

Q: I would like to continue the discussion in the pdf. The SCR is certainly a piece of statutory record. However, it is not as useful as the shareholders' register if the auditor needs to identify any related party transactions (RPT). For example, if a shareholder having 25% or less equity interest enters any transaction with the Company, the SCR will not capture it. Instead, reviewing the members' register can identify shareholder(s) holding equity interest that is 25% or less.

Your thoughts?

Your further point sharpens the issue very well. Let me respond in two parts:

1. **SCR vs shareholders' register for identifying RPTs**
2. **Whether examining the SCR can ever be "irrelevant" under HKSA 250**

## 1. SCR is not as useful as the shareholders' register for RPT purposes

You are technically correct on the limitation.

Under the Hong Kong Companies Ordinance, the Significant Controllers Register (SCR) only captures:

- Individuals or legal entities with **more than 25%** of shares or voting rights, or
- Those who otherwise exercise significant control.

So if a shareholder holds **exactly 25%**, or say 20%, that person **will not appear in the SCR**.

Yet under HKAS 24 (Related Party Disclosures):

- A person with **significant influence** is a related party.
- Significant influence is *presumed* at **20% or more** of voting power (unless rebutted).

This creates an important mismatch:

Threshold	SCR	HKAS 24
20%	✗ Not captured	✓ Presumed significant influence
25%	✗ Not captured (needs >25%)	✓ Likely significant influence
>25%	✓ Captured	✓ Likely significant influence

So yes — from a **pure RPT identification perspective**, the shareholders' register is often more informative than the SCR.

The SCR is **not designed as an accounting tool**. It is an anti-money laundering / transparency instrument.

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## 2. Is examination of SCR ever “irrelevant”?

Here is where I would refine the argument.

You said:

If there is no related party transaction or no requirement to disclose the ultimate controlling entity, then examination of SCR may be irrelevant to the performance of the audit.

Conceptually, that sounds reasonable. But auditing standards operate on **risk assessment logic**, not outcome logic.

Even if:

- There are no RPTs recorded, and
- No ultimate parent disclosure is required,

The auditor **does not know that at the start**.

Inspection of the SCR serves at least four audit purposes:

### (A) Completeness check of related parties

Even if no RPT is disclosed, the auditor must assess whether:

- Management has identified all related parties.
- There are undisclosed relationships.

The SCR helps detect:

- Nominee shareholders
- Ultimate controllers behind layers of companies
- Individuals exerting control without majority shareholding

It is a *corroborative document*.

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### (B) Fraud risk assessment (HKSA 240)

Undisclosed related parties are a classic fraud risk.

The SCR helps assess:

- Whether management dominance risk exists.
- Whether transactions could be structured through controlled entities.

Even if no RPT is ultimately disclosed, the SCR contributes to **risk evaluation**.

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### **(C) Compliance with Companies Ordinance itself**

The SCR is a statutory requirement.

Failure to maintain it properly:

- May indicate governance weakness.
- May signal broader compliance culture issues.

This links back to HKSA 250 paragraph 6(b).

While the auditor is not a compliance officer, evidence of poor compliance may:

- Increase risk of material misstatement.
  - Affect audit strategy.
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### **(D) Understanding control structure**

Auditors must understand:

Ownership structure and governance structure.

The SCR is direct evidence of control — even if it does not fully align with HKAS 24 thresholds.

So I would say:

The SCR is rarely irrelevant at the **planning and risk assessment stage**, even if it does not ultimately affect disclosure.

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## **3. On your product recall example**

Your example is powerful and correctly illustrates the limitation of auditing.

Failure to comply with a technical standard:

- Falls under 6(b).
- May not have a direct accounting impact yet.
- May be invisible unless external evidence exists.

Here is the key distinction:

<b>SCR</b>	<b>Technical compliance failure</b>
Documentary evidence exists	Often no documentary evidence
Auditor can inspect register	Auditor lacks technical expertise
Linked to financial disclosure	Linked to operational risk

The SCR is inspectable.

Technical defects are latent.

That is why the SCR is audit-relevant even if it seems procedurally minor — because it produces verifiable documentary evidence.

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## 4. My overall view

I would frame it like this:

- You are correct that the SCR is not sufficient for identifying all related parties.
- You are correct that it may not directly impact financial statements in every case.
- **!** But it is still audit-relevant because it:
  - Supports completeness of related party identification,
  - Contributes to fraud risk assessment,
  - Provides evidence about control structure,
  - Reflects governance quality.

