

STATEMENT 3.102**STATEMENT OF AUDITING STANDARD****THE AUDIT REPORT****Introduction**

1. This Statement of Auditing Standard should be read in conjunction with the Explanatory Foreword to Auditing Standards and Guidelines. Examples of audit reports which illustrate the principles set out in this Standard are given in Appendix 1.

Part 1 — Statement of Auditing Standard

2. This Auditing Standard applies to all audit reports issued as a result of audits within the meaning of the Explanatory Foreword to Auditing Standards and Guidelines. Although this Standard is not primarily intended to apply to other forms of report provided by auditors, many of the principles of this Standard will normally be applicable to such reports.
3. The audit report should state clearly:
 - a. the addressee;
 - b. the financial statements audited;
 - c. the auditing standards followed (see paragraph 5);
 - d. the audit opinion (see paragraphs 6 to 10);
 - e. any other information or opinions prescribed by statutory or other requirements (see paragraphs 31 to 33);
 - f. the identity of the auditor; and
 - g. the date of the report (see paragraphs 34 and 35).
4. If the auditor is unable to express an audit opinion without reservation he should qualify his report by referring to all those matters which he considers to be material and about which he has reservations (see paragraphs 11 to 24).

Part 2 — Explanatory notes

Standards followed

5. The auditor should specify the standards he has followed in conducting his audit. Normally he will have complied with Auditing Standards, as defined in the Explanatory Foreword to Auditing Standards and Guidelines, and his report should refer to this fact. If the auditor is required by statute or other specific requirements to follow other comparable standards he should refer to these in his report.

The audit opinion

6. The auditor's opinion on the financial statements should be clearly stated in the audit report.
7. When the financial statements are intended to give a true and fair view the auditor should normally express an opinion on the financial statements in true and fair terms. For certain financial statements, however, statutory or other specific requirements may prescribe the use of other similar expressions such as "properly presents" or "presents fairly in accordance with".
8. When expressing an opinion on the financial statements in true and fair or equivalent terms, the auditor should be satisfied, inter alia, that the accounting policies adopted:
 - a. are appropriate to the circumstances of the entity;
 - b. have been consistently applied; and
 - c. have been adequately disclosed.

In determining whether the accounting policies are appropriate the auditor should have regard to Statements of Standard Accounting Practice (SSAPs) or any other relevant accounting requirements. In cases where SSAPs apply but there have been departures from their requirements the auditor should have regard to paragraphs 2 and 5 of the Explanatory Foreword to Statement of Standard Accounting Practice, which state:

- "2. Significant departures in financial statements from applicable accounting standards should be disclosed and explained. The financial effects should be estimated and disclosed unless this

would be impracticable or misleading in the context of giving a true and fair view. If the financial effects of departures from standard are not disclosed, the reasons should be stated.”

and

- “5. Where members act as auditors or reporting accountants the onus will be on them not only to ensure disclosure of significant departures but also, to the extent that their concurrence is stated or implied, to be prepared to justify them.”
9. The auditor may be required to state whether, in his opinion, any relevant statutory or other specific requirements have been complied with regarding the preparation and presentation of the financial statements.
 10. Subject to consideration of any such statutory or other requirements binding upon the reporting entity, the auditor should have regard to the concept of materiality when forming his opinion. In general terms a matter should be judged material if knowledge of the matter would be likely to influence a user of the financial statements. Materiality may be considered in the context of the financial statements as a whole, the balance sheet, the profit and loss account (or income and expenditure statement), or individual items within the financial statements.

Qualified audit reports

11. For the purposes of Auditing Standards a qualified audit report is one in which the auditor is unable to express without qualification his opinion on the financial statements, as to either:
 - a. the view they are required to give; or
 - b. compliance with any statutory or other specific requirements for their preparation and presentation.

A qualification is thus any reference in the audit report to matters on which the auditor has reservations and which have, or may have, a material effect on the financial statements.

