

STATEMENT OF AUDITING STANDARDS
600
AUDITORS' REPORTS ON FINANCIAL STATEMENTS

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**STATEMENT OF AUDITING STANDARDS
600
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*Statements of Auditing Standards (SASs) are to be read in the light of SAS 010 "The scope and authority of auditing pronouncements". In particular, they contain basic principles and essential procedures (auditing standards), indicated by paragraphs in **bold italic type**, with which auditors are required to comply in the conduct of any audit including those of companies applying section 141D of the Companies Ordinance. SASs also include explanatory and other material which is designed to assist auditors in interpreting and applying auditing standards.*

Introduction

1. The purpose of this Statement of Auditing Standards (SAS) is to establish standards and provide guidance on the form and content of auditors' reports issued as a result of an audit of the financial statements of a corporate or non-corporate enterprise (the reporting entity). Much of the guidance provided can be adapted to auditors' reports on financial information other than financial statements.
2. ***Auditors' reports on financial statements should contain a clear expression of opinion, based on review and assessment of the conclusions drawn from evidence obtained in the course of the audit. (SAS 600.1)***
3. An appreciation of the inter-relationship between the responsibilities of those who prepare financial statements and those who audit them is also necessary to achieve an understanding of the nature and context of the opinion expressed by the auditors. Readers need to be aware that it is the directors (or equivalent persons) of the reporting entity and not the auditors who determine the accounting policies followed. Auditors' reports therefore also set out the respective responsibilities of directors and auditors.
4. It will aid communication with the reader if the auditors' report is placed before the financial statements.
5. The requirements of this SAS are intended to achieve informative reporting by auditors within the reporting obligations current at its date of issue (as revised). Further developments may in the future alter the matters on which auditors are required to report or the manner in which they are required to report: such changes will be reflected in amendments to the requirements in this SAS when appropriate.

Nature of assurance provided

6. The view given in financial statements is derived from a combination of fact and judgement, and consequently cannot be characterised as "absolute". When reporting on financial statements, therefore, auditors provide a level of assurance which is reasonable in that context but, equally, cannot be absolute. Consequently it is important that the users of financial statements are made aware of the context in which the auditors' report is given.

Scope

7. This SAS applies to all reports issued by auditors which express an opinion in terms of whether financial statements give a true and fair view, or where statutory or other specific requirements prescribe the use of a term such as "present fairly", "exhibit a true and correct view" or "properly prepared in accordance with". Although this SAS is not primarily intended to apply to other forms of report provided by auditors, many of the principles of this SAS will normally be applicable to such reports.

8. Auditors may be requested to report separately on one or more primary statements. When making such a separate report, auditors need to ensure that in doing so no impression is given that the primary statement(s) referred to is other than integral to the financial statements as a whole and it is clear to a reader that in order to obtain a true and fair view of the state of affairs and profit or loss for statutory purposes it is necessary for the full set of financial statements to be considered.

Basic elements of the auditors' report

9. *Auditors' reports on financial statements should include the following matters:*
- a. *a title identifying the person or persons to whom the report is addressed;*
 - b. *where applicable, the country or place of incorporation of the reporting entity;*
 - c. *an introductory paragraph identifying the financial statements audited and the accounting principles adopted;*
 - d. *separate sections, appropriately headed, dealing with:*
 - i. *respective responsibilities of directors (or equivalent persons) and auditors,*
 - ii. *the basis of the auditors' opinion,*
 - iii. *the auditors' opinion on the financial statements;*
 - e. *the signature of the auditors; and*
 - f. *the date of the auditors' report. (SAS 600.2)*
10. The use of a standard format for auditors' reports on financial statements assists the reader to follow the report's contents. The section headings indicate to the reader the nature of the matters contained in the section concerned: for example, where a qualified opinion is expressed, the heading "Qualified opinion" is used.
11. Auditors draft each section of their report on financial statements to reflect the requirements which apply to the particular audit engagement. However, the use of common language in auditors' reports assists the reader's understanding. Accordingly, Appendix 2 includes examples of auditors' reports on financial statements to illustrate wording which meets the auditing standards contained in this SAS.

Title and addressee

12. An appropriate title is used to distinguish clearly the auditors' report from other information relating to the reporting entity with which it may be published.
13. The auditors' report on the financial statements of a company is addressed to its members (normally the shareholders) because the audit is undertaken on their behalf. The auditors' report on financial statements of other types of reporting entity is addressed to the appropriate person or persons, as defined by statute or by the terms of the individual engagement.

Identification of financial statements audited and accounting principles adopted

14. The purpose of the introductory section of the auditors' report, identifying the financial statements that have been audited, is to ensure that there is no ambiguity regarding the information to which the auditors' opinion relates.

15. Frequently one or more of the following accompany the financial statements in a company's annual report:
 - a. directors' report;
 - b. chairman's statement;
 - c. management discussion and analyses; and
 - d. information supplementary to the financial statements.

To indicate that the auditors are neither responsible for nor reporting on such statements, it is considered good practice for the auditors to be specific as to the actual financial statements on which they are reporting by identifying the page numbers containing the audited financial statements as follows:

"We have audited the financial statements on pages to"

16. Although the auditors are not responsible for the additional statements/information referred to in paragraph 15 above, there could be a belief on the part of the reader that the auditors have in fact satisfied themselves that the information is accurate or at least not misleading. The auditors would therefore consider whether the additional information is materially inconsistent or misleading (see [Auditing Guideline 3.255 "Financial information issued with audited financial statements"]/[SAS 160 "Other information in documents containing audited financial statements"]).
17. The introductory section refers to accounting principles, comprising the accounting standards and accounting policies, which have been adopted in the preparation of the financial statements.

