

**STATEMENT OF AUDITING STANDARDS  
700  
ENGAGEMENTS TO REVIEW INTERIM FINANCIAL REPORTS**

*(Issued July 2000; revised August 2001, September 2004 (name change) and revised March 2007)*

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Auditors are required to comply with the requirements of this SAS in respect of reviews of interim financial reports for interim periods ended on or after 1 July 2000 and beginning before 15 December 2006 unless HKSRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" is early adopted. SAS 700 is replaced by HKSRE 2410 which is effective for reviews of interim financial information for periods beginning on or after 15 December 2006. Early adoption of HKSRE 2410 is permissible.

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**700**  
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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.*

*This SAS is not applicable to an audit of financial statements.*

**Introduction**

1. The purpose of this Statement of Auditing Standards (SAS) is to establish standards and provide guidance on auditors' professional responsibilities when an engagement to review an interim financial report is undertaken and on the form and content of the review report that auditors issue in connection with such an engagement. Guidance in other SASs may be useful to auditors in applying this SAS.
2. As explained in SAS 010 "The scope and authority of auditing pronouncements", as well as the audit of financial statements, auditors may be required to provide other audits and related services involving other financial information or non-financial information. Accordingly, references to auditors are not intended to imply that an audit is being or has been undertaken or that an audit opinion is expressed.

**The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the Listing Rules)**

3. The Listing Rules (Appendix 16) require that a listed issuer prepares an interim report in respect of the first six months of its financial year. The interim report shall include, at a minimum, the following components:
  - a. a balance sheet;
  - b. an income statement;
  - c. a cash flow statement;
  - d. a statement of movements in equity other than those arising from capital transactions with shareholders and distributions to shareholders;
  - e. comparative figures for the statements referred to in (a) to (c) above; and
  - f. accounting policies and explanatory notes.
4. Under the Listing Rules, a listed issuer's audit committee must review the interim report. Where an audit committee has not been formed, the listed issuer's auditors shall review the interim report.

**Definitions**

5. The following terms are used in this SAS with the meanings specified:
  - a. *Interim period* is a financial reporting period shorter than a full financial year.
  - b. *Interim report* is a report issued by an entity for an interim period containing financial and non-financial information.

- c. *Interim financial report* is a financial report within the interim report containing a complete set of financial statements (as described in SSAP 1 "Presentation of financial statements") or a set of condensed financial statements (as described in SSAP 25 "Interim financial reporting" or International Accounting Standard 34 "Interim financial reporting") for an interim period, identified by reference to page numbers, which auditors agree with directors will be reviewed by them in accordance with this SAS.

#### **Continuing auditors**

6. The review procedures outlined in this SAS assume that the auditors have audited the latest annual financial statements and have reviewed the corresponding interim financial report in the preceding year (interim comparatives). Where this is not the case, additional review procedures are likely to be necessary. These additional procedures are outlined in paragraphs 29, 44 and 45 below.

#### **Other assistance provided**

7. In some cases, the directors, or the audit committee acting on behalf of the board, may ask the auditors to carry out specific agreed-upon procedures on the interim financial report as an alternative to a review of the interim financial report in accordance with this SAS, or they may approach the auditors for advice and guidance on specific financial issues in their preparation of the interim financial report such as the policies relating to asset impairment or the useful life of goodwill. In such circumstances the auditors first agree the procedures to be carried out with the directors, or the audit committee, and then report within that context. Such engagements are outside the scope of this SAS.
8. *Where auditors are engaged to perform any work in relation to the interim financial report which is less than the scope of this SAS, they should communicate to the directors in the engagement letters and reports that they have not carried out a review of the interim financial report as contemplated in this SAS. (SAS 700.1)*

#### **Objective of a review engagement**

9. *The objective of a review of an interim financial report is to enable auditors to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to the auditors' attention that causes the auditors to believe that material modifications should be made to the interim financial report. (SAS 700.2)*
10. An engagement to review an interim financial report provides a moderate level of assurance that the information subject to review is free of material misstatement. For the purpose of this SAS, this is expressed in the form of negative assurance.

#### **General principles of a review engagement**

11. *Auditors should comply with the Statements of Professional Ethics issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). (SAS 700.3)*
12. Ethical principles governing auditors' professional responsibilities are:
  - a. independence;
  - b. integrity;
  - c. objectivity;
  - d. professional competence and due care;
  - e. confidentiality;
  - f. professional behaviour; and
  - g. technical standards.
13. *Auditors should conduct a review of an interim financial report in accordance with this SAS. (SAS 700.4)*

14. *Auditors should plan and perform the review of an interim financial report with an attitude of professional scepticism recognising that circumstances may exist which cause the interim financial report to be materially misstated. (SAS 700.5)*
15. *For the purpose of expressing negative assurance in the review report on an interim financial report, auditors should obtain sufficient appropriate evidence primarily through enquiries and analytical procedures to be able to draw conclusions. (SAS 700.6)*

### Scope of a review

16. *Auditors should determine the procedures required to conduct a review of an interim financial report having regard to the requirements of this SAS, legislation, regulations and, where appropriate, the terms of the review engagement and reporting requirements. (SAS 700.7)*
17. The term "scope of a review" refers to the review procedures deemed necessary in the circumstances to achieve the objective of the review.
18. While reviews involve the application of audit skills and techniques, they do not usually involve many of the procedures ordinarily performed during an audit. In an audit, because the auditors' objective is to provide a high, but not absolute, level of assurance on the reliability of the financial statements, auditors will use more extensive audit procedures than in a review.
19. Reviews involve limited procedures comprising enquiries of company personnel and analytical procedures applied to financial or non-financial information. Reviews of interim financial reports do not ordinarily involve:
  - a. a study and evaluation of internal accounting controls;
  - b. tests of accounting records; and
  - c. tests of responses to enquiries by obtaining corroborating evidence through:
    - i. inspection;
    - ii. observation; and
    - iii. confirmation.