12. Qualification of the opinion on the financial statements should be expressed in a manner which leaves the reader in no doubt as to its meaning and its implications for an understanding of the financial

statements. To promote a more consistent understanding, the forms of qualification described in paragraphs 17 to 22 should be used unless the auditor considers that to do so would fail to convey clearly the intended meaning.

Circumstances giving rise to a qualification

13. The nature of the circumstances giving rise to a qualification of opinion on the financial statements will generally fall into one of two categories:
 - a. where there is an uncertainty which prevents the auditor from forming an opinion on a matter (uncertainty); or
 - b. where the auditor is able to form an opinion on a matter but this conflicts with the view given by the financial statements (disagreement).
14. Circumstances giving rise to uncertainty include the following:
 - a. scope limitations where the auditor is unable for any reason to obtain all the information and explanations which he considers necessary for the purpose of his audit; for example, inability to carry out an audit procedure considered necessary, or the absence of proper accounting records; and
 - b. inherent uncertainties where the auditor is unable to reach an objective conclusion as to the outcome of a situation due to the circumstances themselves; for example this type of uncertainty may relate to major litigation, the outcome of long-term contracts or doubts about the ability of the entity to continue as a going concern, but should not include instances where the auditor is able to obtain adequate evidence to support estimates and use his experience to reach an opinion as to their reasonableness.
15. Circumstances giving rise to disagreement include the following:
 - a. inappropriate accounting policies;
 - b. disagreement as to the facts or amounts included in the financial statements;
 - c. disagreement as to the manner or extent of disclosure of facts or amounts in the financial statements; and

d. failure of the financial statements to comply with relevant legislation or other requirements.

16. In deciding whether to qualify his opinion on the financial statements, the auditor should have regard to the materiality of the matter in the context of the financial statements on which he is proposing to report. If the auditor concludes that the matter is not material, he should normally not qualify his opinion.

Forms of qualification

17. Where the auditor has decided that a matter warrants a qualification of his opinion on the financial statements, a further decision is required as to whether or not the matter is fundamental, which would require either a disclaimer of opinion or an adverse opinion on the financial statements as a whole. An uncertainty becomes fundamental when its potential impact on the financial statements could be so great that the financial statements as a whole could be misleading. A disagreement becomes fundamental when its impact is so great that the financial statements as a whole are, in the opinion of the auditor, misleading. The combined effect of all uncertainties and disagreements must be considered.
18. The forms of qualification which should be used in different circumstances are shown below.

<i>Nature of circumstances</i>	<i>Material but not fundamental</i>	<i>Fundamental</i>
Uncertainty	“Subject to” opinion	Disclaimer of opinion
Disagreement	“Except for” opinion	Adverse opinion

- In a “subject to” opinion the auditor effectively disclaims an opinion on a particular matter which is not considered fundamental (see paragraph 19 below).
- In an “except for” opinion the auditor expresses an adverse opinion on a particular matter which is not considered fundamental.
- In a disclaimer of opinion the auditor states that he is unable to form an opinion as to whether the financial statements satisfy

the relevant requirement, which is normally the requirement for a true and fair view.

- In an adverse opinion the auditor states that in his opinion the financial statements do not satisfy the relevant requirement, which is normally the requirement for a true and fair view.
19. In a “subject to” opinion, the auditor’s opinion on the financial statements is normally expressed as being either:
 - a. subject to any adjustments that he might have found to be necessary if the scope of his audit work had not been limited; or
 - b. in the case of an inherent uncertainty, subject to any adjustments that might have been necessary if the outcome of the uncertainty had been known.
 20. The disclaimer of opinion and the adverse opinion are the extreme forms of the two main categories of qualification of opinion arising from uncertainty and disagreement and are regarded as measures of last resort.
 21. In a qualified audit report the auditor should refer to all material matters about which he has reservations. Thus, a qualification on one matter should not be regarded as a reason for omitting other unrelated qualifications which otherwise would have been reported.
 22. If there is uncertainty or disagreement concerning the profit and loss account, but the auditor is able to conclude that the balance sheet does satisfy the relevant requirements then he should express a qualified opinion on the profit and loss account and unqualified opinion on the balance sheet. Similarly, it may sometimes be appropriate to express an unqualified opinion on the profit and loss account and a qualified opinion on the balance sheet.

