

Analysis of Listed Entities Suspended from Trading Due to Delay of Preliminary Annual Results Announcement

5 July 2024



About the Accounting and Financial Reporting Council

The Accounting and Financial Reporting Council (AFRC) is an independent body established under the Accounting and Financial Reporting Council Ordinance. As an independent regulator, the AFRC spearheads and leads the accounting profession to constantly raise the level of quality of professional accountants, and thus protects the public interest.

For more information about the statutory functions of the AFRC, please visit www.afrc.org.hk.

Table of content

	Page
Executive summary	5
Introduction	14
Section 1	Analysis of the Suspended Stocks
I.	Industry analysis of the Suspended Stocks 17
II.	Key reasons for listed entities delaying the publication of their preliminary annual results announcements 18
III.	The AFRC's outreach to PIE auditors 21
IV.	Types of audit opinions issued by auditors on Suspended Stocks 23
V.	Reasons for a change of auditor after suspension of trading 26
VI.	Movement between categories during auditor changes 30
Section 2	The AFRC's concerns
I.	Concern 1 – Ineffective financial reporting systems of listed entities present challenges to PIE auditors to conduct quality audits 31
II.	Concern 2 – A lack of effective two-way communication between audit committees and PIE auditors 32
III.	Concern 3 – Opinion shopping by listed entities 33
IV.	Concern 4 – Switching from larger to smaller PIE auditors with poor track records in external inspections 34

V.	Concern 5 – Overuse of disclaimer of opinions as a risk minimisation mechanism by PIE auditors	35
VI.	Concern 6 – Audit planning was not conducted early enough to identify and resolve issues	37
Section 3	Key messages to stakeholders	
I.	Key messages to PIE auditors	38
II.	Key messages to the management of listed entities	43
III.	Key messages to audit committees	45
IV.	Key messages to other stakeholders	47
Annex 1	Checklist for PIE auditors	48
Annex 2	Glossary	55

Executive Summary



The AFRC has analysed trading suspensions of listed entities with December year-end that failed to publish their preliminary 2023 annual results announcements by 31 March 2024. We have identified the following main reasons for the delays: (a) they were still in the process of collating or collecting information for the audits, (b) additional time was required for audit on specific matters, and (c) identification of suspicious transactions that required further investigation. These reasons raise concerns about the effectiveness of these listed entities' risk management and internal control systems in ensuring timely and reliable financial reporting.

PIE auditors should continue to effectively play their role as gatekeepers in the trading resumption process and must prioritise audit quality over other considerations.

Introduction

The AFRC, as the independent regulator of the accounting profession, closely monitors Hong Kong's capital markets, which allows the identification of emerging trends, risks, and challenges that may impact the quality of financial reporting and auditing.

As of 2 April 2024, a total of 66 listed entities with December year-end were suspended from trading due to their failure to publish their preliminary 2023 annual results announcements by 31 March 2024 (**2023 Suspended Stocks**). This represents a 12% increase from 59 listed entities compared to the previous year (**2022 Suspended Stocks**).

This report presents the AFRC’s analysis and observations of listed entities in Hong Kong suspended from trading due to a delay in the publication of their preliminary annual results announcements (**Suspended Stocks**). The report sets out actionable recommendations for public interest entity (**PIE**) auditors, audit committees, and management of listed entities to prevent the recurrence of trading suspensions in the future and maintain the delivery of high-quality financial reporting and auditing.

Section 1: Analysis of the Suspended Stocks

<p>I. Industry analysis of the Suspended Stocks</p>	<p>The properties and construction industry accounted for the largest share of the Suspended Stocks, representing 33% of the 2023 Suspended Stocks and 31% of the 2022 Suspended Stocks.</p> <p>This can be attributed to the challenges faced by Mainland Chinese property developers amid a property market downturn, which added complexities in the audit process.</p>
<p>II. Key reasons for listed entities delaying the publication of their annual results announcements</p>	<p>The AFRC conducted a review of public announcements made by the suspended listed entities to analyse the main reasons for the delay in publishing their preliminary annual results announcements by 31 March. Key findings include:</p> <ol style="list-style-type: none"> a. The most common reasons among the 2023 Suspended Stocks were: 28 listed entities, representing 42% of the total, were <i>“still in the process of finalising financial statements or collecting necessary information and documents for audit”</i>. This was followed by 20 listed entities, representing 30%, requiring <i>“additional time required for audit on specific matters”</i>, and 11 listed entities, representing 17%, citing <i>“identification of suspicious</i>

transactions that required further investigation.”

- b. Of the 28 2023 Suspended Stocks that were still in the process of finalising financial statements or collecting necessary information and documents for audit, 10 provided only a generic statement without providing further details about the outstanding matters. Among the 20 2023 Suspended Stocks requiring additional time for auditing specific matters, 14 failed to provide necessary information about potential impact unresolved audit matters would have on the financial statements, or underlying disagreements and outstanding issues preventing the resolution of these matters.
- c. Aside from 17 (29%) listed entities of the 2022 Suspended Stocks that had cited identification of suspicious transactions as the key reason for the delay in preliminary annual results announcements, another 18 (31%) listed entities revealed identification of suspicious transactions or they were in financial difficulties after trading suspensions. This suggests a significant number of listed entities delayed their results announcement not only because of audit-related issues but also due to internal issues that needed to be addressed before the audit could proceed.

III. The AFRC’s outreach to PIE auditors

The AFRC’s outreach to the PIE auditors reveals the following key challenges they faced during the audits of the 2023 Suspended Stocks:

- a. Delay in the provision of the first set of draft financial statements and necessary supporting information by the listed entity.

- b. Late engagement of specialists by the listed entities.
- c. The management's assumptions used in determining accounting estimates lack sufficient or appropriate basis or support.
- d. New issues that arose within listed entities in 2023.

Among the 2023 Suspended Stocks, PIE auditors of 32 (48%) listed entities informed audit committees about unresolved audit matters or difficulties encountered during the audit process only after mid-March or after the 31 March 2024 deadline. Additionally, PIE auditors of nine (14%) listed entities failed to provide the AFRC with their communication with the audit committee.

IV. Types of audit opinions issued by auditors on Suspended Stocks

As of 31 May 2024, 29 (44%) of the 2023 Suspended Stocks and 44 (75%) of the 2022 Suspended Stocks had published their respective annual results announcements.

The AFRC notes that PIE auditors of six of the 2023 Suspended Stocks and nine of the 2022 Suspended Stocks issued disclaimer of opinions solely in relation to going concern.

While a disclaimer of opinion solely related to going concern does not result in the suspension of trading for listed entities, the AFRC emphasises that it indicates that the PIE auditor could not form an opinion on the financial statements of the listed entity as a whole. Stakeholders need to understand the reasons behind the issuance of a disclaimer of opinion.

Hong Kong Standard on Auditing (**HKSA**) 705 (Revised) *Modifications to the Opinion in the*

Independent Auditor's Report (HKSA 705 (Revised)) outlines the types of scenarios where a disclaimer of opinion may be issued. They are: (a) limitations on scope; and (b) the potential interaction of multiple uncertainties affecting the auditor's ability to form an opinion.

The AFRC's review of cases of PIE auditors issuing disclaimer of opinions solely in relation to going concern found that these auditors' reports often did not contain sufficient disclosure or explanation to support the basis for issuing a disclaimer of opinion on going concern.

V. Reasons for a change of auditor after suspension of trading

As of 31 May 2024, six of the 2023 Suspended Stocks and 20 of the 2022 Suspended Stocks changed PIE auditors after being suspended from trading.

Most auditor changes (four out of six for 2023 Suspended Stocks; 18 out of 20 for 2022 Suspended stocks) were due to unresolved audit matters between the listed entity and the PIE auditor.

