

Audit of Financial Statements of Owners' Corporations of Buildings – Audit Issues

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This set of Q&As addresses some of the common issues and questions to be considered in the planning process and the practical procedures that can be applied to the audit of financial statements of owners’ corporation of building. It has been updated to include revisions from the clarified Hong Kong Standards on Auditing (HKSA) and Hong Kong Financial Reporting Standard for Private Entities (HKFRS for Private Entities).

The AASC welcomes your comments and feedback, which should be sent to commentletters@hki CPA.org.hk, for the attention of Standard Setting Department.

Q1: *What are the responsibilities of the Management Committee (MC) or the professional property manager employed by the Owners’ Corporation (OC) or its MC?*

A1: In relation to the audit of the annual financial statements of an Owners’ Corporation of a Building, it is the responsibility of the MC, or a professional property manager employed by the OC or its MC, to carry out its duties under the Building Management Ordinance (BMO) to:

- maintain proper books or records of account and other financial records in accordance with Schedule 6 (Accounts) and Schedule 7 (Mandatory Terms of Deeds of Mutual Trust) to the BMO;
- prepare the annual financial statements which give a true and fair view of the financial transactions and financial position of the OC; and
- provide all the information and explanations which are considered necessary by the auditor.

The OC or its MC and auditor would:

- agree the terms of the audit engagement in an engagement letter; and
- agree the audit fee.

Q2: How is the auditor appointed and what is the work of the auditor?

A2: Under the BMO, the auditor is appointed by a resolution passed at a general meeting. The work of the auditor is to conduct the audit in accordance with HKSAs issued by the HKICPA, including:

- examining, on a test basis, the books and records of the OC;
- assessing significant estimates and judgements made by the MC or the professional property manager in the preparation of the financial statements;
- assessing whether the annual financial statements are free from material misstatement; and
- reporting as to whether the annual financial statements approved by the MC give a true and fair view of the financial transactions and financial position of the OC.

The audit does not include the provision of services such as:

- investigations into specific areas of the books and records, and annual financial statements of the OC (other than that necessary for the purpose of the audit);
- giving advice on internal controls and tendering procedures;
- internal control review; and
- tax advisory service.

Auditors may be prepared to supply such services as specific engagements in addition to or separate from the audit.

Q3: Other than Hong Kong Standards on Auditing, what other relevant reference materials can auditors of financial statements of owners' corporation refer to?

A3: Some relevant materials that auditors can refer to include:

- BMO (extracts of some relevant sections are set out in Appendix 1 to this Q&A);
- *A Guide on Building Management Ordinance* published by Home Affairs Department
http://www.buildingmgt.gov.hk/file_manager/en/documents/bmo_guide/a_guide_on_building_management_ordinance_cap344_en.pdf;
- *Code of Practice on Procurement of supplies, Goods & Services and Code of Practice on Building Management & Maintenance* issued by Secretary for Home Affairs under section 44 of the BMO
[https://www.buildingmgt.gov.hk/file_manager/en/documents/code_of_practice/221805064_HAD%20\(eng\)\(full\).pdf](https://www.buildingmgt.gov.hk/file_manager/en/documents/code_of_practice/221805064_HAD%20(eng)(full).pdf);
- *Building Financial Management Toolkit* developed by the Independent Commission Against Corruption, jointly with the Home Affairs Department, the Hong Kong Housing Society, the HKICPA and the Hong Kong Association of Property Management Companies
http://www.bm.icac.hk/bm_wcms/UserFiles/File/en/CMS/education_publicity/Building_Financial_Management.pdf;
- *An Introduction to Building Management (Amendment) Ordinance 2007* published by the Home Affairs Department
http://www.buildingmgt.gov.hk/file_manager/en/documents/an_introduction_to_building_management_amendment_ordinance_2007_en.pdf; and

Home Affairs Department – Building Management website which can be accessed at: <https://www.buildingmgt.gov.hk/en/>

Q4: *What are the special considerations arising from Hong Kong Standards on Auditing (HKSA) for auditors of financial statements of an owners' corporation?*

A4: HKSA apply to the conduct of all audits. Auditors are therefore required to consider all HKSA to identify which Standards are applicable to the circumstances surrounding the audit.

