

Press Release

28 April 2023

AFRC sets out its position on documentation of an auditor's work on "other information" included in the annual report of a listed entity

In a recently completed investigation referred from the Stock Exchange of Hong Kong Limited, the Accounting and Financial Reporting Council (**AFRC**) identified an improper practice regarding audit documentation relating to the work carried out by the auditor (**the Auditor**) of a listed entity (**the Listed Entity**) on other information¹ included in the Listed Entity's annual report.

Requirements on obtaining and considering other information and related documentation

In the case of a listed entity, Hong Kong Standard on Auditing (**HKSA**) 720 requires the auditor to:

- obtain the final version of the documents comprising the annual report of an entity (including documents containing other information) prior to the date of the auditor's report if possible, read the other information obtained from management, and consider whether there is any material inconsistency between the other information and the financial statements;
- include in the "Other Information" section of the auditor's report an identification of the other information, if any, obtained prior to the date of the auditor's report and the other information, if any, expected to be obtained after the date of the auditor's report;
- perform the procedures required under HKSA 720 and document them in the audit documentation;
- when other information has been obtained prior to the date of the auditor's report, include in the "Other Information" section a statement that the auditor has nothing to report or a statement describing the uncorrected material misstatement that the auditor has identified; and
- include in the audit documentation the final version of the other information on which the auditor has performed the procedures required under HKSA 720.

¹ Other information represents financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report.

There is nothing in the requirements of HKSA 720 that mandates or suggests that the only item of documentation required is the final version of the other information or that it is appropriate to remove earlier versions that comprise contemporaneous evidence of the work done at the time it was done. Furthermore, HKSA 200 explicitly requires that, in order to meet the overall objectives of the auditor, the auditor must comply with each relevant requirement in a relevant HKSA and perform any additional procedures necessary to pursue the objective in a relevant HKSA.

The practice adopted by the Auditor

The Auditor had obtained from management a version of documents containing other information before the date of the auditor's report and performed the procedures on the other information. That version of the documents was subsequently removed from the audit file upon the Auditor obtaining from management, after the date of the auditor's report, a later version of documents containing the other information. In doing so, the Auditor copied marks noted in the earlier version indicating audit work performed on the other information to the final version.

The AFRC's position

Auditors should ensure that the audit documentation always meets both the requirements and objectives of the HKSAs. In complying with the documentation requirement in HKSA 720, in order to meet the objective of documentation to enable the conduct of external inspections, the auditor should include in the audit file all versions of the documents containing other information, which the auditor has obtained from management before or after the date of the auditor's report and should not remove previous documentation that evidences work done before the date of the auditor's report. Furthermore, the documentation should clearly indicate the date of receipt of the final version.

The purposes of the documentation requirements in the HKSAs include to evidence that the audit was performed in accordance with and met the objectives of the auditor under the HKSAs and to enable the conduct of external inspections in accordance with applicable requirements².

Including the final version of the other information in the audit documentation enables an external inspector to evaluate whether the auditor had in fact obtained the other information as later published prior to the date of the auditor's report by comparing the version included in the audit documentation with the published version of the other information. If the auditor had not in fact obtained the other information as later published, the auditor might not have performed the procedures required under HKSA 720 on all of the material other information provided to investors. Accordingly, a statement included in the "Other Information" section of the auditor's report that the

² HKSA 230, *Audit Documentation*, paragraphs 2 and 3

auditor has nothing to report might be misleading to investors reading the auditor's report.

As a result of the auditor removing from the audit documentation the version of the other information they obtained prior to the date of the auditor's report, the auditor impeded the ability of the AFRC to establish whether the auditor had in fact obtained and performed the procedures required under HKSA 720 on the other information as subsequently published, prior to the date of the auditor's report.

End

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, 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.afr.org.hk.

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