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# OPEN LETTER

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中小型會計師行大聯盟  
Mid-Tier Firm Alliance

19 February 2020

Securities and Futures Commission  
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Dear Sirs

## **Impact of Coronavirus on Auditors of Listed Entities**

The Securities and Futures Commission (“SFC”) and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) issued a Joint Statement on 4 February 2020 (the “Joint Statement”) to provide guidance to listed companies and their auditors in relation to the disclosure of financial information in view of travel and other restrictions that have arisen in response to the outbreak of the Severe Respiratory Disease associated with a Novel Infectious Agent.

Since the announcement of the Joint Statement, the outbreak of the coronavirus has no signs of slowing down and the number of people infected in Hong Kong and worldwide increases every day. The Government of Hong Kong announced on 3 February 2020 a further closure of the city's borders with the Mainland, and on 5 February 2020 announced that it would be compulsory for all travellers from Mainland entering Hong Kong, including local residents, to go into quarantine for 14 days. It is apparent that the Hong Kong government appeals very strongly to members of the public to avoid traveling to the Mainland China, stay at home as much as possible, and refrain from going to crowded areas. The Government also extended the work from home arrangement to 23 February and appeals to private enterprises to make necessary work arrangement for employees to tie in with the government strategies to control the spreading of the coronavirus.

In Mainland China, as the spreading of the coronavirus became noticeably more severe during the recent Lunar New Year holiday, authorities decided to extend the holiday in an attempt to contain the coronavirus. Many provinces, municipalities and autonomous regions (including but not limited to Beijing and Shanghai) have also instructed local businesses not to resume business before 10 February 2020 at the earliest. At this juncture, many parts of China went under unprecedented quarantines in hopes of stemming the spread of the coronavirus, and it is currently uncertain if more cities and provinces will go under lockdown in the future.

In view of the situation, most if not all of our MFA members have adopted measures to reduce the risk of the spread of the novel coronavirus. This includes travel restriction to the Mainland and other affected countries. As auditors for listed entities with operation in Mainland China with year ended 31 December 2019, we are facing tremendous pressure in trying to meet the reporting deadline without impairing the audit quality and relationship with listed entities. Given the current situation, it is inevitable that there is significant hindrance to the progress of completing the audit.



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While we are performing work from office in Hong Kong and relying on different forms of information and communication technology, the audit must be conducted in accordance with Hong Kong Standards on Auditing (“HKSA”) with the objective of obtaining reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. The audit engagement partner needs to actively participate in risk assessment, planning and in supervision and reviewing the work performed and ensure that the engagement has sufficient time to undertake the audit in an effective and robust manner in accordance with HKSA 220 “Quality Control for Audit of Financial Statements”. The audit engagement team needs to obtain sufficient and appropriate audit evidence to express an opinion using different means such as inspection, observation, confirmation and inquiry. It is particularly important for auditors to be able to perform physical inspection of audit documents and fixed assets and control the entire confirmation process in Mainland China. There are steps that must be completed on site to effectively conduct an audit.

The financial statements of listed clients often contain items which require fair value measurement, including investment properties, land and buildings, intangible assets such as goodwill. Significant estimation and judgment are involved in the valuation process, and valuers (both engaged by management and auditors) reduce the uncertainties by applying their professional knowledge and experience. Where the assets are located in the Mainland, valuers need to perform the duties by traveling to and within the Mainland to assess the properties, discuss the company’s plan with management and visit and inspect the business operation in person. This process is now also hindered.

Under the Joint Statement, a listed entity’s board may have to release financial information without agreement with the auditor and it would mean publishing information when the auditing team has not completed its work. Given the rapid development in financial reporting standards and complexity in nature of transactions, the board may not have full and thorough understanding of the latest changes in accounting standards and the impact from the implementation of the standards. In addition, valuation of assets and liabilities are becoming more and more complicated. The auditor may not agree with the treatment and measurement of certain assets or liabilities made by the management. The lack of agreement with the auditor could cause significant differences in the management accounts and the final audited accounts even when the board has been diligent and reasonable in their treatment of the accounts and the interpretation of the applicable standards. Publishing preliminary results without agreement with the auditor may end up in providing misleading financial information to the market and detrimental to the Stock Exchange’s objective to maintain an orderly, informed and fair market.

The China Securities Regulatory Commission (CSRC) has allowed listed entities with difficulties in disclosing 2019 financial information to apply and extend the reporting deadline to 30 April 2020 so to support listed entities in their epidemic prevention and control. A similar measure should be provided to allow entities listed and their auditors in Hong Kong to have more time in putting together accurate and complete financial information that are useful to the investing public. The application to extend should be transparent and straightforward, allowing listed entities and auditors to focus on maintaining good corporate governance and preparing reliable and accurate financial information and not to be burdened by additional administration procedure and unnecessary worry. In view of all the above, MFA would therefore humbly request for the SFC and the Stock Exchange to grant unconditional extension to all applicant entities with Mainland operations or presence unless proven otherwise be the contra or misrepresentation.



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Despite all the adverse conditions, we trust every party is giving the best effort to maintaining and promoting the fairness, efficiency, competitiveness, transparency and orderliness of the investment market in Hong Kong. The Government is advocating the need to reduce social contact to protect everyone in the society and limit the spread of the virus. During this very severe period of the epidemic, we sincerely hope that the SFC and the Stock Exchange will understand the concerns and difficulties of auditors and listed entities, and take part in protecting the health of accounting practitioners and reduce the risk of epidemic infection. Our alliance respectfully urges the Stock Exchange to extend the publication of the 2019 Annual Results at a minimum of one month (until 30 April 2020) and waive the requirements for listed entities to publish any unaudited financial statements for the time being and comfort all parties at stake.

### **Mid-Tier Firm Alliance (“MFA”)**

The establishment of the MFA is to promote the development of the accounting industry in Hong Kong and to promulgate and advocate for fair and level playing field for mid-tier firms. MFA provides a platform for Hong Kong accountants to contribute to the accounting industry in Hong Kong and in the Mainland. Members of MFA comprise those listed company auditors in Hong Kong other than the Big Four firms. Our tasks include liaising and communicating with the local regulators and with the public through social media on all issues facing Hong Kong's accounting community. We strive for the benefit of public interest. The mission of the MFA is to foster alliance among mid-tier firms with an aim to strengthening our contributions to the economy as well as promoting our profession.

Yours faithfully

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### **Joint proposers of Mid-Tier Firms Alliance (MFA):**

Mr Wong Poh Weng – Chairman of RSM Hong Kong

Mr Charles Chan – Chairman and CEO of Crowe (HK) CPA Limited

Mr Stephen Wong – Managing Partner & Head of Audit and Assurance of RSM Hong Kong

Mr Albert Chan - Partner of Ting Ho Kwan & Chan CPA Limited

Mr Derek Chan – Director of HLM CPA Limited

Mr Danny Choi – Director of Baker Tilly Hong Kong Limited

Mr Patrick Sze – Managing Partner of ZHONGHUI ANDA CPA Limited

Mr Cheng Chung Ching Raymond – Chairman of HLB Hodgson Impey Cheng Limited