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Hong Kong Standard on Auditing 700

The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

HONG KONG STANDARD ON AUDITING 700
THE INDEPENDENT AUDITOR'S REPORT ON A
COMPLETE SET OF GENERAL PURPOSE FINANCIAL STATEMENTS¹

(Effective for auditor's reports dated
on or after 31 December 2006)*

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Hong Kong Standard on Auditing (HKSA) 700, "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements" should be read in the context of the "Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services" which sets out the application and authority of HKSAs.

¹ This HKSA is applicable for auditor's reports on financial statements described in paragraph 1 of the HKSA.

* HKSA 700 gave rise to conforming amendments to HKSA 200, "Objective and General Principles Governing an Audit of Financial Statements", HKSA 210 "Terms of Audit Engagements" and HKSA 560, "Subsequent Events". As a result of these conforming amendments, HKSA 200 (Revised) and HKSA 560 (Revised) have been issued together with HKSA 700 to reflect the conforming amendments. As the conforming amendments to HKSA 210 are not yet effective they are included in the Appendix to HKSA 210.

Introduction

1. The purpose of this Hong Kong Standard on Auditing (HKSA) is to establish standards and provide guidance on the independent auditor's report issued as a result of an audit of a complete set of general purpose financial statements prepared in accordance with a financial reporting framework that is designed to achieve fair presentation. It also provides guidance on the matters the auditor considers in forming an opinion on those financial statements. As described in HKSA 200 (Revised), "Objective and General Principles Governing an Audit of Financial Statements," "general purpose financial statements" are financial statements prepared in accordance with a financial reporting framework that is designed to meet the common information needs of a wide range of users.²
2. This HKSA addresses circumstances when the auditor is able to express an unqualified opinion and no modification to the auditor's report is necessary. HKSA 701, "Modifications to the Independent Auditor's Report" establishes standards and provides guidance on the modifications to this report for an emphasis of matter, a qualified opinion, a disclaimer of opinion, or an adverse opinion.
3. *[See paragraph 1 of Appendix 1]*

The Auditor's Report on Financial Statements

4. **The auditor's report should contain a clear expression of the auditor's opinion on the financial statements.**
5. As stated in HKSA 200 (Revised), the objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
6. Unless required by law or regulation to use different wording, the auditor's opinion on a complete set³ of general purpose financial statements prepared in accordance with a financial reporting framework that is designed to achieve fair presentation (for purposes of this HKSA referred to as "financial statements") states whether the financial statements "give a true and fair view" or "are presented fairly, in all material respects," in accordance with the applicable financial reporting framework. These phrases "give a true and fair view" and "are presented fairly, in all material respects," are equivalent. Which of these phrases is used in any particular jurisdiction is determined by the law or regulations governing the audit of financial statements in that jurisdiction, or by established practice in that jurisdiction.^{3a}
7. In some jurisdictions, law or regulation governing the audit of financial statements may prescribe wording for the auditor's opinion that is different from the phrases described in paragraph 6. Although the auditor may be obliged to use the prescribed wording, the auditor's responsibilities as described in this HKSA for forming the opinion remain the same.
8. When wording prescribed by law or regulation differs significantly from the phrases in paragraph 6, the auditor carefully considers whether there may be a risk that users might misunderstand the assurance obtained in an audit of financial statements. For example, the wording might convey to readers that the auditor is attesting to the accuracy of the financial statement amounts rather than expressing an opinion on whether the financial statements give a true and fair view or are presented fairly, in all material respects. In such circumstances, the auditor considers whether the risk of misunderstanding can be mitigated through appropriate explanation in the auditor's report (see HKSA 701).

² HKSA 200 (Revised) (amended as a result of HKSA 700) is effective for audits of financial statements for periods beginning on or after 15 December 2005 and where auditor's reports are dated on or after 31 December 2006.

³ As explained in paragraph 35 of HKSA 200 (Revised), "Objective and General Principles Governing an Audit of Financial Statements," the financial reporting framework determines what constitutes a complete set of financial statements. A complete set of financial statements under Hong Kong Financial Reporting Standards (HKFRSs) comprises a balance sheet, an income statement, a statement of changes in equity (or statement of recognised income and expense), a cash flow statement and a summary of significant accounting policies and other explanatory notes.

^{3a} In Hong Kong, the Companies Ordinance, the Main Board Listing Rules and GEM Listing Rules adopt the phrase "true and fair view".