The following list, which is not exhaustive, provides guidance in the application of certain Standards. This list is not an alternative to reading all relevant HKSA in their entirety:

Objective and general principles governing an audit of financial statements

1. Auditing Standards include a requirement for auditors to comply with relevant ethical requirements relating to audit engagements contained in the HKICPA Code of Ethics for Professional Accountants. A fundamental principle is that certified public accountants (practising) ("practitioners") should not accept or perform work which they are not competent to undertake. Accordingly, the implication for practitioners is that they should not undertake the audit of OCs unless they are satisfied that they have, or can obtain, the necessary level of competence.

Consideration of laws and regulations in an audit of financial statements

2. Auditors are required to familiarise themselves with all laws and regulations governing financial statements of an OC and consider the implications of any potential non-compliance on the financial statements of the OC.
3. Laws and regulations which relate directly to the audit of financial statements of OCs are set out in the BMO, the Code of Practice issued by the Secretary for Home Affairs under section 44 of the BMO and the relevant Deed of Mutual Covenant. A Deed of Mutual Covenant is registered in the Land Registry and defines the rights, interests and obligations of owners between themselves.
4. In respect of the statutory requirements relating to the financial statements, the BMO requires:
 - the OC to maintain an interest-bearing bank account in its name for the management of the building;
 - the MC to retain accounting books and records and supporting documents for at least 6 years;
 - the MC to prepare and lay before the OC at its annual general meeting an income and expenditure account and a balance sheet (annual financial statements) signed by the chairman and the secretary or the treasurer of the MC not later than 15 months after the date of registration of the OC and thereafter every 12 months; and

- the OC to appoint a Certified Public Accountant to audit the annual financial statements (except for an OC in respect of a building containing not more than 50 flats).
5. The BMO requires the OC to take out insurance for the building including the common parts and property of the OC against third party risks, and further empowers the OC to take out insurance against fire and other perils. This aims to protect the OC and the owners from financial hardship if they are required to pay for the settlement of any claims of public liabilities or for the reinstatement of any common property damaged as a result of accidents. If the auditors find out that insurance has not been taken out, they are recommended to discuss this with those charged with governance as soon as possible.
 6. The Code of Practice under the BMO requires that any supplies, goods or services the value of which exceeds or is likely to exceed a certain amount or percentage of the annual budget shall be processed by invitation to tender or approval by the OC (resolution passed at a general meeting). This is to ensure that major items are directly approved by the OC. If auditors find out that the Code of Practice was not followed in this respect, they are recommended to discuss the matter with those charged with governance as soon as possible. However the objective of the audit of the OC's financial statements is not to provide assurance that the OC/MC has complied with the Code of Practice.

Understanding the entity and its environment and assessing the risks of material misstatement

7. The auditor seeks an understanding of the overall structure, activities, finances and governance practices of the OC and its MC. Examples of areas the auditor would consider include:
 - the OC's tendering process with reference to the Code of Practice under the BMO;
 - any funds held for special purposes;
 - the internal controls system of the OC relevant to the preparation of the financial statements or the professional property manager employed by the OC or its MC, as appropriate;
 - evidence regarding the completeness of reported income of the OC, including transactions such as rental of external walls of building to advertisers and roof tops to satellite companies, car park rental and hire charges for the use of recreational facilities/common area;
 - any taxation implications, such as the taxation of rental income;
 - the impact of any recreational and community activities; and
 - the adequacy and appropriateness of provisions, including provisions for repairs and maintenance.
8. From an internal control aspect, accounting duties of the MC, or the professional property manager where these are delegated, should be segregated to facilitate detection of errors and mutual monitoring among MC members or individual staff of the professional property manager. Over-centralising duties to individual MC members or individual staff of the professional property manager is conducive to risks of abuse. Wherever feasible, the following duties should be performed separately

by, and rotated regularly among, different MC members or different staff of the professional property manager:

- approval of expenditure;
- keeping, preparing and recording cheques for issue;
- cheque and bank book signatories;
- petty cash holder; and
- booking of entries and compilation of financial statements.