Statements of responsibility

18. *Auditors should distinguish between their responsibilities and those of the directors by including in their report:*
 - a. *a statement that the financial statements are the responsibility of the reporting entity's directors; and*
 - b. *a statement that the auditors' responsibility is to express an opinion on the financial statements. (SAS 600.3)*
19. In view of the importance of the accounting principles adopted in the preparation of the financial statements, auditors may wish to include a description of the directors' responsibilities in a representation letter which reflects the specific requirements applicable to the reporting entity. A description of the responsibilities of a company's directors is normally considered adequate when it includes the following points:
 - a. the Companies Ordinance requires directors to prepare financial statements for each financial year which give a true and fair view of the company's (or group's) state of affairs at the end of the year and profit or loss for the year then ended;
 - b. in preparing those financial statements, the directors need to:
 - i. select suitable accounting policies and then apply them on a consistent basis, making judgements and estimates that are prudent and reasonable,
 - ii. state the reasons for any significant departure from applicable accounting standards,

- iii. (where no separate statement on going concern is made by the directors) prepare the financial statements on the going concern basis unless it is not appropriate to presume that the company will continue in business; and
 - c. the directors are responsible for keeping proper accounting records, for safeguarding the assets of the company (or group) and for taking reasonable steps for the prevention and detection of fraud and other irregularities.
20. Much of the guidance provided in paragraph 19 can be adapted for different requirements applicable to different categories of reporting entity, for example to reflect special legal requirements relating to securities or commodities dealers or specific requirements applicable to a non-corporate enterprise.
21. In the case of reporting entities other than companies, auditors assess the adequacy of the description in the representation letter by reference to statutory or any other specific requirements with which the reporting entity's management is required to comply.
22. Standards and guidance on representation letters are set out in SAS 440 "Representations by management".

Basis of opinion

23. *Auditors should explain the basis of their opinion by including in their report:*
- a. *a statement as to their compliance or otherwise with Statements of Auditing Standards, together with the reasons for any departure therefrom;*
 - b. *a statement that the audit process includes:*
 - i. *examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements,*
 - ii. *assessing the significant estimates and judgements made by the reporting entity's directors in preparing the financial statements,*
 - iii. *considering whether the accounting policies are appropriate to the reporting entity's circumstances, consistently applied and adequately disclosed;*
 - c. *a statement that they planned and performed the audit so as to obtain reasonable assurance as to whether the financial statements are free from material misstatement and that they have evaluated the overall presentation of the financial statements; and*
 - d. *a statement that the audit provides a reasonable basis for the opinion. (SAS 600.4)*
24. A reference to compliance with Statements of Auditing Standards is necessary in order to provide assurance that the audit has been carried out in accordance with established standards.
25. Guidance on reporting considerations in relation to reliance placed on the work of other auditors in a group audit situation, or of an expert such as actuaries is provided in SAS 510 "Principal auditors and other auditors" and SAS 520 "Using the work of an expert" respectively.
26. In some exceptional circumstances, a departure from Statements of Auditing Standards may be appropriate to fulfil the objectives of a specific audit more effectively. If this is the case, the auditors explain the reasons for that departure in their report. Other than in such exceptional and justifiable circumstances, a departure from a Statement of Auditing Standard is a limitation on the scope of work undertaken by the auditors. In such circumstances the auditors assess whether a qualified (except for limitation) opinion or disclaimer of opinion is required, as set out in SAS 600.6.

27. In certain circumstances, auditors may be required by statute to follow other comparable standards. Where this is the case, auditors would refer to these standards.
28. In some circumstances, auditors may be required to report whether the financial statements have been properly prepared in accordance with regulations or other requirements, but are not required to report on whether they give a true and fair view. Where the special circumstances of the reporting entity require or permit the adoption of policies or accounting bases which would not normally permit a true and fair view to be given, auditors would refer to those circumstances in the paragraphs dealing with the respective responsibilities of directors and auditors (unless the matter is included in a separate statement given by the directors) and may draw attention to them in the basis of opinion section of the report.

Expression of opinion

29. *An auditors' report should contain a clear expression of opinion on the financial statements and on any further matters required by statute or other requirements applicable to the particular engagement. (SAS 600.5)*
30. The auditors would use their best endeavour to obtain sufficient, relevant and reliable audit evidence to enable them to express an unqualified opinion. Failing that, the auditors would include a qualified opinion in the auditors' report. The circumstances giving rise to each type of opinion are set out below and example reports illustrating each form of opinion are contained in Appendix 2.
31. When expressing a qualified opinion in their report, the auditors would refer to all material matters about which they have reservations. Thus, a qualification on one matter cannot be regarded as a reason for omitting other unrelated qualifications which otherwise would have been reported.
32. If there is a scope limitation or disagreement concerning the income statement, but the auditors are able to conclude that the balance sheet does give a true and fair view and satisfies the relevant requirements, then they would express a qualified opinion on the income statement and an unqualified opinion on the balance sheet. Similarly, it may sometimes be appropriate to express an unqualified opinion on the income statement and a qualified opinion on the balance sheet. Furthermore, even though the auditors may decide to disclaim their opinion as to whether the financial statements give a true and fair view, or to issue an adverse opinion stating that they do not give a true and fair view, it does not necessarily follow that such an extreme opinion may be appropriate for other matters on which they are required to report (for example, as to whether the financial statements are properly prepared in accordance with the Companies Ordinance). In such cases the wording of the opinion would be modified accordingly to accurately reflect the auditors' opinion.

Unqualified opinion

33. An unqualified opinion on financial statements is expressed when in the auditors' judgement they give a true and fair view (where relevant) and have been prepared in accordance with relevant accounting and other requirements. This judgement entails concluding whether inter alia:
 - a. the financial statements have been prepared using appropriate accounting policies, which have been consistently applied;
 - b. the financial statements have been prepared in accordance with relevant legislation, regulations or applicable accounting standards (and that any departures are justified and adequately explained in the financial statements); and
 - c. there is adequate disclosure of all information relevant to the proper understanding of the financial statements.

