

# Application of New Auditing Standards<sup>1</sup> – Part 3

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

5 July 2007

**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.

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

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

**Sample Planning and Control Document**

Client: _____ Year/period end: _____ Date of audit plan: _____ Date of review: _____	Engagement partner: _____ (responsible for overall quality, HKSA 220.6) Reviewer: _____ Engagement in charge (EIC): _____ Engagement team members: _____ _____
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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 *(Sample audit programme on SME-FRS enclosed separately)* \_\_\_\_\_
- 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>o 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>o 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>o Agree the terms of the engagement with the entity (HKSA 210.2)</li> <li>o 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>o Deadline for interim reporting: _____</li> <li>o Deadline for final reporting: _____</li> <li>o 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>o Determination of appropriate materiality levels (please specify or provide sch. ref: _____) _____ )</li> <li>o Preliminary identification of areas where there may be higher risks of material misstatement (please specify or provide sch. ref: _____)</li> <li>o Preliminary identification of material components and account balances (please specify or provide sch. ref: _____)</li> <li>o Evaluation of whether there is a plan to obtain evidence regarding the effectiveness of internal control (please specify or provide sch. ref: _____)</li> <li>o 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>o Not required to update and change, or</li> <li>o Required to update/change, please specify or provide sch. ref: _____                              _____ (HKSA 300.16 and 300.22)</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. ref.</u>	<u>Initials</u>	<u>Date</u>
3.3.1 Obtain an understanding of the entity and its environment, including its internal control ( <i>refer to sample template on page 13</i> ) <ul style="list-style-type: none"> <li>○ Sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, and</li> <li>○ Sufficient to design and perform further audit procedures. (HKSA 315.2)</li> </ul>	_____	_____	_____

**3.4 Assessing the Risks of Material Misstatements**

	<u>Sch. 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) <ul style="list-style-type: none"> <li>○ Specify (or provide separate schedule for) the significant risks identified, including those relate to significant non-routine transactions and judgemental matters: _____</li> </ul>	_____	_____	_____
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: <ul style="list-style-type: none"> <li>○ Evaluate the design of the entity’s related controls, including relevant control activities, and determine whether they have been implemented (HKSA 240.57)</li> <li>○ 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)</li> </ul>	_____	_____	_____

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)			
○ If the above conclusion cannot be supported, please explain in details separately			
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			
○ 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>			
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)			
○ If above conclusion cannot be supported, please explain in details separately and attempt to obtain further audit evidence			
○ 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> )			
<b>Documentation</b>			
3.6.6 Document:			
○ The overall response to address the assessed risks of material misstatement at the financial statement level			
○ The nature, timing, and extent of the further audit procedures			
○ The linkage of the further audit procedures with the assessed risks at the assertion level			
○ The results of the audit procedures (HKSA 330.73)			
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.</u> <u>ref.</u>	<u>Partner's</u> <u>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. An Understanding of the Entity and Its Environment, including Its Internal Control (Simplified)<sup>5</sup>**

Client Name: \_\_\_\_\_  
 Year/Period end: \_\_\_\_\_

Summary of Understanding Obtained  
(With Initials)

Sch.  
Ref.

To obtain an understanding of the following aspects:

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

<sup>5</sup> 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.



## **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)


**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			
o 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			
o Documented the findings and			
o Discussed them with management. (HKSA 250.28)	_____	_____	_____
7. When adequate information about the suspected non-compliance cannot be obtained			
o Consider the effect of the lack of sufficient appropriate audit evidence on the auditor’s report (HKSA 250.30)			
o 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)			
o Communicate the finding without delay if non-compliance is believed to be intentional and material (HKSA 250.33)			
o 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			
o 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)			
o 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. Template on Assessing Risks of Material Misstatement and Linkage to Auditor's Response**

**Assessing Risks of Material Misstatement and Linkage to Auditor's Response<sup>6</sup>**

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

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

**A. Financial statement level**

<u>Description of the issues identified</u>	<u>Risk resulted</u>	<u>Significant risk<sup>7</sup> (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.				

<sup>6</sup> 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."

<sup>7</sup> 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 Response<sup>8</sup>**

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"> <li>▪ Land search performed in Shanghai</li> <li>▪ Physical inspection and count on property, plant and equipment to be performed</li> </ul>	
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"> <li>▪ Consider the appropriateness of accounting policy on property adopted</li> <li>▪ Check cost of acquisition to the sale and purchase agreement and match with the payment</li> <li>▪ Verify the calculation of depreciation independently</li> <li>▪ Review the entity's impairment review</li> </ul>	
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"> <li>▪ Physical inspection and count on property, plant and equipment to be performed</li> <li>▪ Review the relevant documents and compare with the physical inspection to ensure the completeness</li> </ul>	
8.				
9.				
10.				

<sup>8</sup> 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."