Applicable Financial Reporting Framework

9. The auditor's judgment regarding whether the financial statements give a true and fair view or are presented fairly, in all material respects, is made in the context of the applicable financial reporting framework. As discussed in HKSA 210, "Terms of Audit Engagements," without an acceptable financial reporting framework, the auditor does not have suitable criteria for evaluating the entity's financial statements.⁴ HKSA 200 (Revised) describes the auditor's responsibility to determine whether the financial reporting framework adopted by management in preparing the financial statements is acceptable.⁵
10. In the case of financial statements that are within the scope of this HKSA, application of a financial reporting framework determined to be acceptable for general purpose financial statements will, except in the extremely rare circumstances discussed in paragraph 15, result in financial statements that achieve fair presentation. Although the financial reporting framework may not specify how to account for or disclose all transactions or events, it ordinarily embodies sufficient broad principles that can serve as a basis for developing and applying accounting policies that are consistent with the concepts underlying the requirements of the framework. Thus, the financial reporting framework provides a context for the auditor's evaluation of the fair presentation of the financial statements, including whether the financial statements have been prepared and presented in accordance with the specific requirements of the applicable financial reporting framework for particular classes of transactions, account balances and disclosures.

Forming an Opinion on the Financial Statements

11. **The auditor should evaluate the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the financial statements.**
12. When forming an opinion on the financial statements, the auditor evaluates whether, based on the audit evidence obtained, there is reasonable assurance about whether the financial statements taken as a whole are free from material misstatement. This involves concluding whether sufficient appropriate audit evidence has been obtained to reduce to an acceptably low level the risks of material misstatement of the financial statements⁶ and evaluating the effects of uncorrected misstatements identified.⁷
13. Forming an opinion as to whether the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework involves evaluating whether the financial statements have been prepared and presented in accordance with the specific requirements of the applicable financial reporting framework for particular classes of transactions, account balances and disclosures. This evaluation includes considering whether, in the context of the applicable financial reporting framework:
 - (a) The accounting policies selected and applied are consistent with the financial reporting framework and are appropriate in the circumstances;
 - (b) The accounting estimates made by management are reasonable in the circumstances;
 - (c) The information presented in the financial statements, including accounting policies, is relevant, reliable, comparable and understandable; and
 - (d) The financial statements provide sufficient disclosures to enable users to understand the effect of material transactions and events on the information conveyed in the financial statements, for example, in the case of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs), the entity's financial position, financial performance and cash flows.

⁴ Implementation of the conforming amendments to HKSA 210 (amended as a result of HKSA 700) has been deferred pending the revision of ISA 800 "The Independent Auditor's Report on Special Purpose Audit Engagements" (See paragraph 1 of Appendix 1). These conforming amendments are included in Appendix 3 of HKSA 210.

⁵ See footnote 2.

⁶ See HKSA 330, "The Auditor's Procedures in Response to Assessed Risks."

⁷ See HKSA 320, "Audit Materiality."

14. Forming an opinion as to whether the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework also involves evaluating the fair presentation of the financial statements. The auditor considers whether the financial statements, after any adjustments made by management as a result of the audit process, are consistent with the auditor's understanding of the entity and its environment. The auditor considers the overall presentation, structure and content of the financial statements. The auditor also considers whether the financial statements, including the note disclosures, faithfully represent the underlying transactions and events in a manner that gives a true and fair view of or presents fairly, in all material respects, the information conveyed in the financial statements in the context of the financial reporting framework. Analytical procedures performed at or near the end of the audit help to corroborate conclusions formed during the audit and assist in arriving at the overall conclusion as to the fair presentation of the financial statements.

Extremely Rare Circumstances when Applying the Financial Reporting Framework Results in Misleading Financial Statements

15. As discussed in HKSA 210, the auditor considers the acceptability of the financial reporting framework when considering accepting the engagement.⁸ Application of a financial reporting framework determined to be acceptable for general purpose financial statements will ordinarily result in financial statements that achieve fair presentation. In extremely rare circumstances, however, application of a specific requirement in a framework that has been determined to be acceptable for general purpose financial statements may result in financial statements that are misleading in the particular circumstances of the entity. Some financial reporting frameworks determined to be acceptable for general purpose financial statements acknowledge, implicitly or explicitly, that there are extremely rare circumstances when it is necessary for the financial statements to depart from a specific requirement in the framework in order to achieve the objective of fair presentation of the financial statements and provide guidance on the disclosures required. Other financial reporting frameworks may not provide any guidance on these circumstances even though they are acceptable frameworks for general purpose financial statements. If the auditor encounters circumstances that lead the auditor to conclude that compliance with a specific requirement results in financial statements that are misleading, the auditor considers the need to modify the auditor's report. The modifications, if any, that are appropriate to the auditor's report will depend on how management addresses the matter in the financial statements and how the financial reporting framework deals with these rare circumstances (see HKSA 701).

