Financial Reporting Council
財務匯報局

Inspection

Interim Inspection Report

11 December 2020

About the FRC

The Financial Reporting Council is an independent body established on 1 December 2006 under the Financial Reporting Council Ordinance. It is entrusted with the statutory duty to regulate auditors of listed entities through a system of registration and recognition, and through inspection, investigation and disciplinary action.

The mission of the FRC is to uphold the quality of financial reporting of listed entities in Hong Kong, so as to enhance protection for investors and deepen investor confidence in corporate reporting.

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Foreword from the Chief Executive Officer

I am pleased to share with the public our first interim inspection report since the establishment of the FRC's new Inspection function under the amended FRC Ordinance, and I look forward to receiving feedback.

This report is of particular significance as it provides initial intelligence to our stakeholders about our audit quality findings, in the middle of our first inspection cycle. It shows that although much of the audit work being performed is of an appropriate standard, there is an evident need for the incidence of audit deficiencies to be reduced, so as to improve audit quality across the market for listed entity audits.

Our primary focus in inspection is on audit quality and how it is controlled by the audit firms. **Our findings do not necessarily indicate that there is an issue with the financial statements but rather that the quality of the audit has been affected by deficiencies in important aspects of the work.** The significance of our findings to the quality of the audit varies widely. It is therefore important to note that all of the findings for an audit need to be considered together in evaluating their impact on the overall quality of the audit. **Individual findings do not necessarily indicate that the audits to which they relate were poor quality.**

Our report addresses key areas of the collective audits inspected to date, in which there is a high incidence of common findings. Consistent with findings by independent auditor regulators in other jurisdictions, we found that the exercise of professional scepticism was not sufficient in at least one area in 90% of the engagements. Professional scepticism is a key behavioural attribute of auditors. A deficiency in this area can undermine the ability of auditors to look hard enough for the evidence they need and to critically appraise the evidence obtained. This is especially important in these challenging economic times. When significant, deficiencies in the exercise of professional scepticism may result in the auditor not having the evidence necessary to draw their conclusion on the financial statements.

In relation to the systems firms use to control the quality of their audit engagements, our findings indicate that auditors should do more to control audit quality through promoting a culture that prioritizes and recognizes quality work, and through establishing controls to monitor the ongoing adequacy of the resources made available to perform their audits. An appropriate culture should support a focus on always serving the public interest in audit over the commercial and personal interests of auditors. More effective monitoring of the adequacy of resources is important because a lack of resources is often identified as a common cause of deficiencies.

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Auditors have the primary responsibility to address our findings. We have already communicated them to the firms we have inspected so far. Making public disclosure of our findings now provides insights to all auditors and enables them to take early action to address the incidence of deficiencies identified in our findings in their next cycle of audits, which we will pay attention to in our second inspection cycle.

We have set out our expectations for listed entity auditors to take action to address our findings both in relation to the effectiveness of their audit quality control systems and in the performance of their engagements. We will work constructively with our regulated audit firms to ensure they implement plans to address these matters.

Another important purpose of this report is to alert audit committee members to our key findings and the potential implications for their audits. They have a pivotal role in holding their auditors to account for delivering their audits to a high quality. We urge them to challenge auditors as to whether they are taking the necessary action to ensure that the deficiencies identified in our findings will not occur on their audits.

When our first inspection cycle is completed, we will be evaluating the significance to audit quality of our findings individually and in the aggregate for each engagement we have inspected. In addition to communicating the outcome of these evaluations to the relevant audit firms and engagement teams, we will communicate to the public an update of our findings from the remainder of our first cycle, the outcome of our overall evaluation of their significance and our directional observations on the implications for the public interest in the quality of listed entity audits.

Our experience of carrying out our new Inspection function to date has been one of constructive engagement with our regulated audit firms. We welcome their positive attitude to our important public interest role and are grateful to them for facilitating our inspection work.

Marek Grabowski
Chief Executive Officer

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Section 1

Introduction

The purpose of this report is to provide timely public disclosure of our inspection findings to date and to set out our expectation that listed entity auditors should respond to these findings and improve the quality of their audits in the next audit cycle. This report shares certain early findings from our inspections performed in 2020 to date, which have already been discussed with the individual audit firms inspected, and our directional observations on them.

This report also identifies potential areas where risks to the performance of high quality audit engagements may be higher in the coming audit cycle. We may place greater focus on these areas in our inspections in 2021.

