

**AUDIT HEALTH SCREENING CHECKLIST**

**Appendix 1**

**No. Questions**

**Answers**

(Please circle the correct answer)

Section A – Quality control policies and procedures

1	Does your practice have quality control policies and procedures in place to cover the following elements as required by HKSQC 1?			
	(a) Leadership responsibilities for quality	Yes	No	
	(b) Relevant ethical requirements	Yes	No	
	(c) Acceptance and continuance of client relationships and specific engagements	Yes	No	
	(d) Human resources	Yes	No	
	(e) Engagement performance	Yes	No	
	(f) Monitoring	Yes	No	
2	Does your practice have a quality control manual that reflects the actual policies and procedures in place?	Yes	No	
3	Does your practice have documentation to provide evidence of the operation of its quality control system?	Yes	No	
4	Does your practice document an evaluation of independence threats and the safeguards applied when your practice or an affiliated party provides non-assurance services, including book keeping, accounting, company secretary and tax services to your practice's audit clients?	Yes	No	N/A

Section B – Monitoring function

1	Does your practice's monitoring function fulfill the following requirements of HKSQC 1?			
	(a) an annual review of implementation of quality control policies and procedures	Yes	No	
	(b) a review of at least one completed audit engagement file for each practitioner in your practice within a cycle of no more than three years	Yes	No	
2	Were the review procedures, results and follow up action plans for the last monitoring review documented?	Yes	No	
3	Have the findings for the last monitoring review been followed-up?	Yes	No	N/A

Section C – Subcontracting arrangements (Please choose "N/A" for all questions in this section if your practice does not have any subcontracting arrangements)

1	Does your practice require acceptance or continuance procedures be completed before your subcontractor starts the audit?	Yes	No	N/A
2	Does your practice disallow your subcontractor to issue fee notes directly to your practice's clients for the audit services provided?	Yes	No	N/A
3	Does your practice require your subcontractor to follow your practice's audit methodology and quality control policies and procedures?	Yes	No	N/A
4	Does your practice require involvement in the audit planning of the engagements under subcontracting arrangements?	Yes	No	N/A
5	Does your practice monitor the independence of your subcontractors, e.g., relationship between subcontractors and clients and provision of non-assurance services to clients?	Yes	No	N/A
6	Does your practice retain the audit files completed by your subcontractors?	Yes	No	N/A

Section D – Audit methodology

1	Does your practice's audit methodology require the following to be performed and documented for all audit engagements:			
	(a) audit plan and audit strategy (HKSA 300)	Yes	No	
	(b) understanding of client's business, including key controls and evaluation of design and implementation of key controls (HKSA 315)	Yes	No	
	(c) audit risk assessment (HKSA 315) and responses to assessed risks (HKSA 330)	Yes	No	
	(d) fraud risk assessment (HKSA 240)	Yes	No	
	(e) calculation and application of audit materiality, including performance materiality (HKSA 320)	Yes	No	
	(f) preliminary analytical reviews to identify risk areas (HKSA 315)	Yes	No	
	(g) final analytical procedures to review and conclude on consistencies between financial statements and auditors' understanding (HKSA 520)	Yes	No	
	(h) consideration of laws and regulations (HKSA 250)	Yes	No	
	(i) subsequent event review (HKSA 560)	Yes	No	
	(j) consideration of going concern assumption (HKSA 570)	Yes	No	
	(k) search for unrecorded liabilities	Yes	No	
2	Does your practice require documentation of the nature, timing, extent and results of audit procedures performed and evidence obtained (including sample selection basis, how tests were performed and details of samples tested)?	Yes	No	
3	Does your practice require documentation of the significant matters arising during the audit, the conclusions reached thereon and significant professional judgments made in reaching those conclusions?	Yes	No	

Section E – Modified opinion

1	Does your practice refuse appointment or reappointment if it envisages that there is a need to qualify the report due to a scope limitation imposed by management (e.g. unable to attend stocktaking)?	Yes	No	N/A
2	Does your practice disallow a practice of issuing a modified opinion as a means to avoid carrying out certain required audit procedures, including alternative procedures if available?	Yes	No	N/A

Section F – Engagement issues

Please complete the following questions based on the highest fee audit engagement of your practice in the last 12 months.