Auditors may, however, decide that additional information is required from management and/or additional procedures are necessary to obtain sufficient appropriate evidence on aspects of the interim financial report subject to a review (for example when auditors have doubts as to the completeness and accuracy of the interim financial report). The acquisition of information in this way does not convert the engagement to an audit engagement. A review engagement may bring to the auditors' attention significant matters affecting the interim financial report, but it provides less assurance than would be provided by an audit where the auditors would become aware of all significant matters.

20. Although the procedures to be performed in a review will be less extensive than those necessary in an audit, the scope of the auditors' work remains the responsibility of the auditors and not that of the client. It is necessary for the auditors to consider, for example, whether any restrictions in the scope of the auditors' work imposed by the client are of such significance that a moderate level of assurance could not be provided. Where the proposed terms of a review engagement include a scope limitation such that the auditors believe that they are unable to reach a review conclusion, they would normally not accept such a limited scope engagement. Where such limitations are imposed during the course of a review engagement, the auditors would consider the need to modify their review report or, in extreme cases, withdraw from the engagement and consider whether there is an obligation to report the circumstances necessitating the withdrawal to third parties.

### Terms of engagement

21. *Auditors should agree the terms of the engagement of a review of an interim financial report with the client. (SAS 700.8)*
22. The agreed terms would be recorded in an engagement letter or other suitable form such as a contract.

23. An engagement letter will be of assistance in planning the review work. It is in the interests of both the auditors and the client that the auditors send an engagement letter documenting the key terms of the appointment. An engagement letter confirms the auditors' acceptance of the appointment and helps avoid misunderstanding regarding such matters as the objectives and scope of the engagement, the extent of the auditors' responsibilities and the form of reports to be issued.
24. Matters that would be included in the engagement letter include:
  - a. the objective of the review;
  - b. an explanation that the interim financial report is the responsibility of the entity's directors;
  - c. the scope of the review, including reference to this SAS;
  - d. unrestricted access to whatever records, documentation and other information requested in connection with the review;
  - e. a sample or a description of the form of the review report expected to be rendered;
  - f. the fact that the review cannot be relied upon to disclose errors, illegal acts or other irregularities, for example, fraud or defalcations that may exist; and
  - g. a statement that an audit will not be performed and that an audit opinion will not be expressed. To emphasise this point and to avoid confusion, the auditors may also consider pointing out that a review engagement will not satisfy any statutory or third party requirements for an audit.
25. An example of an engagement letter for a review of an interim financial report appears in Appendix 1.

## **Planning**

26. *Auditors should plan the work so that an effective review of an interim financial report will be performed. (SAS 700.9)*
27. *In planning a review of an interim financial report, auditors should obtain or update the knowledge of the business including consideration of the entity's organisation, accounting systems, operating characteristics and the nature of its assets, liabilities, revenues and expenses. (SAS 700.10)*
28. Auditors need to possess an understanding of such matters and other matters relevant to the interim financial report, for example, a knowledge of the entity's production and distribution methods, product lines, operating locations and related parties. Auditors require this understanding to be able to make relevant enquiries and to design appropriate procedures, as well as to assess the responses and other information obtained.
29. The knowledge and understanding of the entity required would have been acquired by auditors who have carried out audits of the entity's financial statements or reviews of interim financial reports in recent previous periods. Where a review engagement is undertaken by auditors who do not have the knowledge acquired from recent previous periods, those auditors need to be satisfied that sufficient knowledge and understanding are obtained. The auditors would consider the need to increase the extent and/or broaden the nature of the procedures to be performed during the review engagement. In the case of auditors who have knowledge acquired from recent previous periods, procedures would be performed to update that knowledge and identify significant changes.
30. The knowledge of the business would include an understanding of the internal control structure as it relates to the preparation of the interim financial report. This helps to ensure that appropriate attention is given to the impact of the internal control structure on the risk of occurrence of material misstatements.

## **Work performed by others**

31. *When using work performed by another auditor or an expert, auditors should be satisfied that such work is adequate for the purposes of the review of an interim financial report. (SAS 700.11)*

32. When auditors are reporting on the interim financial report of a group, the auditors would need to establish the scope of the review work required, if any, for each division, subsidiary, associate and jointly controlled entity. If this requires the involvement of other auditors, the review programme is tailored to take this into account. The principal auditors would advise the other auditors of the nature and extent of work required, the report required and the reporting timetable. Further guidance is included in SAS 510 "Principal auditors and other auditors".
33. Guidance on using the work of experts is included in SAS 520 "Using the work of an expert".

### **Documentation**

34. *Auditors should document matters which are important in providing evidence to support the conclusion in the review report, and evidence that the review of an interim financial report was carried out in accordance with this SAS. (SAS 700.12)*

