entity responds to risks arising from IT (HKSA 315.93) ○ 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 <ul style="list-style-type: none"> ▪ How the entity initiates corrective actions to its controls (HKSA 315.96) | | |

² The auditor is required to 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) Details and exact requirements must be referred to HKSA 315.

II. Template on Assessing Risks of Material Misstatement and Linkage to Auditor's Response

II. Template on Assessing Risks of Material Misstatement and Linkage to Auditor's Response

Assessing Risks of Material Misstatement and Linkage to Auditor's Response³

Client Name: _____

Year/Period end: _____

A. Financial statement level

<u>Description of the issues identified</u>	<u>Risk resulted</u>	<u>Significant risk⁴ (Y/N)</u>	<u>Overall Response</u>	<u>Sch. Ref.</u>
1. (Example) The entity is an owner-managed private entity and thus lacking formal internal control system.	The financial statements might have been prepared inaccurately.	No	The audit team is reminded to maintain professional scepticism in performing the engagement. More experienced audit staff is assigned to the engagement.	
2.				
3.				
4. (Example) The computer in recording and preparing the financial information has been upgraded.	The financial information might have not been properly transferred to the new computer.	No	Audit staff with experience and knowledge in computer data and source information transfer is assigned to the audit team.	
5.				
6.				
7.				
8.				

³ HKSA 315.100 requires: "The auditor should identify and assess the risks of material misstatement at the financial statement level, and at the assertion level for classes of transactions, account balances, and disclosures."
HKSA 300.3 requires: "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."

⁴ HKSA 315.108 requires: "The auditor should determine which of the risks identified are, in the auditor's judgment, risks that require special audit consideration (such risks are defined as "significant risks")."

Assessing Risks of Material Misstatement and Linkage to Auditor's Response⁵

Client Name: _____

Year/Period end: _____

**B. Assertion level (please specify the class of transactions, account balance, and/or disclosures)
(Example incorporated below: *Property, plant and equipment*)**

<u>Issues and Risks identified</u>	<u>Relevant Assertions</u>	<u>Significant risk (Y/N)</u>	<u>Audit Response (Further Audit Procedures)</u>	<u>Sch. Ref.</u>
<i>Overall</i>				
1. (Example) Property acquired in Shanghai during the year	Rights and Obligations	Yes (non routine)	<ul style="list-style-type: none"> ▪ Land search performed in Shanghai ▪ Physical inspection and count on property, plant and equipment to be performed 	
2.				
3.				
<i>Inherent risk considerations</i>				
4. (Example) No property has been acquired before and the owner and staff have no knowledge on accounting new property	Accuracy, Valuation, Classification	Yes (non routine)	<ul style="list-style-type: none"> ▪ Consider the appropriateness of accounting policy on property adopted ▪ Check cost of acquisition to the sale and purchase agreement and match with the payment ▪ Verify the calculation of depreciation independently ▪ Review the entity's impairment review 	
5.				
6.				
<i>Control risk considerations</i>				
7. (Example) No proper register is maintained for the property, plant and equipment	Existence and Completeness	No	<ul style="list-style-type: none"> ▪ Physical inspection and count on property, plant and equipment to be performed ▪ Review the relevant documents and compare with the physical inspection to ensure the completeness 	
8.				
9.				
10.				

⁵ HKSA 315.100 requires: "The auditor should identify and assess the risks of material misstatement at the financial statement level, and at the assertion level for classes of transactions, account balances, and disclosures."
HKSA 300.3 requires: "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."

