

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

**This Questions and Answers (Q&As) was initially developed in 2006 by the Auditing and Assurance Standards Committee (AASC) of the Hong Kong Institute of Certified Public Accountants (the Institute) and the Small and Medium Practitioners' Committee, to raise practising members' awareness of the common audit issues that may be encountered by auditors of financial statements of Owners' Corporations of Buildings registered under the Building Management Ordinance (Chapter 344) and is for general guidance only. The Institute, the AASC and their staffs do not accept any responsibility or liability in respect of the Q&As and any consequences that may arise from any person acting or refraining from action as a result of any materials in the Q&As. Members of the Institute and other users of this Q&As should also read Hong Kong Standards on Auditing and seek legal advice where necessary when applying the guidance within this Q&As.**

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

The AASC welcomes your comments and feedback, which should be sent to [commentletters@hki CPA.org.hk](mailto:commentletters@hki CPA.org.hk), for the attention of Steve Ong, Director, Standard Setting.

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

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

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

The OC or its MC and auditor would:

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

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

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

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

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

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

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

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

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

- BMO (extracts of some relevant sections are set out in Appendix 1 to this Q&A);
- *A Guide on Building Management Ordinance* published by Home Affairs Department  
[http://www.buildingmgt.gov.hk/file\\_manager/en/documents/bmo\\_guide/a\\_guide\\_on\\_building\\_management\\_ordinance\\_cap344\\_en.pdf](http://www.buildingmgt.gov.hk/file_manager/en/documents/bmo_guide/a_guide_on_building_management_ordinance_cap344_en.pdf);
- *Code of Practice on Procurement of supplies, Goods & Services and Code of Practice on Building Management & Maintenance* issued by Secretary for Home Affairs under section 44 of the BMO  
[http://www.buildingmgt.gov.hk/file\\_manager/en/documents/code\\_of\\_practice/codes\\_of\\_practice\\_en.pdf](http://www.buildingmgt.gov.hk/file_manager/en/documents/code_of_practice/codes_of_practice_en.pdf);
- *Building Financial Management Toolkit* developed by the Independent Commission Against Corruption, jointly with the Home Affairs Department, the Hong Kong Housing Society, the HKICPA and the Hong Kong Association of Property Management Companies  
[http://www.bm.icac.hk/bm\\_wcms/UserFiles/File/en/CMS/education\\_publicity/Building\\_Financial\\_Management.pdf](http://www.bm.icac.hk/bm_wcms/UserFiles/File/en/CMS/education_publicity/Building_Financial_Management.pdf);

- *An Introduction to Building Management (Amendment) Ordinance 2007* published by the Home Affairs Department  
[http://www.buildingmgt.gov.hk/file\\_manager/en/documents/an\\_introduction\\_to\\_building\\_management\\_amendment\\_ordinance\\_2007\\_en.pdf](http://www.buildingmgt.gov.hk/file_manager/en/documents/an_introduction_to_building_management_amendment_ordinance_2007_en.pdf) ; and
- Home Affairs Department – Building Management website which can be accessed at: <http://www.buildingmgt.gov.hk/en/policy/1.htm>

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

A4: HKSA apply to the conduct of all audits. Auditors are therefore required to consider all HKSA to identify which Standards are applicable to the circumstances surrounding the audit. The following list, which is not exhaustive, provides guidance in the application of certain Standards. This list is not an alternative to reading all relevant HKSA in their entirety:

*Objective and general principles governing an audit of financial statements*

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

*Consideration of laws and regulations in an audit of financial statements*

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

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

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

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

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

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

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

#### *The auditor's procedures in response to assessed risks*

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

#### *External confirmations*

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

#### *Analytical procedures*

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

*Audit of accounting estimates*

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

*Related parties*

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

*Going concern*

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

*Management representations*

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

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

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

**Q5: *The revised Audit Report Standard HKSA 700 (Clarified) "Forming an Opinion and Reporting on Financial Statements" is effective for audits of financial statements for periods beginning on or after 15 December 2009. Is there an example audit report for financial statements of Owners' Corporation of Building?***

A5: Appendix 3 sets out an example unqualified audit report for financial statements of an owners' corporation of building based on HKSA 700 (Clarified) for audits of financial statements for periods beginning on or after 15 December 2009. For audit reports dated on or after 1 August 2007 and audits of financial statements for periods beginning before 15 December 2009, the example report in Appendix 2 applies.