On 1 October 2019, the Financial Reporting Council (FRC) became the full-fledged independent regulator for auditors of listed entities in Hong Kong. The mission of the FRC is to uphold the quality of financial reporting of listed entities in Hong Kong so as to enhance protection for investors and deepen investor confidence in corporate reporting. The performance of high quality audits, and the maintenance of effective audit quality control systems, are crucial elements of the listed entity financial reporting ecosystem and contribute to ensuring Hong Kong remains a competitive international financial centre. A high quality audit is one that meets both the spirit and the letter of applicable laws and standards.

The amended Financial Reporting Council Ordinance gives the FRC a number of new functions, including the statutory duty and powers to carry out inspections to determine whether listed entity auditors have complied with applicable professional standards and legal and regulatory requirements. Our inspections evaluate the quality of a selection of an auditor's engagements for listed entities and the effectiveness of the auditor's quality control system.

To date the FRC has completed 18 of 39 planned engagement inspections and 15 of the 18 inspections of the quality control systems of listed entity audit firms to be conducted in 2020. We will report our findings from all inspections performed to the end of December 2020, and our perspectives on them, in our Annual Inspection Report to be issued in March 2021.

Our approach is designed to assess the quality of audit engagements and the systems of quality control and then require remediation and improvement where individual auditors fall short. Although our inspection work is ongoing, we are making public disclosure of our interim findings now to provide timely feedback and set out our expectations for the broader constituency of listed entity auditors to enable them to respond to our market-wide findings and improve the effectiveness of their quality control systems and the quality of their individual engagements.

Making our findings transparent also enables us to urge audit committees, which have governance responsibility for the quality of financial reporting and play a pivotal governance role in relation to a listed entity's external audit, to consider these matters and challenge their auditor as to whether they have appropriately addressed them.

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Section 2

Our inspections of engagements

2.1 Introduction

The primary aim of an inspection is to assess whether the auditor has complied with applicable professional standards, laws and regulations. The determination of whether financial information is materially misstated is not the primary focus of an inspection.

As the significance of individual findings to the quality of an audit may vary widely, our findings do not necessarily indicate that there is an issue with the financial statements but rather that the quality of the audit has been affected by deficiencies in important aspects of the audit. Where sufficiently significant, individually or in aggregate in relation to a particular audit, they indicate that the auditor did not have an appropriate justification for drawing their conclusion on the financial statements.

Matters identified in our findings therefore have the potential to undermine the ability of the audit to provide justified confidence in the financial statements. We explain below how our interim findings may affect audit quality and investor confidence in the audit and in the audited financial statements.

The FRC's methodology for selecting engagements and the areas of our inspection focus in each engagement is weighted towards engagements and areas we consider to have a higher risk to audit quality.

Multiple factors affect the risk to audit quality. Risk factors may relate to the impact of general economic conditions, aspects of the listed entity's governance and internal control, the frequency of changes in its auditor, or aspects of the entity's financial statements that require the auditor to exercise significant professional judgement. Such judgement is needed in areas that involve high levels of estimation uncertainty or complexity in the application of relevant financial reporting standards. Risk factors may also relate to aspects of the effectiveness of the auditor's system of quality control.

We set out below our most common significant findings across the engagements we have inspected to date.

We expect auditors to reflect on these findings in the context of their engagements, and audit firms to do so in considering the effectiveness of their systems of quality control, including related policies, training and other support, and to take appropriate action to avoid deficiencies in their engagements in these areas.

We also urge audit committees to discuss these areas with their auditors and challenge whether they have been adequately addressed.

2.2 Lack of adequate exercise of professional scepticism

Professional scepticism is an attitude that includes a questioning mind and a critical assessment of the appropriateness and sufficiency of audit evidence. It requires being alert to conditions that may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence. We identified one or more instances of a lack of adequate exercise of professional scepticism in sixteen of the eighteen, or almost 90%, of the engagements we have inspected.

Exercise of professional scepticism by an auditor is important throughout the audit engagement. If exercised effectively, it enables the auditor to obtain the evidence they need to evaluate the risks of misstatement, direct their work accordingly, and evaluate the evidence they obtain to determine whether the financial statements are materially misstated.

Without adequate exercise of professional scepticism, the auditor may not challenge management sufficiently or be sufficiently critical in their evaluation of audit evidence, and may not therefore obtain or properly evaluate all the evidence needed to form the basis for their opinion. It is particularly important to apply professional scepticism in areas where management assumptions used in preparing the financial statements have a material impact and where there is a higher risk of management bias or fraud.