If there are areas that concern the auditors, they should consider the impact on their report and it is recommended that they discuss the matters with those charged with governance as soon as possible.

The auditor's procedures in response to assessed risks

9. A significant proportion of the OC's activities involve high volume of small transactions such as management fee income. Auditors would seek to obtain evidence to determine the completeness and accuracy of the building's income including management fee income. Where auditors are satisfied, through evaluation and testing, that there are appropriate and effective controls over the receipt and recording of the management fee income, they would normally use the results of this internal control testing, performed as part of the normal audit process, as a source of audit evidence about the completeness and accuracy of recorded transactions.

External confirmations

10. Situations in which external confirmations may be used by auditors normally include:
 - Bank balances and other information from bankers;
 - Balances of management fees receivable; and
 - Balances of amounts due from/to property management company.

Analytical procedures

11. A large proportion of the income and expenditure of OCs, in particular management fee income and staff remuneration, are often predictable and comparable from year to year. Consequently, certain analytical procedures may be appropriate to be used as substantive analytical procedures.
12. OCs are obligated under BMO to produce annual budgets and may produce annual, half-yearly or quarterly comparisons between budgeted and actual income and expenditure. In the context of major and routine repairs and maintenance expenditure, the auditor may wish to consider movements and unexpected or unusual relationships between current and prior year annual budgets and make enquiries with those charged with governance.

Audit of accounting estimates

13. In common with most reporting entities, OCs need to make a number of accounting estimates whilst preparing their annual financial statements. The main areas where estimates are likely to be required concern:
- (a) depreciation of plant and equipment, including the estimated useful life;
 - (b) the recoverability of management fee receivable including level of provisions against management fee arrears;
 - (c) impairment provisions; and
 - (d) provisions for employee benefits.

Related parties

14. The auditor needs to consider carefully which entities constitute related parties of the OC. Related parties may include the developer and companies controlled by the developer, the MC and companies controlled by the MC, and the professional property manager and companies controlled by the professional property manager.
15. The auditor needs to consider whether the financial statements contain adequate disclosure of related party transactions and that there are adequate supporting documents. Common related party transactions include:
- Cleaning expenses;
 - Insurance charges;
 - Landscaping expenses;
 - Security charges;
 - Management fee;
 - Administration fee; and
 - Service recharge.

Going concern

16. Some of the particular factors which may indicate a potential going concern problem at an OC are:
- letters from the Buildings Department or court orders in relation to unauthorised or illegal structures which would result in a significant amount of short-term repair liability that the OC will have difficulty in meeting;
 - evidence of disputes of any nature; and
 - insufficient income to cover expenditure.

Management representations

17. An important principle in auditing is that representations by management cannot be a substitute for other audit evidence that the auditor expects to be available.

18. Examples of instances when the auditor of an OC may require a representation letter (or other written confirmation such as an OC minute) include cases where the auditor wishes to obtain evidence:

- that there were no letters received from the Buildings Department or court orders in relation to unauthorized or illegal structures which would result in a repair liability required to be provided for in the financial statements;
- about the OC's acknowledgement of its responsibilities for the annual financial statements;
- in relation to key risk areas such as related party disclosure and going concern;
- that all minutes and correspondence with the authorities have been made available to the auditor; and
- that all disputes which may impact on recognized provisions, contingent liabilities or going concern have been disclosed to the auditor.