Modified report

34. The auditors' report can be modified to take account of the following:
- a. Matters that do not affect the auditors' opinion.
 - b. Matters that do affect the auditors' opinion - qualified opinion.

Matters that do not affect the auditors' opinion

35. The auditors would modify the auditors' report to highlight a significant level of concern about the validity of the going concern basis. The auditors would also consider modifying the auditors' report by adding a paragraph if there is a significant uncertainty (other than a going concern problem), the resolution of which is dependent upon future events and whose potential effect on the financial statements is unusually great. A more detailed discussion of fundamental uncertainties and the reporting considerations is set out in paragraphs 52 to 65 below.
36. In addition to the use of an explanatory paragraph to refer to a fundamental uncertainty in the basis of opinion section of their report, auditors are not precluded in the following limited circumstances from modifying their report by including a paragraph after the audit opinion to draw attention to or emphasise a matter that is relevant to the readers of the auditors' report but is not of such a nature that it affects the audit opinion:
- a. if an amendment is necessary to the other information in a document containing audited financial statements and the directors refuse to make the amendment, the auditors would consider including in the auditors' report a paragraph describing the material inconsistency in accordance with [Auditing Guideline 3.255] / [SAS 160];
 - b. if there is an actual or possible material misstatement in the corresponding amounts but that misstatement does not directly affect the current period's figures, the auditors would consider including in the auditors' report a paragraph describing the material misstatement in accordance with [paragraph 13 of Auditing Guideline 3.253 "Amounts derived from the preceding financial statements"/[SAS 450 "Opening balances and comparatives"]];
 - c. if the financial statements have been issued but before their laying before the shareholders, or equivalent, and a fact is discovered that leads management to revise the financial statements, the new audit report on the revised financial statements would include a paragraph referring to a note to the financial statements that more extensively discusses the reason for the revision of the previously issued financial statements or setting out such reason, and referring to the earlier report issued by them on the financial statements in accordance with [SAS 150 "Subsequent events and subsequent discovery of facts existing at the date of the auditors' report"];
 - d. if, as a result of the report or findings of an expert, the auditors consider it necessary to include a paragraph in the auditors' report emphasising a matter regarding the financial statements in accordance with paragraph 26 of SAS 520 "Using the work of an expert".

The inclusion of such a paragraph after the audit opinion in the auditors' report is not a qualification and care needs to be taken to ensure that this is clear to the readers of the auditors' report when describing the matter, for example by use of words such as "Without qualifying the opinion above, attention is drawn to ...".

Matters that do affect the auditors' opinion - qualified opinion

37. Circumstances giving rise to the issue of a qualified opinion by the auditors can occur when there is either:

- a. a limitation on the scope of the auditors' work;
 - b. the auditors disagree with the treatment or disclosure of a matter in the financial statements; or
 - c. in extreme cases where the financial statements are affected by fundamental uncertainties (see paragraph 64 below).
38. For the auditors' report to be qualified, the effect of the matter must either be material or be likely to be material to the financial statements. If the matter is material, the financial statements either may not or do not show a true and fair view of the reporting entity's profit or loss and state of affairs, or may not or do not comply with other relevant accounting requirements (see paragraphs 47 to 51 below).

Qualified opinions in respect of limitation of audit scope

39. *When there has been a limitation on the scope of the auditors' work that prevents them from obtaining sufficient evidence to express an unqualified opinion:*
- a. *the auditors should include a description of the factors leading to the limitation in the section of their report setting out the basis of their opinion;*
 - b. *the auditors should issue a disclaimer of opinion when the possible effect of a limitation on scope is so material or pervasive that they are unable to express an opinion on the financial statements;*
 - c. *the auditors should issue a qualified (except for limitation) opinion when the effect of the limitation is not so material or pervasive as to require a disclaimer, and the wording of the opinion should indicate that it is qualified as to the possible adjustments to the financial statements that might have been determined to be necessary had the limitation not existed. (SAS 600.6)*
40. In considering whether a limitation results in a lack of evidence necessary to form an opinion, auditors assess:
- a. the quantity and type of evidence which may reasonably be expected to be available to support the particular figure or disclosure in the financial statements; and
 - b. the possible effect on the financial statements of the matter for which insufficient evidence is available. When the possible effect is, in the opinion of the auditors, material to the financial statements, there will be insufficient evidence to support an unqualified opinion.
41. Inherent uncertainties do not arise from, or give rise to, a limitation on the auditors' work and are considered under SAS 600.8 below.
42. A description of the factors leading to a limitation of audit scope enables the readers to understand the reasons for the limitation and to distinguish between:
- a. limitations imposed on the auditors (for example, where not all the accounting records are made available to the auditors or where the directors prevent a particular procedure considered necessary by the auditors from being carried out); and
 - b. limitations outside the control of the auditors or the directors (for example, when the timing of the auditors' appointment is such that attendance at the reporting entity's stocktake is not possible and there is no alternative form of evidence regarding the existence of inventories).
43. A limitation on the scope of the auditors' work may sometimes be imposed by the reporting entity. When the proposed terms of an audit engagement include a scope limitation such that the auditors believe the need to issue a disclaimer of opinion exists, they would normally not accept such a limited engagement as an audit engagement, unless required by statute to do so. Also, statutory auditors would not accept such an audit engagement when the limitation infringes on their statutory duties.

44. Where a scope limitation is imposed by circumstances, auditors would normally attempt to carry out reasonable alternative procedures to obtain sufficient audit evidence to support an unqualified opinion.