Examples of areas where engagement teams did not sufficiently demonstrate professional scepticism include:

- Challenging key assumptions made by management in determining estimates, including forecast cash flows and discount rates used in going concern and impairment assessments.

- Considering the business rationale for complicated and unusual transactions and the related risk of fraud.

- The consideration of contradictory or disconfirming evidence in areas such as asset impairment and the timing of revenue recognition.

- Challenging management's determination of incremental borrowing rates when applying HKFRS 16 *Leases.*

The COVID-19 pandemic has brought significant uncertainty over the outlook for many companies and, in turn, significantly increased the complexity in applying forward-looking accounting judgements such as going concern and asset impairment assessments. In the current environment the application of professional judgement is more difficult and the exercise of professional scepticism is more important to achieving a quality audit.

2.3 Deficiencies in testing of journal entries and other adjustments

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial information by overriding controls that otherwise appear to be operating effectively.

Auditing standards require the auditor to test the appropriateness of journal entries and other adjustments made in the preparation of financial information in all audit engagements. This is because, although the level of risk of management overriding controls will vary from entity to entity, the risk is nevertheless present in all entities and such override of controls has often been used to perpetrate fraud at this point in the process of preparing the financial statements.

Despite the importance given to such testing in the auditing standards, this has been a recurring area of findings from inspections in many jurisdictions. We identified deficiencies in this area in over half of the engagements inspected, including:

- Indicators of fraud risk used to identify high-risk journals for testing were not tailored to the individual engagement, leading to audit procedures that could have failed to identify fraudulent accounting entries.

- Journal entries with amounts below an arbitrary threshold were not tested, even though the journal was identified by the auditor as having an indicator of a risk of fraud. This could result in the auditor not identifying fraudulent accounting entries perpetrated through processing multiple journals that, though not individually significant, could collectively be material.

2.4 Deficiencies relating to Key Audit Matters ("KAMs")

KAMs are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements. Other than in extremely rare circumstances, auditors are required to address these in the audit reports of all listed entities.

Failure to appropriately identify or communicate how the auditor addressed KAMs undermines the value of the auditor's report in providing an understanding of the entity, of areas of significant management judgement, and about how the auditor dealt with the areas of most significance in the audit performed.

We identified deficiencies relating to KAMs in seven of the eighteen engagements inspected, or almost 40%, including engagements conducted by both the largest and smallest firms, including:

- Omission or insufficient description of why the auditor considered a matter to be a KAM or how that KAM was addressed in the audit.

- The engagement team had not performed all of the procedures that were described in the auditor's report as having been completed to address the KAM.

2.5 Deficiencies in evaluating the application of accounting standards

The objective of an audit of financial statements is to enable the auditor to express an opinion as to whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

A failure to obtain sufficient appropriate evidence that a listed entity has appropriately applied the requirements of financial reporting standards may result in the auditor failing to identify a material misstatement of financial statements or having an inadequate basis for the auditor's conclusion. Either or both of these outcomes may result in the issuance of an inappropriate auditor's report. As a result, deficiencies in this area may result in investors drawing a level of confidence in the financial statements based on the auditor's report that is not justified by the auditor's work.

We identified deficiencies relating to the audit of revenue recognition and expected credit loss impairment in over 60%, or ten, of the sixteen engagements where the application of the related accounting standards was an area of inspection focus.

Revenue recognition

Despite this being the second year of application of HKFRS 15 *Revenue from Contracts with Customers* for many listed entities, in 75% of the engagements where revenue was an area of inspection focus the engagement teams had not adequately assessed the appropriateness of the entity's accounting for revenue in areas including:

- Whether the entity was acting as principal or as agent in transactions.

- The identification of separate performance obligations.

- The timing of revenue recognition.

Expected credit loss impairment

We identified one or more deficiencies in the auditor's work performed on the audited entity's application of HKFRS 9 *Financial Instruments* in five, or almost 40%, of the thirteen engagements where expected credit loss impairment was an area of inspection focus, including:

- A lack of challenge on the business rationale and commercial substance for lending transactions, including consideration of related party relationships.
- Insufficient challenge of management's assessment of the credit quality of receivable balances.
- Insufficient or inappropriate audit procedures over the entity's identification of significant increases in credit risk and the staging of loans and receivables.
- A lack of consideration of how an entity had determined its forecasts of future economic conditions.
- A failure to obtain sufficient appropriate audit evidence over the recoverability of loans and advances and receivables.