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

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

The OC may hold and manage resources entrusted to it by property owners who may not be actively involved in the management of the building (for example: building management and maintenance fund, etc.). The Institute's Financial Reporting Standards Committee is of the view that the above situation does not expressly make the OC publicly accountable and an OC, in general, is generally a Private Entity by its nature provided there are no other specific facts and circumstances that make the OC to be publicly accountable. Qualified OC is permitted to use the HKFRS for Private Entities to prepare financial statements for prior period(s) where the relevant financial statements have not been finalised and approved on or before 30 April 2010. Appendices 4 and 5 set out example unqualified audit reports for financial statements of an owners' corporation of building prepared in accordance with the HKFRS for Private Entities, based on HKSA 700 and HKSA 700 (Clarified) respectively.

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

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



**Section 27: Accounts of corporation**

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

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

### **Schedule 5: Annual Budget**

[sections 21 & 42]

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

### **Schedule 6: Accounts**

[sections 27 & 42 & Schedule 11]

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

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

**Appendix 2****Example Unqualified Auditor's Report on Financial Statements of Owners' Corporation of Building prepared in accordance with HKFRS based on HKSA 700 "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements"**

(Effective for audits of financial statements for periods beginning before 15 December 2009)

**INDEPENDENT AUDITOR'S REPORT****TO THE MEMBERS<sup>1</sup> OF THE OWNERS' CORPORATION OF ABC BUILDING ("CORPORATION")**

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

We have audited the financial statements of the Corporation 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.

*Management Committee's Responsibility for the Financial Statements*

The Building Management Ordinance requires the Management Committee to prepare financial statements including an income and expenditure account and a balance sheet which give a true and fair view of the financial transactions and financial position of the Corporation. Accordingly, the Management Committee is responsible for the preparation and 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and 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 audit<sup>2</sup>. 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

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

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

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 Management Committee, 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 financial transactions of the Corporation during the year ended 31 December 200X and the financial position of the Corporation at 31 December 200X and of the Corporation's cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

XYZ & Co.

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

[Address]

Date

- Note: 1. The BMO only requires financial statements comprising an income and expenditure account and a balance sheet which give a true and fair view of the financial transactions and financial position of the corporation.
- . Given that the fair presentation financial reporting framework in Hong Kong is HKFRS, financial statements should comprise:
- (a) balance sheet
  - (b) income statement
  - (c) statement of changes in equity or statement of recognised income and expense
  - (d) cash flow statement
  - (e) a summary of significant accounting policies and other explanatory notes.

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

(Effective for audits of financial statements for periods beginning on or after 15 December 2009)

**INDEPENDENT AUDITOR'S REPORT****TO THE MEMBERS<sup>1</sup> OF THE OWNERS' CORPORATION OF ABC BUILDING ("CORPORATION")**

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

We have audited the financial statements of the Corporation set out on pages ..... to....., which comprise the [balance sheet][statement of financial position]<sup>3</sup> as at 31 December 20X1, and the [income statement][statement of comprehensive income]<sup>3</sup>, statement of changes in equity and [cash flow statement][statement of cash flows]<sup>3</sup> for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management Committee's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit<sup>4</sup>. 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 about 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

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

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

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

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

of financial statements that give a true and fair view 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 Management Committee, 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 financial transactions of the Corporation during the year ended 31 December 20X1 and the financial position of the Corporation at 31 December 20X1 and of the Corporation's cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

XYZ & Co.

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

[Auditor's address]

Date of the auditor's report

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

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

- (a) a statement of financial position as at the end of the period;
- (b) a statement of comprehensive income for the period;
- (c) a statement of changes in equity for the period;
- (d) a statement of cash flows for the period;
- (e) notes, comprising a summary of significant accounting policies and other explanatory information; and
- (f) a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

**Appendix 4****Example Unqualified Auditor's Report on Financial Statements of Owners' Corporation of Building prepared in accordance with the HKFRS for Private Entities based on HKSA 700 "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements"**

**(Effective for audits of financial statements for periods beginning before 15 December 2009 and where the financial statements have not been finalized and approved on or before 30 April 2010)**

**INDEPENDENT AUDITOR'S REPORT****TO THE MEMBERS <sup>1</sup> OF THE OWNERS' CORPORATION OF ABC BUILDING ("CORPORATION")**