## **V. 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 &amp; 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.: _____</p> <p>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><b>Accounting estimates</b></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"> <li>▪ Review and test the process used by management to develop the accounting estimate by: <ul style="list-style-type: none"> <li>○ Evaluate the data and consider the assumptions on which the estimate is used</li> <li>○ Test the calculations involved in the estimate</li> <li>○ Compare estimates made for prior periods with actual results of those periods</li> <li>○ Consider the management approval procedures</li> </ul> </li> <li>▪ Make or obtain an independent estimate and compare it with the accounting estimate</li> <li>▪ Review subsequent events to consider the reasonableness of the accounting estimates</li> </ul> <p>4. Assess overall reasonableness and corroborate the estimates with other audit evidence obtained during the audit (HKSA 540.24)</p>	V, A			



## **VI. 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”)

<b>Audit procedures</b>	<b>Assertion</b>	<b>Sch. Ref.</b>	<b>Performed by</b>	<b>Date</b>
<b>Events Occurring Up to the Date of the Auditor’s Report</b>				
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"> <li>▪ Review procedures management has established to ensure that subsequent events are identified</li> <li>▪ 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</li> <li>▪ Read the entity latest available interim financial statements and, as considered necessary and appropriate, budgets, cash flow forecasts and other related management reports</li> <li>▪ Inquire or extend previous oral or written inquiries, of the entity lawyers concerning litigation and claims</li> <li>▪ Inquire of management as to whether any subsequent events have occurred which might affect the financial statements</li> </ul>	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			
<b>Facts Discovered After the Date of Auditor’s Report</b>				
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"> <li>▪ Consider whether the financial statements need amendment and/or revision</li> <li>▪ Discuss the matter with management</li> <li>▪ Take appropriate action in the circumstances (HKSA 550.9-19)</li> </ul>				

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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## **VII. 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”)

<b>Audit procedures</b>	<b>Assertion</b>	<b>Sch. Ref.</b>	<b>Performed by</b>	<b>Date</b>
<p><b>Planning the audit and performing risk assessment procedures</b></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"> <li>▪ Examples of events or conditions refers to HKSA 570.8</li> </ul> <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><b>Evaluating Management’s Assessment</b></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"> <li>▪ Ensure that the period is not less 12 months from the balance sheet date</li> <li>▪ If not, extend its assessment period to 12 months from the balance sheet date (HKSA570.18)</li> </ul>	O, C			
<p><b>Period Beyond Management’s Assessment</b></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			



## VIII. Sample Audit Programme under SME-FRS

**1. Sample Audit Programme (SME-FRS) – General Ledger and Other Presentation Issues**

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

**Audit Objectives**

- A. To determine whether General Ledger is properly maintained and entries in the general ledger are correct. (Existence “E”, Completeness “C”, and Allocation “A” )
- B. To determine the changes in accounting policies, accounting estimates and correction of material prior period error contained in financial statements are accounted for properly in the financial statement (Existence, “E”, Completeness “C” 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> <ul style="list-style-type: none"> <li>▪ 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.: _____</li> </ul> <p><b>General Ledger</b></p> <p>2. Agree opening balances in the general ledger (G/L) to last year’s audited balance sheet.</p> <p>3. Check casts of the trial balance (T/B) and agree it to G/L</p> <p>4. Agree T/B (and any subsequent adjustments) to W/P</p> <p>5. Check casts in the general ledger (ensuring B/F and C/F balances are the same) for 2 consecutive months</p> <p>6. Scrutinize the general ledger and confirm that large and unusual ledger accounts and entries are properly supported (e.g. by checking to the supporting documentary evidence, appropriately authorised or discussed with senior management)</p> <p>7. Check that the control accounts in the general ledger agree with the subsidiary ledgers</p> <p><b>Presentation of financial statement</b></p> <p>8. Ensure that the entity be presented on the face of balance sheet</p> <ul style="list-style-type: none"> <li>▪ Current and non-current assets and current and non-current liabilities as separate classifications based on the nature of its operation in accordance to SME-FRS 1.16-18 or</li> <li>▪ Assets and liabilities be presented broadly in order of their liquidity and should be presented broadly in order of their liquidity and the entity should disclose, for each asset and liability item that combines amounts expected to be recovered or settled both before and after 12 months from the balance sheet date, the amount expected to be recovered or settled after more than 12 months. (SME-FRS1.15)</li> </ul>	E, C, A			
	PD			



**2. Sample Audit Programme (SME-FRS) – Property, Plant and Equipment (“PPE”)**

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

**Audit Objectives**

- A. To determine the existence (“E”) and the completeness (“C”) of PPE that have been recorded.
- B. To determine whether PPE 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 depreciation and amortization are reasonable and computed on a consistent basis and whether accumulated depreciation is reasonable in relation their useful lives. (Valuation)
- D. To determine whether impairment of PPE 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”)