Qualified opinions in respect of disagreement

45. *Where the auditors disagree with the accounting treatment or disclosure of a matter in the financial statements, and in the auditors' opinion the effect of that disagreement is material to the financial statements:*
- a. *the auditors should include in the opinion section of their report:*
 - i. *a description of all substantive factors giving rise to the disagreement,*
 - ii. *their implications for the financial statements, and*
 - iii. *whenever practicable, a quantification of the effect on the financial statements;*
 - b. *when the auditors conclude that the effect of the matter giving rise to disagreement is so material or pervasive that the financial statements are seriously misleading, they should issue an adverse opinion; and*
 - c. *in the case of other material disagreements, the auditors should issue a qualified (except for disagreement) opinion indicating that it is expressed except for the effects of the matter giving rise to the disagreement. (SAS 600.7)*

46. An auditors' report including a qualified opinion arising from disagreement includes a description of the reasons for qualification and the effects on the financial statements. Whilst reference may be made to relevant notes in the financial statements, such reference is not a substitute for sufficient description of the circumstances in the auditors' report so that a reader can appreciate the principal points at issue and their implications for an understanding of the financial statements.

Non-compliance with accounting standards

47. Financial statements are normally required to contain particulars of any material departure from an accounting standard which applies to the reporting entity, together with the financial effects of the departure unless this would be impracticable or misleading in the context of giving a true and fair view.
48. When the auditors conclude that the financial statements do not comply with accounting standards, they assess:
- a. whether there are sound reasons for the departure;
 - b. whether adequate disclosure has been made concerning the departure from accounting standards; and
 - c. whether the departure is such that the financial statements do not give a true and fair view of the state of affairs, profit or loss and cash flows.
49. In normal cases, a departure from accounting standards will result in the issue of a qualified (except for disagreement) or adverse opinion on the view given by the financial statements.
50. In the extremely rare circumstances, the auditors may determine that there are sound reasons for the departure, that they concur with the directors that compliance with a requirement in an accounting standard would be misleading, and therefore that departure from an accounting standard is necessary for the financial statements to give a true and fair view, and that there is adequate disclosure of the departure. In these circumstances, the auditors do not qualify their opinion.

51. Where no explanation is given for a departure from accounting standards, its absence may of itself impair the ability of the financial statements to give a true and fair view of the reporting entity's state of affairs, profit or loss and cash flows. When auditors conclude that this is so, a qualified (except for disagreement) or adverse opinion on the view given by the financial statements is appropriate.

Fundamental uncertainty

52. *a. In forming their opinion on financial statements, auditors should consider whether the view given by the financial statements could be affected by inherent uncertainties which, in their opinion, are fundamental.*
- b. When an inherent uncertainty exists which:*
- i. in the auditors' opinion is fundamental, and*
 - ii. is adequately accounted for and disclosed in the financial statements,*
- the auditors should include an explanatory paragraph referring to the fundamental uncertainty in the section of their report setting out the basis of their opinion.*
- c. When adding an explanatory paragraph, auditors should use words which clearly indicate that their opinion on the financial statements is not qualified in respect of its contents. (SAS 600.8)*

Inherent uncertainties

53. Inherent uncertainties about the outcome of future events frequently affect, to some degree, a wide range of components of the financial statements at the date they are approved. It is not possible for the directors to remove the uncertainties by obtaining more information at the date they approve the financial statements: the statements can reflect only the working assumptions of directors as to their financial outcome and, where material, describe the circumstances giving rise to the uncertainties and their potential financial effect.
54. In forming an opinion, auditors take into account the adequacy of the accounting treatment, estimates and disclosures of inherent uncertainties in the light of evidence available at the date they express that opinion.
55. Auditors recognise that, in preparing financial statements, directors are required to analyse relevant existing conditions, including uncertainties about future events and their effect on financial statements. An audit includes assessment of whether there is sufficient evidence to support the directors' analyses and resulting estimates and disclosures given in the financial statements. Usually auditors are able to obtain sufficient evidence concerning the directors' assessment of the outcome of inherent uncertainties by considering various types of evidence, including the historical experience of the reporting entity.
56. Forming an opinion on the adequacy of the accounting treatment of inherent uncertainties involves consideration of:
- a. the appropriateness of accounting policies dealing with uncertain matters;
 - b. the reasonableness of the estimates included in the financial statements in respect of inherent uncertainties; and
 - c. the adequacy of disclosure.
57. Auditors distinguish between circumstances in which an unqualified opinion is appropriate and those in which a qualified (except for limitation) opinion or disclaimer of opinion is required due to a limitation on the scope of their work. An inherent uncertainty can be expected to be resolved at a future date, at which time sufficient evidence concerning its outcome would be expected to become available. When evidence does or did exist (or reasonably could be expected to exist) but that evidence is not available to the auditors, the scope of their work is limited and a qualified (except for limitation) opinion or disclaimer of opinion is appropriate as required by SAS 600.6.

58. Where auditors conclude that the accounting policies followed lead to material misstatements in the financial statements, or that the estimates included in the financial statements are materially misstated, or that disclosures relating to the uncertainty are inadequate, a qualified (except for disagreement) or adverse opinion is required by SAS 600.7.

Fundamental uncertainties

59. In some circumstances, the degree of uncertainty about the outcome of a future event and its potential impact on the view given by the financial statements may be very great. Where resolution of an inherent uncertainty could affect the view given by the financial statements to the degree that the auditors conclude that it is to be regarded as fundamental, they include an explanatory paragraph when setting out the basis of their opinion describing the matter giving rise to the fundamental uncertainty and its possible effects on the financial statements, including (where practicable) quantification. Where it is not possible to quantify the potential effects of the resolution of the uncertainty, the auditors include a statement to that effect. Reference may be made to notes in the financial statements but such a reference is not a substitute for sufficient description of the fundamental uncertainty so that a reader can appreciate the principal points at issue and their implications.
60. Communication with the reader is enhanced by the use of an appropriate sub-heading differentiating the explanatory paragraph from other matters included in the section describing the basis of the auditors' opinion.
61. In determining whether an inherent uncertainty is fundamental, auditors consider:
- a. the risk that the estimate included in financial statements may be subject to change;
 - b. the range of possible outcomes; and
 - c. the consequences of those outcomes on the view shown in the financial statements.
62. Inherent uncertainties are regarded as fundamental when they involve a significant level of concern about the validity of the going concern basis or other matters whose potential effect on the financial statements is unusually great, a common example of which is the outcome of major litigation.