### **Procedures and evidence**

35. *Auditors should apply professional judgement in determining the specific nature, timing and extent of procedures for a review of an interim financial report. (SAS 700.13)*
36. Auditors will be guided by such matters as:
  - a. any knowledge acquired by carrying out audits of the financial statements or reviews of interim financial reports for prior periods;
  - b. the auditors' knowledge of the business including knowledge of the accounting principles and practices of the industry in which the entity operates;
  - c. the entity's accounting systems;
  - d. the extent to which a particular item is affected by management judgement;
  - e. the materiality of transactions and account balances; and
  - f. management's own assessment of the risks underlying the interim financial report and the monitoring and other controls established to mitigate those risks.
37. *Auditors should apply the same materiality considerations as would be applied if an audit opinion on the interim financial report were being given. (SAS 700.14)*
38. Although there is a greater risk that misstatements will not be detected in a review than in an audit, the judgement as to what is material is made by reference to the information on which auditors are reporting and the needs of those relying on that information, not to the level of assurance provided. SSAP 25 "Interim financial reporting" requires that in deciding how to recognise, measure, classify or disclose an item for interim financial reporting purposes, materiality should be assessed in relation to the interim period financial data. It also states that in making assessments of materiality, it should be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.
39. Procedures for the review of an interim financial report will ordinarily include:
  - a. obtaining an understanding of the entity's business and the industry in which it operates;
  - b. enquiries concerning the entity's accounting principles and practices;
  - c. enquiries concerning the entity's procedures for recording, classifying and summarising transactions, accumulating information for disclosure in the interim financial report and preparing the interim financial report;
  - d. enquiries concerning all material assertions in the interim financial report;
  - e. analytical procedures designed to identify relationships and individual items that appear unusual. Such procedures would include:
    - i. comparison of the interim financial report with those for prior periods;

- ii. comparison of the interim financial report with anticipated results and financial position; and
- iii. study of the relationships of the elements of the interim financial report that would be expected to conform to a predictable pattern based on the entity's experience or industry norm.

In applying these procedures, the auditors would consider the types of matters that required accounting adjustments in prior periods;

- f. enquiries concerning actions taken at meetings of shareholders, the board of directors, audit committees and other committees of the board of directors and other meetings that may affect the interim financial report;
  - g. reading the interim financial report to consider, on the basis of information coming to the auditors' attention, whether the interim financial report appears to conform with the basis of accounting indicated;
  - h. obtaining review reports from other auditors, if any and if considered necessary, who have been engaged to review the interim financial report of components of the entity; and
  - i. enquiries of persons having responsibility for financial and accounting matters concerning, for example:
    - i. whether all transactions have been recorded;
    - ii. whether the interim financial report has been prepared in accordance with the basis of accounting indicated;
    - iii. changes in the entity's business activities and accounting principles and practices; and
    - iv. matters as to which questions have arisen in the course of applying the foregoing procedures.
40. Appendix 2 provides an illustrative list of procedures which are often used. The list is not exhaustive, nor is it intended that all the procedures suggested apply to every engagement to review an interim financial report.
41. ***Auditors should enquire about events subsequent to the date of the interim financial report that may require adjustment of or disclosure in the interim financial report. (SAS 700.15)***
42. Auditors do not have a duty to search for evidence of events occurring after the date of their review report.
43. ***If auditors have reason to believe that the information subject to review may be materially misstated, auditors should carry out additional or more extensive procedures as are necessary to be able to issue an unmodified review report or to confirm that a modified review report is required. (SAS 700.16)***

### **Changes in auditor appointment**

44. Where the auditors did not audit the latest annual financial statements, additional procedures will be necessary before the incoming auditors have sufficient evidence on which to base their review conclusion. Incoming auditors are required to:
- a. obtain a knowledge of the business, sufficient to enable them to identify and understand issues that may have a significant effect on the financial statements, and consider the appropriateness of accounting policies and financial statement disclosures;
  - b. assess inherent risk in relation to financial statement assertions about material account balances and classes of transactions;
  - c. obtain an understanding of, and where appropriate test, accounting and internal control systems;

- d. obtain sufficient appropriate evidence that opening balances have been appropriately brought forward and that the accounting policies used for the comparatives are consistent with those of the current period.
45. Auditors are unlikely to be able to issue a review report on an interim financial report until the procedures outlined in paragraph 44 have been performed.

### **Management representations**

46. In the course of a review of an interim financial report, auditors may make enquiries of directors and senior management in order to obtain information and explanations concerning particular matters contained in that report. The possibility of misunderstandings concerning relevant information and explanations obtained in oral responses to such enquiries may be reduced by obtaining confirmation in writing. The auditors may also wish to confirm in writing more general matters such as the completeness of relevant information made available to them for the purpose of their review. The auditors obtain from the directors such written representations as they consider necessary in the circumstances. Such representations by the directors normally include:
- a. acknowledgement by the directors that the auditors' review is substantially less in scope than an audit performed in accordance with SASs and that the auditors do not express an audit opinion;
  - b. acknowledgement of the directors' responsibility for the interim financial report and for the consistency of accounting policies and presentation with those applied in the preceding annual financial statements, save where they are to be changed in the subsequent annual financial statements;
  - c. acknowledgement of the directors' responsibility for the completeness of the financial records and of the minutes (and summaries of meetings for which minutes have not been prepared) that were made available to the auditors for the purpose of their review;
  - d. confirmation that the directors have updated their assessment of going concern made for the purposes of preparing the preceding annual financial statements and whether any significant factors identified at that date have changed so as to affect the appropriateness of the going concern assumption in the preparation of the interim financial report;
  - e. confirmation that the directors are not aware of any material amounts, transactions, agreements or contingencies not fairly described and properly recorded in the accounting records underlying the interim financial report;
  - f. notification of any subsequent events that would require adjustment of, or disclosure in, the interim financial report;
  - g. other matters, if any, for which the auditors consider written representations are appropriate in the circumstances. Such matters might include the substance of significant assertions, estimates or judgements or interpretations of facts by the directors, that have a significant effect on the interim financial report.
47. An illustrative management representation letter is given in Appendix 5. The auditors request a management representation letter to meet the specific circumstances of the review engagement.

### **Discussion of findings with the board of directors and the audit committee**

48. Before issuing their review report, auditors would generally communicate the results of their findings from the review of an interim financial report to the board of directors and the audit committee. Matters which may result in discussion and reporting include the following:
- a. the scope and the results of the procedures undertaken;
  - b. the process by which the interim financial report has been prepared and in particular the process used by management in formulating accounting estimates and the basis for the auditors' conclusions regarding the reasonableness of those estimates;
  - c. changes to accounting policies and presentation, the reasons for them and whether comparatives for the prior year and prior interim period have been restated; and



- d. issues which have been discussed with management such as:
  - i. matters that cause the auditors to believe that the interim financial report may be materially misstated;
  - ii. any significant adjustments resulting from the review;
  - iii. any changes of accounting policy or presentation applied in preparing the interim financial report from those applied to the preceding annual financial statements.