<b>Audit procedures</b>	<b>Assertion</b>	<b>Sch. Ref.</b>	<b>Performed by</b>	<b>Date</b>
<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"> <li>▪ 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.: _____</li> </ul> <p>_____</p> <p>2. Obtain and check the reconciliation (or summary) of PPE for the following:</p> <ul style="list-style-type: none"> <li>▪ Opening balances to the previous period’s financial statements</li> <li>▪ Schedules of additions, disposals, depreciation and impairment</li> <li>▪ Closing balances to the general ledger</li> </ul> <p>3. Select items in schedules of additions and disposals and check that the items are</p> <ul style="list-style-type: none"> <li>▪ Supported by documentary evidence</li> <li>▪ Properly authorized</li> <li>▪ Ensure that the subsequent expenditure should be added to the PPE only if the future economic benefits, in excess of the originally assessed standard of performance of the existing asset will flow to the company (SME-FRS 3.7)</li> <li>▪ Where the item replaces an existing asset, that the disposal/retirement of the existing asset is correctly recorded</li> <li>▪ Correctly calculated for the profit and loss on disposal</li> </ul> <p>4. Land and buildings (including investment properties)</p> <ul style="list-style-type: none"> <li>▪ Examine documents of title and perform a land search or obtain independent confirmations.</li> <li>▪ Verify properties by inspection where appropriate</li> <li>▪ Review the reasonableness of land and building dealt with separately for accounting purposes under SME-FRS 3.13.</li> </ul>	<p>E, R, V, A</p> <p>E, R</p>			

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)				

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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**3. 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”)

<b>Audit procedures</b>	<b>Assertion</b>	<b>Sch. Ref.</b>	<b>Performed by</b>	<b>Date</b>
<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"> <li>▪ 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.: _____</li> </ul> <hr/> <p>2. Obtain and check the reconciliation (or summary) of intangible assets and for the following:</p> <ul style="list-style-type: none"> <li>▪ Opening balance to the previous period’s financial statements</li> <li>▪ Schedules of additions, disposals, amortisation and impairments.</li> <li>▪ Closing balances to the general ledger</li> </ul> <p>3. Selects items in schedules of additions and disposals and</p> <ul style="list-style-type: none"> <li>▪ Check that the items are supported by documentary evidence</li> <li>▪ Check that the items are properly authorised</li> <li>▪ 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)</li> <li>▪ For development capitalised during the period, obtain evidence and consider reasonableness to support the recognition criteria on capitalisation are met (SME-FRS 4.7)</li> <li>▪ 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)</li> <li>▪ Ensure the profit and loss on disposal correctly calculated</li> </ul> <p>4. Right and obligation</p> <ul style="list-style-type: none"> <li>▪ Ensure that the legal enforceable right still existed at the end of the period.</li> </ul>	E, C, R, V, A			



**4. Sample Audit Programme (SME-FRS) – Investments**

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

**Audit Objectives**

- A. To determine the existence (“E”) and the completeness (“C”) of investments that have been recorded
- B. To determine whether there is documentary evidence of the ownership of investments. (Rights and obligations “R”)
- C. To determine whether the basis at which investments are stated is appropriate and the method employed in valuation has been consistently applied (Valuation “V” and Allocation “A”)
- D. To determine whether gains, losses and income from investments have been properly accounted for. (Occurrence “O”, Completeness “C” and Accuracy “AC”)
- E. To determine whether the presentation and disclosure requirements are properly addressed in the financial statements. (Presentation and disclosure “PD”)

<b>Audit procedures</b>	<b>Assertion</b>	<b>Sch. Ref.</b>	<b>Performed by</b>	<b>Date</b>
1. Identify and assess the risks of material misstatement at the assertion level (HKSA 315.100), please specify or provide sch. ref.: <hr/> <ul style="list-style-type: none"> <li>▪ 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.: _____</li> </ul> <hr/>				
2. Obtain and check the analysis of investments for: <ul style="list-style-type: none"> <li>▪ Opening balances to the previous period’s financial statements</li> <li>▪ Schedules of additions, disposals and impairment</li> <li>▪ Closing balances to the general ledger</li> <li>▪ The classification between the current and long term investments and ensure properly supported and reasonable</li> </ul>	E, A			
3. Select items in schedules of additions and disposals and <ul style="list-style-type: none"> <li>▪ Check that the items are properly authorised</li> <li>▪ Examine contract notes and other data supporting transactions</li> <li>▪ Ensure that an investment should be recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably (SME-FRS 6.2)</li> <li>▪ Ensure the cost includes acquisition charges such as brokerage, fees, duties and taxes</li> <li>▪ Verify the stock splits, stock dividends, right issues, call option, put option, etc by reference to independent published reference guides</li> <li>▪ Review material movements in the ledger accounts</li> <li>▪ Recalculate and determine the reasonableness of gain or loss on disposals</li> </ul>	E, R, V, A			
4. Obtain third party confirmations and/or make physical inspection of securities listed on analysis and investigate any items not covered	E, R, C			