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

We have audited the financial statements of the Corporation set out on pages ..... to..... , which comprise the [balance sheet][statement of financial position]<sup>2</sup> as at 31 December 200X, and the [[income statement][statement of comprehensive income]<sup>2</sup>, statement of changes in equity][statement of income and retained earnings]<sup>3</sup> and [cash flow statement][statement of cash flows]<sup>2</sup> for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management Committee's Responsibility for the Financial Statements*

The Building Management Ordinance requires the Management Committee to prepare financial statements which give a true and fair view of the financial transactions and financial position of the Corporation. Accordingly, the Management Committee is responsible for the preparation and true and fair presentation of these financial statements in accordance with the Hong Kong Financial Reporting Standard for Private Entities ("HKFRSPE") issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and 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 audit<sup>4</sup>. We conducted our audit in accordance with Hong Kong Standards on Auditing

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

<sup>2</sup> Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

<sup>3</sup> According to paragraph 3.18 of the HKFRS for Private Entities, the entity may present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity.

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



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 Management Committee, 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 financial transactions of the Corporation during the year ended 31 December 200X and the financial position of the Corporation at 31 December 200X and of the Corporation's cash flows for the year then ended in accordance with the HKFRSPE.

XYZ & Co.

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

[Address]

Date

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

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

- (a) a statement of financial position as at the reporting date.
- (b) either:
  - (i) a single statement of comprehensive income for the reporting period displaying all items of income and expense recognised during the period including those items recognised in determining profit or loss (which is a subtotal in the statement of

- comprehensive income) and items of other comprehensive income, or
- (ii) a separate income statement and a separate statement of comprehensive income. If an entity chooses to present both an income statement and a statement of comprehensive income, the statement of comprehensive income begins with profit or loss and then displays the items of other comprehensive income
  - (c) a statement of changes in equity for the reporting period
  - (d) a statement of cash flows for the reporting period
  - (e) notes, comprising a summary of significant accounting policies and other explanatory information

**Appendix 5****Example Unqualified Auditor's Report on Financial Statements of Owners' Corporation of Building prepared in accordance with the HKFRS for Private Entities based on HKSA 700 (Clarified) "Forming an Opinion and Reporting on Financial Statements"**

(Effective for audits of financial statements for periods beginning on or after 15 December 2009)

**INDEPENDENT AUDITOR'S REPORT****TO THE MEMBERS<sup>1</sup> OF THE OWNERS' CORPORATION OF ABC BUILDING ("CORPORATION")**

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

We have audited the financial statements of the Corporation set out on pages ..... to....., which comprise the [balance sheet][statement of financial position]<sup>3</sup> as at 31 December 20X1, and the [[income statement][statement of comprehensive income]<sup>3</sup>, statement of changes in equity][statement of income and retained earnings]<sup>4</sup> and [cash flow statement][statement of cash flows]<sup>3</sup> for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management Committee's Responsibility for the Financial Statements*

The Building Management Ordinance requires the Management Committee to prepare financial statements which give a true and fair view of the financial transactions and financial position of the Corporation. Accordingly, the Management Committee is responsible for the preparation of these financial statements that give a true and fair view in accordance with the Hong Kong Financial Reporting Standard for Private Entities ("HKFRSPE") issued by the Hong Kong Institute of Certified Public Accountants, and for such internal control as the Management Committee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit<sup>5</sup>. 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 about whether the financial statements are free from material misstatement.

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

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

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

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

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

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 of financial statements that give a true and fair view 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 Management Committee, 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 financial transactions of the Corporation during the year ended 31 December 20X1 and the financial position of the Corporation at 31 December 20X1 and of the Corporation's cash flows for the year then ended in accordance with the HKFRSPE.

XYZ & Co.

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

[Auditor's address]

Date of the auditor's report

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

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

- (a) a statement of financial position as at the reporting date.
- (b) either:
  - (i) a single statement of comprehensive income for the reporting period displaying all items of income and expense recognised during the period including those items recognised in determining profit or loss (which is a subtotal in the statement of comprehensive income) and items of other comprehensive income, or
  - (ii) a separate income statement and a separate statement of comprehensive income. If an entity chooses to present both an income statement and a statement of comprehensive income, the

statement of comprehensive income begins with profit or loss and then displays the items of other comprehensive income.

- (b) a statement of changes in equity for the reporting period.
- (c) a statement of cash flows for the reporting period.
- (e) notes, comprising a summary of significant accounting policies and other explanatory information.