III. Sample Audit Programme under SME-FRS on Selected Sections

1. Sample Audit Programme (SME-FRS) – Intangible assets

Client:	Prepared by:	Reviewed by:
Accounts Date:	Date:	Date:

Audit Objectives

- A. To determine the existence (“E”) and the completeness (“C”) of intangible assets have been recorded.
- B. To determine whether intangible assets in the balance sheet are owned by the company and are properly recorded. (Rights and obligations “R”, Valuation “V” and Allocation “A”)
- C. To determine whether amortization are reasonable and computed on a consistent basis and whether accumulated amortisation is reasonable in relation their useful lives. (Valuation “V”)
- D. To determine whether impairment of intangible asset is properly accounted for in the financial statements. (Valuation)
- E. To determine whether the presentation and disclosure requirements are properly addressed in the financial statements. (Presentation and disclosure “PD”)

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
<p>1. Identify and assess the risks of material misstatement at the assertion level (HKSA 315.100), please specify or provide sch. ref.:</p> <hr/> <ul style="list-style-type: none"> ▪ To design, perform and document further audit procedures whose nature, timing, and extent are responsive to the assessed risks of material misstatement at the assertion level (HKSA 330.7 and 330.73), please specify or provide sch. ref.: _____ <hr/> <p>2. Obtain and check the reconciliation (or summary) of intangible assets and for the following:</p> <ul style="list-style-type: none"> ▪ Opening balance to the previous period’s financial statements ▪ Schedules of additions, disposals, amortisation and impairments. ▪ Closing balances to the general ledger <p>3. Selects items in schedules of additions and disposals and</p> <ul style="list-style-type: none"> ▪ Check that the items are supported by documentary evidence ▪ Check that the items are properly authorised ▪ Ensure that an intangible asset should be recognised only if it is probable that the future economic benefits that are attributable to the asset will flow to the entity; and the cost of the asset can be measured reliably (SME-FRS 4.2) ▪ For development capitalised during the period, obtain evidence and consider reasonableness to support the recognition criteria on capitalisation are met (SME-FRS 4.7) ▪ Ensure that the subsequent expenditure on an intangible asset after its purchase or completion should be added to the asset if it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be reliably measured and attributed to the asset (SME-FRS 4.12) ▪ Ensure the profit and loss on disposal correctly calculated <p>4. Right and obligation</p> <ul style="list-style-type: none"> ▪ Ensure that the legal enforceable right still existed at the end of the period. 	E, C, R, V, A			

3. Sample Audit Programme (SME-FRS) – Inventories

Client:	Prepared by:	Reviewed by:
Accounts Date:	Date:	Date:

Audit Objectives

- A. To determine whether inventories that have been recorded physically exist (Existence “E”)
- B. To determine inventories quantities include all products, material and supplies on hand and owned by the Company that are in transit or stored at outside locations (Completeness “C”)
- C. To determine whether the accounting principles used in the valuation of inventories are acceptable and that they have been consistently applied (Valuation “V”)
- D. To determine whether obsolete, slow moving and defective items are stated at net realisable values (Valuation “V” and Allocation “A”)
- E. To determine whether the component element of inventories and work in progress (quantity, computations and valuations) have been correctly ascertained. (Valuation “V” and Allocation “A”)
- F. To determine whether the company has title to the inventories shown in the financial statements (Right and obligation “R”)
- G. To determine whether the presentation and disclosure requirements are properly addressed in the financial statements. (Presentation and disclosure “PD”)

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
<p>1. Identify and assess the risks of material misstatement at the assertion level (HKSA 315.100), please specify or provide sch. ref.:</p> <p>_____</p> <ul style="list-style-type: none"> ▪ To design, perform and document further audit procedures whose nature, timing, and extent are responsive to the assessed risks of material misstatement at the assertion level (HKSA 330.7 and 330.73), please specify or provide sch. ref.: _____ <p>_____</p> <p>Physical Inventory Counting</p> <p>2. Attend the physical inventory counting unless impracticable when inventory is material to the financial statements. (HKSA 501.5)</p> <p>3. Consider the following in planning the attendance at a physical inventory count (HKSA 501.8)</p> <ul style="list-style-type: none"> ▪ The risks of material misstatement related to inventory ▪ The nature of the internal control related to inventory. ▪ Whether adequate procedures are expected to be established and proper instructions issued for physical inventory counting. ▪ The timing of the count. ▪ The locations at which inventory is held. ▪ Whether an expert assistance is needed. 	E, R, C			