The AFRC's review of the specific details of the facts and circumstances leading to a change of PIE auditor for the 2022 Suspended Stocks suggests that listed entities displayed a lack of willingness to address unresolved issues. They may have also unreasonably pressured the PIE auditor to commit to an audit timetable before agreeing on how to resolve these issues. Instead of addressing the concerns raised by the outgoing auditor, the management of the listed entities chose to request their resignation and appoint new auditors.

**VI. Movement
between
categories
during auditor
changes**

In four out of six cases of auditor change for the 2023 Suspended Stocks, and in 14 out of 20 cases of auditor change for the 2022 Suspended Stocks, the listed entities switched from a larger to a smaller PIE auditor.

Section 2: The AFRC's concerns

Concern 1

Ineffective financial reporting systems of the listed entities present challenges to PIE auditors to conduct quality audits

Concern 2

A lack of effective two-way communication between audit committees and PIE auditors

Concern 3

Opinion shopping by listed entities

Concern 4

Switching from larger to smaller PIE auditors with poor track records in external inspections

Concern 5

Overuse of disclaimer of opinions as a risk minimisation mechanism by PIE auditors

Concern 6

Audit planning was not conducted early enough to identify and resolve issues

Section 3: Key messages to stakeholders

PIE Auditors

1. Audit quality must be upheld during the resumption of trading process.
2. Maintain prompt and direct communication with the audit committee.
3. Do not overuse disclaimer of opinions as a risk minimisation mechanism.
4. Consider implications on the public interest before resigning.
5. Exercise high-level of professional scepticism in the client and engagement acceptance process.
6. Conduct audit planning sufficiently early to identify potential issues.

Management of listed entities

1. Maintain an effective financial reporting system.
2. Recognise the management's critical role in audit planning.
3. Adopt a mindset of treating audit as an iterative process.

Audit committees

1. Effectively oversee the financial reporting system.
2. Effectively oversee the audit process through regular communication.
3. Refrain from participating in or endorsing the management's attempt to engage in opinion shopping behaviour.
4. Critically assess the competence and capability of potential incoming auditors.
5. Ensure accurate and transparent disclosure of the reasons for a delay in publishing annual results announcement.

Other stakeholders

1. Investors and other users of financial statements should pay attention to the context provided in the disclaimer of opinion on going concern.
2. Audit quality should be the primary consideration when engaging an auditor.

Introduction

I. The AFRC's mission

1. The AFRC, as the independent regulator of the accounting profession, is dedicated to ensuring high-quality financial reporting and auditing practices to maintain Hong Kong's position as a competitive international financial centre. The AFRC closely monitors Hong Kong's capital markets, which allows the identification of emerging trends, risks, and challenges that may impact the quality of financial reporting and auditing.

II. Increasing number of listed entities that failed to publish an announcement of their preliminary annual results on time

2. According to the Main Board and GEM Listing Rules (**Listing Rules**), a listed entity is required to publish its preliminary annual results announcement no later than three months after the end of the financial year. The preliminary announcement should be based on the listed entity's financial statements for the financial year and shall have been agreed with the auditors. Failure to do so will result in a suspension of trading in the listed entity's securities.^{1,2}
3. As of 2 April 2024, 66 listed entities³ with December year-end were suspended from trading due to their failure to publish their preliminary 2023 annual results announcements, agreed with their auditors, by 31 March 2024. This represents a 12% increase from 59 compared to the previous year and is indicative of the challenges faced by PIE auditors in a dynamic yet challenging business environment.

¹ The Stock Exchange of Hong Kong (**HKEx**), Main Board Listing Rules, Rules 13.49 and 13.50

² HKEx, GEM Listing Rules, Rules 18.49 and 17.49A

³ The analysis excluded (a) listed entities that have been suspended for more than three months as at 31 March 2024; and (b) five listed entities with December year-end that were suspended from trading for less than three months due to reasons other than failing to announce their annual results announcements for 2023.

III. Role of the auditor in trading suspension and resumption

4. There is market expectation that information in the preliminary annual results announcement will be consistent with those in the audited financial statements.⁴ Therefore, PIE auditors are expected to have completed the audit of financial statements of listed entities⁵ when they agree with the preliminary annual results announcements.
5. Further, according to the Listing Rules, suspension of trading is normally required if the PIE auditor has issued, or has indicated in the preliminary announcement that it will issue, a disclaimer of opinion or an adverse opinion on the relevant financial statements. The exception to this is if the PIE auditor has issued, or has indicated that it will issue, a disclaimer of opinion or an adverse opinion relating to the going concern issue only. Suspension of trading will remain in force until the listed entity has addressed all the issues giving rise to the disclaimer or adverse opinion and has provided affirmation that a disclaimer or adverse opinion would no longer be required.^{6,7}
6. Hence, the type of audit opinion issued by the PIE auditor can directly impact whether a listed entity is suspended from trading or, if suspended, allowed to resume trading.

IV. Why is the AFRC concerned?

7. There is strong public interest in understanding the financial situation of listed entities that have had their trading suspended. A suspension may indicate the existence of more complex operational issues that require additional time and effort to resolve. As a result, the suspension of trading may signify heightened risks to investors and other stakeholders and, in extreme cases, weaken Hong Kong's capital markets.

⁴ Hong Kong Institute of Certified Public Accountants (**HKICPA**), Practice Note 730 (Revised) *Guidance for Auditors Regarding Preliminary Announcements of Annual Results (PN 730 (Revised))*, Paragraph 8

⁵ HKICPA, PN 730 (Revised), Paragraphs 25 and 26

⁶ HKEx, Main Board Listing Rules, Rule 13.50A

⁷ HKEx, GEM Listing Rules, Rule 17.49B

8. The HKEx has the power to delist any listed entities whose securities have been suspended from trading for 18 continuous months on the Main Board⁸ or 12 continuous months in GEM.⁹ The countdown to potential delisting begins when the listed entity fails to publish its preliminary annual results announcement by the deadline, or the preliminary annual results announcement indicates that the PIE auditor will issue a disclaimer or adverse opinion.
9. PIE auditors are confronted with significant pressure from listed entities to facilitate a prompt resumption of trading. However, it is imperative that PIE auditors remain steadfast in upholding their role in safeguarding the quality of financial reporting for listed entities in Hong Kong. They must resist such pressure and prioritise audit quality over other considerations. By doing so, PIE auditors can uphold the integrity of the audit process, provide assurance on the reliability of financial statements, and ultimately maintain investor confidence in Hong Kong's capital markets.

V. Purpose of the report

10. The purpose of this report is to:
 - a. Present the results and observations of the AFRC's analysis on listed entities that have been suspended from trading.
 - b. Set out the AFRC's expectations regarding the roles of PIE auditors and listed entities' management and audit committees in upholding the quality of financial reporting and audits during the resumption of trading process.
 - c. Provide actionable recommendations to prevent recurrence of trading suspensions in the future and to ensure consistent delivery of high-quality financial reporting and auditing.

⁸ HKEx, Main Board Listing Rules, Rule 6.01A

⁹ HKEx, GEM Listing Rules, Rule 9.14A

Section 1

Analysis of the Suspended Stocks

I. Industry analysis of the Suspended Stocks

- The breakdown by industry of the Suspended Stocks is as follows:

Industry	2023 Suspended Stocks	2022 Suspended Stocks
	# (%)	# (%)
Properties and Construction	22 (33%)	18 (31%)
<i>Property developers in Mainland China</i>	14 (21%)	12 (20%)
<i>Property management companies in Mainland China</i>	4 (6%)	4 (7%)
<i>Others (construction / interior and exterior design etc.)</i>	4 (6%)	2 (4%)
Consumer Discretionary and Staples	18 (27%)	17 (29%)
Information Technology	8 (12%)	6 (10%)
Industrials and Materials	7 (11%)	7 (12%)
Utilities and Energy	5 (8%)	3 (5%)
Others	6 (9%)	8 (13%)
Total	66	59

- The properties and construction industry accounted for the largest share of both the 2023 Suspended Stocks (33%) and the 2022 Suspended Stocks (31%). This can be attributed to the challenges faced by Mainland Chinese property developers amid a property market downturn, which added complexity in the audit process.