Disclosure of reasons for qualifications

23. The manner in which the reasons for qualifying are disclosed is for the auditor to decide in the particular circumstances of each case, but the overall objective should be clarity. The inclusion of a separate “explanatory” paragraph before the paragraph in which the auditor gives his opinion is likely to be the clearest method of outlining the facts giving rise to a qualification.

24. The audit report should describe the reasons for a qualification and should quantify the effects on the financial statements if this is relevant and practicable. Whilst reference may be made to relevant notes in the financial statements, such reference should not be used as a substitute for a description of the basic circumstances in the audit report.

Uncertainty and management representations

25. Where uncertainties exist the auditor may wish to obtain assurance in the form of management representations. For example, entities that are owner-dominated, or where internal control could be subject to management override, present special difficulties which may make it particularly relevant for the auditor to seek management representations as to the completeness and correctness of recording of transactions.
26. If, in the context of evidence obtained from substantive testing of transactions and analytical review, in particular a careful review of costs and margins, the auditor concludes that these representations should be accepted, he should make no reference in his report either to the representations received or to the less formal nature of internal control, in case such reference should be misconstrued as a form of qualification.
27. The auditor may conclude that in specific areas the representations and other evidence are insufficient to support an unqualified opinion. For example, most transactions may be for cash and there may be no regular pattern of costs and margins. If the auditor knows of no matter that would give rise to an adverse opinion, he should express a "subject to" opinion or in extreme cases a disclaimer, and he should specify in his report his reasons for qualification and the areas and amounts affected by uncertainty.
28. If it is not possible to identify any particular area or amounts because the uncertainties are pervasive to the financial statements, the auditor should consider whether a disclaimer of opinion is required. Having regard to the other evidence available, however, the auditor may decide that a disclaimer is not justified. In such exceptional cases he should qualify his opinion as subject to reservation, for example in regard to the completeness and correctness of recording of transactions.

Emphasis of matter

29. If the auditor considers it necessary to expand upon information not adequately disclosed in the financial statements he should not give an unqualified opinion on those financial statements; if disclosure in the financial statements is inadequate, explanation in the audit report is no substitute either for proper disclosure in the financial statements or for qualification of the audit opinion.
30. In rare circumstances, even though there is adequate disclosure in the financial statements, the auditor may wish to draw the reader's attention to important matters in the financial statements to ensure that these are not overlooked. To avoid being misconstrued as qualifications, references which are intended to be emphases of matter:
 - a. should be restricted to matters in the financial statements to which the auditor wishes to draw special attention (references to other matters, such as the nature of the audit evidence on which the auditor has based his unqualified opinion, could be misconstrued as having the same effect as a qualification of that opinion); and
 - b. should be made, not in the opinion paragraph of the audit report, but in a separate and subsequent paragraph, introduced with the phrase "Without qualifying our opinion above, we draw attention to".

Other information or opinions prescribed by statutory or other requirements

31. Apart from expressing his opinion on the financial statements, there may be statutory or other requirements for the auditor to provide in his report specific information that is not included in the financial statements or, in specified circumstances, certain additional opinions. In particular, certain of such matters may be required by statute to be dealt with in the audit report only in exceptional cases, for instance where in the auditor's opinion a requirement to keep proper accounting records has not been complied with.
32. The auditor will need to consider whether any circumstances which give rise to qualification of his opinion on the financial statements also impinge on his duty to provide any other information or opinions prescribed by statutory or other requirements. For instance, in the context of a report issued under company legislation.

shortcomings in the sales records which give rise to a qualified opinion on the financial statements will generally mean that the auditor also has to state in his audit report that proper accounting records have not been kept; similarly limitations in scope may mean that the auditor has to state that he has not obtained all the information and explanations he considers necessary.