2.6 Deficiencies in using the work of an auditor's expert

An auditor may use an expert to perform work in a field of expertise other than accounting or auditing which the auditor intends to use as audit evidence. In determining whether it is appropriate to do so, the auditor is required to evaluate the:

- Competence and objectivity of such an expert;
- Adequacy of the scope of work; and
- Appropriateness of the expert's work.

Deficiencies in this area may result in the auditor placing unjustified reliance on the work of the expert. This may result in the auditor incorrectly concluding that they have sufficient appropriate evidence on which to draw a conclusion, which may result in an unjustified auditor's report.

We identified deficiencies in seven, or over half, of the thirteen engagements inspected where the auditor relied upon the work of an auditor's expert, including:

- A lack of an agreement on the scope of work and specific procedures to be performed by the auditor and the expert during the engagement.

- The expert's opinion was not consistent with the purpose for which the expert was engaged.

- Instances where experts placed caveats on the extent to which the engagement team could rely upon their work, which were inappropriate, leading to the auditor having insufficient or inappropriate audit evidence on which to draw a conclusion.

- A lack of internal policies or guidance on the extent of documentation of the expert's work to be retained on the engagement file.

2.7 Inadequate documentation

Audit documentation provides evidence that the audit was appropriately planned and executed, including recording the procedures performed, the evidence obtained and the basis for the conclusions made by the auditor. It enables auditors to be held accountable for their work and is therefore an important incentive for proper performance of the audit.

In almost 80% of the inspections completed to date, engagement teams had not adequately documented the matters considered in reaching conclusions, or the detailed procedures performed. We identified insufficient documentation over areas including:

- The auditor's consideration and identification of audit risk at the engagement planning stage.

- The source and reliability of underlying information.

- Sample selection criteria.

- Consideration of the appropriateness of an entity's application of accounting standards.

The table on the following page shows the number of engagements we inspected that had one or more findings in the areas described above, disaggregated by the number of listed-entity audits a firm completes annually. The auditor's procedures over the entity's application of the revenue recognition and expected credit loss impairment standards were not inspected for all engagements and therefore the total of relevant engagements for findings in each of those areas is less than the total of eighteen inspections performed.

2.8 Our expectations for improvement in audit quality

The frequency and nature of our findings indicate that there is a need for the quality of audit engagements to be improved across the spectrum of audit firms. In light of our findings, we expect all auditors to consider the deficiencies that give rise to such findings when planning and performing their audit engagements, and we expect audit firms to consider the need to enhance their systems of quality control. **We will expect auditors and audit firms to have taken action to avoid the occurrence of such deficiencies in the next audit cycle.**

Given the influential role of audit committees in setting expectations for their auditors and challenging the quality of their audits, we also urge audit committees to consider the audit deficiencies highlighted in our findings and to challenge their auditors about the steps they have taken to avoid them occurring in their audits.

2.9 Table of findings

In interpreting the data in the following table, **it is important to recognize that our findings do not necessarily indicate that the financial statements are materially misstated but rather that the quality of the audit has been affected by deficiencies in important aspects of the work.**

Findings do represent a deficiency in applying applicable professional standards but the significance of individual findings to the quality of an audit varies widely. Where findings are sufficiently significant, individually or in aggregate, they may indicate that the auditor did not have an appropriate justification for drawing a conclusion on the financial statements.

Accordingly**, this table does not indicate the relative significance of our findings or their impact on audit quality. Individual findings do not necessarily indicate that the audits to which they relate were poor quality.** In completing our work, we will carefully assess the significance of all findings in relation to each engagement we inspect, in arriving at an overall evaluation of the quality of that engagement.