Opinions expressed

63. An unqualified opinion indicates that the auditors consider that the fundamental uncertainty has been adequately accounted for and disclosed in the financial statements. It remains unqualified notwithstanding the inclusion of an explanatory paragraph describing a fundamental uncertainty. The explanatory paragraph is included as part of the basis for the auditors' opinion so as to make clear that it describes a matter which the auditors have taken into account in forming their opinion, but that it does not qualify that opinion.
64. When the auditors decide to add an explanatory paragraph describing a fundamental uncertainty involving the validity of the going concern basis, this will normally adequately serve users of the financial statements. However, in extreme cases, such as situations involving multiple uncertainties that are fundamental to the financial statements, the auditors may consider it appropriate to express a disclaimer of opinion.
65. When the auditors conclude that the estimate of the outcome of a fundamental uncertainty is materially misstated or that the disclosure relating to it is inadequate, they issue a qualified (except for disagreement) or adverse opinion. On the other hand, where the auditors encounter a limitation on the scope of their work which would preclude them from making an assessment of the adequacy of the accounting treatment and disclosure in respect of an inherent uncertainty, they would issue a qualified (except for limitation) opinion or a disclaimer of opinion.

Further matters required by statute or other regulations

66. Further opinions or information to be included in the auditors' report may be determined by specific statutory requirements applicable to the reporting entity, or, in some circumstances, by the terms of the auditors' engagement. Such matters may be required to be dealt with by a positive statement in the auditors' report or only by exception.
67. For the requirements under the Companies Ordinance, reference should be made to PN 600.1 "Reports by auditors under the Hong Kong Companies Ordinance" and PN 600.2 "Audit approach to companies applying section 141D of the Companies Ordinance".
68. Reporting entities operating in the securities dealing, commodities trading or foreign exchange trading industries are subject to the Securities Ordinance, the Commodities Trading Ordinance and the Leveraged Foreign Exchange Trading Ordinance respectively, which impose certain reporting requirements on their auditors. Example auditors' reports on these reporting entities are set out in Appendix 2.

Signature of the auditors' report

69. *The auditors' report should be signed in the name of the auditors' firm, the personal name of the auditor, or both, as appropriate. (SAS 600.9)*
70. The auditors' 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 auditors' office.
71. For a corporate practice, the auditors' report is signed by a director of the practice, who must be a professional accountant holding a current practising certificate. The auditors' 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 auditors' 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. An example auditors' report issued by a corporate practice is included in Appendix 2.
72. For certain purposes, a printed copy of the auditors' report may be required to state the name of the auditors and be signed by them (for example, the Inland Revenue Department normally requires a manuscript signed copy of the auditors' 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 auditors' reports, however, no further active procedures need be undertaken after the initial auditors' report has been signed.

Date of the auditors' report

73. *The auditors should date the auditors' report as of the completion date of the audit. (SAS 600.10)*
74. Dating the auditors' report as of the completion date of the audit informs the reader that the auditors have considered the effect on the financial statements and on the report of events and transactions of which the auditors became aware and that occurred up to that date. In practice, the completion date of the audit may be earlier than the date of physical signature of the auditors' report.
75. *Since the auditors' responsibility is to report on the financial statements as prepared and presented by the directors, the auditors should not date the report earlier than the date on which the financial statements are approved by the directors. (SAS 600.11)*

76. The auditors are in a position to form their opinion when the financial statements have been approved by the directors and the auditors have completed their assessment of all the evidence and procedures they consider necessary for the opinion or opinions to be given in their report.
77. If the date of completion of the audit is later than that on which the directors approved the financial statements, the auditors take such steps as are appropriate to ensure that their procedures for reviewing subsequent events in accordance with SAS 150 covered the period up to that date.

Compliance with International Standards on Auditing

78. Compliance with the auditing standards contained in this SAS ensures compliance in all material respects with the basic principles and essential procedures in International Standard on Auditing 700 "The Auditor's Report on Financial Statements".

Effective date

- | 79. Auditors are required to comply with the requirements of this SAS for auditors' reports dated on or after 1 May 2000 but before 31 December 2006.

APPENDIX 1

Forming an opinion on financial statements

1. This Appendix sets out in the form of a flowchart the steps involved in forming an opinion as to whether a set of financial statements gives a true and fair view of the reporting entity's state of affairs and profit or loss. The flowchart is intended to provide guidance to readers in understanding the Statement of Auditing Standards. It does not form part of the standards themselves.
2. The flowchart is drawn up on the basis that the directors make no further amendments to the financial statements following the audit. In practice, directors may make amendments in response to comments by the auditors: any amendment of the financial statements (for example, to provide additional disclosure in order to give a true and fair view) would require auditors to begin the sequence of questions afresh.
3. In applying the logic in the flowchart, auditors may find it necessary to address the questions for discrete sections of the financial statements as well as for the financial statements as a whole.
4. The principal matters which auditors consider in forming an opinion may be expressed in three questions:
 - a. *have they completed all procedures necessary to meet auditing standards and to obtain all the information and explanations necessary for their audit? This question is considered in paragraphs 39 to 44 of the SAS.*
 - b. *have the financial statements been prepared in accordance with the accounting standards? This question is considered in paragraphs 47 to 51 of the SAS.*

The flowchart refers to these requirements as GAAP (generally accepted accounting principles) as a convenient shorthand to indicate those accounting and other requirements which apply in the case of the particular financial statements concerned. In the case of a company subject to company legislation in Hong Kong this will normally mean that the financial statements have been properly prepared in accordance with the Companies Ordinance and with accounting principles generally accepted in Hong Kong.

