

# MEMBERS' HANDBOOK

## Update No. 241

(Issued 23 July 2020)

### VOLUME I

<b>Document Reference and Title</b>	<b>Instructions</b>	<b>Explanations</b>
<a href="#">Contents of Volume I</a>	Discard existing pages i and ii and replace with the revised pages i and ii.	Revised contents page
<b>PROFESSIONAL ETHICS</b>		
COE (Revised) <i>Code of Ethics for Professional Accountants</i>	Discard COE (Revised) revised in February 2018.	Note 1
COE S500 <i>Code of Ethics for Professional Accountants Section 500 Professional Ethics in Liquidation and Insolvency</i>	Discard COE S500 revised in July 2015.	Note 2

### VOLUME III

<b>Document Reference and Title</b>	<b>Instructions</b>	<b>Explanations</b>
<a href="#">Contents of Volume III</a>	Discard existing pages i - v and replace with the revised pages i - v.	Revised contents pages
<a href="#">Preface (Amended) <i>Amended Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance and Related Services Prouncements</i></a>	Replace cover page, pages 2, 3, 8 and 9 with revised cover page, pages 2, 3, 8 and 9.	Note 3
<a href="#">Glossary <i>Glossary of Terms Relating to Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services</i></a>	Discard Glossary (Clarified) revised in September 2019 and replace with the attached Glossary.	Note 4, 5

## HONG KONG STANDARDS ON QUALITY CONTROL

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## HONG KONG FRAMEWORK FOR ASSURANCE ENGAGEMENTS

<a href="#"><u>Framework (Amended) Hong Kong Framework for Assurance Engagements</u></a>	Replace cover page, pages 2 and 5 with revised cover page, pages 2 and 5.	- ditto -
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## HONG KONG STANDARDS ON AUDITING

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<a href="#"><u>HKSA 220 Quality Control for an Audit of Financial Statements</u></a>	Replace cover page, pages 2, 6, 7, 8, 11 and 12 with revised cover page, pages 2, 6, 7, 8, 11 and 12.	- ditto -
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<a href="#"><u>HKSA 610 (Revised 2013) Using the Work of Internal Auditors</u></a>	Replace cover page, pages 2 and 15 with revised cover page, pages 2 and 15; discard pages 22 and 23.	- ditto -
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<a href="#"><u>HKSA 700 (Revised) Forming an Opinion and Reporting on Financial Statements</u></a>	Replace cover page, pages 2, 11, 21, 22, 35, 36, 39, 40, 54 and 55 with revised cover page, pages 2, 11, 21, 22, 35, 36, 39, 40, 54 and 55.	- ditto -
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<a href="#"><u>HKSA 720 (Revised) The Auditor's Responsibilities Relating to Other Information</u></a>	Replace cover page, pages 2, 5 and 17 with revised cover page, pages 2, 5 and 17.	- ditto -
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<a href="#"><u>HKSA 800 (Revised) Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks</u></a>	Replace cover page, pages 2, and 22 with revised cover page, pages 2 and 22.	- ditto -
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[HKSA 805 \(Revised\) \*Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement\*](#) Replace cover page, pages 2 and 26 with revised cover page, pages 2 and 26. - ditto -

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[HKSAE 3402 \*Assurance Reports on Controls at a Service Organization\*](#) Replace cover page, pages 2, 5, 9, 18, 21, 31 with revised cover page, pages 2, 5, 9, 18, 21, 31. - ditto -

[HKSAE 3410 \*Assurance Engagements on Greenhouse Gas Statements\*](#) Replace cover page, pages 2, 6, 27, 29, 30 and 31 with revised cover page, pages 2, 6, 27, 29, 30 and 31. - ditto -

[HKSAE 3420 \*Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus\*](#) Replace cover page, pages 2, 6, 13, 15 and 23 with revised cover page, pages 2, 6, 13, 15 and 23. - ditto -

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## **PRACTICE NOTES**

[PN 600.1 \(Revised\) \*Reports by the Auditor under the Hong Kong Companies Ordinance \(Cap.622\)\*](#) Replace cover page and page 20 with revised cover page and page 20. - ditto -