Q5: *The revised Audit Report Standard HKSA 700 (Revised), Forming an Opinion and Reporting on Financial Statements is effective for audits of financial statements for periods ending on or after 15 December 2016. Is there an example audit report for financial statements of Owners' Corporation of Building?*

A5: Appendix 2 sets out an example unqualified audit report for financial statements of an owners' corporation of building based on HKSA 700 (Revised) for audits of financial statements for periods ending on or after 15 December 2016.

Q6: *Is HKFRS for Private Entities issued on 30 April 2010 applicable to the preparation of financial statements of Owners' Corporations of Buildings?*

A6: Under the BMO, a professional property manager employed by the OC or its MC, is required to prepare annual financial statements which give a true and fair view of the financial transactions and financial position of the OC.

The OC may hold and manage resources entrusted to it by property owners who may not be actively involved in the management of the building (for example: building management and maintenance fund, etc.). The Institute's Financial Reporting Standards Committee is of the view that the above situation does not expressly make the OC publicly accountable and an OC, in general, is generally a Private Entity by its nature provided there are no other specific facts and circumstances that make the OC to be publicly accountable. Qualified OC is permitted to use the HKFRS for Private Entities to prepare financial statements for prior period(s) where the relevant financial statements have not been finalized and approved on or before 30 April 2010. Appendix 3 sets out an example unqualified audit report for financial statements of an owners' corporation of building prepared in accordance with the HKFRS for Private Entities based on HKSA 700 (Revised).

Appendix 1**Extracts of the Building Management Ordinance****Section 20: Establishment of funds**

- (1) A corporation shall establish and maintain a general fund –
 - (a) to defray the cost of the exercise of its powers and the performance of its duties under the deed of mutual covenant (if any) and this Ordinance; and
 - (b) to pay Government rent, premiums, taxes or other outgoings (including any outgoings in relation to any maintenance or repair work) which are payable in respect of the building as a whole.
- (2) A corporation may establish and maintain a contingency fund –
 - (a) to provide for any expenditure of an unexpected or urgent nature; and
 - (b) to meet any payments of the kind specified in sub-section (1) if the fund established thereby is insufficient to meet them.
- (3) A corporation shall open and maintain an interest-bearing account and shall use that account exclusively in respect of the management of the building.
- (4) Subject to subsections (5) and (6), a corporation shall without delay pay all money received by the corporation in respect of the management of the building into the account opened and maintained under subsection (3).
- (5) Subject to subsection (6), the treasurer of a management committee may, out of money received by the corporation in respect of the management of the building, retain or pay into a current account a reasonable amount to cover expenditure of a minor nature, but that amount shall not exceed such figure as is determined from time to time by a resolution of the management committee.
- (6) The retention of a reasonable amount of money under subsection (5) or the payment of that amount into a current account in accordance with that subsection and any other arrangement for dealing with money received by a corporation shall be subject to such conditions as may be approved by a resolution of the management committee.
- (7) Any reference in this section to an account is a reference to an account opened –
 - (a) with a bank within the meaning of section 2 of the Banking Ordinance (Cap 155); and
 - (b) in the name of the corporation.