II. Key reasons for listed entities delaying the publication of their preliminary annual results announcements

3. The AFRC reviewed the public announcements made by the Suspended Stocks to analyse key reasons why listed entities delayed the publication of their preliminary annual results announcements by 31 March. The key reasons are summarised as follows:

Key reasons	2023 Suspended Stocks	2022 Suspended Stocks
	# (%)	# (%)
Still in the process of finalising the financial statements or collecting necessary information and documents for audit	28 (42%)	15 (25%)
Additional time required for audit on specific matters	20 (30%)	18 (31%)
Identification of suspicious transactions that required further investigation	11 (17%)	17 (29%)
Late change of auditor	5 (8%)	2 (3%)
Others	2 (3%)	7 (12%)
Total	66	59

A significant number of 2022 Suspended Stocks faced internal issues that need to be addressed before the audit could progress further

4. Among the 2022 Suspended Stocks, 17 out of 59 resumed trading within three months. Of the remaining 42, 21 were still suspended and four had been delisted as of 31 May 2024.
5. Furthermore, aside from the 17 (29%) listed entities that had cited identification of suspicious transactions as the key reason for the delay in publishing their annual results announcements, subsequent public announcements of another 18 (31%) listed entities revealed they were under financial difficulties, or their PIE auditors had identified suspicious transactions after trading had been suspended. The financial difficulties include defaulting on loan payments and receiving statutory demands or winding-up petitions.

6. The above observations suggest that a significant number of suspended listed entities delayed the announcement of the preliminary annual results announcements not only due to the additional time required to resolve audit issues, but also because they faced internal issues that need to be addressed before the audit could progress further. These internal issues include finalising a corporate restructuring plan for a listed entity in financial difficulties or conducting an independent forensic investigation and internal control review of identified suspicious transactions.

The most common reason for a delay in announcing preliminary financial results among the 2023 Suspended Stocks was “Still in the process of finalising financial statements or collecting necessary information and documents for audit”.

7. It is concerning that 28 listed entities, representing 42% of the 2023 Suspended Stocks, were suspended because they were still in the process of collecting necessary information and documents for the audit or were still finalising their financial statements.
8. Besides, among the 28 2023 Suspended Stocks mentioned above, 10 provided only a generic statement stating that they were “still in the process of collecting and collating the necessary information and documents from its subsidiaries as required by the auditor” without providing further details about the outstanding information or documents.

9. Furthermore, among the 20 2023 Suspended Stocks with disclosed specific unresolved audit matters, 14 failed to provide sufficient details in their public announcements about the potential impact these audit matters may have on the financial statements, or the underlying disagreements and outstanding issues preventing the resolution of these matters.



Common audit matters disclosed by the 2023 Suspended Stocks included impairment assessments, going concern assessments, and valuations of assets or liabilities. These matters have been highlighted in the AFRC's publication *"Audit Focus - 2023 Financial Year-end Audit Reminder"* issued in December 2023. In this publication, PIE auditors are advised to give special consideration to these matters amid economic challenges.

III. The AFRC's outreach to PIE auditors

10. Given that a significant number of 2023 Suspended Stocks had failed to provide necessary audit information or sufficient details about outstanding or unresolved matters, the AFRC reached out to their PIE auditors to gain a more comprehensive understanding of the underlying reasons behind these outstanding or unresolved issues.

The PIE auditors encountered difficulties during the audit of the 2023 Suspended Stocks

11. The AFRC's outreach to PIE auditors revealed several key challenges they faced during the audits of the 2023 Suspended Stocks. These challenges include:
 - a. Delay in the provision by the listed entity of the first set of the draft financial statements and necessary supporting information. Some PIE auditors further commented that this was due to the departure of key management personnel, or a high turnover or staff shortages within financial reporting teams.
 - b. Late engagement of specialists by the listed entities, resulting in a delay in obtaining valuation reports.
 - c. The management's assumptions used in determining accounting estimates lacked sufficient or appropriate basis or support.
 - d. New issues that arose within listed entities in 2023, which required additional time for management to provide or collate necessary information to support the substance and accounting treatment of these matters.

The AFRC inquired PIE auditors on their timing of communication with audit committees

12. However, when inquired about the timing of communication with audit committees regarding unresolved audit matters or difficulties encountered during the audit process, PIE auditors of 32 (48%) listed entities revealed that their communications with audit committees were only evident after mid-March or after the 31 March 2024 deadline.
13. Additionally, PIE auditors of nine (14%) listed entities did not provide the AFRC with their communication with the audit committee. Some PIE auditors explained that audit committees had prior knowledge of these matters through communication with the management of the respective listed entities.

IV. Types of audit opinions issued by auditors on Suspended Stocks

14. As of 31 May 2024, 29 (44%) of the 2023 Suspended Stocks and 44 (75%) of the 2022 Suspended Stocks had published their annual results announcements. The types of audit opinions issued by their auditors are as follows:

Type of audit opinion	2023 Suspended Stocks	2022 Suspended Stocks
	# (%)	# (%)
Unmodified	22 (76%)	25 (57%)
<i>With emphasis of matters (EOM) on going concern</i>	9 (31%)	5 (11%)
<i>No EOM on going concern</i>	13 (45%)	20 (46%)
Qualified	1 (3%)	6 (13%)
Disclaimer of opinion	6 (21%)	13 (30%)
<i>Solely on going concern</i>	6 (21%)	9 (21%)
<i>On going concern and on other matters</i>	- (0%)	3 (7%)
<i>On going concern and qualified for other matters</i>	- (0%)	1 (2%)
Total	29	44

A disclaimer of opinion means that an auditor could not form an opinion on the financial statements as a whole – even when the disclaimer is issued solely in relation to going concern.

15. As mentioned earlier, the Listing Rules exempt listed entities from having their trading suspended if a PIE auditor issues a disclaimer of opinion solely in relation to going concern. It is important to note that a disclaimer of opinion, even when solely in relation to going concern, indicates that the PIE auditor could not form an opinion on the listed entity's financial statements as a whole.

16. The AFRC notes that PIE auditors of six of the 2023 Suspended Stocks and nine of the 2022 Suspended Stocks issued disclaimer of opinions solely in relation to going concern. It is crucial that key stakeholders understand the scenarios in which a PIE auditor is required by HKSA 705 (Revised) to issue a disclaimer of opinion in relation to going concern. These scenarios include:¹⁰

#1 - Limitation on scope

2023: 5 reports
2022: 3 reports

• Inability to obtain sufficient appropriate audit evidence on management's going concern assessment to base the opinion, and the possible effects of undetected misstatements could be both material and pervasive.

#2 - Potential interaction of multiple uncertainties

2023: 1 report
2022: 6 reports

• Inability to form an opinion on the appropriateness of the going concern basis of accounting due to the potential interaction and possible cumulative effect of multiple uncertainties, despite having obtained sufficient and appropriate audit evidence for each individual uncertainty.

17. When a limitation on scope arises, the PIE auditor should demonstrate that they have exhausted all possible alternative procedures to obtain sufficient appropriate audit evidence for the matters that gave rise to the modification. Additionally, the audit should also provide information on why the possible effects on the financial statements could be both material and pervasive.