**5. 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”)

<b>Audit procedures</b>	<b>Assertion</b>	<b>Sch. Ref.</b>	<b>Performed by</b>	<b>Date</b>
<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"> <li>▪ 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.: _____</li> </ul> <p>_____</p> <p><b>Physical Inventory Counting</b></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"> <li>▪ The risks of material misstatement related to inventory</li> <li>▪ The nature of the internal control related to inventory.</li> <li>▪ Whether adequate procedures are expected to be established and proper instructions issued for physical inventory counting.</li> <li>▪ The timing of the count.</li> <li>▪ The locations at which inventory is held.</li> <li>▪ Whether an expert assistance is needed.</li> </ul>	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"> <li>▪ 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;</li> <li>▪ 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</li> <li>▪ Whether appropriate arrangements are made regarding the movement of inventory between areas and the shipping and receipt of inventory before and after the cut-off date. (HKSA 501.12)</li> <li>▪ High value items have been counted</li> </ul> <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"> <li>▪ Selected from those records to the physical inventory and</li> <li>▪ Selected from the physical inventory to the count records.</li> </ul> <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 cut-off 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)</p> <p>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.</p> <p>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"> <li>▪ To the supplies' invoices, production records and cost calculation worksheets.</li> <li>▪ Either first-in first-out or a weighted average costs methods have been used consistently</li> </ul> <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"> <li>▪ Items identified in the physical count</li> <li>▪ Examine an analysis of inventory turnover</li> <li>▪ Analytically comparing the relationship of inventory balances to anticipated sales volumes</li> <li>▪ Walk-through of the plant/warehouse for indications of products not being used</li> <li>▪ Inquiry of production and sales personnel</li> </ul> <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"> <li>▪ 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</li> <li>▪ 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)</li> </ul> <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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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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7. 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"> <li>▪ 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.: _____</li> </ul> <hr/> <p><b>Other liabilities and accrued liabilities</b></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"> <li>▪ Obtain independent confirmations</li> <li>▪ Compare the suppliers’ statements received</li> <li>▪ Check suppliers’ invoices and subsequent settlement</li> </ul> <p><b>Provision</b></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"> <li>▪ Ensure that provisions are recognised only if (SME-FRS 10.1) <ul style="list-style-type: none"> <li>○ There is a present obligation as a result of a past event</li> <li>○ It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and</li> <li>○ A reliable estimate can be made of the amount of the obligation.</li> </ul> </li> <li>▪ Review material movements in the ledger accounts</li> <li>▪ Review the basis of measurement and estimates employed at each balance sheet date.</li> <li>▪ Ensure that provision are properly authorised.</li> </ul>				
	E, R			
	E, V, A			
	E, C			
	E, C, V			
	E, V, A			

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
<ul style="list-style-type: none"> <li>▪ Review settlements of provisions subsequent to balance sheet date to ensure provision recognised at year end is the best estimate of expenditure required to settle the obligation.</li> <li>▪ Consider whether any provisions are sufficiently material to be separately disclosed in the financial statements.</li> </ul> <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. &amp; 10.22.</p>	PD			
<p><b>Contingent liabilities and/or assets</b></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><b>Search for unrecorded liabilities</b></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><b>Finance lease – lessee</b></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"> <li>▪ Check opening balance to the previous period’s financial statements</li> <li>▪ 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)</li> <li>▪ 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)</li> <li>▪ Compare the details to the agreements</li> <li>▪ Ensure that the leases are properly authorised</li> <li>▪ Check closing balances to the general ledger</li> </ul>	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			



**8. Sample Audit Programme (SME-FRS) – Revenue and Other Income Statement Items**

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 the recorded purchase/expense transactions are for goods and services actually received (Occurrence “O”) and all purchase/expense transactions that should have been recorded have been recorded (Completeness “C”) and recorded appropriately (Accuracy “AC”)
- C. To determine that sales and purchases transactions have been properly recorded in the proper accounts (Classification “CL”) and in the correct account period (Cut-off “CO”)
- D. To determine whether the presentation and disclosure requirements are properly addressed in the financial statements. (Presentation and disclosure “PD”)

<b>Audit procedures</b>	<b>Assertion</b>	<b>Sch. Ref.</b>	<b>Performed by</b>	<b>Date</b>
<p>1. Identify and assess the risks of material misstatement at the assertion level (HKSA 315.100), including those due to fraud (HKSA 240.57)<sup>Note 1</sup>, please specify or provide sch. ref.: _____</p> <ul style="list-style-type: none"> <li>▪ 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.: _____</li> </ul> <p>_____</p> <p><b>Overall</b></p> <p>2. Summarize the trading results</p> <ul style="list-style-type: none"> <li>▪ Perform review analysis of detailed accounts e.g. compare with the prior year financial accounts, budget and/or forecast</li> <li>▪ Obtain explanations for material variance and verify the explanation</li> <li>▪ Test vouched material or unusual income and expenses items</li> </ul> <p><b>Revenue</b></p> <p>3. Review the appropriateness of income recognition policies</p> <ul style="list-style-type: none"> <li>▪ Sale of goods (SME-FRS 11.2)</li> <li>▪ Rendering of services (SME-FRS 11.3-7)</li> <li>▪ Interest, royalties and dividends (SME-FRS 11.8-10)</li> </ul> <p>4. Test check that the revenue is measured at the fair value of the consideration received or receivable in accordance with (SME-FRS 11.1)</p> <p>5. 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</p> <p>6. 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.</p>	<p>AC, CL, PD</p> <p>AC</p> <p>O, C</p> <p>O, C, AC</p>			