PN 810.1 (Revised) <i>Insurance Brokers – Compliance with the Minimum Requirements Specified by the Insurance Authority under Sections 69(2) and 70(2) of the Insurance Ordinance</i>	Discard PN 810.1 (Revised) revised in January 2018.	Note 6
PN 830 (Revised) <i>Reports by the Auditor under the Banking Ordinance</i>	Discard PN 830 (Revised) revised in December 2018.	Note 7
PN 850 <i>Reporting on Flag Days and General Charitable Fund-raising Activities Covered by Public Subscription Permits issued by the Social Welfare Department</i>	Discard PN 850 revised in December 2015.	Note 8

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### Notes:

1. COE (Revised) revised in February 2018 is superseded by *Code of Ethics for Professional Accountants* issued in November 2018.
2. COE Section 500 revised in July 2015 is superseded by *Code of Ethics for Professional Accountants Chapter E Section 500, Professional Ethics in Liquidation and Insolvency* revised in November 2018.
3. The Preface (Amended) is revised to reflect the oversight by the Institute's Executive Committee over the standard setting function.
4. Conforming amendments to the IAASB's *Glossary of Terms* as of December 2017.
5. Conforming amendments to the IAASB's International Standards following the IAASB's *Conforming Amendments to the IAASB International Standards as a Result of the Revised IESBA Code* issued in April 2020 (the "IAASB conforming amendments").

In November 2018, the Institute has adopted the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the "Revised IESBA Code") as Chapter A of the HKICPA *Code of Ethics for Professional Accountants* (the "HKICPA Code"). The IAASB conforming amendments are adopted to ensure the HKICPA auditing and assurance standards can continue to be applied together with the HKICPA Code. These conforming amendments are effective as of 15 July 2020.

6. PN 810.1 (Revised) revised in January 2018 is superseded by PN 810.1 (Revised), *Licensed Insurance Broker Companies – Compliance with the Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules* issued in September 2019.
7. PN 830 (Revised) revised in December 2018 is superseded by PN 830 (Revised), *Reports by the Auditor under the Banking Ordinance* issued in March 2020.

8. PN 850 revised in December 2015 is superseded by PN 850 (Revised), *Reporting on Flag Days and General Charitable Fund-raising Activities Covered by Public Subscription Permits issued by the Social Welfare Department* issued in November 2018.

In order for readers to easily identify all the changes, the marked-ups to the relevant standards are posted at:

<https://www.hkicpa.org.hk/-/media/Document/SSD/handbookupdate/update242mk.pdf>



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Amended Preface  
Issued July 2012; revised July 2020

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# **Amended Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements**



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

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This *Amended Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements (Hong Kong Preface)* is based on the *Amended Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* of the International Auditing and Assurance Standards Board (IAASB), published by the International Federation of Accountants (IFAC) in December 2011 and is used with permission of IFAC.

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## **AMENDED PREFACE TO THE HONG KONG QUALITY CONTROL, AUDITING, REVIEW, OTHER ASSURANCE, AND RELATED SERVICES PRONOUNCEMENTS**

### **Introduction**

1. This Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements is issued to facilitate understanding of the scope and authority of the pronouncements the Hong Kong Institute of Certified Public Accountants (HKICPA) issues.
2. This Preface is issued to set out the objectives and due process of the Council of the HKICPA (hereafter referred as the “Council”) in respect of setting Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements.
3. This Preface also sets out the relationship between Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements and International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants, and the authority attaching to locally developed Practice Notes (PNs), Auditing Guidelines (AGs), Auditing and Assurance Technical Bulletins and Circulars.

Appendix 1 illustrates the structure of the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements.