33. In addition to matters which should be included in the audit report, the auditor may also need to consider whether there are matters which would be reported separately, for example to a supervisory body.

Dating of the audit report

34. The date used by the auditor in dating his report should, in principle, be that on which he signs his report on the financial statements. The auditor should not sign and date his report until the financial statements have been approved by management and he has completed his audit, which includes performing procedures relating to events occurring up to the date of his report.
35. In practice, events may delay the actual signing of the report, in which case the auditor should use the date on which he commits himself to expressing an opinion on the financial statements approved by management. For example, where printing of financial statements means that formal signing takes place some time after the date on which management has approved the financial statements and the auditor has issued a final copy of the report he proposes to sign, the earlier date of issue of the report will be used.

Effective date

36. This Auditing Standard is effective for audit reports dated on or after 1 July 1991.

APPENDIX 1

Audit report examples

The purpose of this Appendix is to provide examples of audit reports to illustrate the principles described in the Auditing Standard. These principles are applicable to all audit reports. However, for simplicity of illustration, the examples all refer to audits of limited companies incorporated in Hong Kong.

List of examples

Forms of unqualified audit reports

1. Limited company, incorporated in Hong Kong
2. Emphasis of matter

Forms of qualified audit reports

3. Uncertainty — subject to (scope limitation)
4. Uncertainty — subject to (inherent uncertainty)
5. Uncertainty — subject to (inherent uncertainty)
6. Disagreement — except for (disagreement as to facts)
7. Disagreement — except for (departure from SSAP)
8. Uncertainty — disclaimer of opinion (inherent uncertainty)
9. Disagreement — adverse opinion (departure from SSAP)
10. Qualification on profit and loss account only — subject to (scope limitation)
11. Multiple qualification — subject to and except for (scope limitation and disagreement as to facts)

Example 1: Limited company incorporated in Hong Kong

- a. AUDITORS' REPORT TO THE MEMBERS OF XYZ LIMITED
- b. We have audited the financial statements on pages ... to ... in
c. accordance with Auditing Standards.
- d. In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 19.. and of its profit and changes in financial position for the year then ended and have been properly prepared in accordance with the Companies Ordinance.
- f. (Name of Auditors)
Certified Public Accountants
Hong Kong
- g. (Date)

Note: This example illustrates the form of an unqualified audit report for a limited company incorporated in Hong Kong, and complies with paragraph 3 of the Auditing Standard. The letters shown in the margin refer to the specific requirements listed in paragraph 3.

Example 2: Emphasis of matter

AUDITORS' REPORT TO THE MEMBERS OF XYZ LIMITED

We have audited the financial statements on pages ... to ... in accordance with Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 19.. and of its profit and changes in financial position for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Without qualifying our opinion above, we draw attention to note ... which outlines a number of transactions with the parent company during the year without which the company would have incurred a loss.

..... (Name of Auditors)
Certified Public Accountants
Hong Kong

..... (Date)

Example 3: Uncertainty — subject to (scope limitation)**AUDITORS' REPORT TO THE MEMBERS OF XYZ LIMITED**

We have audited the financial statements on pages ... to ... in accordance with Auditing Standards except that the scope of our work was limited by the matter referred to below.

HK\$..... of the company's recorded turnover comprises cash sales. There was no system of control over such sales on which we could rely for the purpose of our audit and there were no satisfactory audit procedures that we could adopt to confirm independently that all cash sales were properly recorded. In this respect alone we were unable to satisfy ourselves as to the completeness and accuracy of the accounting records.