Key areas of findings	Number of engagements to which findings relate / number of relevant engagements inspected:			
		Engagements of a firm that conducts a number of listed entity audits that is:[1]		
	Total	More than 100*	Between 11 and 100	10 or fewer
Lack of professional scepticism				
- Going concern - Asset impairment - Business rationale - Fraud	**16 / 18** **89%**	9 / 11 82%	3 / 3 100%	4 /4 100%
Deficiencies in testing of journal entries	**10 / 18** **56%**	6 / 11 55%	1 / 3 33%	3 / 4 75%
Deficiencies relating to Key Audit Matters	**7 / 18** **39%**	3 / 11 27%	2 / 3 67%	2 / 4 50%
Deficiencies in evaluating the application of accounting standards				
Revenue recognition				
- Principal or agent - Performance obligations - Timing of recognition	**9 / 12** **75%**	7 / 9 78%	0 / 1 0%	2 / 2 100%
Expected credit loss impairment				
- Credit quality assessment - Significant increase in credit risk - Recoverability	**5 / 13** **38%**	2 / 7 29%	1 / 2 50%	2 / 4 50%
Deficiencies in using the work of an auditor's expert	**7 / 13** **54%**	4 / 10 40%	1 / 1 100%	2 / 2 100%
Inadequate documentation	**14 / 18** **78%**	7 / 11 64%	3 / 3 100%	4 / 4 100%

[1] Firms which conduct more than 100 listed entity audits annually are inspected each year. Firms with 100 or fewer listed entity audits are inspected at least once in a three-year inspection cycle.

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Section 3

Our inspections of systems of quality control

3.1 Introduction

The effectiveness of a firm's system of quality control is the foundation for high quality audit work. It should provide the firm with reasonable assurance that high quality audits are being performed by engagement teams and underpin their ability to comply with professional standards and issue appropriate reports.

We inspect a firm's system of quality control to determine if it meets the requirements of the relevant standards, to identify and share good practices and to make recommendations for improvements. It also assists us in considering factors that affect audit risk relating to the firm's audit engagements.

A system of quality control is designed to provide a firm with reasonable assurance that the firm and its personnel comply with professional standards and applicable legal and regulatory requirements, and that reports issued by the firm or engagement partners are appropriate in the circumstances. An effective system of quality control includes policies and procedures that address the following objectives for each of the following six elements of the system:

- Establish that the leadership of the firm is responsible for promoting an internal culture that recognizes that quality is essential in performing engagements;

- Provide the firm with reasonable assurance that relevant ethical requirements, including independence, are met;

- Provide the firm with reasonable assurance that the firm will only accept or continue relationships and engagements where the firm has the time and resources to perform an engagement to a high standard;

- Provide the firm with reasonable assurance that the firm has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to perform engagements in accordance with relevant professional standards and issue appropriate reports;

- Promote consistency and prescribe supervision and review responsibilities when performing an engagement; and

- Establish a monitoring process designed to provide the firm with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. A firm's monitoring process will also include the periodic inspection of a sample of every engagement partner's work.

During the course of our inspections to date we have observed both common areas for improvement and areas of good practice in each of the elements outlined above. Highlighted below are the most prevalent significant matters we observed across the firms we have inspected to date, which relate to three of the six elements. The significance of our findings may question whether firms are obtaining reasonable assurance about the effectiveness of their systems of quality control.

We expect senior management of listed entity auditors to consider their controls in the following areas, to identify where they should be improved, and to take action to implement such changes.

3.2 Independence

Auditors are required to be independent of their audit clients, in both mind and in appearance. Independence allows an auditor to act in accordance with ethical principles of integrity and objectivity, thus contributing to audit quality and investor trust in the quality of the auditor's work. Independence implies freedom from situations that would compromise professional judgement.

Common areas for improvement

Despite the vital importance of independence to audit quality and investor confidence, seven of the fifteen firms we inspected, and in particular independent local firms or those within an international network of independent firms, did not have effective tools and processes to reliably determine whether they and the firms within their network were independent of listed entity clients.

Our inspections identified a lack of policies and controls over the recording and monitoring of personal securities investments, and regular and timely confirmations of personal independence from clients that would impair independence, in seven of the fifteen firms inspected.

Areas of good practice observed

Examples of good practice we observed include advanced global systems to record client relationships and engagements across a network and active monitoring of strict internal policies for recording personal investments.

Our recommendation

Firms should establish, implement and monitor compliance with policies and procedures over personal investments and for the acceptance and continuance of client relationships and specific engagements, to provide the firm with reasonable assurance that it is independent of its listed entity clients.

3.3 Promoting an internal culture of quality

The promotion of a quality-oriented internal culture depends on a tone being set by a firm's management that emphasizes the need to achieve quality in all the engagements that the firm performs. Such a culture, if effective, should result in audit quality being a key consideration and overriding commitment in all decision-making and operations of the firm, from senior management to engagement teams. One important way to develop such a culture is through implementing policies over performance evaluation, compensation and promotion that demonstrate the firm's overriding commitment to quality.