Section 27: Accounts of corporation

- (1) Subject to subsection (3), a management committee shall maintain proper books or records of account and other financial records and shall prepare, not later than 15 months after the date of the registration of the corporation and thereafter every 12 months, financial statements which –
- (a) shall be signed by –
 - (i) the chairman of the management committee; and
 - (ii) the secretary or the treasurer of the management committee;
 - (b) if subsection (1A) is applicable, shall be audited under that subsection; and
 - (c) together with the accountant's report made under subsection (1A), if any, shall be laid before the corporation at the annual general meeting of the corporation convened in accordance with paragraph 1(1) of Schedule 3.
- (1AA) The financial statements referred to in subsection (1) shall include –
- (a) an income and expenditure account which gives a true and fair view of the financial transactions of the corporation for the period to which it relates; and
 - (b) a balance sheet which gives a true and fair view of the financial position of the corporation as at the date to which the income and expenditure account is made up.
- (1A) Except in the case of a corporation incorporated in respect of a building which contains not more than 50 flats, the financial statements referred to in subsection (1) shall be audited by an accountant retained by the corporation as may be approved by the corporation by a resolution passed at a general meeting and that accountant shall report as to whether such financial statements are, in his opinion, properly prepared so as to give a true and fair view of the financial transactions of the corporation for the period to which the income and expenditure account relates and the financial position of the corporation as at the date to which the income and expenditure account is made up, subject to such qualification, if any, as he may think fit.
- (1B) In subsection (1A), "flats" does not mean any garage, carpark or carport.
- (2) The management committee shall permit the Authority, an authorized officer, the tenants' representative, an owner, a registered mortgagee or any person authorized in writing in that behalf by an owner or registered mortgagee to inspect the books of account at any reasonable time.
- (3) In the event of a contravention of subsection (1), every member of the management committee shall be guilty of an offence and shall be liable on conviction to a fine at level 5 unless he proves –
- (a) that the offence was committed without his consent or connivance; and

- (b) that he exercised all such due diligence to prevent the commission of the offence as he ought to have exercised in the circumstances.
- (4) Schedule 6 shall have effect with respect to the maintenance of proper books or records of account and other records (including the keeping of such accounts and records), the inspection of any documents referred to in such accounts and records, the preparation of summaries of income and expenditure and the supply of copies of any documents in respect of those accounts and summaries.
- (5) In the event of any inconsistency between this section (which shall be construed to include Schedule 6) and the terms of a deed of mutual covenant or any other agreement, this section shall prevail.

Schedule 5: Annual Budget

[sections 21 & 42]

1. The amount to be determined by the management committee under section 21(1) shall be based upon a budget prepared by the management committee for the period specified by the management committee under that subsection.
2. The budget referred to in paragraph 1 shall set out the sums which in the opinion of the management committee will be reasonably necessary to meet payments of the kind specified in section 20(1) and shall, if a contingency fund is established under section 20(2), set out the sums which in the opinion of the management committee will be reasonably necessary to meet payments of the kind specified in that subsection.
3. A revised budget may be prepared if the management committee is of the opinion that any sum set out in a budget in respect of which the revised budget is to be prepared is insufficient to meet the proposed expenditure which that sum was intended to meet.
4. If the tenants' representative, an owner, a registered mortgagee or any person duly authorized in writing in that behalf by an owner or registered mortgagee requests in writing the corporation to supply him with copies of any budget referred to in this Schedule, the treasurer shall, on the payment of such reasonable copying charge as the management committee may determine, supply such copies to that person.
5. The treasurer shall, if requested by the Authority or an authorized officer and without raising any charge, supply the copies referred to in paragraph 4 to the Authority or that officer.

Schedule 6: Accounts

[sections 27 & 42 & Schedule 11]

1. All bills, invoices, vouchers, receipts and other documents referred to in the books or records of account and other records maintained under section 27(1) shall be kept by the management committee for such period, being not less than 6 years, as the corporation may determine.

- 1A. The management committee shall
- (a) at the request of not less than 5% of the owners, permit those owners or any person appointed by those owners to inspect any bills, invoices, vouchers, receipts or other documents referred to in paragraph 1 at any reasonable time; and
 - (b) permit any person authorized by the court to inspect any bills, invoices, vouchers, receipts or other documents referred to in paragraph 1 at any reasonable time.
- 1B. For the purposes of paragraph 1A(b), an owner may apply to the court for an order authorizing the owner, or any other person named in the application, to inspect any bills, invoices, vouchers, receipts or other documents referred to in paragraph 1.
- 1C. The court may make an order under paragraph 1B only if it is satisfied that
- (a) the application is made in good faith; and
 - (b) the inspection applied for is for a proper purpose.
2. Within 1 month after each consecutive period of 3 months, or such shorter period as the management committee may select, the treasurer shall prepare a summary of the income and expenditure of the corporation in respect of that period, display a copy of the summary in a prominent place in the building, and cause it to remain so displayed for at least 7 consecutive days.
3. If the tenants' representative, an owner, a registered mortgagee or any person duly authorized in writing in that behalf by an owner or registered mortgagee requests in writing the corporation to supply him with copies of –
- (a) the financial statements and, if applicable, the accountant's report prepared under section 27; or
 - (b) a summary of the income and expenditure of the corporation prepared under paragraph 2,
- the treasurer shall, on the payment of such reasonable copying charge as the management committee may determine, supply such copies to that person.
4. The treasurer shall, if requested by the Authority or an authorized officer and without raising any charge, supply the copies referred to in paragraph 3 to the Authority or that officer.