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
<p>4. Observe that the physical inventory count procedures are properly followed and carried out including:</p> <ul style="list-style-type: none"> ▪ The application of control activities, for example, collection of used inventory count sheets, accounting for unused inventory count sheets and count and re-count procedures; ▪ Accurate identification of the stage of completion of work in progress, of slow moving, obsolete or damaged items and of inventory owned by a third party, for example, on consignment; and ▪ Whether appropriate arrangements are made regarding the movement of inventory between areas and the shipping and receipt of inventory before and after the cutoff date. (HKSA 501.12) ▪ High value items have been counted <p>5. Ensure that the consignments or customer inventory in client's promises are separately identified and properly documented</p> <p>6. Verify the details of the sequence of inventory count sheet and record the starting and ending numbers with attention on any mission number</p> <p>7. Document the sequence of inventory count tags used and account for all used and unused inventory count tags</p> <p>8. Perform test counts to check both the completeness and the accuracy of the count records by tracing items</p> <ul style="list-style-type: none"> ▪ Selected from those records to the physical inventory and ▪ Selected from the physical inventory to the count records. <p>Retain count records for subsequent audit procedures and comparison.</p> <p>Investigate any discrepancies and recount in the presence of client and consider whether the extend of the sample size required</p> <p>9. Consider cutoff procedures (and obtain the information) including details of the movement of inventory just prior to, during and after the count so that the accounting for such movements can be checked at a later date. (HKAS 501.14)</p> <p>10. Note any items which appear to be damaged, obsolete or slow-moving and observe whether they have been identified by the client.</p> <p>11. Attendance not practicable (HKAS 501.7) Where attendance is impracticable due to factors such as the nature and location of the inventory, consider whether alternative procedures provide sufficient appropriate audit evidence of existence and condition to conclude that the auditor need not make reference to a scope limitation. e.g. documentation of the subsequent sale of specific inventory items acquired or purchased prior to the physical inventory count may provide sufficient appropriate audit evidence.</p>				

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
<p>20. Verify the cost of inventories in the final inventory listing</p> <ul style="list-style-type: none"> ▪ To the supplies' invoices, production records and cost calculation worksheets. ▪ Either first-in first-out or a weighted average costs methods have been used consistently <p>21. Identify the slow-moving, excess, defective and obsolete items included in inventories are properly identified by</p> <ul style="list-style-type: none"> ▪ Items identified in the physical count ▪ Examine an analysis of inventory turnover ▪ Analytically comparing the relationship of inventory balances to anticipated sales volumes ▪ Walk-through of the plant/warehouse for indications of products not being used ▪ Inquiry of production and sales personnel <p>22. Ascertain and verify the treatment and examine evidence of items valued at net realisable value by e.g. the subsequent selling price of the inventories and market price of the similar inventories.</p> <ul style="list-style-type: none"> ▪ Check that the amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs and ▪ The reversal of any write-down of inventories arising from an increase in net realisable value should be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs (SME-FRS 7.5) <p>23. Review the presentation and disclosures in the financial statements and ensure that they are adequate and in accordance with the SME-FRS 7.6</p> <p>24. Agree or reconcile the financial statements to the underlying accounting records (HKSA 330.50)</p> <p>25. Examine material journal entries and other adjustments made during the course of preparing the financial statements (HKSA 330.50)</p> <p>26. 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>27. Other tailored further audit procedures:</p>	PD			

Completion, comments and conclusion:

In our opinion, the audit procedures on inventories 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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4. Sample Audit Programme (SME-FRS) – Impairment of Assets

Client:	Prepared by:	Reviewed by:
Accounts Date:	Date:	Date:

Audit Objectives

- A. To determine whether the indications of impairment of assets are assessed and accounted for in the financial statements. (Valuation “V” and Accuracy “A”)
- B. To determine whether the presentation and disclosure requirements are properly addressed in the financial statements. (Presentation and disclosure “PD”)