Elements of the Auditor's Report in an Audit Conducted in Accordance with Hong Kong Standards on Auditing⁹

16. Consistency in the auditor's report, when the audit has been conducted in accordance with HKSAs, promotes credibility in the marketplace by making more readily identifiable those audits that have been conducted in accordance with recognized standards. It also helps to promote the reader's understanding and to identify unusual circumstances when they occur.
17. Paragraphs 18-60 set out the requirements relating to the following elements of the auditor's report when the audit has been conducted in accordance with HKSAs:
- (a) Title;
 - (b) Addressee;
 - (c) Introductory paragraph;
 - (d) Management's responsibility for the financial statements;
 - (e) Auditor's responsibility;
 - (f) Auditor's opinion;
 - (g) Other reporting responsibilities;
 - (h) Auditor's signature;

⁸ See footnote 4.

⁹ Paragraphs 61-66 address the auditor's report when the audit has been conducted in accordance with both HKSAs and auditing standards of a specific jurisdiction or country (including International Standards on Auditing).

- (i) Date of the auditor's report; and
- (j) Auditor's address.

Title

- 18. **The auditor's report should have a title that clearly indicates that it is the report of an independent auditor.**
- 19. A title indicating the report is the report of an independent auditor, for example, "Independent Auditor's Report," affirms that the auditor has met all of the relevant ethical requirements regarding independence and, therefore, distinguishes the independent auditor's report from reports issued by others.

Addressee

- 20. **The auditor's report should be addressed as required by the circumstances of the engagement.**
- 21. National laws or regulations often specify to whom the auditor's report on general purpose financial statements should be addressed in that particular jurisdiction. Ordinarily, the auditor's report on general purpose financial statements is addressed to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being audited.^{9a}

Introductory Paragraph

- 22. **The introductory paragraph in the auditor's report should identify the entity whose financial statements have been audited and should state that the financial statements have been audited. The introductory paragraph should also:**
 - (a) **Identify the title of each of the financial statements that comprise the complete set of financial statements;**
 - (b) **Refer to the summary of significant accounting policies and other explanatory notes; and**
 - (c) **Specify the date and period covered by the financial statements.**
- 23. This requirement is ordinarily met by stating that the auditor has audited the accompanying financial statements of the entity, which comprise [state the titles of the complete set of financial statements required by the applicable financial reporting framework, specifying the date and period covered by those financial statements] and referring to the summary of significant accounting policies and other explanatory notes. In addition, when the auditor is aware that the financial statements will be included in a document that contains other information, such as an annual report, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the financial statements are presented. This helps readers to identify the financial statements to which the auditor's report relates.
- 24. The auditor's opinion covers the complete set of financial statements as defined by the applicable financial reporting framework. In the case of financial statements prepared in accordance with HKFRSs, this includes: a balance sheet, an income statement, a statement of changes in equity, a cash flow statement, and a summary of significant accounting policies and other explanatory notes.^{9b} In some jurisdictions additional information might also be considered to be an integral part of the financial statements.
- 25. In some circumstances, the entity may be required by law or regulation or standards, or may voluntarily choose, to present together with the financial statements supplementary information that is not required by the financial reporting framework. For example, supplementary information might be presented to enhance a user's understanding of the financial reporting framework or to provide further explanation of specific financial statement items. Such information is normally presented in either supplementary schedules or as additional notes. The auditor's opinion may or may not cover the supplementary information and it is therefore important for the auditor to be satisfied that any supplementary information

^{9a} In Hong Kong, auditors of a company incorporated under the Hong Kong Companies Ordinance have a statutory duty to make a report to the shareholders of the company on the company's financial statements.

^{9b} Where relevant a statement of recognised income and expense may be prepared instead of a statement of changes in equity.

that is not covered by the auditor's opinion is clearly differentiated, as discussed in paragraphs 67-71.