¹⁰ HKICPA, HKSA 705 (Revised), Paragraphs 9 and 10

18. In situations where a PIE auditor identifies multiple uncertainties, it should be noted that a disclaimer of opinion on multiple uncertainties should only arise under extremely rare circumstances. This is because the PIE auditor must demonstrate that:
 - a. They have obtained sufficient appropriate evidence for each of the individual uncertainties; and
 - b. It was not possible for them to form an opinion due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

19. Upon reviewing relevant PIE auditor's reports, the AFRC has observed that:
 - a. There is often insufficient disclosure to demonstrate that the PIE auditor had explored alternative procedures to establish the existence of a limitation of scope; or
 - b. There is often insufficient explanation as to why it was not possible for the PIE auditor to determine the effect of potential interaction between the disclosed uncertainties on the listed entity's ability to continue as a going concern.

V. Reasons for a change of auditor after suspension of trading

20. As of 31 May 2024, 20 of the 2022 Suspended Stocks changed PIE auditors after being suspended from trading. The table below provides a summary of the reasons for a change of auditor provided by the 2022 Suspended Stocks:

Reasons	2022 Suspended Stocks
	# (%)
Unresolved audit matters	18 (90%)
<i>Related to suspicious transactions</i>	12 (60%)
<i>Not related to suspicious transactions</i>	6 (30%)
Audit fee disagreement	2 (10%)
Total	20

Improved disclosures of auditor changes revealed that listed entities change auditors to avoid addressing the auditor's concerns and requests

21. The AFRC has observed an improvement in the disclosure of auditor changes through public announcements. This follows the AFRC's concerted efforts to ensure a more comprehensive disclosure of late auditor resignations. Such improvements have provided insights into the reasons behind disagreements on unresolved audit matters between PIE auditors and listed entities.
22. Based on the AFRC's review of the 18 auditor changes associated with unresolved audit matters among the 2022 Suspended Stocks, the facts and circumstances leading to the auditor changes can be summarised as follows:

Facts and circumstances	Number of 2022 Suspended Stocks
a. The PIE auditor was unable to establish an audit timetable due to pending investigations of suspicious transactions, which could impact the audit scope, or outstanding information from the listed entities.	5
b. The investigation scope regarding suspicious transactions was either unclear to the PIE auditor or insufficient to address the PIE auditor's concerns.	4
c. The listed entities were unwilling to conduct the requested investigations into suspicious transactions as advised by the PIE auditor.	4
d. The PIE auditor faced challenges in obtaining necessary information, explanations, or supporting documents from the management, and could not progress with the audit.	4
e. In the case of a listed entity under liquidation, the liquidator appointed another PIE auditor for an audit fee commensurate with the current financial status of the listed entity.	1

23. Public announcements of 12 of the 20 listed entities that changed auditors disclosed that the changes of auditors were made at the request of the listed entity. Of note, in seven of these 12 cases, listed entities justified the change by stating that the Board believed it is in the best interest of the listed entity and its shareholders, creditors, and other stakeholders to move forward and engage with another auditor to complete the audit as soon as practicable.

24. However, such justification for the change of auditor is questionable. In their public announcements, the listed entities stated that the audit process was hindered due to pending actions from the management of the listed entities, preventing the audit from being completed as soon as practicable.

Cost consideration overrides other considerations for a change of auditor

25. It has come to the AFRC's attention that in one case, the liquidator of a listed entity decided to switch to a PIE auditor with a lower audit fee due only to cost considerations. The announcement from the listed entity did not provide information on other considerations that were made during the appointment of the incoming PIE auditor.
26. This raises concerns whether the liquidator exercised sufficient due diligence when selecting the new PIE auditor. This is essential because PIE auditors provide reasonable assurance on the financial statements, which in turn, provide crucial information about the assets and liabilities, the realisable values of the entity in liquidation, and support a fair and proper distribution of assets to stakeholders.
27. The interests of the stakeholders cannot be protected if the quality of financial statements is not safeguarded by the PIE auditor. Liquidators must recognise the importance of PIE auditors in enabling them to discharge their duties effectively.
28. The liquidator should therefore ensure that the appointed PIE auditor possesses necessary expertise and skills in auditing the listed entity in liquidation, as well as the ability to conduct a quality audit.

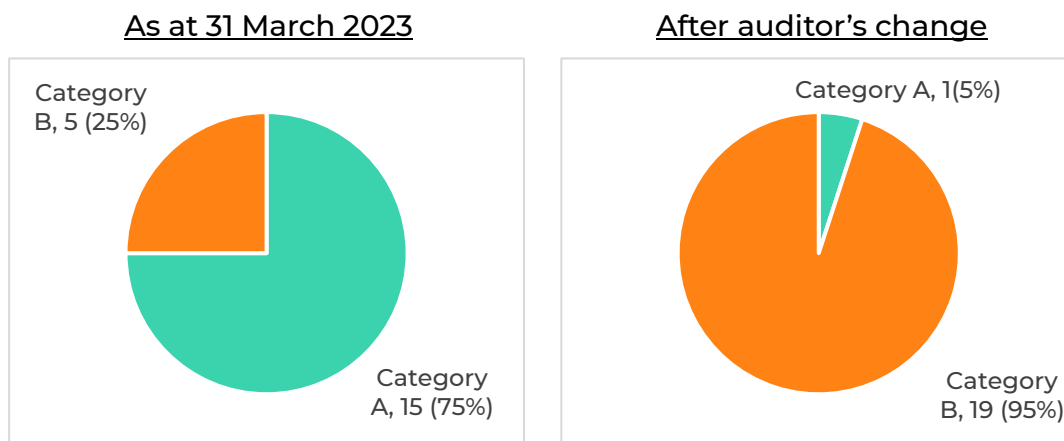
Auditor changes for 2023 Suspended Stocks

29. As of 31 May 2024, six of the 2023 Suspended Stock changed PIE auditors after being suspended from trading.
30. Four of the six auditor changes were associated with unresolved audit matters. The relevant disclosures followed a similar reasoning. Three were attributed to the PIE auditors' inability to commit to an audit timetable for completing the remaining audit procedures on suspicious transactions, which led to the auditor being requested to resign by the listed entities' management.

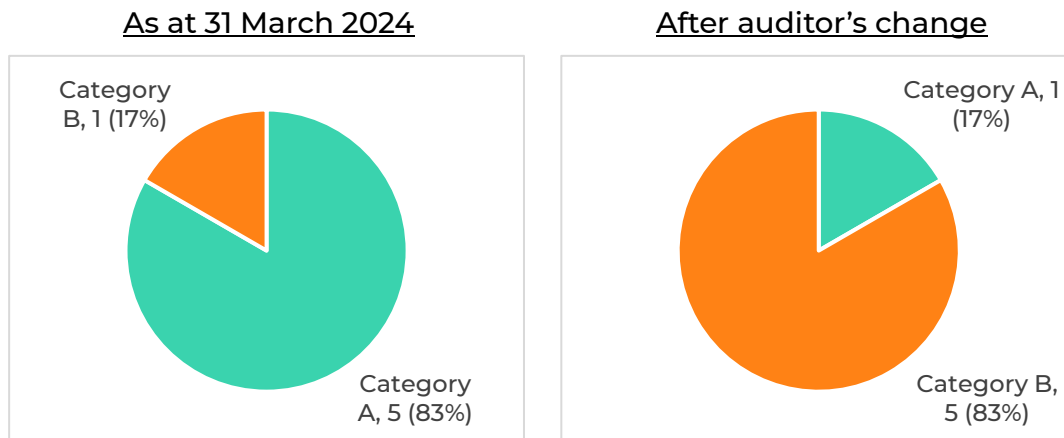
VI. Movement between categories during auditor changes

31. The following figures show the share by category of PIE auditors of the Suspended Stocks that had a change of auditor. The figures on the left depicts the share at the time of suspension, and the figures on the right shows the share after a change of auditor:

2022 Suspended Stocks



2023 Suspended Stocks



32. The results show that there is a noticeable shift from Category A PIE auditors to Category B PIE auditors in both the 2023 and 2022 Suspended Stocks.