## Conclusions and reporting

- 49. *The report on a review of an interim financial report should contain a clear written expression of negative assurance. Auditors should review and assess the conclusions drawn from the evidence obtained as the basis for the expression of negative assurance. (SAS 700.17)*
- 50. *Based on the work performed, auditors should assess whether any information obtained during the review indicates that material modifications should be made to the interim financial report. (SAS 700.18)*
- 51. The report on a review of an interim financial report describes the scope of the engagement to enable the reader to understand the nature of the work performed and make it clear that an audit was not performed and, therefore, that an audit opinion is not expressed.
- 52. *The report on a review of an interim financial report should contain the following basic elements, ordinarily in the following layout:*
  - a. *title;*
  - b. *addressee;*
  - c. *an introductory paragraph identifying the interim financial report reviewed;*
  - d. *a statement that the interim financial report is the responsibility of, and has been approved by, the directors and in the case of a listed issuer, a further statement that the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with [SSAP 25 "Interim financial reporting" issued by the HKICPA] / [International Accounting Standard 34 "Interim financial reporting"] and the relevant provisions thereof;*
  - e. *a statement that the review was carried out in accordance with this SAS;*
  - f. *a description of the work performed in undertaking the review;*
  - g. *a review conclusion;*
  - h. *date of the review report;*
  - i. *location of the auditors' office; and*
  - j. *auditors' signature. (SAS 700.19)*
- 53. It may be appropriate to use the term "Independent" in the title to distinguish the review report on an interim financial report from reports that might be issued by others, such as officers of the entity, or from the reports of other auditors who may not have to abide by the same ethical requirements as an independent auditor.
- 54. *An unmodified review report on an interim financial report should state that, based on the review, nothing has come to the auditors' attention that causes the auditors to believe that material modifications should be made to the interim financial report. (SAS 700.20)*
- 55. Appendix 3 illustrates an unmodified review report.

**Modification of the review report**

56. *The review report should be modified if, based on their review, the auditors consider that a material modification is required to the interim financial report or, the other information in the interim report contains an apparent misstatement or material inconsistency with the interim financial report. (SAS 700.21)*
57. *If there has been a limitation in the scope of the auditors' work that prevents them from obtaining sufficient evidence to provide an unmodified review report, the review report should describe the limitation and indicate that the report is modified as to the possible adjustments to the interim financial report that might have been determined to be necessary had the limitation not existed. (SAS 700.22)*
58. *In rare cases when there has been a limitation in the scope of the auditors' work which the auditors believe to be so significant that they conclude that no assurance can be given, the auditors should state that they are unable to reach a review conclusion and consider the implications for their appointment. (SAS 700.23)*
59. A modification to the interim financial report may be required where, amongst other things:
- a. an accounting policy or the presentation applied is materially inconsistent with that used in the preceding annual financial statements and the changes, and reasons for them, are not adequately disclosed;
  - b. the interim financial report has not been adjusted for a known accounting policy change to be made in the subsequent annual financial statements, no estimate of the effect of the change has been made, and no statement of explanation has been made;
  - c. a new accounting policy has not been adopted where required by Accounting Standards or otherwise;
  - d. an inappropriate accounting policy has been applied; or
  - e. there is inadequate disclosure of a fundamental uncertainty, i.e. an uncertainty, the resolution of which is dependent on future events and whose potential effect on the interim financial report is unusually great.
60. If the auditors have reason to believe that there is a fundamental uncertainty, for example a significant level of concern about the entity's ability to continue as a going concern, or a significant level of concern in respect of litigation, the auditors would include an explanatory paragraph in the review report, drawing attention to the fundamental uncertainty, provided that the interim financial report appropriately discloses the matter. The explanatory paragraph is to be placed before the "Review conclusion" of the review report.
61. When the auditors decide to add a paragraph describing a fundamental uncertainty in their review report, this will normally adequately serve readers of the interim financial report. However in extreme cases, such as situations involving multiple uncertainties that are fundamental to the interim financial report, the auditors may consider it appropriate to state that they are unable to reach a review conclusion.
62. Guidance on the auditors' consideration of the other information in the interim report is set out in paragraphs 67 - 70 below.
63. A modification to the review report describes the nature of the matter identified and, if practicable, states the effects on the interim financial report. Appendix 4 illustrates four examples of such modified review reports.

**Interim comparatives not reviewed**

64. The Listing Rules and SSAP 25 "Interim financial reporting" require that comparatives are given in the interim financial report. Users of interim reports are likely to assume that the interim comparatives have been subject to the same review procedures as current interim financial report. Where a review is to be performed for the first time and auditors are unable to perform a review of the interim comparatives in accordance with this SAS, they modify their review report to indicate that the interim comparatives were not reviewed.

**Prior period modifications**

65. If the prior period review report on the interim comparatives or the audit report on the preceding annual financial statements was modified, and the matter that gave rise to the modification has not been resolved, the review report refers to the modification, and discusses the current status of the matter giving rise to the modification and the implications for the information presented in the interim financial report.