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
1. Identify and assess the risks of material misstatement at the assertion level (HKSA 315.100), please specify or provide sch. ref.: _____ <ul style="list-style-type: none"> ▪ To design, perform and document further audit procedures whose nature, timing, and extent are responsive to the assessed risks of material misstatement at the assertion level (HKSA 330.7 and 330.73), please specify or provide sch. ref.: _____ 	V, A			
2. Obtain and review any schedule of impairments and/or reversal of impairment not covered in other audit programmes, please specify or provide sch. ref.: _____ <ul style="list-style-type: none"> ▪ Consider reasonableness ▪ Review and test the process used by the management and check the calculation ▪ Consider whether an independent estimates is required for comparison ▪ Review subsequent event 				
3. Assess whether there is any indication that other assets may be impaired or impairment loss provided may be reversed	V			
4. Ensure that, in case of a reversal of impairment loss, the increased carrying amount of an asset should not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years				
5. Agree or reconcile the financial statements to the underlying accounting records (HKSA 330.50)				
6. Examine material journal entries and other adjustments made during the course of preparing the financial statements (HKSA 330.50)				

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
<p>7. 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>8. Other tailored further audit procedures:</p>				

Completion, comments and conclusion:

In our opinion, the audit procedures on impairment of assets 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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5. Sample Audit Programme (SME-FRS) – Other Liabilities

Client:	Prepared by:	Reviewed by:
Accounts Date:	Date:	Date:

Audit Objectives

- A. To determine whether other liabilities existing or incurred at the balance sheet date are recorded at the correct amount. (Existence “E”, Completeness “C”, Valuation “V” and Allocation “A”)
- B. To determine whether the amounts in the financial statements are stated on a consistent basis and are properly classified and described. (Valuation “V” and Allocation “A”)
- C. To determine whether the presentation and disclosure requirements are properly addressed in the financial statements. (Presentation and disclosure “PD”)

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
<p>1. Identify and assess the risks of material misstatement at the assertion level (HKSA 315.100), please specify or provide sch. ref.:</p> <hr/> <ul style="list-style-type: none"> ▪ To design, perform and document further audit procedures whose nature, timing, and extent are responsive to the assessed risks of material misstatement at the assertion level (HKSA 330.7 and 330.73), please specify or provide sch. ref.: _____ <hr/> <p>Other liabilities and accrued liabilities</p> <p>2. Verify other liabilities and/or accrued liabilities have been reasonably determined.</p> <p>3. Verify basis and calculation of accrued liabilities and determine whether the bases are consistent with previous year.</p> <p>3. Compare current year figures with the prior year items and obtain satisfactory explanations for material fluctuations.</p> <p>4. For major suppliers (identified by inquiry and/or reviewing the purchase and expense accounts) and/or material liabilities</p> <ul style="list-style-type: none"> ▪ Obtain independent confirmations ▪ Compare the suppliers’ statements received ▪ Check suppliers’ invoices and subsequent settlement <p>Provision</p> <p>5. Obtain a schedule of provisions indicating their purpose and basis, showing details of movement during the period and</p> <ul style="list-style-type: none"> ▪ Ensure that provisions are recognised only if (SME-FRS 10.1) <ul style="list-style-type: none"> ○ There is a present obligation as a result of a past event ○ It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and ○ A reliable estimate can be made of the amount of the obligation. ▪ Review material movements in the ledger accounts ▪ Review the basis of measurement and estimates employed at each balance sheet date. ▪ Ensure that provision are properly authorised. 	<p>E, R</p> <p>E, V, A</p> <p>E, C</p> <p>E, C, V</p> <p>E, V, A</p>			