Section 2

The AFRC's concerns

I. Concern 1 – Ineffective financial reporting systems of listed entities present challenges to PIE auditors to conduct quality audits

1. The HKEx's Corporate Governance Code emphasises the responsibility of the Board of a listed entity, including the audit committee, to oversee and ensure that the listed entity has established and maintained an adequate and effective financial reporting system, as well as relevant risk management and internal systems.¹¹ An ineffective financial reporting system presents challenges for the PIE auditor to complete the audit by the listed entity's preliminary annual results announcement deadline. It also impedes the PIE auditor's ability to conduct a high-quality audit.
2. However, the failure of some listed entities to finalise their financial statements or provide necessary information to support the amounts and disclosures in the financial statements in a timely manner raises concerns about the effectiveness of their financial reporting systems in ensuring reliability and timeliness, as well as the risk management and internal control systems to address any risks to the financial reporting system.
3. It is also important to highlight that 64 out of 65 of the 2023 Suspended Stocks disclosed in their 2022 Corporate Governance Report that management had conducted a review of the effectiveness of their risk management and internal control systems, and the Board considered these systems to be adequate and effective.¹² However, this appears to be inconsistent with the actual outcomes. This raises concerns on the adequacy of the management's review and the effectiveness of the oversight role of the Board and audit committee.

¹¹ HKEx, Main Board/GEM Listing Rules, Appendix C1, Corporate Governance Code, Code provision D.3.3

¹² The remaining listed entity did not provide a statement in its 2022 Annual Report about whether it considered its risk management and internal control systems were effective and adequate.

II. Concern 2 – A lack of effective two-way communication between audit committees and PIE auditors

4. According to HKSA 260 (Revised) *Communication with those charged with governance (HKSA 260 (Revised))*, auditors are required to promptly notify those charged with governance, typically the audit committee, when they encounter significant difficulties during the audit process, such as substantial delays or unwillingness by management to provide auditors with necessary information.¹³ Moreover, the Corporate Governance Code requires the audit committee to meet with the PIE auditor at least twice a year.¹⁴
5. Both HKSA 260 (Revised) and the Corporate Governance Code emphasise the importance of having effective communication between the audit committee and the auditors to ensure unresolved or outstanding audit matters can be addressed in a timely manner. This could be achieved through implementing a direct communication channel between the audit committee and the PIE auditor.
6. Further, late-stage communication will hamper the ability of the audit committee to resolve any critical matters in a timely manner. In addition, regular and direct communication is vital to prevent potential misunderstandings or miscommunications. While some PIE auditors may claim to rely on communication from the listed entities' management to the audit committee regarding audit matters, this should never serve as an excuse for the PIE auditor to not directly communicate with the audit committee.

¹³ HKICPA, HKSA 260 (Revised), Paragraphs 16(b) and A21

¹⁴ HKEx, Main Board/GEM Listing Rules, Appendix C1, Corporate Governance Code, Code provision D.3.3

III. Concern 3 – Opinion shopping by listed entities

7. The specific details of the facts and circumstances leading to a change of auditor suggest that listed entities displayed a lack of willingness to address unresolved issues. They may have also unreasonably pressured the PIE auditors to commit to an audit timetable before reaching an agreement on how to resolve these issues. Instead of addressing the concerns raised by the outgoing auditors, the management of the listed entities chose to request their resignation and appoint new auditors.
8. Such a decision adds to concerns regarding the possibility of opinion shopping by listed entities as previously highlighted in the AFRC's earlier publications on late auditor resignations.¹⁵
9. Additionally, according to the Listing Rules, a listed entity must, at each annual general meeting (**AGM**), seek approval from shareholders to appoint an auditor to hold office from the conclusion of that meeting until the next AGM.^{16,17}
10. This requirement for shareholders' approval will lose its intended purpose if management retains the ability to appoint another auditor subsequently without approval from shareholders. This diminishes the fundamental rights of shareholders and weakens the overall effectiveness of the AGM as a mechanism for safeguarding their interests.
11. This situation raises questions regarding the effectiveness of the oversight role of audit committees during a change of auditor. Despite indications of opinion shopping behaviour by the management of the listed entities, audit committees endorsed the changes of auditors instead of seeking to address and resolve concerns through all available means.

¹⁵ AFRC, [Additional issues regarding late changes in auditor appointments](#), 11 January 2023,

¹⁶ HKEx, Main Board Listing Rules, Rule 13.88

¹⁷ HKEx, GEM Listing Rules, Rule 17.100

IV. Concern 4 – Switching from larger to smaller PIE auditors with poor track records in external inspections

12. Suspended Stocks carry significant public interest implications due to their potential association with complex issues, including suspicious transactions, financial difficulties, and governance concerns. These issues and concerns pose significant risks to investors and other stakeholders.
13. Consequently, ensuring the accuracy and reliability of financial information of Suspended Stocks is of utmost importance in maintaining market integrity and safeguarding shareholders' interests. PIE auditors of these Suspended Stocks are therefore expected to apply a higher degree of professional scepticism in their audits.
14. The AFRC is concerned with the switch from larger to smaller audit firms. The AFRC notes that certain smaller incoming PIE auditors who have taken up a significant number of Suspended Stocks have poor track records of external inspection results.
15. It is not in the public interest for PIE auditors with higher levels of competence and capability in handling the audit of Suspended Stocks to be replaced by PIE auditors who may not have the necessary experience, resources, or capability to perform quality audits.

V. Concern 5 – Overuse of disclaimer of opinions as a risk minimisation mechanism by PIE auditors

16. Disclaimer of audit opinions should not be used as a risk minimisation mechanism by PIE auditors to avoid forming a conclusion about whether the financial statements were free from material misstatements. For example, when the use of the going concern basis of accounting is not supported by the audit evidence obtained, the PIE auditor must consider the need to issue an adverse opinion.

17. Additionally, the AFRC is concerned with the prevalence of disclaimer of opinions that relate to the potential interaction of multiple uncertainties. This is because HKSA 705 (Revised) clearly states that this type of opinion should only be issued in extremely rare circumstances as described in paragraph 18 of Section 1.

Special consideration – Disclaimer of opinion on opening balances

While HKSA 510 *Initial Audit Engagements – Opening Balances* (**HKSA 510**) permits auditors to issue a disclaimer of opinion on the financial statements if they are unable to obtain sufficient appropriate audit evidence in relation to opening balances for an initial audit engagement,¹⁸ such a disclaimer can only be made on the financial statements as a whole.

The current year's balances and transactions often include amounts from prior periods. For example, the current year's revenue could be impacted by the amount recognised in prior years under the same contract. Similarly, the current year's closing inventory is often calculated as the opening inventory balance plus or minus movements during the year.

Furthermore, the absence of audit evidence on opening balances, of which the possible impact is material and pervasive, puts the PIE auditor in a challenging position when it comes to assessing the impact of these issues on the subsequent period's financial statements.

Consequently, for many balances and transactions, it is highly unlikely that there will be sufficient appropriate evidence to support the current year's financial statements if auditors are unable to gather sufficient appropriate audit evidence for the opening balances. Therefore, it would be unlikely that the disclaimer of opinion in relation to opening balances would not extend to the current period's transactions and ending balances.