### **Objectives of Council**

4. Pursuant to section 18A of the Professional Accountants Ordinance, Council may, in relation to the practice of accountancy, issue or specify any standards of auditing practices required to be observed, maintained or otherwise applied by members of the HKICPA (members). Approval of Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements and related documents, such as exposure drafts, and other discussion documents, is the responsibility of Council.
5. Council has mandated the Auditing and Assurance Standards Committee (AASC) to develop Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements to achieve convergence with International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements. Within this remit, Council permits the AASC to work in whatever way it considers most effective and efficient and this may include forming advisory working groups or other forms of specialist advisory groups to give advice in preparing new and revised Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements.
6. The HKICPA’s Executive Committee oversees the standard setting function.
7. In 2001, Council adopted the policy of achieving convergence of Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements with International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements (the Convergence). Council’s objectives in this respect are:
  - (a) to establish high quality auditing standards and guidance for financial statement audits that are generally accepted and recognized by investors, auditors, governments, regulators and other key stakeholders;

## **Hong Kong Auditing Practice Guidance**

41. The IAASB develops and publishes non-authoritative International Auditing Practice Notes (IAPNs). IAPNs do not impose additional requirements on auditors beyond those included in the ISAs, nor do they change the auditor's responsibility to comply with all ISAs relevant to the audit. IAPNs provide practical assistance to auditors. They are intended to be disseminated by those responsible for national standards, or used in developing corresponding national material. They also provide material that firms can use in developing their training programs and internal guidance.
42. The AASC considers that IAPNs should be adopted in Hong Kong as non-authoritative guidance to members. For clarity and clear differentiation from locally developed PNs, the IAPNs adopted by the AASC are named "Hong Kong Auditing Practice Guidance" (HKAPG).
43. Depending on the nature of the topic(s) covered, a HKAPG may assist the auditor in:
  - Obtaining an understanding of the circumstances of the entity, and in making judgments about the identification and assessment of risks of material misstatement;
  - Making judgments about how to respond to assessed risks, including judgments about procedures that may be appropriate in the circumstances; or
  - Addressing reporting considerations, including forming an opinion on the financial statements and communicating with those charged with governance.

## **Practice Guidance Relating to Other Hong Kong Standards**

44. The IAASB may also issue International Review Engagement Practice Notes (IREPNs), International Assurance Engagement Practice Notes (IAEPNs), and International Related Services Practice Notes (IRSPNs) to serve the same purpose for ISREs, ISAEs, and ISRSs respectively. In this regard, the AASC would also adopt the IREPNs, IAEPNs and IRSPNs as Hong Kong Review Engagement Practice Guidance (HKREPG), Hong Kong Assurance Engagement Practice Guidance (HKAEPG), and Hong Kong Related Services Practice Guidance (HKRSPG) accordingly.

## **Auditing and Assurance Technical Bulletins and Circulars Locally Developed by the AASC**

45. Auditing and Assurance Technical Bulletins and Circulars are informative publications issued by the AASC on subjects of topical interest and are intended to assist members or to stimulate debate on auditing and assurance issues. They do not have the same authority as the HKICPA's authoritative pronouncements.

## **Staff Publications**

46. Staff publications (including those issued by IAASB) are used to help raise practitioners' awareness of significant new or emerging issues by referring to existing requirements and application material, or to direct their attention to relevant provisions of HKICPA pronouncements.

## **Due process**

47. The HKICPA's authoritative pronouncements are developed through a due process that involves members and other interested individuals and organizations.



48. Appendix 2 illustrates the due process to adopt IAASB authoritative pronouncements.
49. Appendix 3 illustrates the due process for the development of local PNs.

### **Coordination with International Due Process**

50. Council understands that close coordination between the AASC's and IAASB's due processes is important to the success of achieving convergence of Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements with International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements.
51. Council supports the integration of its standard setting process with that of the IAASB as outlined below by adopting the procedures in paragraphs 52 to 54.
52. The IAASB states in its Terms of Reference that it cooperates with national standard setters to link their work with IAASB's own in preparing and issuing International Standards with an aim to share resources, minimize duplication of effort and reach consensus and convergence in standards at an early stage in their development. It also promotes the endorsement of International Standards by national standard setters, legislators and securities exchanges and promotes debate with users, regulators and practitioners throughout the world to identify user needs for new International Standards and guidance.
53. The IAASB would continue to publish its own exposure drafts and other documents for public comment and national standard setters would publish their own exposure documents at approximately the same time as IAASB exposure drafts and would seek specific comments on any significant divergences between the two exposure documents. In some instances, national standard setters may include in their exposure documents specific comments on issues of particular relevance to their country or include more detailed guidance than is included in the corresponding IAASB document.
54. National standard setters would follow their own full due process, which they would, ideally, choose to integrate with the IAASB's due process. This integration would avoid unnecessary delays in completing standards and would also minimize the likelihood of unnecessary differences between the standards that result.