**Dating of review report**

66. *Auditors should date the review report on an interim financial report as of the date the review is completed, which includes performing procedures relating to events occurring up to the date of the report. However, since the auditors' responsibility is to report on the interim financial report as prepared and presented by the board of directors, auditors should not date the review report earlier than the date on which the interim financial report is approved by the board of directors. (SAS 700.24)*

**Other information in the interim report**

67. Other information that may accompany an interim financial report in the interim report includes a separate statement containing a discussion and analysis of the performance during the period and the material factors underlying the results and financial position; it may also include, for example, performance summaries and prospective information. For the purpose of this SAS, these additional statements/information are collectively referred to as "the other information".
68. To indicate that the auditors are neither responsible for nor reporting on the other information, the auditors would be specific as to the interim financial report on which they are reporting by identifying the page numbers containing the interim financial report as follows:
- "We have been instructed by the company to review the interim financial report set out on pages ... to ... ."
69. Although the auditors are not responsible for the other information, there could be a belief on the part of the reader that the auditors have in fact satisfied themselves that the other information is accurate or at least not misleading. The auditors would therefore consider whether the other information is materially inconsistent with the matters covered by their review report, or misleading. If the auditors become aware of any apparent misstatements or material inconsistencies with the matters covered by their review report, they seek to resolve them through discussions with the directors and the audit committee if applicable.
70. If the auditors conclude that the other information contains any apparent misstatements or material inconsistencies with the matters covered by their review report and they are unable to resolve them through discussion with the directors, they may need to seek legal advice on appropriate action, and may, after consulting their lawyers, decide to make reference to the misstatements or inconsistencies in their review report. Further guidance is included in [SAS 160 "Other information in documents containing audited financial statements"].

**Requests to discontinue an engagement to review an interim financial report**

71. There may be rare circumstances in which the auditors indicate in advance to the directors that their review report may be modified for one or more of the reasons set out in paragraphs 56 to 63 above. In these cases the directors may choose to request the auditors to discontinue the review engagement rather than accept a modified review report. The auditors would inform the audit committee of this situation as soon as possible. If information is communicated orally, the auditors would subsequently document the communication as appropriate.

**Compliance with International Standards on Auditing**

72. 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 910 "Engagements to Review Financial Statements".

**Effective date**

73. Auditors are required to comply with the requirements of this SAS in respect of reviews of interim financial reports for interim periods ended on or after 1 July 2000 and beginning before 15 December 2006 unless HKSRE 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” is early adopted.

## APPENDIX 1

### Example of an engagement letter for a review of an interim financial report

*The following letter is for use as a guide in conjunction with the considerations outlined in paragraph 24 of this SAS and will need to be varied according to individual requirements and circumstances.*

Board of Directors  
XYZ Company

Dear Sirs,

#### **XYZ COMPANY INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED [    ]**

This letter is to confirm our understanding of the terms and objective of our engagement to review the company's above interim financial report and the nature and limitations of such a review.

#### **Objective of our review**

The objective of our review is to enable us to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to our attention that causes us to believe that material modifications should be made to the above interim financial report.

#### **Directors' responsibility**

As directors of XYZ Company, you are responsible under [the Companies Ordinance] for keeping proper accounting records. [The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with [SSAP 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants] / [International Accounting Standard 34 "Interim financial reporting"] and the relevant provisions thereof.]\* You are also responsible for the interim financial report, including its adequate disclosure. This includes the maintenance of adequate accounting records and internal controls and the selection and application of appropriate accounting policies.

For the purpose of our review you will make available to us, as and when required, all of the company's books of account and all other relevant records and related information, including minutes of all management and shareholders' meetings, that we consider necessary.

#### **Scope and limitations of our review**

We will review the interim financial report of the company (group)\* for the [period] ended [date] in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. We will not perform an audit of the interim financial report and, accordingly, we will not express an audit opinion on it. We advise that this review engagement will not satisfy any statutory or third party requirements for an audit. Accordingly, we expect to report on the interim financial report as follows:

(see Appendix 3 to this SAS)

The responsibility for safeguarding the assets of the company (group)\* and for the prevention and detection of fraud, errors and non-compliance with law or regulations rests with yourselves. Our engagement cannot be relied upon to disclose whether fraud or errors, or illegal acts exist. However, we will inform you of any material matters that come to our attention.

#### **Representations by management**

As part of our review process, we may request written representations from you concerning assertions made in connection with the review.

**(Other auditors**

In carrying out the engagement it will be necessary for us to communicate directly with the auditors of the company's divisions, subsidiaries, associates and jointly controlled entities to the extent which we consider necessary for the purposes of making our report.)\*

**Fees**

Our fees are computed on the basis of the time spent on your affairs by the partners and our staff and on the levels of skill and responsibility involved plus out-of-pocket expenses. Unless otherwise agreed, our fees will be billed at appropriate intervals during the course of the review and will be due on presentation.

**Agreement of terms**

Once it has been agreed, this letter will remain effective, from one review of interim financial report appointment to another, until replaced. We shall be grateful if you could confirm in writing your agreement to these terms by signing and returning the enclosed copy of this letter, or let us know if they are not in accordance with your understanding of the arrangements for our review of the interim financial report.

Yours faithfully,

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

---

We agree to the terms of this letter.

(signed)  
.....  
Director, for and on behalf of the Board of XYZ Company  
Date

---

\* Delete where not applicable.

**APPENDIX 2****Illustrative detailed procedures that may be performed in an engagement to review an interim financial report**

1. The enquiries and analytical review procedures carried out in a review of an interim financial report are determined by the auditors' professional judgement. The procedures listed below are not exhaustive, and are for illustrative purposes only. It is not intended that all the procedures suggested apply to every review engagement. This Appendix is not intended to serve as a program or checklist in the conduct of a review.