Audit procedures	Assertion	Sch. Ref.	Performed by	Date
<ul style="list-style-type: none"> <li>▪ Test-check existence of the employee and the accuracy of the monthly salaries</li> <li>▪ Test-check employee’s signed receipt (for check payment) or bank auto-pay instruction and receipt (for bank auto-pay) and</li> <li>▪ Reconciled to bank statements</li> </ul> <p><b>Other Expenses Transactions</b></p> <p>15. Test Check Expenses Transactions Select entries in the general ledger accounts recording expenses and check</p> <ul style="list-style-type: none"> <li>▪ Correctly supported by authorized invoices / credit notes</li> <li>▪ Proper cancellation or marked “Paid” if payment has been made</li> </ul> <p>16. Obtain and review schedules for tax purpose e.g. impairment loss on bad and doubtful debts, legal and professional fee, repair and maintenance, donations, sundry expenses etc</p> <p>17. Review the presentation and disclosures in the financial statements and ensure that they are adequate and in accordance with the (SME-FRS 11.11, &amp; 1.22-28)</p> <p>18. Agree or reconcile the financial statements to the underlying accounting records (HKSA 330.50)</p> <p>19. Examine material journal entries and other adjustments made during the course of preparing the financial statements (HKSA 330.50)</p> <p>20. 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>21. Other tailored further audit procedures:</p>	PD			

Note 1: HKSA 240.60 clarifies that 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 HKSA 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 income statement 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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**9. 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”)

<b>Audit procedures</b>	<b>Assertion</b>	<b>Sch. Ref.</b>	<b>Performed by</b>	<b>Date</b>
<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"> <li>▪ 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.: _____</li> </ul> <hr/>				
<p>2. Obtain and check the movements the taxation for the period</p> <ul style="list-style-type: none"> <li>▪ Opening balance to the previous period’s financial statements</li> <li>▪ Check and agree tax status to notices from tax authority and consider whether prior year’s tax provisions are reasonable.</li> <li>▪ Check the payments / refund to the notices from tax authority</li> <li>▪ 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)</li> <li>▪ Closing balances to the general ledger</li> </ul>	E, C, V, A, R			
<p>3. Prepare/check current year’s tax computation to assess the adequacy of the current year’s tax provision.</p>	V			
<p>4. Ensure no deferred tax liabilities (assets) recognised</p>				
<p>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</p>	PD			
<p>6. Agree or reconcile the financial statements to the underlying accounting records (HKSA 330.50)</p>				

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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**10. Sample Audit Programme (SME-FRS) – The Effects of Changes in Foreign Exchange Rates**

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

**Audit Objectives**

- A. To determine whether the foreign currency transactions are properly recorded. (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”)

<b>Audit procedures</b>	<b>Assertion</b>	<b>Sch. Ref.</b>	<b>Performed by</b>	<b>Date</b>
<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"> <li>▪ 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.: _____</li> </ul> <hr/> <p><b>Foreign currency transactions</b></p> <p>2. Check that the foreign currency transaction be recorded on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of transactions (SME-FRS 15.1)</p> <p>3. Check that at the balance sheet date (SME-FRS 15.2)</p> <ul style="list-style-type: none"> <li>▪ foreign currency monetary items be reported using the closing rate; and</li> <li>▪ non-monetary items (including investments in subsidiaries, associates and joint ventures) denominated in a foreign currency be reported using the exchange rate at the date of the transaction or event.</li> </ul> <p>4. Ensure that the exchange differences arising on the settlement of monetary items or on reporting an entity’s monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognised as income or expenses in the period in which they arise. (SME-FRS 15.3)</p> <p><b>Translation of a foreign branch (SME-FRS 15.4-5)</b></p> <p>5. Check that</p> <ul style="list-style-type: none"> <li>▪ assets and liabilities for each balance sheet presented (i.e. including comparatives) be translated at the closing rate at the date of that balance sheet;</li> <li>▪ income and expenses for each income statement (i.e. including comparatives) be translated at average rate for the period or closing rate at that balance sheet date;</li> <li>▪ all resulting exchange differences should be recognised as a separate component of equity</li> </ul>	<p>E, C, V, A, R</p> <p>E, C, V, A, R</p> <p>V, A</p> <p>E, C, V, A, R</p>			

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
<p>▪ on the disposal of a foreign branch, the cumulative amount of the exchange differences deferred in the separate component of equity relating to that foreign branch should be recognised in profit or loss when the gain or loss on disposal is recognised.</p> <p><b>Forward Contracts</b></p> <p>6. For a non-speculative forward contract used as a hedge of a net monetary asset or liability, check that</p> <p>▪ the gain or loss on the contract be taken to the income statement and the discount or premium may be either amortised over the period of the contract or taken to the income statement.</p> <p>7. For a non-speculative forward contract used as a hedge of a firm commitment, check that</p> <p>▪ no gain or loss need normally be recognised during the commitment period. At the end of that period any gain or loss will be added to, or deducted from, the amount of the relevant transaction. The discount or premium should be either amortised over the period of the contract or deferred with the gain or loss.</p> <p>8. For a forward contract is speculative, check that</p> <p>▪ the gain or loss should be credited or charged to the income statement.</p> <p>9. Review the presentation and disclosures in the financial statements and ensure that they are adequate and in accordance with the SME-FRS 15.9</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)</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>13. Other tailored further audit procedures:</p>	<p>E, C, V, A, R</p> <p>E, C, V, A, R</p> <p>E, C, V, A, R</p> <p>PD</p>			