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
<ul style="list-style-type: none"> ▪ Review settlements of provisions subsequent to balance sheet date to ensure provision recognised at year end is the best estimate of expenditure required to se the obligation. ▪ Consider whether any provisions are sufficiently material to be separately disclosed in the financial statements. <p>6. Review the presentation and disclosures in the financial statements and ensure that they are adequate and in accordance with the SME-FRS 10.18. & 10.22.</p>	PD			
<p>Contingent liabilities and/or assets</p>	E, V, R, A			
<p>7. Ensure that all contingent liabilities and/or assets are disclosed in the financial statements and are correctly determined. Check that the items are properly authorised.</p>	PD			
<p>8. Review the presentation and disclosures in the financial statements and ensure that they are adequate and in accordance with the SME-FRS 10.19 – 10.22.</p>	PD			
<p>Search for unrecorded liabilities</p>				
<p>9. Review payments made subsequent to balance sheet date and inspect unpaid invoices on hand to ensure that accruals and/or provision have been properly taken up</p>	C			
<p>10. Examine the payroll, office rental and other major expense accounts to ensure that these expenses have been paid or accrued up to the period-end</p>	C			
<p>11. Review legal fees for the period and review invoices for indications of possible provision required and/or contingent liabilities</p>	C			
<p>12. Review letters from the company and its solicitors re outstanding litigation for the provision required and/or contingent liabilities</p>	C			
<p>Finance lease – lessee</p>				
<p>13. Obtain a schedule of obligation under finance lease showing details of movement during the period and</p> <ul style="list-style-type: none"> ▪ Check opening balance to the previous period’s financial statements ▪ Ensure that the additions to the obligations represent the fair value of the leased property or, if lower, at the present value of the minimum lease payments at the inception of the lease (SME-FRS 5.4) ▪ Verify that the lease payment apportioned between the finance charge and the reduction of the outstanding liability and the finance charge are allocated on a systematic basis to periods during the lease term that produces a constant periodic rate of interest on the remaining balance of the liability for each period (SME-FRS 5.5) ▪ Compare the details to the agreements ▪ Ensure that the leases are properly authorised ▪ Check closing balances to the general ledger 	E, R, V, A			
<p>14. Review the presentation and disclosures in the financial statements and ensure that they are adequate and in accordance with the SME-FRS 5.8</p>	PD			

6. Sample Audit Programme (SME-FRS) – Revenue

Client:	Prepared by:	Reviewed by:
Accounts Date:	Date:	Date:

Audit Objectives

- A. To determine that the recorded sales transactions are for goods and services actually sold to non-fictitious customers (Occurrence “O”) and all sales transactions that should have been recorded have been recorded (Completeness “C”) and recorded appropriately (Accuracy “AC”)
- B. To determine that sales transactions have been properly recorded in the proper accounts (Classification “CL”) and in the correct account period (Cut-off “CO”)
- C. To determine whether the presentation and disclosure requirements are properly addressed in the financial statements. (Presentation and disclosure “PD”)

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
1. Identify and assess the risks of material misstatement at the assertion level (HKSA 315.100), including those due to fraud (HKSA 240.57) ^{Note 1} , please specify or provide sch. ref.: _____ <ul style="list-style-type: none"> ▪ To design, perform and document further audit procedures whose nature, timing, and extent are responsive to the assessed risks of material misstatement at the assertion level (HKSA 330.7 and 330.73), please specify or provide sch. ref.: _____ 				
2. Review the appropriateness of income recognition policies <ul style="list-style-type: none"> ▪ Sale of goods (SME-FRS 11.2) ▪ Rendering of services (SME-FRS 11.3-7) ▪ Interest, royalties and dividends (SME-FRS 11.8-10) 	AC, CL, PD			
3. Test check that the revenue is measured at the fair value of the consideration received or receivable (SME-FRS 11.1)	AC			
4. Obtain / prepare a comparative analysis (and/or other relevant and appropriate analysis) of sales and costs of goods sold and obtain and verify explanations for material or abnormal variances.	O, C			
5. Compare the gross profit margin with previous years, industry average and /or current year’s budget for reasonableness and obtain and verify explanations for material or abnormal variances.	O, C, AC			
6. Review the year-end cut-off of sales transactions to ensure that sales are recorded in the appropriate accounting period.	CO			
7. Review the sales and general ledger for large or unusual items.				
8. Test check sales transactions <ul style="list-style-type: none"> ▪ Trace from customers orders to sales orders, good despatch notes, sales invoices, sales ledger, and vice versa. ▪ Trace despatch notes to sales invoices, sales ledger and trade debtors’ ledger accounts and vice versa. ▪ Check prices on sales invoices with approved price lists or sales agreements, 	O, C, A			