Appendix 2**Example Unqualified Auditor's Report on Financial Statements of Owners' Corporation of Building prepared in accordance with HKFRS based on HKSA 700 (Revised) "Forming an Opinion and Reporting on Financial Statements"**

(Effective for audits of financial statements for periods ending on or after 15 December 2016)

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a listed entity using Hong Kong Financial Reporting Standards (HKFRSs). The audit is not a group audit (i.e., HKSA 600 does not apply).
- The financial statements are prepared by management committee of the owners' corporation in accordance with HKFRSs (a general purpose framework).
- The terms of the audit engagement reflect the description of management committee's responsibility for the financial statements in HKSA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with HKSA 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has no other reporting responsibilities required under local law except for the Building Management Ordinance.

INDEPENDENT AUDITOR'S REPORT

To the Members¹ of the Owners' Corporation of ABC Building
(incorporated in Hong Kong and registered in the Land Registry under section 8 of the Building Management Ordinance)²

Opinion

We have audited the financial statements of the Owners' Corporation of ABC Building ("Corporation") set out on pages to..... , which comprise the statement of financial position as at 31 December 20X1, and [the statement of profit or loss and]³ the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the financial statements give a true and fair view of the financial transactions of the Corporation during the year ended 31 December 20X1 and the financial position of the Corporation at 31 December 20X1 and of the Corporation's cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in HKSA 720 (Revised) – see Illustration 1 in Appendix 2 of HKSA 720 (Revised).]

Responsibilities of Management Committee and Those Charged with Governance for the Financial Statements

The Building Management Ordinance requires the Management Committee to prepare financial statements which give a true and fair view of the financial transactions and financial position of the Corporation. Accordingly, the Management Committee is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the Management Committee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

¹ The addressee of the report may not necessarily always be the members of the Owners' Corporation.

² In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

³ HKAS 1 allows entities to present comprehensive income using either a one statement approach (i.e. a single "statement of profit or loss and other comprehensive income") or a two-statement approach (i.e. a "statement of profit or loss" together with a "statement of profit or loss and other comprehensive income"). Different terms may be used as long as they are consistent with the titles of the corresponding statements.

In preparing the financial statements, the Management Committee is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Committee either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion⁴. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Paragraph 41(b) of HKSA 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of HKSA 700 (Revised) explains that when law, regulation or HKSA's expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Committee.
- Conclude on the appropriateness of the Management Committee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying

⁴ Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

XYZ & Co.

Certified Public Accountants (Practising) or Certified Public Accountants

[Auditor Address]

[Date]

Note: 1. The BMO only requires financial statements comprising an income and expenditure account and a balance sheet which give a true and fair view of the financial transactions and financial position of the corporation.

Given that the fair presentation financial reporting framework in Hong Kong is HKFRS, a complete set of financial statements as set out in Hong Kong Accounting Standard ("HKAS") 1 comprises:

- (a) a statement of financial position as at the end of the period;
- (b) a statement of profit or loss and other comprehensive income for the period;
- (c) a statement of changes in equity for the period;
- (d) a statement of cash flows for the period;
- (e) notes, comprising material accounting policy information and other explanatory information; and
- (ea) comparative information in respect of the preceding period as specified in paragraphs 38 and 38A of HKAS 1; and
- (f) a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A-40D of HKAS 1.