26. In some circumstances, the supplementary information cannot be clearly differentiated from the financial statements because of its nature and how it is presented. Such supplementary information is covered by the auditor's opinion. For example, the auditor's opinion covers notes or supplementary schedules that are cross-referenced from the financial statements. This would also be the case when the notes to the financial statements include an explanation of the extent to which the financial statements comply with another financial reporting framework.
27. Supplementary information that is presented as an integral part of the financial statements does not need to be specifically referred to in the introductory paragraph of the auditor's report when the reference to the notes in the description of the components of the financial statements in the introductory paragraph is sufficient.

Management's Responsibility for the Financial Statements

28. **The auditor's report should state that management is responsible for the preparation and the fair presentation of the financial statements in accordance with the applicable financial reporting framework and that this responsibility includes:**
 - (a) **Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;**
 - (b) **Selecting and applying appropriate accounting policies; and**
 - (c) **Making accounting estimates that are reasonable in the circumstances.**
29. Financial statements are the representations of management. Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. For example, in the case of financial statements prepared in accordance with HKFRSs, management is responsible for preparing financial statements that fairly present the financial position, financial performance and cash flows of the entity in accordance with HKFRSs. To fulfill this responsibility, management designs and implements internal control¹⁰ to prevent or to detect and correct misstatements, whether due to fraud or error, in order to ensure the reliability of the entity's financial reporting. The preparation of the financial statements requires management to exercise judgment in making accounting estimates that are reasonable in the circumstances, as well as to select and apply appropriate accounting policies. These judgments are made in the context of the applicable financial reporting framework.
30. There may be circumstances when it is appropriate for the auditor to add to the description of management's responsibilities in paragraph 28 to reflect additional responsibilities that are relevant to the preparation and presentation of the financial statements in the context of the particular jurisdiction or the nature of the entity.
31. The term management has been used in this HKSA to describe those responsible for the preparation and fair presentation of the financial statements. Other terms may be appropriate depending on the legal framework in the particular jurisdiction. For example, in some jurisdictions, the appropriate reference may be to those charged with governance (for example, the directors).^{10a}

Auditor's Responsibility

32. **The auditor's report should state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit.**
33. The auditor's report states that the auditor's responsibility is to express an opinion on the

¹⁰ In some jurisdictions, law or regulation prescribing management's responsibilities may specifically refer to a responsibility for the adequacy of accounting books and records, or accounting system. As books, records and systems are an integral part of internal control (as defined in HKSA 315, "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement"), no specific reference is made to them in paragraph 28 for the description of management's responsibilities.

^{10a} In Hong Kong, under the Hong Kong Companies Ordinance, directors are responsible for the preparation of financial statements that show a true and fair view.

financial statements based on the audit in order to contrast it to management's responsibility for the preparation and fair presentation of the financial statements.

34. **The auditor's report should state that the audit was conducted in accordance with Hong Kong Standards on Auditing. The auditor's report should also explain that those standards require that the auditor comply with ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.**
35. The reference to the standards used conveys to the reader that the audit has been conducted in accordance with established standards.
36. HKSA 200 (Revised) specifies what is required in order to conduct an audit in accordance with the HKSAs. Paragraph 14 in that HKSA explains that the auditor cannot describe the audit as being conducted in accordance with the HKSAs unless the auditor has complied fully with all of the HKSAs relevant to the audit.
37. **The auditor's report should describe an audit by stating that:**
 - (a) **An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements;**
 - (b) **The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor should omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control; and**
 - (c) **An audit also includes evaluating the appropriateness of the accounting policies used, the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements.**
38. **The auditor's report should state that the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.**

Auditor's Opinion

39. **An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.**
40. **When expressing an unqualified opinion, the opinion paragraph of the auditor's report should state the auditor's opinion that the financial statements give a true and fair view or present fairly, in all material respects, in accordance with the applicable financial reporting framework (unless the auditor is required by law or regulation to use different wording for the opinion, in which case the prescribed wording should be used).**
41. **When Hong Kong Financial Reporting Standards are not used as the financial reporting framework, the reference to the financial reporting framework in the wording of the opinion should identify the jurisdiction or country of origin of the financial reporting framework.**
42. The auditor's opinion states that the financial statements give a true and fair view of or present fairly, in all material respects, the information that the financial statements are designed to convey (which is determined by the financial reporting framework). For example, in the case of financial statements prepared in accordance with HKFRSs, the auditor expresses an opinion that the financial statements give a true and fair view of or present fairly, in all material respects, the financial position of the entity as at the end of the period and the entity's financial performance and cash flows for the period then ended.