Subject to any adjustments that we might have found to be necessary had we been able to satisfy ourselves as to the matter referred to above, in our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 19.. and of its profit and statement of changes in financial position for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

..... (Name of Auditors)
 Certified Public Accountants
 Hong Kong

..... (Date)

Notes: 1. In this example the uncertainty arising from the scope limitation is not regarded as fundamental. If the impact of the uncertainty had been regarded as so great that the financial statements as a whole could be misleading, a disclaimer of opinion would be required.

2. Where the auditors of a company incorporated in Hong Kong fail to obtain all the information and explanations which, to the best of their knowledge and belief, are necessary for the purposes of their audit, section 141(6) of the Companies Ordinance requires them to state that fact in their audit report. If the information does not exist and would not reasonably be expected to exist, say in this example the names of the cash sales customers, reference to section 141(6) would probably not be appropriate. If, however, the auditor believes that the information should exist, say for example the daily summary of cash sales properly approved by a cashier and matching the bank receipts then the auditor may make reference in his report. Therefore, where there has been a limitation of the scope of the audit, the auditors of the company should consider whether such a statement should be made, for example by amending the last sentence of the second paragraph of the report as follows:

“In this respect alone we have not obtained all the information and explanations that we considered necessary for the purpose of our audit and we were unable to satisfy ourselves as to the completeness and accuracy of the accounting records.”

Example 4: Uncertainty — subject to (inherent uncertainty)**AUDITORS' REPORT TO THE MEMBERS OF XYZ LIMITED**

We have audited the financial statements on pages ... to ... in accordance with Auditing Standards.

As more fully explained in note ... to the financial statements a claim has been lodged by a customer against the company in respect of one of its major contracts. The claim calls for rectification and for substantial compensation for alleged damage to the customer's business. The directors have made provision of HK\$..... for the estimated cost of rectification but no provision for compensation as that part of the claim is being strongly resisted. At this time it is not possible to determine with reasonable certainty the ultimate cost of rectification and compensation, if any, which may become payable.

Subject to the adjustments, if any, that might have been necessary if the outcome of the uncertainties referred to above had been known, in our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 19.. and of its profit and changes in financial position for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

..... (Name of Auditors)
 Certified Public Accountants
 Hong Kong

..... (Date)

Example 5: Uncertainty — subject to (inherent uncertainty)**AUDITORS' REPORT TO THE MEMBERS OF XYZ LIMITED**

We have audited the financial statements on pages ... to ... in accordance with Auditing Standards.

The financial statements have been prepared on a going concern basis. This basis may not be appropriate because the company incurred a loss after taxation of HK\$..... during the year ended 31 December 19.. and at that date its current liabilities exceeded its current assets by HK\$..... Further, the company is currently negotiating for long-term facilities to replace the loan of HK\$..... which is repayable on ... These factors, which are explained in note ..., indicate that the company may be unable to continue trading.

Should the company be unable to continue trading, adjustments would have to be made to reduce the value of assets to their recoverable amount, to provide for any further liabilities which might arise, and to reclassify fixed assets and long-term liabilities as current assets and liabilities.

Subject to the company being able to continue trading, in our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 19.. and of its loss and changes in financial position for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

..... (Name of Auditors)
 Certified Public Accountants
 Hong Kong

..... (Date)

Example 6: Disagreement — except for (disagreement as to facts)**AUDITORS' REPORT TO THE MEMBERS OF XYZ LIMITED**

We have audited the financial statements on pages ... to ... in accordance with Auditing Standards.

No provision has been made against an amount of HK\$X owing by a company which is in liquidation. In our opinion XYZ Limited, as an unsecured creditor, will not receive full payment and a provision of HK\$Y should have been made.

Except for the absence of the above provision, in our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 19.. and of its profit and changes in financial position for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

..... (Name of Auditors)
 Certified Public Accountants
 Hong Kong

..... (Date)

Example 7: Disagreement — except for (departure from SSAP)**AUDITORS' REPORT TO THE MEMBERS OF XYZ LIMITED**

We have audited the financial statements on pages ... to ... in accordance with Auditing Standards.