### **Effective date**

55. This Preface is effective upon issue.

Glossary  
Issued September 2009; revised July 2010, December 2012,  
February 2015, September 2019, July 2020

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Effective upon issue

# **Glossary of Terms Relating to Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services**



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

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# GLOSSARY OF TERMS RELATING TO HONG KONG STANDARDS ON QUALITY CONTROL, AUDITING, REVIEW, OTHER ASSURANCE AND RELATED SERVICES <sup>1</sup>

(July 2020)

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*Access controls* - Procedures designed to restrict access to on-line terminal devices, programs and data. Access controls consist of "user authentication" and "user authorization." "User authentication" typically attempts to identify a user through unique logon identifications, passwords, access cards or biometric data. "User authorization" consists of access rules to determine the computer resources each user may access. Specifically, such procedures are designed to prevent or detect:

- (a) Unauthorized access to on-line terminal devices, programs and data;
- (b) Entry of unauthorized transactions;
- (c) Unauthorized changes to data files;
- (d) The use of computer programs by unauthorized personnel; and
- (e) The use of computer programs that have not been authorized.

\**Accounting estimate* - An approximation of a monetary amount in the absence of a precise means of measurement. This term is used for an amount measured at fair value where there is estimation uncertainty, as well as for other amounts that require estimation. Where HKSA 540 <sup>2</sup> addresses only accounting estimates involving measurement at fair value, the term "fair value accounting estimates" is used.

\**Accounting records* - The records of initial accounting entries and supporting records, such as checks and records of electronic fund transfers; invoices; contracts; the general and subsidiary ledgers, journal entries and other adjustments to the financial statements that are not reflected in formal journal entries; and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.

*Agreed-upon procedures engagement* - An engagement in which an auditor is engaged to carry out those procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings. The recipients of the report form their own conclusions from the report by the auditor. The report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures may misinterpret the results.

\**Analytical procedures* - Evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

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\* Denotes a term defined in the HKSAs.

† Denotes a term defined in HKSQC 1.

<sup>1</sup> In the case of public sector engagements, the terms in this glossary should be read as referring to their public sector equivalents.

Where accounting terms have not been defined in the pronouncements of the Hong Kong Institute of Certified Public Accountants, reference should be made to the Glossary of Terms published by the Hong Kong Institute of Certified Public Accountants.

<sup>2</sup> HKSA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

*Annual report* - A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters.

\**Anomaly* - A misstatement or deviation that is demonstrably not representative of misstatements or deviations in a population.

*Applicable criteria (in the context of HKSAE 3410)*<sup>3</sup> - The criteria used by the entity to quantify and report its emissions in the GHG statement.

*Applicable criteria (in the context of HKSAE 3420)*<sup>4</sup> - The criteria used by the responsible party when compiling the pro forma financial information. Criteria may be established by an authorized or recognized standard-setting organization or by law or regulation. Where established criteria do not exist, they will be developed by the responsible party.

\**Applicable financial reporting framework* - The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation. In the context of HKRSRS 4410 (Revised),<sup>5</sup> reference is to the financial information, rather than to the financial statements.

The term "fair presentation framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

- (a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term "compliance framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (a) or (b) above.

*Application controls in information technology* - Manual or automated procedures that typically operate at a business process level. Application controls can be preventative or detective in nature and are designed to ensure the integrity of the accounting records. Accordingly, application controls relate to procedures used to initiate, record, process and report transactions or other financial data.

\**Applied criteria (in the context of HKSA 810)*<sup>6</sup> - The criteria applied by management in the preparation of the summary financial statements.

\**Appropriateness (of audit evidence)* - The measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.