Appendix 3**Example Unqualified Auditor's Report on Financial Statements of Owners' Corporation of Building prepared in accordance with the HKFRS for Private Entities based on HKSA 700 (Revised) "Forming an Opinion and Reporting on Financial Statements"**

(Effective for audits of financial statements for periods ending on or after 15 December 2016)

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a listed entity using the Hong Kong Financial Reporting Standards for Private Entities (HKFRS for Private Entities). The audit is not a group audit (i.e., HKSA 600 does not apply).
- The financial statements are prepared by management committee of the owners' corporation in accordance with the HKFRS for Private Entities (a general purpose framework).
- The terms of the audit engagement reflect the description of the management committee's responsibility for the financial statements in HKSA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with HKSA 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has no other reporting responsibilities required under local law except for the Companies Ordinance.

INDEPENDENT AUDITOR'S REPORT

To the Members¹ of the Owners' Corporation of ABC Building

(incorporated in Hong Kong and registered in the Land Registry under section 8 of the Building Management Ordinance)²

Opinion

We have audited the financial statements of the Owners' Corporation of ABC Building ("Corporation") set out on pages to....., which comprise the statement of financial position as at 31 December 20X1, and the [[income statement][statement of comprehensive income]³, statement of changes in equity][statement of income and retained earnings]⁴ and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial transactions of the Corporation during the year ended 31 December 20X1 and the financial position of the Corporation at 31 December 20X1 and of the Corporation's cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standard for Private Entities ("HKFRS for Private Entities") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in HKSA 720 (Revised) – see Illustration 1 in Appendix 2 of HKSA 720 (Revised).]

Responsibilities of Management Committee and Those Charged with Governance for the Financial Statements

The Building Management Ordinance requires the Management Committee to prepare financial statements which give a true and fair view of the financial transactions and financial position of the Corporation. Accordingly, the Management Committee is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRS for Private Entities issued by the HKICPA, and for such internal control as the Management Committee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

¹ The addressee of the report may not necessarily always be the members of the Owners' Corporation.

² In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

³ Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

⁴ According to paragraph 3.18 of the HKFRS for Private Entities, the entity may present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity.

In preparing the financial statements, the Management Committee is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Committee either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.⁵ Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Paragraph 41(b) of HKSA 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of HKSA 700 (Revised) explains that when law, regulation or HKSA's expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Committee.
- Conclude on the appropriateness of the Management Committee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying

⁵ Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

XYZ & Co.

Certified Public Accountants (Practising) or Certified Public Accountants

[*Auditor Address*]

[*Date*]

Note: 1. The BMO only requires financial statements comprising an income and expenditure account and a balance sheet which give a true and fair view of the financial transactions and financial position of the corporation.

Effective from 30 April 2010, a qualified Owners' Corporation may use either HKFRS or HKFRS for Private Entities (both being fair presentation financial reporting frameworks in Hong Kong) to prepare its financial statements. As set out in paragraph 3.17 of HKFRS for Private Entities, a complete set of financial statements should comprise:

- (a) a statement of financial position as at the reporting date.
- (b) either:
 - (i) a single statement of comprehensive income for the reporting period displaying all items of income and expense recognized during the period including those items recognized in determining profit or loss (which is a subtotal in the statement of comprehensive income) and items of other comprehensive income, or
 - (ii) a separate income statement and a separate statement of comprehensive income. If an entity chooses to present both an income statement and a statement of comprehensive income, the statement of comprehensive income begins with profit or loss and then displays the items of other comprehensive income.
- (c) a statement of changes in equity for the reporting period.
- (d) a statement of cash flows for the reporting period.
- (e) notes, comprising a summary of significant accounting policies and other explanatory information.