*General*

2. Discuss terms and scope of the engagement with the client and the engagement team.
3. Prepare an engagement letter setting forth the terms and scope of the engagement.
4. Obtain an understanding of the entity's business activities and the system for recording financial information and preparing the interim financial report.
5. Enquire whether all financial information is recorded:
  - a. completely;
  - b. accurately;
  - c. promptly; and
  - d. after the necessary authorisation.
6. Obtain the trial balance and determine whether it agrees with the general ledger and the interim financial report.
7. Consider the results of previous audits and review engagements, including accounting adjustments required.
8. Enquire whether there have been any significant changes in the entity from the previous year (e.g. changes in ownership or changes in capital structure).
9. Enquire about the accounting policies and consider whether:
  - a. they comply with the identified financial reporting framework;
  - b. they have been applied appropriately; and
  - c. they have been applied consistently and, if not, consider whether disclosure has been made of any changes in the accounting policies.
10. Read the minutes of meetings of shareholders, the board of directors, audit committee and other appropriate committees in order to identify matters that could be important to the review.
11. Enquire if actions taken at shareholder, board of directors or comparable meetings that affect the interim financial report have been appropriately reflected therein.
12. Enquire about the existence of transactions with related parties, how such transactions have been accounted for and whether related parties have been properly disclosed.
13. Enquire about contingencies and commitments.
14. Enquire about plans to dispose of major assets or business segments.
15. Obtain the interim financial report and discuss it with management.
16. Consider the adequacy of disclosure in the interim financial report and its suitability as to classification and presentation.

17. Compare the results shown in the current period interim financial report with those shown in interim financial reports for comparable prior periods and, if available, with budgets and forecasts.
18. Obtain explanations from management for any unusual fluctuation or inconsistencies in the interim financial report.
19. Consider the effect of any unadjusted errors - individually and in aggregate. Bring the errors to the attention of management and determine how the unadjusted errors will influence the auditors' review report.
20. Consider obtaining a representation letter from management. An example of a management representation letter in respect of a review of an interim financial report appears in Appendix 5 to this SAS.
21. Consider the appropriateness of the going concern basis in the preparation of the interim financial report.

*Cash*

22. Obtain the bank reconciliations. Enquire about any old or unusual reconciling items with client personnel.
23. Enquire about transfers between cash accounts for the period before and after the balance sheet date.
24. Enquire whether there are any restrictions on cash accounts.

*Receivables*

25. Enquire about the accounting policies for recording trade receivables.
26. Obtain a schedule of receivables and determine whether the total agrees with the trial balance.
27. Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.
28. Obtain an aged analysis of the trade receivables. Enquire about the reason for unusually large accounts, credit balances on accounts or any other unusual balances and enquire about the collectibility of receivables.
29. Discuss with management the classification of receivables, including non-current balances, net credit balances and amounts due from shareholders, directors and other related parties in the interim financial report.
30. Enquire about the method for identifying "slow payment" accounts and making provisions for doubtful accounts and consider it for reasonableness.
31. Enquire whether receivables have been pledged, factored or discounted.
32. Enquire about procedures applied to ensure that a proper cutoff of sales transactions and sales returns has been achieved.
33. Enquire whether accounts represent goods shipped on consignment and, if so, whether adjustments have been made to reverse these transactions and include the goods in inventory in accordance with the identified financial reporting framework.
34. Enquire whether any large credit notes relating to revenue recorded have been issued after the balance sheet date and whether provision has been made for such amounts.

*Inventories*

35. Obtain the inventory list and determine whether:
  - a. the total agrees with the balance in the trial balance; and
  - b. the list is based on a physical count of inventory.
36. Enquire about the method for counting inventory.



37. Where a physical count was not carried out on the balance sheet date, enquire whether:
  - a. a perpetual inventory system is used and whether periodic comparisons are made with actual quantities on hand; and
  - b. an integrated cost system is used and whether it has produced reliable information in the past.
38. Discuss adjustments made resulting from the last physical inventory count.
39. Enquire about procedures applied to control cutoff and any inventory movements.
40. Enquire about the basis used in valuing each category of the inventory and, in particular, regarding the elimination of inter-branch profits. Enquire whether inventory is valued in accordance with the identified financial reporting framework.
41. Consider the consistency with which inventory valuation methods have been applied, including factors such as material, labour and overhead.
42. Compare amounts of major inventory categories with those of prior periods and with those anticipated for the current period. Enquire about major fluctuations and differences.
43. Compare inventory turnover with that in previous periods.
44. Enquire about the method used for identifying slow moving and obsolete inventory and whether such inventory has been accounted for at net realisable value.
45. Enquire whether any of the inventory has been consigned to the entity and, if so, whether adjustments have been made to exclude such goods from inventory in accordance with the identified financial reporting framework.
46. Enquire whether any inventory is pledged, stored at other locations or on consignment to others and consider whether such transactions have been accounted for appropriately.

*Investments (including associates, and debt and equity securities)*

47. Obtain a schedule of the investments and determine whether it agrees with the trial balance.
48. Discuss with management the classification of investments.
49. Enquire about the accounting policies applied to investments.
50. Discuss with management as to whether there has been any impairment of investments.
51. Consider whether there has been proper accounting for changes in fair value, impairment losses, gains and losses on disposal, and investment income.

*Properties, plant and equipment and depreciation*

52. Obtain a schedule of the properties, plant and equipment and determine whether it agrees with the trial balance.
53. Enquire about the accounting policies applied to investment properties, other properties, plant and equipment, including the policies regarding the provisions for depreciation. Consider whether the properties, plant and equipment have suffered a material permanent impairment in value or, for properties, plant and equipment carried at valuation, a material change in fair value.
54. Discuss with management the additions and deletions to property, plant and equipment accounts and accounting for gains and losses on sales or retirements, or surpluses and deficits on revaluation.  
  
Enquire whether all such transactions have been properly accounted for.
55. Enquire about the consistency with which the depreciation method and rates have been applied and compare depreciation provisions with prior years.
56. Enquire whether there are any liens on the properties, plant and equipment.
57. Discuss whether lease agreements have been properly reflected in the interim financial report in conformity with the identified financial reporting framework.