**To complete**

	Name of engagement:	
	Year / period end:	

**Insert W/P Ref for "Yes"**

1	Did your practice perform and document the following for the group audit (HKSA 600): (Please choose "N/A" for this question if this engagement did not involve a group audit nor have a business combination during the period)				
	(a) group planning, including identification of significant components, development of a planned approach for components and determination of component materiality	Yes*	_____	No	N/A
	(b) audit of significant components by your practice or involvement in the audit of significant component by a component auditor	Yes*	_____	No	N/A

\* Please insert working paper reference number for "Yes"

	(c) review the appropriateness of the recognition of goodwill and intangible assets arising from a business combination	Yes*	_____	No	N/A
2	Did your practice perform and document the following where reliance was placed on work of a component auditor for a significant component: (Please choose "N/A" for this question if this engagement did not involve a component auditor)				
	(a) understanding of the component auditor, including assessing its independence and competence	Yes*	_____	No	N/A
	(b) communication with the component auditor, e.g., sending an audit instruction, receiving an audit questionnaire and clearance from the component auditor, etc.	Yes*	_____	No	N/A
	(c) involving in the risk assessment carried out by the component auditor	Yes*	_____	No	N/A
	(d) evaluating the work carried out by the component auditor	Yes*	_____	No	N/A
3	Did your practice perform and document the following for revenue: (Please choose "N/A" for this question if the client of this engagement did not generate income during the period)				
	(a) treat revenue recognition as a presumed significant risk area or provide justification for rebutting the presumption	Yes*	_____	No	N/A
	(b) review client's accounting policies for revenue and determine whether the policies are appropriate and adequately applied	Yes*	_____	No	N/A
	(c) check supporting documents (including the following) to support proper recognition and cut-off of revenue				
	• internally generated documents e.g. sales invoices or service billings	Yes*	_____	No	N/A
	• evidence obtained from external parties, e.g. goods delivery documents with acknowledgement of goods received by customers, bank advices for settlement of transactions, etc.	Yes*	_____	No	N/A
4	Did your practice perform and document the following for inventories (for all types of inventories): (Please choose "N/A" for this question if the client of this engagement did not have inventories)				
	(a) attend physical inventory counts	Yes*	_____	No	N/A
	(b) understand the costing method (e.g., FIFO or weighted average) and design appropriate audit procedures to test whether costs of inventories are properly determined	Yes*	_____	No	N/A
	(c) perform test(s) to ensure inventories are stated at the lower of cost and net realisable value	Yes*	_____	No	N/A
	(d) assess the appropriateness of or need for inventory provision	Yes*	_____	No	N/A
5	Did your practice perform and document the following for manufacturing inventories: (Please choose "N/A" for this question if the client of this engagement did not have manufacturing inventories)				
	(a) consider the appropriateness of or need for absorbing costs of conversion (e.g. direct labor and production overhead costs) in work-in-progress and finished goods	Yes*	_____	No	N/A
	(b) perform procedures, e.g., obtain bill of materials and sample check underlying supporting information, to ensure cost records for work-in-progress and finished goods are accurate	Yes*	_____	No	N/A

\* Please insert working paper reference number for "Yes"

6	Did your practice perform and document the following for confirmation circularisations: (Please choose "N/A" for this question if this engagement did not involve any confirmation circularisations)				
	(a) control the whole circularisation process including selection of samples and sending and receiving confirmations directly to / from confirming parties without client involvement	Yes*	_____	No	N/A
	(b) verify the identity of the senders if the replies are received by fax or other electronic means	Yes*	_____	No	N/A
	(c) follow-up for non-replied confirmations e.g. alternative work	Yes*	_____	No	N/A
7	Did your practice perform and document recoverability assessments for trade receivables and balances due from related parties: (Please choose "N/A" for this question if the client of this engagement did not have any trade receivables and balances due from related parties)	Yes*	_____	No	N/A
8	Did your practice perform and document the following for impairment assessment of goodwill, intangible assets with indefinite useful lives and other assets with impairment indicators: (Please choose "N/A" for this question if this engagement did not have any goodwill, intangible assets with indefinite useful lives or other assets with impairment indicators)				
	(a) obtain and review the impairment assessment prepared by client	Yes*	_____	No	N/A
	(b) assess the reasonableness of the data and assumptions used in the impairment assessment	Yes*	_____	No	N/A
	(c) review whether the cash flow projections prepared by client and allocation of goodwill to the cash generating unit(s) were in compliance with HKAS 36	Yes*	_____	No	N/A
9	Did your practice perform and document the following for the work of expert: (Please choose "N/A" for this question if this engagement did not place reliance on any expert's work)				
	(a) assess independence and competence of the expert	Yes*	_____	No	N/A
	(b) assess adequacy of the expert's work before placing reliance on it	Yes*	_____	No	N/A
	(c) assess reasonableness and challenge the assumptions used by the expert	Yes*	_____	No	N/A

**Based on my knowledge, I hereby confirm that the answers provided in the above are true and correct:**

Signature of managing partner / director of the Practice: \_\_\_\_\_

Name of managing partner / director: \_\_\_\_\_

Name of the Practice: \_\_\_\_\_

Date: \_\_\_\_\_

\_\_\_\_\_  
\* Please insert working paper reference number for "Yes"