**Completion, comments and conclusion:**

In our opinion, the audit procedures on foreign currency transactions 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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**11. Sample Audit Programme (SME-FRS) – Related Party Disclosures**

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

**Audit Objectives**

- A. To determine the completeness of the information of related parties and transactions with such parties provided by the management have been recorded. (Completeness “C”)
- B. To ensure that the identified related party transactions have been properly recorded and disclosed in the financial statements. (Completeness “C”, Existence “E” and Accuracy “AC”)
- C. To determine whether the presentation and disclosure requirements are properly addressed in the financial statements. (Presentation and disclosure “PD”)

<b>Audit procedures</b>	<b>Assertion</b>	<b>Sch. Ref.</b>	<b>Performed by</b>	<b>Date</b>
<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"> <li>▪ 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.: _____</li> </ul> <hr/> <p><b>Existence and completeness</b></p> <p>2. Review information provided by the management identifying the names of all known related parties and perform the following audit procedures and, to ensure the completeness of this information: (HKSA 550.7)</p> <ul style="list-style-type: none"> <li>▪ Review prior year working papers for names of known related parties</li> <li>▪ Review the entity procedures for identification of related parties</li> <li>▪ Inquire as to the affiliation of those charged with governance and officers with other entities</li> <li>▪ Review shareholder records to determine the names of principal shareholders or, if appropriate, obtain a listing of principal shareholders from the share register</li> <li>▪ Review minutes of the meetings of shareholders and those charged with governance and other relevant statutory records such as the register of directors’ interests</li> <li>▪ Inquire of other auditors currently involved in the audit, or predecessor auditors, as to their knowledge of additional related parties</li> <li>▪ Review the entity’s income tax returns and other information supplied to regulatory agencies</li> </ul> <p>Consider modifying these procedures if there is a lower risk of significant related parties remaining undetected.</p> <p><b>Transactions with related parties</b></p> <p>3. Review information provided by the management identifying related party transactions and be alert for other material related party transactions. (HKSA 550.9)</p> <ul style="list-style-type: none"> <li>▪ For example, abnormal terms of trade, lack of apparent logical business reason and etc. (HKSA 550.11 &amp; 12)</li> </ul>	E, C			

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
<p><b>Identified related party transactions</b></p> <p>4. Consider to examine the identified related party transactions by (HKSA 550.14)</p> <ul style="list-style-type: none"> <li>▪ Confirm the terms and amount of the transaction with the related party</li> <li>▪ Inspect information in possession of the related party</li> <li>▪ Confirm or discuss information with persons associated with the transaction, such as banks, lawyers, guarantors and agents</li> </ul> <p>5. Obtain a written representation from management concerning: (HKSA 550.15)</p> <ul style="list-style-type: none"> <li>▪ The completeness of information provided regarding the identification of related parties</li> <li>▪ The adequacy of related party disclosures in the financial statements</li> </ul> <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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**12. Sample Audit Programme (SME-FRS) – Cash and Bank Balances**

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

**Audit Objectives**

- A. To determine the existence (“E”) and the completeness (“C”) of cash and bank balances have been recorded.
- B. To determine whether cash and bank balances 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 the presentation and disclosure requirements are properly addressed in the financial statements. (Presentation and disclosure “PD”)

<b>Audit procedures</b>	<b>Assertion</b>	<b>Sch. Ref.</b>	<b>Performed by</b>	<b>Date</b>
<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"> <li>▪ 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.: _____</li> </ul>				
<p>2. Obtain and check the schedule of cash and bank balances for the following</p> <ul style="list-style-type: none"> <li>▪ Closing balances to the general ledger</li> <li>▪ Agree balances to bank statements and/or bank reconciliations</li> </ul>	E, A			
<p>3. Obtain bank confirmations (HKSA 505.39-48) and</p> <ul style="list-style-type: none"> <li>▪ Agree with bank statements balances</li> <li>▪ Ensure all relevant information supplied by bank (discounted bills, trust receipt, assets pledged, etc) is properly shown in the books and /or financial statements</li> </ul>	E, C, R, V, A			
<p>4. Reperform bank reconciliations at the year end and check that they are correctly prepared including:</p> <ul style="list-style-type: none"> <li>▪ Cast bank reconciliation and the cash book for the relevant period</li> <li>▪ Agree balance per bank statements as recorded on the reconciliations with the bank statements</li> <li>▪ Agree balance per cash book as recorded on the reconciliation with cash control account in general ledger and cash book where appropriate.</li> <li>▪ Match all material items in cash book (or bank account in G/L) with bank statement and vice versa.</li> <li>▪ Check that B/F and C/F outstanding items have cleared by checking the banks statements or cash books                             <ul style="list-style-type: none"> <li>○ Check outstanding cheques to the cut-off bank statement or bank statement of subsequent periods and ascertain that they have been cleared after year-end.</li> <li>○ Check outstanding cash deposit are actually placed to bank before year-end but only recorded in the bank statement after the year-end.</li> </ul> </li> <li>▪ Investigate long outstanding cheques</li> <li>▪ Examine reasons for contras</li> </ul>	E, R, V, A			