58. Discuss the method of financing acquisitions of properties, plant and equipment such as the use of options, sale and leaseback and joint ventures and consider whether they have been properly accounted for in accordance with the identified financial reporting framework.
59. Discuss the policy relating to capitalisation of interest and consider whether it is in accordance with the identified financial reporting framework.

*Prepaid expenses, intangibles and other assets*

60. Obtain schedules identifying the nature of these accounts and discuss with management the recoverability thereof.
61. Enquire about the basis for recording these accounts and the amortisation methods used.
62. Compare balances of related expense accounts with those of prior periods and discuss significant variations with management.
63. Discuss the classification between non-current and current accounts with management.

*Loans payable*

64. Obtain from management a schedule of loans payable and determine whether the total agrees with the trial balance.
65. Enquire whether there are any loans where management has not complied with the provisions of the loan agreement and, if so, enquire as to management's actions and whether appropriate adjustments have been made in the interim financial report.
66. Consider the reasonableness of interest expense in relation to loan balances.
67. Enquire whether loans payable are secured.
68. Enquire whether loans payable have been classified between non-current and current.
69. Enquire as to arrangements for the continuing provision of finance facilities.

*Trade payables*

70. Enquire about the accounting policies for recording trade payables.
71. Obtain and consider explanations for significant variations in account balances from previous periods or from those anticipated.
72. Obtain a schedule of trade payables and determine whether the total agrees with the trial balance.
73. Enquire whether balances are reconciled with the creditors' statements and compare with prior period balances. Compare turnover with prior periods.
74. Consider whether there could be material unrecorded liabilities.
75. Consider whether payables to shareholders, directors and other related parties are adequately disclosed.

*Accrued and contingent liabilities*

76. Obtain a schedule of the accrued liabilities and determine whether the total agrees with the trial balance.
77. Compare major balances of related expense accounts with similar accounts for prior periods.
78. Enquire about approvals for such accruals, terms of payment, compliance with terms, collateral and classification.
79. Enquire about the method for determining accrued liabilities.
80. Enquire as to the nature of amounts included in contingent liabilities and commitments.
81. Enquire whether any actual or contingent liabilities exist which have not been recorded in the interim financial report. If so, discuss with management whether provisions or disclosure need to be made in the interim financial report.

*Profits and other taxes*

82. Enquire from management if there were any events, including disputes with the Inland Revenue Department, which could have a significant effect on the taxes payable by the entity.
83. Consider the tax expense in relation to the entity's income for the period.
84. Enquire from management as to the adequacy of the recorded deferred and current tax liabilities including provisions in respect of prior periods.

*Subsequent events*

85. Obtain from management the latest management accounts and compare them with the interim financial report being reviewed or with those for comparable periods from the preceding year.
86. Enquire about events after the balance sheet date that would have a material effect on the interim financial report under review and, in particular, enquire whether:
  - a. any substantial commitments or uncertainties have arisen subsequent to the balance sheet date;
  - b. any significant changes in the share capital, long-term debt or working capital have occurred up to the date of enquiry; and
  - c. any unusual adjustments have been made during the period between the balance sheet date and the date of enquiry.

Consider the need for adjustments or disclosure in the interim financial report.

87. Obtain and read the minutes of meetings of shareholders, directors and appropriate committees subsequent to the balance sheet date.

*Litigation*

88. Enquire from management whether the entity is the subject of any legal actions - threatened, pending or in process. Consider the effect thereof on the interim financial report.

*Equity*

89. Obtain and consider a schedule of the transactions in the equity accounts, including new issues, redemptions and dividends.
90. Enquire whether there are any restrictions on retained earnings or other equity accounts.

*Operations (revenues and expenses)*

91. Enquire about the accounting policies applied for the recognition and recording of revenues and expenses.
92. Compare revenues, expenses and operating results with those of prior periods and those expected for the current period. Discuss significant variations with management.
93. Discuss whether the recognition of revenues and expenses has taken place in the appropriate periods.
94. Consider extraordinary and unusual items.
95. Consider and discuss with management the relationship between related items in the income statement and assess the reasonableness thereof in the context of similar relationships for prior periods, current period budgets and other information available to the auditors.
96. Consider and discuss with management the relationship between the income statement and the balance sheet and assess the reasonableness thereof in the context of similar relationships for prior periods, the current period budget and other information available to the auditors.
97. Review the calculation of the earnings per share amounts.

*Journals*

98. Consider unusual journal entries and those of material amounts and discuss with management.

## APPENDIX 3

### Example of an unmodified review report

#### INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF XYZ COMPANY

##### Introduction

We have been instructed by the company to review the interim financial report set out on pages x to y.

##### Directors' responsibilities

[The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with [SSAP 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants] / [International Accounting Standard 34 "Interim financial reporting"] and the relevant provisions thereof.]\* The interim financial report is the responsibility of, and has been approved by, the directors.

##### Review work performed

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of [group] management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

##### Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended [ ].

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

\* Applicable only where the auditors are engaged by a listed issuer to review its interim financial report in accordance with SAS 700.

## APPENDIX 4

### Example 1 - Review report with a modified review conclusion - Disagreement

#### INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF XYZ COMPANY

##### Introduction

We have been instructed by the company to review the interim financial report set out on pages x to y.

##### Directors' responsibilities

[The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with [SSAP 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants] / [International Accounting Standard 34 "Interim financial reporting"] and the relevant provisions thereof.]\* The interim financial report is the responsibility of, and has been approved by, the directors.

##### Review work performed

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of [group] management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

##### Modified review conclusion arising from disagreement about accounting treatment

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

On the basis of our review which does not constitute an audit, with the exception of the matter described in the preceding paragraph, we are not aware of any material modifications that should be made to the interim financial report for the six months ended [ ].