43. To advise the reader of the context in which the auditor's opinion is expressed, the auditor's opinion identifies the applicable financial reporting framework on which the financial statements are based. When the applicable financial reporting framework is not HKFRSs, the auditor's opinion also identifies the jurisdiction or country of origin of the applicable financial reporting framework. The auditor identifies the applicable financial reporting framework in such terms as:
- "... in accordance with Hong Kong Financial Reporting Standards" or
 - "... in accordance with accounting principles generally accepted in Country X ..."
44. When the applicable financial reporting framework encompasses legal and regulatory requirements, the auditor identifies the applicable financial reporting framework in such terms as:
- "... in accordance with Hong Kong Financial Reporting Standards and the requirements of Country X Corporations Act."^{10b}

Other Matters

45. Standards, laws or generally accepted practice in a jurisdiction may require or permit the auditor to elaborate on matters that provide further explanation of the auditor's responsibilities in the audit of the financial statements or of the auditor's report thereon. Such matters may be addressed in a separate paragraph following the auditor's opinion.

Other Reporting Responsibilities

46. In some jurisdictions, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibility to express an opinion on the financial statements. For example, the auditor may be asked to report certain matters if they come to the auditor's attention during the course of the audit of the financial statements. Alternatively, the auditor may be asked to perform and report on additional specified procedures, or to express an opinion on specific matters, such as the adequacy of accounting books and records. Auditing standards in the specific jurisdiction or country often provide guidance on the auditor's responsibilities with respect to specific additional reporting responsibilities in that jurisdiction or country.
47. In some cases, the relevant standards or laws may require or permit the auditor to report on these other responsibilities within the auditor's report on the financial statements. In other cases, the auditor may be required or permitted to report on them in a separate report.
48. **When the auditor addresses other reporting responsibilities within the auditor's report on the financial statements, these other reporting responsibilities should be addressed in a separate section in the auditor's report that follows the opinion paragraph.**^{10c}
49. The auditor addresses these other reporting responsibilities in a separate section of the report in order to clearly distinguish them from the auditor's responsibilities for, and opinion on, the financial statements.

^{10b} For companies incorporated in Hong Kong, the applicable Corporations Act is the Hong Kong Companies Ordinance.

^{10c} For the requirements under the Hong Kong Companies Ordinance, reference may be made to PN 600.1 "Reports by auditors under the Hong Kong Companies Ordinance".

Auditor's Signature

50. **The auditor's report should be signed.**
51. The auditor's signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction. In addition to the auditor's signature, in certain jurisdictions, the auditor may be required to declare the auditor's professional accountancy designation or the fact that the auditor or firm, as appropriate, has been recognized by the appropriate licensing authority in that jurisdiction.^{10d}

Date of the Auditor's Report

52. **The auditor should date the report on the financial statements no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the opinion on the financial statements. Sufficient appropriate audit evidence should include evidence that the entity's complete set of financial statements has been prepared and that those with the recognized authority have asserted that they have taken responsibility for them.**
53. The date of the auditor's report informs the reader that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date. The auditor's responsibility for events and transactions after the date of the auditor's report is addressed in HKSA 560 (Revised), "Subsequent Events."
54. Since the auditor's opinion is provided on the financial statements and the financial statements are the responsibility of management, the auditor is not in a position to conclude that sufficient appropriate audit evidence has been obtained until the auditor obtains evidence that a complete set of financial statements has been prepared and management has accepted responsibility for them.
55. In some jurisdictions, the law or regulation identifies the individuals or bodies (for example, the directors) that are responsible for concluding that a complete set of financial statements has been prepared, and specifies the necessary approval process. In such cases, the auditor obtains evidence of that approval before dating the report on the financial statements.¹¹ In other jurisdictions, however, the approval process is not prescribed in law or regulation. In such cases, the auditor takes into account the procedures the entity follows in preparing and finalizing its financial statements in view of its management and governance structures in order to identify the individuals or body with the authority to conclude that the entity's complete set of financial statements, including the related notes, has been prepared.
56. In some jurisdictions, final approval of the financial statements by shareholders is required before the financial statements are issued publicly. In these jurisdictions, final approval by shareholders is not necessary for the auditor to conclude that sufficient appropriate audit evidence has been obtained. The date of approval of the financial statements for purposes of the HKSAs is the earlier date on which those with the recognized authority determine that a complete set of financial statements has been prepared.^{11a}

^{10d} In Hong Kong, the auditor's report is normally signed in the name of the firm because the firm as a whole assumes responsibility for the audit. To assist identification, the report will normally state the name of the firm of auditors and the location of the auditor's office.

