

Alert

Updates on financial reporting, auditing, ethics
and sustainability disclosures



Issue 48 (December 2023)

Dear members,

Considerations for 2023 year-end audits

This publication is designed for audits of financial statements for the periods ending on 31 December 2023. Below are some points for consideration by auditors when performing audits and other forms of reporting:

First annual assessment of HKSQM by 15 December 2023

In [Alert 45](#), members were referred to the monitoring and remediation process and the requirement to evaluate a firm's system of quality management under Hong Kong Standard on Quality Management (HKSQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

HKSQM 1 has been in effect for almost a year. To ensure compliance with the HKSQM 1 requirements, firms should evaluate their system of quality management annually. The first of these evaluations must be performed by 15 December 2023, i.e., within one year of the effective date of HKSQM 1, and then every year thereafter. Firms should ensure the evaluation is carried out according to paragraphs 53 to 56 of HKSQM 1, and maintain proper documentation regarding their evaluation, findings and conclusions.

Bank confirmation requests

In [Alert 28](#), members were reminded of the use of technology within the external audit process, in particular the use of web-based platforms to send, receive and respond to external audit bank confirmation requests as detailed under [HKSA 505, External Confirmations](#) (HKSA 505).

The use of technology in external audit bank confirmation requests is expanding. For example, banks providing an option for auditors to receive bank confirmations through electronic mail rather than relying on the traditional method of receiving hard copies via post.

HKSA 505 does not mandate a specific method of carrying out audit confirmations but focuses on the principles that auditors should adhere to when seeking external confirmations which will be used as audit evidence. These principles apply regardless

of the method of carrying out the confirmation process (e.g. via electronic means or by post). If an auditor identifies factors that give rise to doubts about the reliability of the response to confirmation requests, the auditor is required to obtain further audit evidence to resolve those doubts (paragraph 10 of HKSA 505). Paragraphs A12 to A16 provide application material on the reliability of responses to confirmation requests.

For example, for bank confirmations received by electronic mail, members may wish to consider the points below on validating whether the bank confirmations are authentic and trustworthy as part of the auditor's evaluation of the reliability of the response under Paragraphs A12 to A16 (these points are not exhaustive; other procedures may be necessary depending on the facts and circumstances):

- whether the bank confirmation received by electronic mail comes from a trusted source address, by verifying the domain it comes from, which is the @companyname.com portion of the source address (e.g. checking whether the bank confirmation was sent via the electronic mail address designated by the bank as disclosed on the bank's website);
- whether the respondent is the authorized person to reply to the bank confirmation request (e.g. is the email received from the bank relationship manager or the central confirmation team of the bank);
- whether the confirmation response is returned in a secure environment such that the risks of interception/alteration and proof of origin of the response are mitigated by considering whether the electronic mail or the content is encrypted through an appropriate technology.

The auditor is required by HKSA 500 *Audit Evidence*¹ to determine whether to modify or add procedures to resolve doubts over the reliability of information to be used as audit evidence. Based on the procedures performed and the audit evidence obtained therefrom, auditors shall exercise professional judgement to determine whether they are satisfied that the process is secure and properly controlled and that the key principles of HKSA 505 are met, and therefore it is appropriate to use responses to bank confirmation requests by electronic mail as audit evidence. As HKSA 505 does not set out specific documentation requirements, auditors are reminded to observe HKSA 230, *Audit Documentation*, including documenting the relevant processes, audit procedures and the results thereof appropriately.

The Auditing and Assurance Standards Committee will consider the need to develop local guidance as appropriate on additional procedures auditors may undertake to resolve doubts over the reliability of information to be used as audit evidence when receiving responses by electronic mail in due course.

Reporting by auditors

- As a result of the [narrow-scope amendments*](#) made to Hong Kong Accounting Standard (HKAS) 1 *Presentation of Financial Statements*, the illustrative auditor's reports throughout the auditing and assurance pronouncements for the financial statements that are prepared in accordance with Hong Kong Financial Reporting

¹ HKSA 500, paragraph 11(b)

Standards (HKFRSs) will be updated as set out in the [IAASB's Publication](#) issued in November 2022:

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information ~~a summary of significant accounting policies~~.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

*The narrow scope amendments to HKAS 1 are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. The illustrative auditor's reports in Volume III of the Members' Handbook will be updated in Q1 2024.

Sincere regards,

Standard Setting Department
Hong Kong Institute of Certified Public Accountants
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