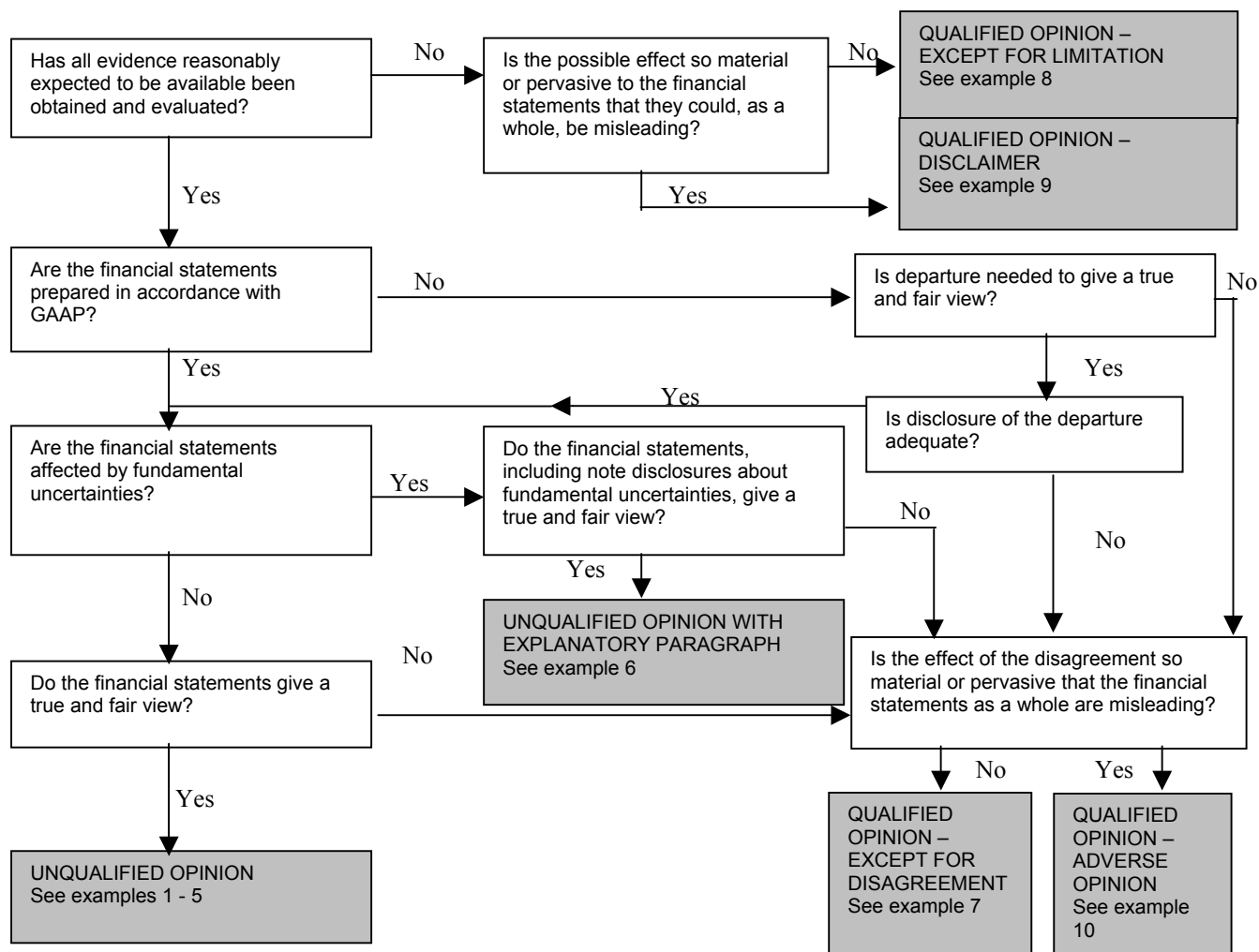
As a starting point, compliance with applicable accounting standards is likely to result in financial statements giving a true and fair view.

However, although usually a breach of the rules, whether by omission or substitution of an alternative accounting treatment, may mean that a true and fair view is not given, in exceptional cases departures from the rules are needed so that a true and fair view can be given.

Hence the third question:

- c. *do the financial statements, as prepared by the directors, give a true and fair view?*

Forming an opinion on financial statements



Questions concerning limitation and disagreement are presumed to involve matters considered to be material.

APPENDIX 2

Examples of auditors' reports on financial statements

Unqualified opinions

1. company incorporated in Hong Kong
2. company incorporated in Hong Kong submitting group accounts
3. company incorporated in Hong Kong applying section 141D of the Companies Ordinance
4. unincorporated enterprise operating in Hong Kong
5. company incorporated overseas
6. company incorporated in Hong Kong submitting group accounts - with an explanatory paragraph dealing with a fundamental uncertainty

Qualified opinions

7. disagreement
8. limitation on the auditors' work
9. disclaimer of opinion
10. adverse opinion
11. disagreement arising from departure from Accounting Standards and explanatory paragraph dealing with a fundamental uncertainty
12. disagreement arising from omission of a cash flow statement

Specialised industries - unqualified opinions

13. company carrying on banking/insurance business
- 14 - 17. *[Withdrawn; example auditors' reports on licensed corporations and associated entities of intermediaries are now included in PN 820 "The audit of licensed corporations and associated entities of intermediaries"]*
19. owners' corporation of building

Issued by a corporate practice

18. unqualified opinion - company incorporated in Hong Kong

Example 1 - Company incorporated in Hong Kong

**AUDITORS' REPORT
TO THE SHAREHOLDERS OF XYZ LIMITED**
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages to..... which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our 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 19.. and of its profit [loss] and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