For a corporate practice, the auditor's report is signed by a director of the practice, who must be a professional accountant holding a current practising certificate. The auditor's report states the name of the corporate practice and the location of its office and is signed in the name of the corporate practice. The auditor's report also identifies the director responsible for the performance of the audit engagement contemplated by such report, and states his/her full name as appearing in his/her practising certificate and the practising certificate number.

For certain purposes, a printed copy of the auditor's report may be required to state the name of the auditors and be signed by them (for example, the Hong Kong Inland Revenue Department normally requires a manuscript signed copy of the auditor's report). For published financial statements (e.g. those of listed companies) the auditors may sign their report in a form from which a final printed version is produced. In both these circumstances, they may sign copies for identification purposes in order to provide appropriately signed auditor's reports, however, no further active procedures need be undertaken after the initial auditor's report has been signed.

¹¹ In rare circumstances, law or regulation also identifies the point in the financial statement reporting process at which the audit is expected to be complete.

^{11a} In Hong Kong, auditors would not date the audit report earlier than the date on which the financial statements are approved by the directors. In practice, the date of the audit report may be earlier than the date of physical signature of the auditor's report.

Auditor's Address

57. **The report should name the location in the country or jurisdiction where the auditor practices.**

Auditor's Report

58. **The auditor's report should be in writing.**
59. A written report encompasses both reports issued in hard copy format and those using an electronic medium.
60. The following is an illustration of the auditor's report incorporating the elements set forth above for an audit of financial statements prepared in accordance with HKFRSs expressing an unqualified opinion. In addition to the audit of the financial statements, the illustration assumes that the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT^{11b}

[Appropriate Addressee]

Report on the Financial Statements¹²

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as at 31 December 200X, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Hong Kong Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control.¹³ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of (*or "present fairly, in all material respects,"*) the financial position of ABC Company as at 31 December 200X, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

^{11b} Illustrative examples of auditor's reports for use in Hong Kong are set out in Appendix 2.

¹² The subheading "Report on the Financial Statements" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

¹³ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances."

Auditor's Report for Audits Conducted in Accordance with Both HKSA's and Auditing Standards of a Specific Jurisdiction or Country (including International Standards on Auditing)

61. The auditor may conduct the audit in accordance with both the HKSA's and the auditing standards of a specific jurisdiction or country (including International Standards on Auditing) (for purposes of this HKSA referred to as "national auditing standards").
62. **The auditor's report should refer to the audit having been conducted in accordance with the Hong Kong Standards on Auditing only when the auditor has complied fully with all of the Hong Kong Standards on Auditing relevant to the audit.**
63. The auditor may refer to the audit having been conducted in accordance with both HKSA's as well as national auditing standards when the auditor complies with each of the HKSA's relevant to the audit and performs any additional audit procedures necessary to comply with the relevant standards of that jurisdiction or country. A reference to both the HKSA's and national auditing standards is not appropriate if there is a conflict between the reporting requirements regarding the auditor's report in the HKSA's and in the national auditing standards that affects the auditor's opinion or the need to include an emphasis of matter paragraph in the particular circumstances. For example, some national auditing standards prohibit the auditor from including an emphasis of matter paragraph to highlight a going concern problem, whereas HKSA 701 requires the auditor to modify the auditor's report by adding an emphasis of matter paragraph in such circumstances. In case of such conflicts, the auditor's report refers only to the auditing standards (either HKSA's or the relevant national auditing standards) in accordance with which the auditor has complied with the reporting requirements.
64. **When the auditor's report refers to both Hong Kong Standards on Auditing and auditing standards of a specific jurisdiction or country, the auditor's report should identify the jurisdiction or country of origin of the auditing standards.**
65. **When the auditor prepares the auditor's report using the layout or wording specified by the law, regulation or auditing standards of the specific jurisdiction or country, the auditor's report should refer to the audit being conducted in accordance with both Hong Kong Standards on Auditing and the auditing standards of the specific jurisdiction or country only if the auditor's report includes, at a minimum, each of the following elements:**
 - (a) **A title;**
 - (b) **An addressee, as required by the circumstances of the engagement;**
 - (c) **An introductory paragraph that identifies the financial statements audited;**
 - (d) **A description of management's responsibility for the preparation and fair presentation of the financial statements;**
 - (e) **A description of the auditor's responsibility to express an opinion on the financial statements and the scope of the audit, that includes:**
 - (i) **A reference to the Hong Kong Standards on Auditing and the auditing standards of the specific jurisdiction or country, and**
 - (ii) **A description of the work an auditor performs in an audit.**
 - (f) **An opinion paragraph containing an expression of opinion on the financial statements¹⁴ and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the country of origin of the financial reporting framework when Hong Kong Financial Reporting Standards are not used);**
 - (g) **The auditor's signature;**