As explained in note ... no provision has been made for the depreciation of buildings. This is not in accordance with the requirements of Statement of Standard Accounting Practice No. 6. In our opinion a provision of HK\$..... (19.. HK\$.....) should have been made; the effect of the company's accounting policy has been to overstate the company's profits before and after tax by this amount.

Except for the absence of the above provision, in our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 19.. and of its profit and changes in financial position for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

..... (Name of Auditors)
 Certified Public Accountants
 Hong Kong

..... (Date)

Note: It might also be appropriate to indicate the cumulative effect on retained profits and other balance sheet items where the amounts are material in the context of the balance sheet.

Example 8: Uncertainty — disclaimer of opinion (inherent uncertainty)**AUDITORS' REPORT TO THE MEMBERS OF XYZ LIMITED**

We have audited the financial statements on pages ... to ... in accordance with Auditing Standards.

As indicated in note ... the estimates of losses to completion of long-term construction contracts depend on a number of assumptions including those relating to substantially increased productivity which has yet to be achieved. In view of this uncertainty we are unable to confirm that the provision for losses of HK\$..... is adequate.

Because of the potential impact of this uncertainty, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of the company's affairs at 31 December 19.. and of its profit and changes in financial position for the year then ended. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the Companies Ordinance.

..... (Name of Auditors)
 Certified Public Accountants
 Hong Kong

..... (Date)

- Notes:**
1. In this example it is assumed that the potential impact of the uncertainties relating to estimates of losses on long-term construction contracts is fundamental in relation to the company's balance sheet, profit and loss account and statement of changes in financial position.
 2. In this case the area of uncertainty is well defined so that the auditor is able to reach an opinion as to whether the financial statements are in all other respects properly prepared in accordance with company legislation. Such a conclusion would not normally be possible where more pervasive uncertainties are involved.

Example 9: Disagreement — adverse opinion (departure from SSAP)**AUDITORS' REPORT TO THE MEMBERS OF XYZ LIMITED**

We have audited the financial statements on pages ... to ... in accordance with Auditing Standards.

As more fully explained in note ... no provision has been made for losses expected to arise on certain long-term contracts currently in progress because the directors consider that such losses should be off-set against expected but unearned future profits on other long-term contracts. In our opinion provision should be made for foreseeable losses on individual contracts as required by Statement of Standard Accounting Practice No. 3. If losses had been so recognised the effect would have been to reduce the profit before and after tax for the year and the contract work in progress at 31 December 19.. by HK\$.....

In view of the impact of the failure to provide for the losses referred to above, in our opinion the financial statements do not give a true and fair view of the state of the company's affairs at 31 December 19.. and of its profit and changes in financial position for the year then ended. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the Companies Ordinance.

..... (Name of Auditors)
 Certified Public Accountants
 Hong Kong

..... (Date)

Note: In this example it is assumed that the impact of the disagreement is fundamental in relation to the company's balance sheet, profit and loss account and statement of changes in financial position.

Example 10: Qualification on profit and loss account only — subject to (scope limitation)

AUDITORS' REPORT TO THE MEMBERS OF XYZ LIMITED

We have audited the financial statements on pages ... to ... in accordance with Auditing Standards except that the scope of our work was limited by the matter referred to below.

We were not appointed auditors of the company until ... and in consequence did not report on the financial statements for the year ended ... There were no satisfactory audit procedures that we could adopt to confirm the amount of stock and work in progress included in the preceding period's financial statements at a value of HK\$..... Any adjustment to this figure would affect the profit for the year ended 31 December 19...