**Example 2 – Company incorporated
in Hong Kong submitting group accounts**

**AUDITORS' REPORT
TO THE SHAREHOLDERS OF XYZ LIMITED**
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages to..... which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 19.. and of the group's profit [loss] and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

**Example 3* - Company incorporated in Hong Kong
applying section 141D of the Companies Ordinance**

**AUDITORS' REPORT
TO THE SHAREHOLDERS OF XYZ LIMITED**

(incorporated in Hong Kong with limited liability)

We have audited the balance sheet together with the notes thereon on pages to which has been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare a profit and loss account and a balance sheet. Pursuant to section 141D of the Companies Ordinance, the balance sheet together with the notes thereon should be prepared in accordance with the requirements of the Eleventh Schedule to the Companies Ordinance. In preparing those statements it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on the balance sheet together with the notes thereon and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. The audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the balance sheet and the notes thereon. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the balance sheet and the notes thereon, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the balance sheet together with the notes thereon is free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the balance sheet together with the notes thereon. We believe that our audit provides a reasonable basis for our opinion.

Opinion

We report that we have obtained all the information and explanations which we have required.

In our opinion the balance sheet together with the notes thereon is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs as at 31 December 19.. according to the best of our information and explanations given to us, and as shown by the books of the company.

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

* The example report is applicable to an audit of a company applying section 141D of the Companies Ordinance for periods beginning before 1 January 2005. For periods beginning on or after 1 January 2005, the applicable example report is that in the Appendix to PN 900 "Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard". Where such a company early adopts the Small and Medium-sized Entity Financial Reporting Standard for a period beginning before 1 January 2005, the example report in PN 900 is applicable.

Example 4 - Unincorporated enterprise operating in Hong Kong

**AUDITORS' REPORT
TO THE MEMBERS OF XYZ COMPANY**

We have audited the financial statements on pages to..... which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of the governing council and auditors

The company's constitution and by-laws require the governing council to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

We are engaged to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the governing council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our 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 19.. and of its surplus [deficit] and cash flows for the year then ended and have been properly prepared in accordance with the constitution and by-laws of the company.

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

Example 5 - Company incorporated overseas**AUDITORS' REPORT
TO THE SHAREHOLDERS OF XYZ LIMITED**
(incorporated in [country or place] with limited liability)

We have audited the financial statements on pages to..... which have been prepared in accordance with [accounting principles generally accepted in Hong Kong (or International Accounting Standards)]*.

Respective responsibilities of directors and auditors

The company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our 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 19.. and of its profit [loss] and cash flows for the year then ended [and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance (and/or other legal requirements)]*.

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

* It may be necessary to refer to International Accounting Standards or other national accounting standards and/or other national legal requirements according to the jurisdiction in which the company is incorporated.

**Example 6 - Company incorporated in Hong Kong
submitting group accounts - with an explanatory paragraph
dealing with a fundamental uncertainty**

**AUDITORS' REPORT
TO THE SHAREHOLDERS OF XYZ LIMITED**
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages to..... which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the possible outcome to litigation against B Limited, a subsidiary of the company, for an alleged breach of environmental regulations. The future settlement of this litigation could result in additional liabilities and the closure of B Limited's business, whose net assets included in the consolidated balance sheet total \$X and whose profit before taxation for the year is \$Y. Details of the circumstances relating to this fundamental uncertainty are described in note We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the financial statements and our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 19.. and of the group's profit [loss] and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

Example 7 - Disagreement

**AUDITORS' REPORT
TO THE SHAREHOLDERS OF XYZ LIMITED**
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages to..... which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Qualified opinion arising from disagreement about accounting treatment

Included in debtors shown on the balance sheet is an amount of \$X due from a debtor which has ceased trading. XYZ Limited has no security for this debt. In our opinion the company is unlikely to receive any payment and full provision of \$X should have been made, reducing profit before taxation for the year and net assets at 31 December 19.. by that amount.

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

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

Example 8 - Limitation on the auditors' work**AUDITORS' REPORT
TO THE SHAREHOLDERS OF XYZ LIMITED**
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages to..... which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited because \$X of the company's recorded turnover comprises cash sales, over which there was no system of control on which we could rely for the purpose of our audit. There were no other satisfactory audit procedures that we could adopt to confirm that all cash sales were properly recorded.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Qualified opinion arising from limitation of audit scope

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning cash sales, in our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 19.. and of its profit [loss] and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

In respect alone of the limitation on our work relating to cash sales:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper books of account had been kept.

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

Example 9 - Disclaimer of opinion

**AUDITORS' REPORT
TO THE SHAREHOLDERS OF XYZ LIMITED**
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages to..... which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited because we were initially appointed auditors on (date) which was subsequent to the end of the company's financial year. In consequence we were unable to carry out auditing procedures necessary to obtain adequate assurance regarding the quantities and condition of inventories and work in progress, appearing in the balance sheet at \$X. There were no other satisfactory audit procedures that we could adopt to obtain sufficient evidence regarding the existence of inventories and work in progress. Any adjustment to the figure may have a consequential significant effect on the profit [loss] for the year and net assets at 31 December 19...

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Qualified opinion: Disclaimer on view given by financial statements

Because of the significance of the possible effect of the limitation in evidence available to us, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of the company's affairs as at 31 December 19.. or of its profit [loss] and cash flows for the year then ended. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the Companies Ordinance.

In respect alone of the limitation on our work relating to inventories and work in progress:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper books of account had been kept.

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

Example 10 - Adverse opinion

**AUDITORS' REPORT
TO THE SHAREHOLDERS OF XYZ LIMITED**
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages to..... which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Qualified opinion: Adverse opinion

As more fully explained in note ... losses expected to arise on certain long-term contracts currently in progress have not been recognised as expenses, as the directors consider that such losses should be off-set against amounts recoverable on other long-term contracts. In our opinion, the expected losses on individual contracts should be recognised as expenses immediately as required by HKICPA Statement 2.123 "Construction contracts". If losses had been so recognised the effect would have been to [reduce the profit/increase the loss] before taxation for the year and reduce the gross amounts due from customers at 31 December 19.. by \$X.