¹⁸ HKICPA, HKSA 510, Paragraph 10

VI. Concern 6 – Audit planning was not conducted early enough to identify and resolve issues

18. The AFRC's publication "[*Audit Focus - Effective Planning: The Key to High-Quality Audits*](#)" emphasises the critical importance of early audit planning. The publication specifically highlights the need for PIE auditors to remain vigilant to the potential negative impacts that a volatile economic environment could have on the financial statements of listed entities. Further, it highlights the necessity of exercising heightened professional scepticism when identifying and evaluating audit risks associated with significant changes in business operations, non-routine transactions, or unusual trends.
19. Given current market conditions, the common unresolved audit matters disclosed by the Suspended Stocks were foreseeable. Besides, if audit planning had been conducted earlier and was thorough enough, new issues emerging in 2023 could have also been detected earlier and incorporated into the audit plan accordingly.
20. The AFRC is concerned about whether PIE auditors had engaged listed entities to conduct audit planning early enough to identify these audit issues, and whether they had ensured that necessary resources and sufficient time were allocated to address them.

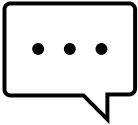
Section 3

Key messages to stakeholders

I. Key messages to PIE auditors

1. Audit quality must be upheld during the resumption of trading process

- a. The suspension of trading serves as a testament to PIE auditors' role of flagbearers for auditing and financial reporting quality. However, it is imperative that they remain vigilant to heightened audit risks associated with the Suspended Stocks during the resumption process.
- b. PIE auditors must demonstrate an elevated level of professional scepticism when evaluating management representations and examining supporting evidence. They must remain alert to potential presence of fraud or irregularities.
- c. In cases where suspicious transactions are identified, PIE auditors should evaluate the overall integrity and credibility of the investigation process. This involves assessing the independence and qualifications of the investigators, the methodologies used, and the procedures followed. When evaluating the investigation findings, PIE auditors should thoroughly assess the quality, reliability, and sufficiency of the evidence collected to reach a conclusion. PIE auditors should also be aware that instances of fraud are unlikely to be isolated, and they should consider broader implications of any identified fraud on other aspects of the audit. The same level of consideration should be applied when evaluating the impact of any control deficiencies identified during the investigation on the listed entity's financial reporting system and the audit.

	<p>Statutory obligation of reporting suspicious transactions</p> <p>The AFRC reminds PIE auditors, particularly their engagement teams, of their statutory obligation to report any suspicious transactions associated with money laundering and terrorist financing that they identified in the course of their work.¹⁹</p>
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2. Maintain prompt and direct communication with the audit committee

- a. It is the responsibility of PIE auditors to promptly and proactively communicate with the audit committee regarding any significant challenges encountered during the audit process or issues that could impede timely completion of the audit. This includes promptly notifying the audit committee of any delays in receiving necessary information for the audit, as agreed upon with the management of the listed entity. Additionally, PIE auditors must not hesitate to raise concerns or report to the audit committee any suspicious transactions discovered during the audit.
- b. PIE auditors should not rely solely on communication with the management of the listed entity to convey critical matters. Instead, they should actively engage in direct communication with the audit committee. To ensure that the audit committee can thoroughly understand the issues at hand, private meetings should be organised to facilitate frank and open discussions.

¹⁹ Legislations in Hong Kong that impose the statutory obligation of suspicious transaction reporting and the relevant sections are as follows:

- a. Section 25A of the Drug Trafficking (Recovery of Proceeds) Ordinance (Cap. 405)
- b. Section 25A of the Organised and Serious Crimes Ordinance (Cap. 455)
- c. Section 12 of the United Nations (Anti-Terrorism Measures) Ordinance (Cap. 575)

3. Do not overuse disclaimer of opinions as a risk minimisation mechanism

PIE auditors should not issue a disclaimer of opinion to avoid providing a conclusion on the appropriateness of a particular accounting treatment, such as the use of the going concern basis of accounting, or to avoid completing all necessary work. When a disclaimer of opinion is to be issued, the PIE auditor should provide sufficient information in their report to justify the basis for such issuance.

4. Consider implications on the public interest before resigning

Recurring PIE auditors are often considered to have a better understanding of listed entities, having acquired this through their audits in previous years. This deeper understanding means that it is not in the public interest for a PIE auditor to resign before all available means to address unresolved matters have been exhausted. Specifically, the Code of Ethics for Professional Accountants (**CoE**) states that auditors should not attempt avoiding the responsibility of reporting on the financial statements by resigning.²⁰

5. Exercise high-level of professional scepticism in the client and engagement acceptance process

- a. PIE auditors should be cautious when a listed entity changes from a larger PIE auditor to a smaller one, as it may indicate that other PIE auditors with larger resources and capabilities may have identified risks and are unwilling to accept the engagement. This suggests that the outstanding issues may be more serious than perceived. Hence, it is important to exercise a high-level of professional scepticism regarding the reasons behind the outgoing PIE auditor's resignation and the management's representation of unresolved audit issues.

²⁰ HKICPA, CoE, Chapter C, Paragraph 300.8

- b. Incoming PIE auditors should conduct a thorough evaluation of their own competence and capability to effectively carry out the audit, including the availability of more experienced engagement team members.
- c. Opinion shopping behaviour or the presence of suspicious transactions are indications that the listed entity may be involved in illegal activities, dishonesty, questionable financial reporting practices, or other unethical behaviour. The CoE states that threats to compliance with the principles of integrity or professional behaviour might arise from questionable issues associated with the listed entity. The PIE auditor should evaluate the level of such threats and apply necessary safeguards to address them. These include assigning sufficient audit personnel with necessary competencies, agreeing on a realistic time frame for the audit, or using experts where necessary.²¹ The PIE auditor should consider declining the acceptance of the audit engagement if the threats could not be eliminated or reduced to an acceptable level.²²
- d. If the listed entity has significant operations in Mainland China or overseas, the PIE auditor must ensure they possess adequate knowledge and experience of the relevant industries and regulatory requirements relevant to the listed entity's operation. Simply securing a sizeable component auditor is not sufficient. To ensure a quality audit can be performed, the PIE auditor should carefully assess their capability to effectively supervise the work of the component auditor and evaluate the system of quality management of the component auditor. Additionally, the PIE auditor should observe the regulations on relevant audit arrangements and license applications for conducting cross-border audits.

²¹ HKICPA, CoE, Chapter A, sections 320.3 A1 and 320.3 A5

²² HKICPA, CoE, Chapter A, section R120.10



The AFRC's expectations of outgoing auditor and incoming auditor have been repeatedly conveyed in past publications. Refer to *Open letter regarding late auditor resignations*, *Follow-up open letter on auditor changes* and *Guidance Notes on Change of Auditors*.

6. Conduct audit planning sufficiently early to identify potential issues

In volatile or uncertain economic conditions, factors affecting the listed entity, or its industry and environment, may change quickly. Audit planning should be performed well in advance to analyse how changes in the listed entities' industry, environment, and operation may give rise to potential audit risks and issues, thereby allowing sufficient time and resources to resolve.



Audit Focus Effective Planning: The Key to High-Quality Audits highlights key areas that require special consideration in audit planning and the AFRC's expectations of auditors.

II. Key messages to the management of listed entities

7. Maintaining an effective financial reporting system is fundamental

The management of listed entities must ensure that the information prepared for PIE auditors is of high quality and provided on a timely basis. Achieving this requires the establishment of an effective financial reporting system, which should include the following key elements:

- a. Sufficient and competent financial reporting team – The management must allocate sufficient resources to ensure the effective operation of the financial reporting system and ensure a competent and dedicated team is available to avoid delay in providing financial statements and necessary supporting information during the audit.
- b. Robust controls over financial reporting – Robust controls over the financial reporting system ensure that listed entities maintain adequate documentation to support the amounts and disclosures in the financial statements. This can also help prepare appropriate assessments that support the basis of key judgements and assumptions supporting an accounting estimate, proper application of accounting standards, and ensure the appropriateness of the basis of accounting, such as the basis of going concern.