Common areas for improvement

While many of the firms we inspected stress the importance of quality, factors such as business development are very often given greater prominence in performance assessment, indicating that senior management see this as a higher priority than audit quality. We also noted that, despite the pursuit of quality being fundamental to the effectiveness of an assurance partner, in ten of the firms we inspected, including larger, more sophisticated firms, the quality of work was not a primary factor when recommending promotion to audit partner. We also identified that in eight firms audit quality was not a consideration in the annual performance assessments of audit partners at all.

Areas of good practice observed

We noted some good examples of firms using performance evaluation and compensation policies to reinforce the importance of quality, including senior leadership being held accountable for audit quality and engagement teams being recognized for their high standard of work.

Our recommendation

Firms should review their performance and appraisal policies to ensure that they appropriately promote a culture of quality and drive high quality work.

3.4 Resources

It is important that partners and staff have sufficient time and resources to be able to plan and conduct an effective audit. Some firms have identified a lack of sufficient partner involvement at critical phases of the audit as a common cause of unsatisfactory work and accordingly have developed controls to assist partners in avoiding these situations.

Common areas for improvement

While six of the firms we inspected have implemented tools to monitor partner and staff workloads to ensure engagement teams have sufficient time to perform high quality work, the majority of firms we inspected either do not have such measures in place or where such tools do exist they are insufficiently robust or effective.

Areas of good practice observed

We identified good practice at three firms to drive sufficient and timely partner involvement where expected dates for completion of key phases of the engagement are set and actively monitored by the firm. Key phases include planning, the completion of key audit procedures and engagement quality control reviews.

Our recommendation

Firms should implement effective processes to monitor workloads and drive timely and sufficient partner involvement at key stages of an engagement. Firms should consider implementing policies and procedures for setting and actively monitoring expected dates for completion of key phases of their engagements.

Section 4

Potential areas of inspection in 2021

4.1 Introduction

The current environment continues to present significant challenges to the conduct of engagements. Restrictions on travel to and within Mainland China and other countries will necessitate changes in work arrangements and the uncertain economic outlook will require engagement teams to rigorously apply professional scepticism in challenging management judgement and estimates in a number of areas, particularly in their work on going concern and asset impairment.

Potential areas of inspection focus in 2021 relate to common findings identified from inspections to date, the implementation of new professional standards and the auditor's response to current economic conditions throughout the engagement.

4.2 Professional scepticism

How the engagement team has evaluated independent economic information and applied professional scepticism to key management judgements and estimates in areas such as:

- Going concern.
- Impairment of goodwill.
- Valuations of assets.
- Expected credit losses.

4.3 Consideration of fraud

The engagement team's identification and response to fraud considerations throughout the audit.

4.4 Accounting estimates

HKSA 540 (Revised) *Auditing Accounting Estimates and Related Disclosures*, which is first effective for audits of annual financial statements ending on or after 31 December 2020, establishes robust new requirements for auditing accounting estimates, with a focus on determining what drives the risk of material misstatement of an accounting estimate and responding appropriately. Audit firms may need to amend their audit methodology to comply with the provisions of the standard and also provide guidance and training to engagement teams. Engagement teams will be expected to have diligently adhered to the standard.

When applying the revised standard, firms should be mindful of performing procedures that can create a self-review threat to independence when conducting an audit of a listed entity. Threats may arise from assisting in the preparation of financial statements and related disclosure notes, performing consolidation workings and assisting management in the preparation of key estimates and judgements.

Engagement teams should clearly communicate at the planning stage the responsibility of management and the audit committee to formally assess and document whether an entity is a going concern, and whether there are material uncertainties about the entity's ability to continue as a going concern, and to develop appropriate and supportable estimates for all areas of the financial statements independently of the auditor. Auditors should agree with management the timing and form of such assessments and should report to the audit committee where the quality of these documents can be improved.

4.5 Journal entries

Given the prevalence of deficiencies identified in inspections to date, journal entry testing will continue to be an area of inspection focus.

4.6 Group audit considerations

Due to the current travel restrictions, group audit engagement teams may need to instruct a network or affiliated auditor to conduct the audit of group components located in a different jurisdiction. Engagement teams are reminded to follow the requirements of HKSA 600 *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors),* including documenting the understanding of the component auditor, communicating group and component materiality, significant audit risks and reporting requirements, and documenting the evaluation of the sufficiency and appropriateness of the audit evidence obtained by the component auditor.