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

\* Applicable only where the auditors are engaged by a listed issuer to review its interim financial report in accordance with SAS 700.

**Example 2 - Review report with a modified review conclusion - Limitation of review scope****INDEPENDENT REVIEW REPORT  
TO THE BOARD OF DIRECTORS OF XYZ COMPANY****Introduction**

We have been instructed by the company to review the interim financial report set out on pages x to y.

**Directors' responsibilities**

[The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with [SSAP 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants] / [International Accounting Standard 34 "Interim financial reporting"] and the relevant provisions thereof.]\* The interim financial report is the responsibility of, and has been approved by, the directors.

**Review work performed**

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our review was limited as explained below.

A review consists principally of making enquiries of [group] management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

The scope of our review was limited in respect of the investment in ABC Company which is shown in the balance sheet at a valuation of \$250,000 comprising investment in share capital of \$200,000 and unsecured loans of \$50,000 net of amounts written off of \$100,000. Subsequent to [interim period end] the company has made further loans of \$175,000 to ABC Company. The latest available financial statements of ABC Company were made up to [ ] and showed net liabilities at that date of \$150,000. No further financial statements or other financial information have been made available to us. Consequently we are unable to determine whether the investment in ABC Company is fairly stated as at [interim period end].

**Modified review conclusion arising from limitation of review scope**

On the basis of our review which does not constitute an audit, with the exception of the possible adjustments that might have been determined to be necessary had the above limitation not existed, we are not aware of any material modifications that should be made to the interim financial report for the six months ended [ ].

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

\* Applicable only where the auditors are engaged by a listed issuer to review its interim financial report in accordance with SAS 700.

**Example 3 - Review report - Inability to reach a review conclusion****INDEPENDENT REVIEW REPORT  
TO THE BOARD OF DIRECTORS OF XYZ COMPANY****Introduction**

We have been instructed by the company to review the interim financial report set out on pages x to y.

**Directors' responsibilities**

[The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with [SSAP 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants] / [International Accounting Standard 34 "Interim financial reporting"] and the relevant provisions thereof.]\* The interim financial report is the responsibility of, and has been approved by, the directors.

**Review work performed**

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our review was limited as explained below.

A review consists principally of making enquiries of [group] management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

The scope of our review was limited because as stated in Note [ ] to the interim financial report, a fire at the company's computer centre destroyed many of the accounting records. The interim financial report consequently contains significant amounts based on estimates. In these circumstances we were unable to carry out all the review procedures, or obtain all the information and explanations we considered necessary.

**Inability to reach a review conclusion**

Because of the significance of the possible effect of the limitation in evidence available to us, we are unable to reach a review conclusion as to whether material modifications should be made to the interim financial report for the six months ended [ ].

ABC & Co.

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

Hong Kong

Date

\* Applicable only where the auditors are engaged by a listed issuer to review its interim financial report in accordance with SAS 700.

**Example 4 - Review report with a paragraph describing a fundamental uncertainty**

**INDEPENDENT REVIEW REPORT  
TO THE BOARD OF DIRECTORS OF XYZ COMPANY**

**Introduction**

We have been instructed by the company to review the interim financial report set out on pages x to y.

**Directors' responsibilities**

[The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with [SSAP 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants] / [International Accounting Standard 34 "Interim financial reporting"] and the relevant provisions thereof.]\* The interim financial report is the responsibility of, and has been approved by, the directors.

**Review work performed**

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of [group] management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

**Fundamental uncertainty**

In arriving at our review conclusion, we have considered the adequacy of disclosures made in the interim financial report concerning the possible outcome of 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's business, whose net assets included in the consolidated balance sheet total \$Y and whose profit before tax for the six month period is \$Z. Details of the circumstances relating to this fundamental uncertainty are described in note [ ] to the interim financial report.

**Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended [ ].

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

\* Applicable only where the auditors are engaged by a listed issuer to review its interim financial report in accordance with SAS 700



## APPENDIX 5

**Example management representation letter  
in connection with a review of an interim financial report**

*The following letter is not intended to be a standard letter and is for reference only. Representations by management will vary from one entity to another and from one period to the next. Further guidance is included in SAS 440 "Representations by management".*

Entity Letterhead

(To auditors)

(Date)

Dear Sirs

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other directors and officials of the company, the following representations given to you in connection with your review of the interim financial report of the company for the [period] ended [date]:

1. We acknowledge that your review was substantially less in scope than an audit and that accordingly you do not express an audit opinion on the interim financial report.
2. We acknowledge our responsibility for the preparation of the interim financial report and confirm that the interim financial report has been prepared in accordance with [Statements of Standard Accounting Practice issued by the Hong Kong Institute of Certified Public Accountants]\*, and in particular that the interim financial report has been prepared using accounting policies consistent with those adopted by the company in its financial statements for the year ended [date]#.
3. We confirm that we have performed such assessment as we considered necessary to enable us to conclude that the going concern basis continues to be appropriate.
4. All minutes of meetings of shareholders, the board of directors, audit committee and other committees of directors (and summaries of meetings for which minutes have not been prepared) have been made available for your review.
5. We are not aware of any material amounts, transactions, agreements or contingencies not fairly described and properly recorded in the accounting records underlying the interim financial report.
6. Events since [date]:
  - a. have been fully taken into account in so far as they have a bearing on the amounts attributable to assets and/or liabilities at that date; and
  - b. have not made the present financial position substantially different from that shown in the interim financial report.

Yours faithfully,

\_\_\_\_\_  
(Managing Director)

\_\_\_\_\_  
(Finance Director)

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\* To be substituted by "Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants" where the interim financial report contains a condensed set of interim financial statements.

# To be modified where there was a change in accounting policies in the interim period.