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 19... Subject to any adjustments that we might have found to be necessary had we been able to satisfy ourselves as to the matter referred to above, in our opinion the financial statements give a true and fair view of the company's profit and changes in financial position for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

..... (Name of Auditors)
 Certified Public Accountants
 Hong Kong

..... (Date)

**Example 11: Multiple qualification — subject to and except for
(scope limitation and disagreement as to facts)**

AUDITORS' REPORT TO THE MEMBERS OF XYZ LIMITED

We have audited the financial statements on pages ... to ... in accordance with Auditing Standards except that the scope of our work was limited by the matter referred to at (1) below.

- (1) HK\$. of the company's recorded turnover comprises cash sales. There was no system of control over such sales on which we could rely for the purpose of our audit and there were no satisfactory audit procedures that we could adopt to confirm independently that all cash sales were properly recorded. In this respect alone we were unable to satisfy ourselves as to the completeness and accuracy of the accounting records.
- (2) No provision has been made against an amount of HK\$X owing by a company which is in liquidation. In our opinion XYZ Limited, as an unsecured creditor, will not receive full payment and a provision of HK\$Y should have been made.

Subject to any adjustments that we might have found to be necessary had we been able to satisfy ourselves as to the matter referred to at (1) above, and except for the absence of the provision referred to at (2) above, in our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 19. . . and of its profit and changes in financial position for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

..... (Name of Auditors)
 Certified Public Accountants
 Hong Kong

..... (Date)

- Notes:**
1. The example of a multiple qualification is based on examples 3 and 6.
 2. For ease of reference the explanatory paragraphs have been numbered.

APPENDIX 2

Audit report index

The purpose of this Appendix is to provide an index of audit reports which are contained elsewhere in the Auditing Standards and Guidelines. The reference to the appropriate statement is included so that members can consult the relevant guidance in full before drafting their audit report.

A. Forms of unqualified audit report

<i>Form</i>	<i>Statement Reference</i>	<i>Example</i>
Companies without subsidiaries and complying with Companies Ordinance	3.102	1
Companies submitting group accounts and complying with Companies Ordinance	3.310	1
Emphasis of matter: transactions with a group company	3.102	2
Private companies applying section 141D	3.310/3.290	5
Companies carrying on banking/insurance/shipping business	3.310/3.401	2
Companies subject to the Securities Ordinance	3.404	
Companies subject to the Commodities Trading Ordinance	3.403	
Partnerships	3.310	3
Sole traders	3.310	4

B. Forms of qualified audit report

<i>Form</i>	<i>Example</i>	<i>Statement Reference</i>	<i>Example</i>
<i>Uncertainty — material but not fundamental</i>			
Subject to — scope	No system of control over cash sales	3.102	3
Subject to — scope	Stock and work in progress brought forward	3.102	10
Subject to — inherent uncertainty	Going concern (ability to continue trading)	3.102/3.251	5
Subject to — inherent uncertainty	Going concern dependent on continued support of ultimate holding company	3.251	
Subject to — inherent uncertainty	Outcome of compensation claim	3.102	4
Subject to — inherent uncertainty	Preceding period's qualification	3.253	
<i>Uncertainty — material and fundamental</i>			
Disclaimer — inherent uncertainty	Valuation of long-term construction contracts	3.102	8
Disclaimer — inherent uncertainty	Going concern	3.251	

<i>Form</i>	<i>Example</i>	<i>Statement Reference</i>	<i>Example</i>
<i>Disagreement — material but not fundamental</i>			
Except for — departure from Statement of Standard Accounting Practice	Failure to apply Statement 2.106 (SSAP 6)	3.102	7
Except for — disagreement as to facts	No provision for doubtful debts	3.102	6
Except for — disagreement as to facts	Possible misstatement in corresponding amounts	3.253	
<i>Disagreement — material and fundamental</i>			
Adverse — departure from Statement of Standard Accounting Practice	Long-term contracts carried at cost with no provision made for losses in accordance with Statement 2.103 (SSAP 3)	3.102	9
<i>Multiple qualification</i>			
Subject to and except for	Based on Examples 3 and 6 in Statement 3.102	3.102	11