8. Recognise the management's critical role in audit planning

Early audit planning is essential to prevent delays and complications that may lead to missed reporting deadlines. The management of listed entities should recognise their crucial role in audit planning and provide the necessary support to PIE auditors, including:

- a. Provide timely access to information for audit planning - Audit planning relies on the information provided by the management. Therefore, the management of listed entities should ensure timely access to this information for auditors, facilitating proper audit planning well before the financial year-end.
- b. Engage with necessary specialists on a timely basis – Management should understand that engaging specialists is an integral part of the financial reporting process, as it provides a basis for determining the amounts recorded in the financial statements. Therefore, it is important for management to engage specialists early to allow the PIE auditor sufficient time to review and assess their work.

9. Mindset change – audit is an iterative process

The management should adopt a mindset that treats the audit process as an iterative and ongoing engagement throughout the financial year, rather than viewing it as a singular annual event. The management should maintain continuous communication and collaboration with PIE auditor. Specifically, the management should proactively engage the PIE auditor at an early stage when undertaking new and significant transactions or encountering substantial financial events. By initiating this early engagement, the management can facilitate the timely identification of potential audit implications related to these matters, enabling prompt resolution and mitigation of any associated risks.

III. Key messages to audit committees

10. Effectively oversee the financial reporting system

To effectively oversee the financial reporting system, the audit committee must be actively engaged throughout the whole financial reporting cycle. The committee should regularly review the financial information of the listed entity and challenge the management on the appropriateness of critical accounting matters and the adequacy of proper accounting records supporting significant transactions.

11. Effectively oversee the audit process through regular communication

- a. The audit committee should support early audit planning conducted by the auditor and ensure timely preparation and review of audit plans.
- b. There should be frequent meetings with the auditors to allow the audit committee to monitor audit progress, identify major outstanding matters, and address potential issues before they aggravate.
- c. Private sessions should be organised to provide an opportunity for PIE auditors to frankly and openly discuss any unresolved audit matters or difficulties encountered during the audit. This will help the audit committee gain a comprehensive understanding of the issues.

12. Refrain from participating in or endorsing the management's attempt to engage in opinion shopping behaviour

When there are disagreements between the management and the PIE auditor, the audit committee should refrain from participating in, or endorsing, any attempts by the management to seek alternative audit opinions. The audit committee should instead commit to resolving these disagreements and promoting open communication between both parties.

13. Critical assessment of the competence and capability of potential incoming auditors

It is encouraging to see that, during the appointment of PIE auditors, more audit committees are adopting the AFRC's "[Guidelines for Effective Audit Committees – Selection, Appointment and Reappointment of Auditors](#)". It is essential for an audit committee to conduct a comprehensive assessment of the potential incoming PIE auditor. This includes inquiring about past engagement inspection results and inspection findings related to the PIE auditor's system of quality management, as well as evaluating the effectiveness of their remedial actions to address these findings. This will enable audit committees to effectively assess the PIE auditor's competence, capability, and commitment to deliver a quality audit.

14. Ensure accurate and transparent disclosure of the reasons for a delay in publishing annual results announcement

The audit committee should review the listed entity's announcement to examine the reasons behind a delay in publishing its annual results announcement which leads to a suspension of trading. The committee should ensure that the announcement provides detailed circumstances and sufficient information about the status of the audit or identified issues.

IV. Key messages to other stakeholders

15. Investors or other users of financial statements should pay attention to the context provided in the disclaimer of opinion on going concern

A disclaimer of opinion on going concern implies that the auditor was unable to make a conclusion regarding the appropriateness of the management's assumption that the listed entity is a going concern and will continue its operations for the foreseeable future. Investors or other users of financial statements, such as banks and creditors, are advised to exercise additional caution when deciding to invest in or deal with listed entities with a disclaimer of opinion on going concern.

16. Audit quality should be the primary consideration when engaging an auditor

Previous publications from the AFRC have outlined the expectations for the management of listed entities and audit committees regarding the auditor appointment process. It is crucial for investors and other stakeholders, including liquidators, to also recognise that the auditor's primary responsibility is to provide reasonable assurance on whether the financial statements they audit are free from material misstatements. Therefore, investors and other stakeholders should prioritise audit quality over all other factors when selecting an auditor.



For key considerations on evaluating auditors during the appointment process, refer to [Open letter regarding late auditor resignations](#), [Follow-up open letter on auditor changes](#), [Guidelines for Effective Audit Committees – Selection, Appointment and Reappointment of Auditors](#) and [Guidance Notes on Change of Auditors](#).

Annex 1

Checklist for PIE auditors

This checklist outlines essential considerations for PIE auditors when auditing listed entities that have been suspended from trading or are at risk of a suspension. It should be noted that each engagement has its unique facts and circumstances, and PIE auditors must exercise professional judgment and adapt to the checklist accordingly.

Part 1: Before publishing the delayed annual results announcement for Suspended Stocks		
1.	If an unmodified opinion is to be issued, have we obtained sufficient audit evidence, especially for those matters that gave rise to the suspension of trading, to support our conclusion? ²³	<input type="checkbox"/>
2.	If a disclaimer of opinion due to limitation of scope is to be issued, could we demonstrate: ²⁴ <ol style="list-style-type: none"> a. We have exhausted all possible alternative audit procedures? b. The possible effects on the financial statements could be both material and pervasive? 	<input type="checkbox"/>
3.	If a disclaimer of opinion due to the potential interaction of multiple uncertainties is to be issued: <ol style="list-style-type: none"> a. Have we clearly identified those uncertainties and obtained sufficient audit evidence on each uncertainty? b. Do we have sufficient grounds to demonstrate it is not possible to form an opinion due to the potential interaction of uncertainties and their possible cumulative impact on the financial statements?²⁵ 	<input type="checkbox"/>

²³ HKICPA, HKSA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*, Paragraph 16

²⁴ HKICPA, HKSA 705 (Revised), Paragraphs 9 and A9

²⁵ HKICPA, HKSA 705 (Revised), Paragraph 10

Part 2: When a suspicious transaction is identified		
4.	Have we communicated directly to the management of the listed entity and the audit committee about the suspicious transactions identified on a timely basis, ^{26,27} unless prohibited by law or regulation?	<input type="checkbox"/>
5.	With respect to the investigation carried out by the management, have we adequately: <ul style="list-style-type: none"> a. Understood the area of expertise relevant for the investigation and the work of the investigator? b. Assessed the competence, capability and objectivity of the investigator; and c. Evaluated the appropriateness of the investigator's work, including the relevance and reasonableness of their work and whether sufficient appropriate evidence was obtained to support the investigation findings and the conclusion?²⁸ 	<input type="checkbox"/>
6.	Have we evaluated the implications of the suspicious transactions on other aspects of the audit, including the existence of significant internal control deficiencies, ²⁹ the reliability of the management representation, fraud risk assessment, and the reliability of the evidence previously obtained? ³⁰	<input type="checkbox"/>
7.	Are the identified suspicious transactions associated with money laundering or terrorist financing, and should we report them to the Joint Financial Intelligence Unit? ³¹	<input type="checkbox"/>

²⁶ HKICPA, HKSA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* (**HKSA 240**), Paragraphs 41 to 43, A61 to A66

²⁷ HKICPA, HKSA 260 (Revised), Paragraphs 21 and A49

²⁸ HKICPA, HKSA 500 *Audit Evidence*, Paragraphs 8 and A48 to A59

²⁹ HKICPA, HKSA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, Paragraphs 6(b), 8 and A7

³⁰ HKICPA, HKSA 240, Paragraphs 36 to 38, A52 to A54

³¹ HKICPA, *Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants*, Section 640