III. Sample Audit Programme under SME-FRS on Selected Sections

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
<p>9. Review the presentation and disclosures in the financial statements and ensure that they are adequate and in accordance with the (SME-FRS 11.11)</p> <p>10. Agree or reconcile the financial statements to the underlying accounting records (HKSA 330.50)</p> <p>11. Examine material journal entries and other adjustments made during the course of preparing the financial statements (HKSA 330.50)</p> <p>12. 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) 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>13. Other tailored further audit procedures:</p>	PD			

Note 1: HKSA 240.60 clarifies that the auditor ordinarily presumes that there are risks the auditor ordinarily presumes that there are risks of fraud in revenue recognition and considers which types of revenue, revenue transactions or assertions may give rise to such risks. Those assessed risks of material misstatement due to fraud related to revenue recognition are significant risks to be addressed in accordance with HKAS 240.57 (identification and assessment of the risk of material misstatement) and 240.61 (responses to the risks).

HKSA 240 Appendix 2 includes examples of responses to the auditor’s assessment of the risk of material misstatement due to fraudulent financial reporting resulting from revenue recognition.

Completion, comments and conclusion:

In our opinion, the audit procedures on review on revenue 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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7. Sample Audit Programme (SME-FRS) – Income Taxes

Client:	Prepared by:	Reviewed by:
Accounts Date:	Date:	Date:

Audit Objectives

- A. To determine whether income tax is computed in accordance with applicable regulations and is provided for in accordance with standard accounting practices. (Existence, “E”, Completeness “C”, Valuation “V”, Allocation “A”, Right and obligation, “R”)
- B. To determine whether the presentation and disclosure requirements are properly addressed in the financial statements. (Presentation and disclosure “PD”)

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
1. Identify and assess the risks of material misstatement at the assertion level (HKSA 315.100), please specify or provide sch. ref.: _____ <ul style="list-style-type: none"> ▪ To design, perform and document further audit procedures whose nature, timing, and extent are responsive to the assessed risks of material misstatement at the assertion level (HKSA 330.7 and 330.73), please specify or provide sch. ref.: _____ 				
2. Obtain and check the movements the taxation for the period <ul style="list-style-type: none"> ▪ Opening balance to the previous period’s financial statements ▪ Check and agree tax status to notices from tax authority and consider whether prior year’s tax provisions are reasonable. ▪ Check the payments / refund to the notices from tax authority ▪ Check to the notices from tax authority for any asset recognised on the benefit relating to a tax loss that can be carried back to recover current tax of a previous period (SME-FRS 14.2) ▪ Closing balances to the general ledger 	E, C, V, A, R			
3. Prepare/check current year’s tax computation to assess the adequacy of the current year’s tax provision.	V			
4. Ensure no deferred tax liabilities (assets) recognised				
5. Review the presentation and disclosures in the financial statements and ensure that they are adequate and in accordance with the SME-FRS 14.7 –14.10	PD			
6. Agree or reconcile the financial statements to the underlying accounting records (HKSA 330.50)				

III. Sample Audit Programme under SME-FRS on Selected Sections

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
<p>7. Examine material journal entries and other adjustments made during the course of preparing the financial statements (HKSA 330.50)</p> <p>8. 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) 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>9. Other tailored further audit procedures:</p>				

Completion, comments and conclusion:

In our opinion, the audit procedures on income tax 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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Audit procedures	Assertion	Sch. Ref.	Performed by	Date
<p>Identified related party transactions</p> <p>4. Consider to examine the identified related party transactions by (HKSA 550.14)</p> <ul style="list-style-type: none"> ▪ Confirm the terms and amount of the transaction with the related party ▪ Inspect information in possession of the related party ▪ Confirm or discuss information with persons associated with the transaction, such as banks, lawyers, guarantors and agents <p>5. Obtain a written representation from management concerning: (HKSA 550.15)</p> <ul style="list-style-type: none"> ▪ The completeness of information provided regarding the identification of related parties ▪ The adequacy of related party disclosures in the financial statements <p>6. Review the presentation and disclosures in the financial statements and ensure that they are adequate and in accordance with the (SME-FRS 16.3 – 16.8)</p> <p>7. Agree or reconcile the financial statements to the underlying accounting records (HKSA 330.50)</p> <p>8. Examine material journal entries and other adjustments made during the course of preparing the financial statements (HKSA 330.50)</p> <p>9. 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>10. Other tailored further audit procedures:</p>	C, E, AC			
	C, E, AC			
	PD			

Completion, comments and conclusion:

In our opinion, the audit procedures on review on related party disclosures 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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IV. Sample Audit Programme on Accounting Estimate and Fair Value Measurement

Sample Audit Programme on Accounting Estimate and Fair Value Measurements and Disclosures

Client:	Prepared by:	Reviewed by:
Accounts Date:	Date:	Date:

Audit Objectives

- A. To determine the accounting estimates contained in financial statements are reasonable in the circumstances and, when required appropriately disclosed. (HKSA 540.8) (Valuation “V” and Allocation “A”)
- B. To determine whether the fair value measurements and disclosures in the financial statements are in accordance with the entity’s applicable financial reporting framework. (HKSA 545.3) (Valuation “V” and Allocation “A”)
- C. To determine whether the presentation and disclosure requirements are properly addressed in the financial statements. (Presentation and disclosure “PD”)

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
<p>1. Obtain an understanding of the entity’s process for determining accounting estimates and fair value measurements and disclosures and of the relevant control activities sufficient to identify and assess the risks of material misstatement at the assertion level and to design and perform further audit procedures (HKSA 545.10 & 14)</p> <p>2. Identify and assess whether there are any risks of material misstatement at the assertion level relating to accounting estimates and/or fair value measurement and disclosures (HKSA 315.100), please specify or provide sch. ref.: _____ To design, perform and document further audit procedures whose nature, timing, and extent are responsive to the assessed risks of material misstatement at the assertion level (HKSA 330.7 and 330.73), please specify or provide sch. ref.: _____</p> <hr/> <p>Accounting estimates</p> <p>3. Adopt one or a combination of the following approaches in the audit of an accounting estimates (HKSA 540.10)</p> <ul style="list-style-type: none"> ▪ Review and test the process used by management to develop the accounting estimate by: <ul style="list-style-type: none"> ○ Evaluate the data and consider the assumptions on which the estimate is used ○ Test the calculations involved in the estimate ○ Compare estimates made for prior periods with actual results of those periods ○ Consider the management approval procedures ▪ Make or obtain an independent estimate and compare it with the accounting estimate ▪ Review subsequent events to consider the reasonableness of the accounting estimates <p>4. Assess overall reasonableness and corroborate the estimates with other audit evidence obtained during the audit (HKSA 540.24)</p>	V, A			

V. Sample Audit Programme on Subsequent Events

Sample Audit Programme on Subsequent Events

Client:	Prepared by:	Reviewed by:
Accounts Date:	Date:	Date:

Audit Objectives

- A. To ensure that the subsequent events have been considered (HKSA 560.2) on the financial statements and on the auditor’s report (Completeness “C”)

Subsequent events refer to both:

- Events occurring between the date of the financial statements and the date of the auditor report, and
- Facts discovered after the date of the auditor’s report

- B. To determine whether the presentation and disclosure requirements are properly addressed in the financial statements. (Presentation and disclosure “PD”)