¹⁴ Circumstances when the auditor needs to modify the auditor's opinion are addressed in HKSA 701, "Modifications to the Independent Auditor's Report." In some circumstances, the auditor may not be able to express an opinion on the financial statements because the effect of a limitation on the scope of the audit is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence. In such circumstances, the auditor expresses a disclaimer of opinion.

(h) The date of the auditor's report; and

(i) The auditor's address.

66. The auditor may be obliged by national law or regulation to use a layout or wording in the auditor's report that differs from that described in this HKSA. When the differences only relate to the layout and wording of the auditor's report, the auditor will be considered to have complied with the reporting requirements of the HKSAs provided that the auditor's report includes, at a minimum, each of the elements identified in paragraph 65 – even if using the layout and wording specified by national laws or regulations. Where specific requirements in a particular jurisdiction do not conflict with HKSAs, the auditor adopts the layout and wording used in this HKSA so that users can more readily recognize the auditor's report as a report on an audit conducted in accordance with HKSAs.

Unaudited Supplementary Information Presented with Audited Financial Statements

67. **The auditor should be satisfied that any supplementary information presented together with the financial statements that is not covered by the auditor's opinion is clearly differentiated from the audited financial statements.**
68. As noted in paragraphs 25-26, the entity may be required to, or management may choose to, include supplementary information together with the financial statements. The auditor's opinion is considered to cover supplementary information that cannot be clearly differentiated from the financial statements because of its nature and how it is presented. In other circumstances, however, law or regulation may not require the supplementary information to be audited and management may not ask the auditor to include the supplementary information within the scope of the audit of the financial statements. When the supplementary information is not intended to be audited, the auditor considers whether that supplementary information is presented in a manner that could be construed as being covered by the auditor's opinion and, if so, asks management to change how the information is presented. The auditor considers, for example, where the unaudited information is presented in relation to the financial statements and any audited supplementary information, and whether it is clearly labeled as "unaudited." The auditor asks management to remove any cross references from the financial statements to unaudited supplementary schedules or unaudited notes because the demarcation between the audited and unaudited information would not be sufficiently clear. Unaudited notes that are intermingled with the audited notes can also be misinterpreted as being audited. Therefore, the auditor asks the entity to place the unaudited information outside of the set of financial statements, or, if that is not possible in the circumstances, at a minimum, place the unaudited notes together at the end of the required notes to the financial statements and clearly label them as unaudited.
69. As noted in paragraph 23, when the auditor is aware that the financial statements will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial statements are presented in the auditor's report. This helps readers differentiate the financial statements from other information not covered by the auditor's opinion.
70. **If the auditor concludes that the entity's presentation of any unaudited supplementary information does not differentiate it sufficiently from the audited financial statements, the auditor should explain in the auditor's report that that information has not been audited.**
71. The fact that supplementary information is unaudited does not relieve the auditor of the responsibility to read that information to identify material inconsistencies with the audited financial statements. The auditor's responsibilities with respect to unaudited supplementary information are consistent with those described in HKSA 720, "Other Information in Documents Containing Audited Financial Statements."

Effective Date

72. This HKSA is effective for auditor's reports dated on or after 31 December 2006.

Conformity and compliance with International Standards on Auditing

73. As of October 2006 (date of issue), this HKSA conforms with International Standard on Auditing (ISA) 700 (Revised), "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements". Compliance with the requirements of this HKSA ensures compliance with ISA 700 (Revised).
74. Additional local explanations are provided in footnotes 2, 3a, 4, 9a, 9b, 10a, 10b, 10c, 10d, 11a and 11b.
75. Additional local guidance is provided in Appendices 1 and 2.