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
<ul style="list-style-type: none"> <li>▪ Examine dishonoured cheques received after the period end</li> <li>▪ Ensure all material debit and credit entries in the bank statements which have not been included in the cash book are properly dealt with through year end adjustments.</li> </ul> <p>5. Examine interim bank reconciliation during the year</p> <ul style="list-style-type: none"> <li>▪ Agree to cash book balances</li> <li>▪ Agree to banks statements</li> <li>▪ Review adjustments made and discrepancies identified</li> </ul> <p>6. Cash in hand</p> <ul style="list-style-type: none"> <li>▪ Consider obtaining cash certificates relating to cash in hand</li> <li>▪ Consider carrying out a surprise petty cash count</li> </ul> <p>7. Review the presentation and disclosures in the financial statements and ensure that they are adequate and in accordance with the SME-FRS 1.16-20 &amp; 1.30-32</p> <p>8. Agree or reconcile the financial statements to the underlying accounting records (HKSA 330.50)</p> <p>9. Examine material journal entries and other adjustments made during the course of preparing the financial statements (HKSA 330.50)</p> <p>10. 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>11. Other tailored further audit procedures:</p>	<p>E, R, V, A</p> <p>E, C, R, V, A</p> <p>A, PD</p>			

**Completion, comments and conclusion:**

In our opinion, the audit procedures on cash and bank balances 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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**13. Sample Audit Programme (SME-FRS) – Loans Payable**

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

**Audit Objectives**

- A. To determine whether loans payable existing or incurred at the balance sheet date are recorded at the correct amount (Existence “E”, Completeness “C”, Valuation “V”, Allocation “A” and Rights and obligations “R”)
- B. To determine whether the amount in the financial statements 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
1. Identify and assess the risks of material misstatement at the assertion level (HKSA 315.100), please specify or provide sch. ref.: <hr/> <ul style="list-style-type: none"> <li>▪ 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.: _____</li> </ul> <hr/>				
2. Obtain the schedule of loans outstanding at the balance sheet date with the details for each loans <ul style="list-style-type: none"> <li>▪ Name of loan, maturity date, interest date, interest rate, balance at the end of the period and security</li> </ul>	E, A			
3. Check for the following <ul style="list-style-type: none"> <li>▪ Opening balances to previous period’s financial statements/ working paper</li> <li>▪ Closing balances to the general ledger</li> <li>▪ Additions to loan agreements</li> <li>▪ Trace additions and repayments to entries in the cash book</li> <li>▪ Examine signed board minutes relating to new borrowings/repayments.</li> <li>▪ Ensure the correct classification – current and non-current</li> </ul>	E, C, R, V, A			
4. Check the loans outstanding at the year end <ul style="list-style-type: none"> <li>▪ Agree with confirmations</li> <li>▪ Comply with terms of the loan</li> </ul>	E, C, A			
5. Check that interest expense on loans payable is <ul style="list-style-type: none"> <li>▪ Correctly calculated and paid on the due date</li> <li>▪ Correctly accrued at the year end</li> </ul>				
6. Review the presentation and disclosures in the financial statements and ensure that they are adequate and in accordance with the SME-FRS 1.16-20 & 1.30-32	A, PD			
7. Agree or reconcile the financial statements to the underlying accounting records (HKSA 330.50)				

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
<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) 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>				

**Completion, comments and conclusion:**

In our opinion, the audit procedures on loans payable 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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**14. Sample Audit Programme (SME-FRS) – Trade & Other Receivables**

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

**Audit Objectives**

- A. To determine the existence (“E”) and the completeness (“C”) of trade and other receivables that have been recorded.
- B. To determine whether trade and other receivables have been included in the financial statements at appropriate amount and the company holds or controls the right to trade receivables (Rights and obligations “R”, Valuation “V” and Allocation “A”)
- C. To determine whether impairment loss on trade and other receivables is properly accounted for in the financial statements. (Valuation “V”)
- D. To determine whether the presentation and disclosure requirements are properly addressed in the financial statements. (Presentation and disclosure “PD”)