The key is this:

Audit relevance is determined at the planning stage, not hindsight.

Even if no RPT is found, reviewing the SCR helps the auditor conclude that the absence of RPT is reasonable.

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If you'd like, we can go deeper into this question:

Do you think the SCR should be treated conceptually as a 6(a) requirement (direct effect) or strictly 6(b) (operational compliance)?

That classification actually changes how far the auditor's responsibility extends.

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@Assistant I raise two points in response:

First, we cannot challenge the arithmetic as the members' register contain ownership information for members holding 25% or less equity, but the SCR won't.

Second, an audit, in brief, is an expression of opinion of the correspondence between the management's assertion and established criteria. In this case, the assertion is the financial information including the statement of financial position, income statement, equity statement and cash flow statement. The criteria includes the HKFRS, HKAS, and Part 9 of the Companies Ordinance that lays down the requirement of account and audit. The SCR does not come under the scope of management assertion. The SCR is a piece of statutory record. It is a means by which the auditor could use to identify the existence of the related party and the RPT. The same holds for the members' register that is considered by the auditor to be more useful and informative in identifying RP and RPT.

Can you share your thoughts with me?

Your two points are broadly well-aimed. I'd just tighten the framing in two places—(i) what “assertions” the auditor is really testing, and (ii) what it means for a register to “come under” management assertions.

## 1) “We cannot challenge the arithmetic”: SCR vs members’ register

Yes—your first point is essentially correct: **the SCR and the members’ register are not symmetrical data sources** because they capture different thresholds/coverage for who is recorded. So if someone is relying on SCR *only* to identify related parties, they risk **missing** persons who may still be relevant for related party identification under accounting standards.

So you can say:

- **SCR coverage is narrower** than you'd need for complete related party identification.
- Therefore, **members’ register is often more informative** than SCR for RPT/RP identification (especially where ownership percentages sit below the SCR threshold but still imply related-party status via “significant influence”).

That supports your comparison.

## 2) Audit = opinion on correspondence between management assertions and criteria — and where SCR fits

Your second point is the key nuance.

You are right that an audit opinion is about whether the **financial statements** (prepared by management) are fairly presented in accordance with **the applicable financial reporting framework** (HKFRS/HKAS and relevant Companies Ordinance requirements).

So in terms of *audit focus*:

- The **criteria** are financial reporting standards and disclosure requirements.
- The **subject matter** is the financial statements (statement of financial position, profit or loss, equity, cash flows, and related notes).

However, I'd adjust one sentence of your argument:

### Why “SCR does not come under the scope of management assertion” might be stated too strongly

A statutory register (SCR or members' register) usually **is not itself** a management assertion. Agreed.

But the registers still matter because they help the auditor obtain evidence about the *assertions embedded in the financial statements*, e.g.:

- **Existence / completeness** of related party relationships and RPT disclosures
- **Accuracy / valuation** (indirectly, once parties are identified)
- **Presentation & disclosure completeness** of related party notes

In other words:

- Management's assertion is: “*All related parties and related party transactions that should be disclosed have been identified and appropriately disclosed in accordance with HKFRS/HKAS and the Companies Ordinance.*”
- The SCR is **evidence** that can support (or undermine) the identification part of that assertion.

So the correct framing is:

The SCR is not a management assertion, but it is an audit evidence source that bears on the completeness and identification of matters that management must assert in the financial statements.

### 3) Is it fair to say “SCR is a means to identify RP and RPT”?

Yes—with one caveat.

- SCR can identify *some* control holders/ultimate controllers (depending on statutory thresholds).
- That can inform the auditor’s work on **who the related parties might be**.
- But it should not be treated as sufficient by itself for related party identification, because accounting “related party” is not defined purely by the SCR’s statutory recording thresholds.

So your conclusion “members’ register is more useful and informative” can be defensible, especially where ownership and influence don’t perfectly align with SCR thresholds.

### 4) A sharper “final” position you can take

If you want a concise argument that is hard to attack, try:

- **Yes**, the SCR is narrower than the members’ register for ownership information, so **SCR alone may miss related parties** for RPT disclosure purposes.
- **Yes**, the audit opinion concerns the financial statements against HKFRS/HKAS and Companies Ordinance requirements.
- **But** even though the SCR is a statutory record (not a management assertion), the auditor uses it as **audit evidence** supporting assertions—particularly the completeness/identification of related parties and related party disclosures.

If you want, paste the exact paragraph or bullet you intend to submit (from your draft response), and I can help you rewrite it into a more persuasive, technically defensible version.