

Press Release
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The Financial Reporting Council [e-newsletter](#) (February 2020) issue gives insights and advice to the audit profession amidst challenging financial and socio-economic situations

(6 February 2020, Hong Kong) The Financial Reporting Council (the FRC) has published the latest [e-newsletter](#). This is the first e-newsletter of the FRC since the commencement of the new auditor regulatory regime on 1 October 2019.

Ms Florence Wong, Acting CEO said, ‘In the face of challenging financial and socio-economic situations including the lingering economic outlook, the threat of the novel coronavirus and the resignation trend of audit firms as auditors of listed companies, it is all the more important to maintain audit quality and audit independence. We believe the latest issue of e-newsletter will bring some new insights and useful advice for relevant stakeholders to deal with the current situations.’

Highlights of the e-newsletter:

- Audit quality and audit independence are even more important and vulnerable amidst the challenging financial and socio-economic situations. The FRC has engaged in constant dialogue with stakeholders to understand the challenges and worked closely with other regulators to explore how audit quality and audit independence will not be compromised.
- In the current situation, it is even more important for the audit engagement teams and engagement quality control reviewers to remain sceptical and objective, and to be prepared to challenge any overly aggressive estimation, judgment or practice by management in light of relevant laws, regulations and standards. They should at all times exhibit objectivity and integrity, and remain independent. Audit firms should arrange sufficient and appropriate resources for the necessary additional procedures as required under the standards.
- Particular attention should be paid to the areas relating to impairment assessment of intangible assets including goodwill, revenue recognition, appropriateness of the going concern assumption, related party transaction and unusual transactions

that may heighten the risk of improper accounting or disclosure.

- The board of directors, being the preparers of financial statements, have ultimate responsibility for the integrity and accuracy of the financial statements. They should exercise extra due care in approving assumptions, judgement and estimation in preparing the financial statements, in particular, when assessing the entity's ability to continue as a going concern. The delegation to the audit committee of the oversight of financial reporting and the external audit do not absolve the board of its obligations.
- An audit committee should focus its efforts on emerging risks and challenge management's judgements and assumptions which may have significant impact on financial reporting, such as changes in internal control; challenges, risks and opportunities facing the entity; key judgements and estimates made in preparing the financial statements (e.g. forecasts and underlying assumptions used in impairment and going concern assessments); and significant subsequent events.
- Given the current situation and in light of the Joint Statement by the Securities and Futures Commission and Stock Exchange of Hong Kong Limited of 4 February, management, the audit committee and the auditor should work together to assess the implication of the novel coronavirus on the year-end audit. In particular, whether the incident has any significant impact on the entity that needs adjustments and disclosure in the financial statements; whether the auditor has sufficient time and resources to complete the audit of companies with 2019 December year-end by 31 March 2020; and what are the specific and practical impediments that would lead to an expected delay in the completion of the audit that are not capable of resolution. This should help ensure that audit quality would not be compromised.

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Note to editors

About the FRC

The FRC is the full-fledged independent listed entity auditor regulator for Hong Kong committed to achieving its mission of upholding the quality of financial reporting of listed entities of Hong Kong so as to enhance protection for investors and deepen investor confidence in corporate reporting. For more information about the statutory functions of the FRC, please visit www.frc.org.hk.

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