<b>Audit procedures</b>	<b>Assertion</b>	<b>Sch. Ref.</b>	<b>Performed by</b>	<b>Date</b>
<p>1. Identify and assess the risks of material misstatement at the assertion level (HKSA 315.100), please specify or provide sch. ref.: _____</p> <ul style="list-style-type: none"> <li>▪ 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.: _____</li> </ul>				
<b>Trade Receivables</b>				
<p>2. Obtain the list of outstanding debtors</p> <ul style="list-style-type: none"> <li>▪ Check casting and reconcile to the debtors control account</li> <li>▪ Check balance to the individual debtors ledger accounts</li> </ul>	E, V			
<p>3. Perform analytical procedures</p> <ul style="list-style-type: none"> <li>▪ Compare with previous year’s figures including the trade debtor’s turnover – Debtors / Sales and obtain satisfactory explanations for material fluctuation</li> </ul>	E, C, V, A			
<p>4. Confirmations of trade receivable balances</p> <ul style="list-style-type: none"> <li>▪ Circularise trade receivables if they are material and it is reasonable to expect them to respond.</li> </ul>	E, C, V, A, R			
<p>5. Carry out follow-up procedures where confirmation not returned. Alternative audit procedures may include (HKSA 505.31)</p> <ul style="list-style-type: none"> <li>▪ examination of subsequent cash receipts,</li> <li>▪ examination of shipping documentation or other client documentation to provide audit evidence for the existence assertion, and</li> <li>▪ examination of sales near the period-end to provide audit evidence for the cut-off assertion</li> </ul>				
<b>Bill Receivables</b>				
<p>6. Obtain the list of bill receivables and check casting and agree with G/L</p> <ul style="list-style-type: none"> <li>▪ Agrees balance with bank confirmations and bank statements and reconcile any discrepancies</li> <li>▪ Ensure no double counting of bills and debtors</li> </ul>	E, C, V, R, A			



Audit procedures	Assertion	Sch. Ref.	Performed by	Date
15. Other tailored further audit procedures:				

**Completion, comments and conclusion:**

In our opinion, the audit procedures on trade and other receivables 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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**15. Sample Audit Programme (SME-FRS) – Trade and Bill Payables**

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

**Audit Objectives**

- A. To determine whether trade and bill payables 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> <ul style="list-style-type: none"> <li>▪ 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.: _____</li> </ul>				
<b>Trade Payables</b>				
2. Identify major suppliers by reference to purchasing activity, enquiry, last year’s audit file and check to list of suppliers/purchase ledger accounts to establishing full list and agree their balances to the creditors listing	C, E, A			
3. Creditors listing	C, E			
<ul style="list-style-type: none"> <li>▪ Check casting</li> <li>▪ Reconcile to creditors control accounts</li> </ul>				
4. Perform analytical procedures	C, E			
<ul style="list-style-type: none"> <li>▪ Compare with previous year’s figures including the creditors/purchase ratio and obtain satisfactory explanations for material fluctuation</li> </ul>				
5. Circularise and confirm creditors (including major suppliers with small balances at confirmation date)	C, E, V			
6. Carry out follow-up procedures where confirmation not returned. Alternative audit procedures may include (HKSA 505.31)	C, E, V, A			
<ul style="list-style-type: none"> <li>▪ examination of subsequent cash disbursements or correspondence from third parties to provide audit evidence of the existence assertion, and</li> <li>▪ examination of other records, such as suppliers statements and goods received notes, to provide audit evidence of the completeness assertion</li> </ul>				



**16. Sample Audit Programme (SME-FRS) – Capital and Reserves**

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

**Audit Objectives**

- A. To determine whether capital as stated in the Balance Sheet represent all the authorized and issued capital of the company in accordance with the Memorandum and Articles of Association (Existence “E”, Completeness “C”, Valuation “V”, Allocation “A”)
- B. To determine whether the amount of capital and reserves in the financial statements are correctly recorded and fairly stated (Existence “E”, Completeness “C”, Valuation “V”, 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
1. Identify and assess the risks of material misstatement at the assertion level (HKSA 315.100), please specify or provide sch. ref.: <hr/> <ul style="list-style-type: none"> <li>▪ 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.: _____</li> </ul> <hr/>				
<b>Share Capital</b>				
2. Obtain a schedule of share capital and check the following <ul style="list-style-type: none"> <li>▪ Agree opening balances of authorized and issued capital to last year’s audited financial statements</li> <li>▪ Agree authorize share capital to memorandum of association</li> <li>▪ Agree issued share capital to books and records/minutes</li> </ul>	E, A, V			
3. Check that the statutory books/ records – register of members, register of directors and secretaries, register of charges, minute book, and etc are properly maintained and up-to-date	E, C			
4. Check that dividends shown in income statement are: <ul style="list-style-type: none"> <li>▪ Correctly calculated and supported by minutes</li> <li>▪ Paid out of distributable reserves only and in accordance with the company’s articles</li> </ul>	E, V, R			
<b>Reserves</b>				
5. Check the opening balances of other reserves and review movements during the period/	E, A, V			
6. Review the presentation and disclosures in the financial statements and ensure that they are adequate and in accordance with the SME-FRS 1.25 & 1.29	A, PD			
7. Agree or reconcile the financial statements to the underlying accounting records (HKSA 330.50)				

Audit procedures	Assertion	Sch. Ref.	Performed by	Date
<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) 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>				

**Completion, comments and conclusion:**

In our opinion, the audit procedures on capital and reserves 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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