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
Events Occurring Up to the Date of the Auditor’s Report				
1. Consider to perform (as near as practicable to the date of the auditor’s report) the following procedures to identify events that may require adjustment of, or disclosure in, the financial statements: <ul style="list-style-type: none"> ▪ Review procedures management has established to ensure that subsequent events are identified ▪ Read minutes of the meetings of shareholders, the board of directors and audit and executive committees held after the date of the financial statements and inquire about matters discussed at meetings for which minutes are not yet available ▪ Read the entity latest available interim financial statements and, as considered necessary and appropriate, budgets, cash flow forecasts and other related management reports ▪ Inquire or extend previous oral or written inquiries, of the entity lawyers concerning litigation and claims ▪ Inquire of management as to whether any subsequent events have occurred which might affect the financial statements 	C			
2. Consider the other auditor’s procedures (if part of the entity is audited by other auditor) regarding events after period end and the need to inform the other auditor of the planned date of the auditor’s report (HKSA 560.7)	C			
3. Consider whether identified adjusting and non-adjusting events which materially affect the financial statement are properly accounted for and adequately disclosed in the financial statements (HKSA 560.8)	PD			
4. Review the presentation and disclosures in the financial statements and ensure that they are adequate and in accordance with the SME-FRS 17.7 to 17.10	PD			
Facts Discovered After the Date of Auditor’s Report				
5. In case aware of facts that may materially affect the financial statements and/or may affect auditor’s report (auditor has no responsibility to perform procedures to identify such facts): <ul style="list-style-type: none"> ▪ Consider whether the financial statements need amendment and/or revision ▪ Discuss the matter with management ▪ Take appropriate action in the circumstances (HKSA 550.9-19) 				

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
6. Agree or reconcile the financial statements to the underlying accounting records (HKSA 330.50) 7. Examine material journal entries and other adjustments made during the course of preparing the financial statements (HKSA 330.50) 8. 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) 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. 9. Other tailored further audit procedures:				

Completion, comments and conclusion:

In our opinion, the audit procedures on review on subsequent events 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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VI. Sample Audit Programme on Going Concern

Sample Audit Programme on Going Concern

Client:	Prepared by:	Reviewed by:
Accounts Date:	Date:	Date:

Audit Objectives

- A. To determine the appropriateness of management’s use of the going concern assumption in the preparation of the financial statements and consider whether there are material uncertainties about the entity’s ability to continue as a going concern that needs to be disclosed in the financial statements. (Occurrence “O” and Completeness “C”)
- B. To determine whether the presentation and disclosure requirements are properly addressed in the financial statements. (Presentation and disclosure “PD”)

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
<p>Planning the audit and performing risk assessment procedures</p> <p>1. In obtaining an understanding of the entity and throughout the audit, consider and remain alert whether there are events or conditions and related business risks which may cast significant doubt on the entity’s ability to continue as a going concern. (HKSA 570.11 and 12)</p> <ul style="list-style-type: none"> ▪ Examples of events or conditions refers to HKSA 570.8 <p>2. If such events or conditions are identified, the auditor should, in addition to performing the procedures in par 6, consider whether they affect the auditor’s assessment of the risks of material misstatement. (HKSA570.12)</p>	O, C			
<p>Evaluating Management’s Assessment</p> <p>3. Evaluate management’s assessment of the entity’s ability to continue as a going concern. (HKSA570.17)</p> <p>4. Consider the same period as that used by management in making its assessment under the applicable financial reporting framework.</p> <ul style="list-style-type: none"> ▪ Ensure that the period is not less 12 months from the balance sheet date ▪ If not, extend its assessment period to 12 months from the balance sheet date (HKSA570.18) 	O, C			
<p>Period Beyond Management’s Assessment</p> <p>5. Inquire of management as to its knowledge of events or conditions and related business risks beyond the above period of assessment used by management that may cast significant doubt on the entity’s ability to continue as a going concern (HKSA570.22)</p>	O, C			