Part 3: When the PIE auditor is considering resigning from the Suspended Stocks		
8.	<p>Does our resignation undermine our duty to shareholders?³²</p> <p>Specifically, the PIE auditor should consider:</p> <p>a. Have we made every effort to complete the audit and sought the audit committee's assistance to resolve those contentious issues that led to our resignation?</p> <p>b. Would our resignation assist management in its opinion-shopping behaviour, through acting upon its request to resign or avoiding issuing a modified audit opinion?</p>	<input type="checkbox"/>

Part 4: When the PIE auditor has resigned as the auditor of the Suspended Stocks		
9.	<p>Have we disclosed all factors that affect the relationship between the listed issuer and the outgoing auditor, including all disagreements or outstanding issues, in the resignation/termination letter and the professional clearance letter?³³</p>	<input type="checkbox"/>
10.	<p>Have we reported to the Securities and Futures Commission and the Stock Exchange of Hong Kong that the listed entity has refused to issue announcements to disclose complete information in our resignation/termination letter, which we consider necessary to be brought to the shareholders' attention?³⁴</p>	<input type="checkbox"/>
11.	<p>When the incoming auditor requests information on the matters disclosed in our resignation/termination letter and professional clearance letter, have we responded to them without delay and provided information on the matters to be clarified honestly and unambiguously?^{35,36}</p>	<input type="checkbox"/>

³² HKICPA, CoE, Chapter C, Paragraphs 300.8 and 300.9

³³ HKICPA, CoE, Chapter C, Paragraphs 300.10 to 300.17

³⁴ HKICPA, CoE, Chapter C, Paragraphs 300.22 to 300.25

³⁵ HKICPA, CoE, Chapter C, Paragraph 200.20

³⁶ HKICPA, CoE, Chapter A, Paragraph R320.7

Part 5: Before accepting the audit of a Suspended Stock		
12.	Have we obtained the outgoing auditor's resignation/termination letter and any correspondence referred to in the letter directly from the listed entity? ³⁷	<input type="checkbox"/>
13.	Have we obtained sufficient information from the outgoing auditor about the disagreement or unresolved issue underlying the matters leading to the resignation? ³⁸	<input type="checkbox"/>
14.	<p>Have we conducted a thorough evaluation of the availability of the appropriate resources to perform the engagement?³⁹</p> <p>The evaluation should include:</p> <ul style="list-style-type: none"> a. The availability of the engagement partner and the engagement quality reviewer and whether they have the necessary knowledge and experience in the relevant industry and with the identified issues of the Suspended Stocks; b. The availability of audit personnel with appropriate competence to carry out the audit based on the planned scope of the audit, determined with reference to the size and scale of the listed entity's operation, the identified issues and the audit risk involved; and c. If a component auditor is to be engaged, the ability and the capacity of the engagement team to supervise and review the component auditor's work, based on the PIE auditor's understanding of the professional competence of the component auditors and their system of quality management? 	<input type="checkbox"/>

³⁷ HKICPA, CoE, Chapter C, Paragraph 300.18

³⁸ HKICPA, CoE, Chapter A, Paragraphs R320.4, 320.4 A1 to 320.4 A4, R320.5 A1 and R320.6

³⁹ HKICPA, Hong Kong Standard on Quality Management 1, *Quality Management for Firms that Perform Audits of Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, Paragraphs 30(a) and A72

15.	<p>Have we appropriately considered:</p> <ul style="list-style-type: none"> a. Questionable issues associated with the listed entity's management that led to the resignation or removal of the outgoing auditor when deciding whether to accept the audit appointment? b. Whether we could address these issues if we accept this engagement? <p>Examples of questionable issues include:^{40,41}</p> <ul style="list-style-type: none"> a. Limitation of scope imposed by management, including uncooperative behaviour of the management in providing necessary information for audit. b. Opinion shopping behaviour, especially when the resignation was requested by the listed entity or the auditor change was prompted by disagreement between the auditor and the listed entity. c. Identification of suspicious transactions, especially when the management refuses to conduct an up-to-standard independent investigation or provide sufficient information about the investigation to address the outgoing auditor's concern. 	□
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⁴⁰ HKICPA, HKSA 240, Paragraphs 39 and A55

⁴¹ HKICPA, CoE, Chapter A, Paragraphs 320.3 A1 to 320.3 A5

Part 6: Ensuring timely identification and resolution of issues during the audit		
16.	Have we performed all necessary risk assessment procedures to establish an overall audit strategy and audit plan by the end of the third quarter of the financial year? ^{42,43}	<input type="checkbox"/>
17.	<p>In addition to communicating with the audit committee about our audit plan, are we providing timely updates on our audit progress?</p> <p>In particular, the PIE auditor should provide such updates when modifications have been made to the overall audit strategy and audit plan due to unexpected events, changes in conditions, or audit evidence obtained from the results of audit procedures.⁴⁴</p>	<input type="checkbox"/>
18.	<p>Have we communicated with the audit committee as soon as practicable when we encountered significant difficulties during the audit?^{45,46}</p> <p>Significant difficulties encountered during the audit include:</p> <ol style="list-style-type: none"> a. Significant delays in management providing required information, unavailability of personnel, or an unwillingness by management to provide information necessary for the auditor to perform audit procedures. b. Unnecessarily short deadlines within which to complete the audit. c. Unexpected extensive effort required to obtain sufficient appropriate audit evidence. d. Unavailability of expected information. e. Restrictions imposed on the auditor by management. 	<input type="checkbox"/>

⁴² AFRC, [Audit Focus - Effective Planning: The Key to High-Quality Audits](#), 31 July 2023

⁴³ HKICPA, HKSA 300 *Planning an audit of financial statements*, Paragraphs 2 and A2

⁴⁴ HKICPA, HKSA 260 (Revised), Paragraphs 16(e) and A26

⁴⁵ HKICPA, HKSA 260 (Revised), Paragraphs 16(b) and A21

⁴⁶ HKICPA, HKSA 260 (Revised), Paragraphs 21 and A49

	f. Management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested.	
19.	Have we communicated with the audit committee as soon as practicable about the circumstances that are likely to lead to a modified audit opinion? ^{47,48}	<input type="checkbox"/>

⁴⁷ HKICPA, HKSA 705 (Revised), Paragraphs 30 and A27

⁴⁸ HKICPA, HKSA 260 (Revised), Paragraphs 21 and A49

Annex 2

Glossary

This glossary provides definitions of the acronyms, abbreviations and key terms used in the report:

AFRC	Accounting and Financial Reporting Council
AGM	Annual general meeting
CoE	Code of Ethics for Professional Accountants
EOM	Emphasis of matters
HKEX	The Stock Exchange of Hong Kong
HKICPA	Hong Kong Institute of Certified Public Accountants
HKSA	Hong Kong Standard on Auditing
HKSA 240	<i>HKSA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i>
HKSA 260 (Revised)	<i>HKSA 260 (Revised) Communication with Those Charged with Governance</i>
HKSA 510	<i>HKSA 510 Initial Audit Engagements - Opening Balances</i>
HKSA 705 (Revised)	<i>HKSA 705 (Revised) Modifications to the Opinion in the Independent Auditor's Report</i>
Listing Rules	Main Board and GEM Listing Rules
PIE	Public interest entity
PN 730 (Revised)	<i>Practice Note 730 Guidance for Auditors Regarding Preliminary Announcements of Annual Results</i>
Suspended Stocks	Listed entities suspended from trading due to their failure to publish their annual results announcements and which have been agreed with their auditors

2023 Suspended
Stocks

December year-end listed entities suspended from trading due to their failure to publish their 2023 annual results announcements and which have been agreed with their auditors by 31 March 2024

2022 Suspended
Stocks

December year-end listed entities suspended from trading due to their failure to publish their 2022 annual results announcements and which have been agreed with their auditors by 31 March 2023

Contacts



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