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

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

**Example 11 - Disagreement arising from departure from
Accounting Standards and explanatory paragraph
dealing with a fundamental uncertainty**

**AUDITORS' REPORT
TO THE SHAREHOLDERS OF XYZ LIMITED**
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages to..... which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the possible outcome of negotiations for additional finance being made available to replace an existing loan of \$X which is repayable on 30 June 19... The financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available. The financial statements do not include any adjustments that would result from a failure to obtain such funding. Details of the circumstances relating to this fundamental uncertainty are described in note ... We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the financial statements and our opinion is not qualified in this respect.

Qualified opinion arising from disagreement about accounting treatment

The company leases plant and equipment which have been accounted for in the financial statements as operating leases. In our opinion, these leases should be accounted for as finance leases as required by HKICPA Statement 2.114 "Accounting for leases and hire purchase contracts" (SSAP 14). If this accounting treatment were followed, the fixed assets held under finance leases and the finance lease obligations would be reflected in the company's balance sheet at 31 December 19.. at \$X and \$Y respectively and the profit [loss] before taxation for the year would have been reduced [increased] by \$Z. The financial statements do not include an explanation for this departure from an applicable Accounting Standard.

Except for the failure to account for the leases referred to above as required by SSAP 14, in our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 19.. and of its profit [loss] and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

Example 12 -Disagreement arising from omission of a cash flow statement

**AUDITORS' REPORT
TO THE SHAREHOLDERS OF XYZ LIMITED**
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages to..... which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Qualified opinion arising from omission of cash flow statement

As explained in note .. the financial statements do not contain a cash flow statement as required by HKICPA Statement 2.115 "Cash flow statements". The increase [decrease] in cash and cash equivalents for the year ended 31 December 19.. amounted to \$X and in our opinion information about the company's cash flows is necessary for a proper understanding of the company's state of affairs and profit [loss].

Except for the failure to provide information about the company's cash flows, in our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 19.. and of its profit [loss] for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

Example 13 - Company carrying on banking/insurance business

**AUDITORS' REPORT
TO THE SHAREHOLDERS OF XYZ LIMITED**
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages to which have been prepared in accordance with the provisions of the Companies Ordinance applicable to banking/insurance companies and accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements on the basis of the provisions of the Companies Ordinance applicable to banking/insurance companies. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements have been properly prepared in accordance with the provisions of the Companies Ordinance applicable to banking/insurance companies and, on that basis, give a true and fair view of the state of the company's affairs as at 31 December 19.. and of its profit [loss] and cash flows for the year then ended.

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

Examples 14 – 17 have been withdrawn

**Example 18 - An auditors' report issued by
a corporate practice expressing an unqualified opinion
on the financial statements of a company incorporated in Hong Kong**

**AUDITORS' REPORT
TO THE SHAREHOLDERS OF XYZ LIMITED**
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages to which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our 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 20.. and of its profit [loss] and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

[Note 1]

ABC CPA (Practising) Co. Ltd.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

[Note 2]

Albert Norman Chan
Practising Certificate number xxxx

Notes:

- 1. The report states the name of the corporate practice and the location of its office and is signed in the name of the corporate practice.*
- 2. The report 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 his/her practising certificate number.*

Example 19 - Owners' corporation of building

**AUDITORS' REPORT
TO THE MEMBERS OF THE OWNERS' CORPORATION OF XYZ BUILDING
("CORPORATION")**

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

We have audited the income and expenditure account and balance sheet ("accounts") of the Corporation on pages ___ to ___ which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of the Management Committee and auditors

The Building Management Ordinance requires the Management Committee to prepare accounts which present fairly the financial transactions and financial position of the Corporation. In preparing these accounts it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on the accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Management Committee in the preparation of the accounts, and of whether the accounting policies are appropriate to the Corporation's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts present fairly the financial transactions of the Corporation during the [year/period] ended _____ to which the accounts relate, and the financial position of the Corporation at the end of that [year/period].

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

Example 19 - Owners' corporation of building

核數師報告書

致X Y Z大廈業主立案法團(「法團」)(根據《建築物管理條例》第8條於香港成立，並已以在土地註冊處註冊)各業主

我們已完成審核刊於第 ____ 頁至第 ____ 頁按照香港公認會計原則編製的法團收支表與資產負債表(「帳目」)。

管理委員會與核數師各自的責任

《建築物管理條例》規定管理委員會須編製中肯地映法團之財務往來情況和財務狀況的帳目。在編製該等帳目時，管理委員會必須貫徹採用合適的會計政策。

我們的責任是根據我們審核工作的結果，對帳目發表獨立意見，並向業主報告。

意見基礎

我們已按照香港會計師公會頒布的《核數準則》進行審核工作。審核範圍包括以抽查方式查核與帳目內所載數額和披露事項有關的憑證，亦包括評估管理委員會於編製該等帳目時所作的重大估計和判斷、所釐定的會計政策是否適合法團的具體情況、並有否貫徹運用和足夠披露該等會計政策。

我們在策劃和進行審核工作時，均以取得一切我們認為必需的資料和解釋為目標，使我們能獲得充份的憑證，就該等帳目是不存有重大的錯誤陳述，作合理的確定。在作出意見時，我們亦已衡量該等帳目所載資料在整體上是否足夠。我們相信，我們的審核工作已為下列意見建立合理的基礎。

意見

我們認為，上述的帳目中肯地反映在截至 _____ 之〔年／季〕內法團之財務往來情況，與及在該〔年／季〕結束時法團的財務狀況。

〔ABC〕會計師事務所
香港執業會計師
香港
日期