Public Sector Perspective

1. *Some terms in this HKSA such as "firm" should be read as referring to their public sector equivalents.*
2. *In the public sector, legislation governing the audit mandate may specify the layout of or words to be used in the auditor's report. When the auditor prepares the auditor's report using the layout or wording specified in such legislation, the auditor's report should refer to the audit being conducted in accordance with HKSAs, and the legislation governing the audit mandate, only if the auditor's report includes, at a minimum, each of the elements specified in paragraph 65(a)-(i). As discussed in paragraph 66, where legislation governing the audit mandate does not conflict with HKSAs, the auditor adopts the layout and wording used in this HKSA so that users can more readily recognize the auditor's report as a report on an audit conducted in accordance with HKSAs.*
3. *In addition, such legislation may specify the responsibilities of management and auditors in relation to the audit. The descriptions of such responsibilities included in the auditor's report will need to reflect the requirements of the legislation.*

Appendix 1

Other local explanations

1. Paragraph 3 of ISA 700 "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements" refers to ISA 800 "The Independent Auditor's Report on Special Purpose Audit Engagements". ISA 800 is currently under revision by the IAASB and, as a result, has not been adopted in Hong Kong. Accordingly paragraph 3 of ISA 700 has been removed from HKSA 700 and is shown below for reference:
 3. ISA 800, "The Independent Auditor's Report on Special Purpose Audit Engagements" establishes standards and provides guidance on the form and content of the auditor's report issued as a result of an audit of:
 - (a) A complete set of financial statements prepared in accordance with an other comprehensive basis of accounting;
 - (b) A component of a complete set of general purpose or special purpose financial statements, such as a single financial statement, specified accounts, elements of accounts, or items in a financial statement;
 - (c) Compliance with contractual agreements; and
 - (d) Summarized financial statements.
2. As ISA 800 has not yet been adopted in Hong Kong, many of the principles of HKSA 700 can be applied to other forms of report provided by auditors after completing a full scope audit in accordance with HKSAs. An example of this is when an auditor is required to report on financial statements where a "properly prepared, in all material respects, in accordance with" opinion is to be given because the basis of preparation is other than Hong Kong Financial Reporting Standards.

Appendix 2

Examples of auditor's reports on financial statements

Unqualified opinions

Example 1 - company incorporated in Hong Kong

Example 2 - company incorporated in Hong Kong submitting group accounts

Example 3 - company incorporated overseas and reporting in Hong Kong

Example 1 - Company incorporated in Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ABC LIMITED

(incorporated in Hong Kong with limited liability)¹

We have audited the financial statements of ABC Limited set out on pages to..... , which comprise the balance sheet as at 31 December 200X, and the income statement, [statement of changes in equity or statement of recognised income and expense] and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit². We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 31 December 200X and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

¹ In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

² 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 "Auditor's Duty of Care To Third Parties and The Audit Report".

THE INDEPENDENT AUDITOR'S REPORT ON A COMPLETE SET OF GENERAL PURPOSE FINANCIAL STATEMENTS

XYZ & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Address]

Date

Example 2 – Company incorporated in Hong Kong submitting group accounts

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ABC LIMITED

(incorporated in Hong Kong with limited liability)¹

We have audited the consolidated financial statements of ABC Limited (the “company”) set out on pages to....., which comprise the consolidated and company balance sheets as at 31 December 200X, and the consolidated income statement, the consolidated [statement of changes in equity or statement of recognised income and expense] and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit². We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

¹ In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

² 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 “Auditor's Duty of Care To Third Parties and The Audit Report”.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 200X and of the group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

XYZ & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Address]

Date

Example 3 - Company incorporated overseas and reporting in Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ABC LIMITED

(incorporated in [country or place] with limited liability)¹

We have audited the financial statements of ABC Limited set out on pages to....., which comprise the balance sheet as at 31 December 200X, and the income statement, [statement of changes in equity or statement of recognised income and expense] and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants² and [the disclosure requirements of the Hong Kong Companies Ordinance³]. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit⁴. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 31 December 200X and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards [and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance].

¹ In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

² It may be necessary to refer to International Financial Reporting Standards or other national accounting standards and/or other national legal requirements depending on the jurisdiction in which the company is incorporated.

³ For a company incorporated overseas and listed in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance are applicable

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 "Auditor's Duty of Care To Third Parties and The Audit Report".

XYZ & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Address]

Date