<sup>3</sup> HKSAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

<sup>4</sup> HKSAE 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*

<sup>5</sup> HKRSRS 4410 (Revised), *Compilation Engagements*

<sup>6</sup> HKSA 810 (Revised), *Engagements to Report on Summary Financial Statements*.

*\*Arm's length transaction* - A transaction conducted on such terms and conditions as between a willing buyer and a willing seller who are unrelated and are acting independently of each other and pursuing their own best interests.

*\*Assertions* - Representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur. In the context of HKSAE 3410, assertions are defined as representations by the entity, explicit or otherwise, that are embodied in the GHG statement, as used by the practitioner to consider the different types of potential misstatements that may occur.

*Assess* - Analyze identified risks of material misstatement to conclude on their significance. "Assess," by convention, is used only in relation to risk. (also see *Evaluate*)

*Association* - (see *Auditor association with financial information*)

*\*†Assurance* - (see *Reasonable assurance*)

*Assurance engagement* - An engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria). Each assurance engagement is classified on two dimensions:

- (i) Either a reasonable assurance engagement or a limited assurance engagement:
  - a. Reasonable assurance engagement – An assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner's conclusion. The practitioner's conclusion is expressed in a form that conveys the practitioner's opinion on the outcome of the measurement or evaluation of the underlying subject matter against criteria.
  - b. Limited assurance engagement - An assurance engagement in which the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner's professional judgment, meaningful. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential.
- (ii) Either an attestation engagement or a direct engagement:
  - a. Attestation engagement - An assurance engagement in which a party other than the practitioner measures or evaluates the underlying subject matter against the criteria. A party other than the practitioner also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the practitioner in the assurance report. In an attestation engagement, the practitioner's conclusion addresses whether the subject matter information is free from material misstatement. The practitioner's conclusion may be phrased in terms of:
    - i. The underlying subject matter and the applicable criteria;
    - ii. The subject matter information and the applicable criteria; or

- iii. A statement made by the appropriate party(ies).
- b. Direct engagement - An assurance engagement in which the practitioner measures or evaluates the underlying subject matter against the applicable criteria and the practitioner presents the resulting subject matter information as part of, or accompanying, the assurance report. In a direct engagement, the practitioner's conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria.

*Assurance engagement risk* - The risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated.

*Assurance skills and techniques* - Those planning, evidence gathering, evidence evaluation, communication and reporting skills and techniques demonstrated by an assurance practitioner that are distinct from expertise in the underlying subject matter of any particular assurance engagement or its measurement or evaluation.

\**Audit documentation* - The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as "working papers" or "workpapers" are also sometimes used).

\**Audit evidence* - Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information. (See *Sufficiency of audit evidence* and *Appropriateness of audit evidence*.)

\**Audit file* - One or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.

\*<sup>†</sup>*Audit firm* - (see *Firm*)

\**Audit opinion* - (see *Modified opinion* and *Unmodified opinion*)

\**Audit risk* - The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk.

\**Audit sampling (sampling)* - The application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.

\**Audited financial statements (in the context of HKSA 810 (Revised))* - Financial statements <sup>7</sup> audited by the auditor in accordance with HKSAs, and from which the summary financial statements are derived.

\**Auditor* - "Auditor" is used to refer to the person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. Where an HKSA expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "auditor" is used. "Engagement partner" and "firm" are to be read as referring to their public sector equivalents where relevant.

*Auditor association with financial information* - An auditor is associated with financial information when the auditor attaches a report to that information or consents to the use of the auditor's name in a professional connection.

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<sup>7</sup> HKSA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*, paragraph 13(f) defines the term "financial statements."

\**Auditor's expert* - An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor's expert may be either an auditor's internal expert (who is a partner<sup>8</sup> or staff, including temporary staff, of the auditor's firm or a network firm), or an auditor's external expert.

\**Auditor's point estimate or auditor's range* - The amount, or range of amounts, respectively, derived from audit evidence for use in evaluating management's point estimate.

\**Auditor's range* - (see *Auditor's point estimate*)

*Base year* - A specific year or an average over multiple years against which an entity's emissions are compared over time.

\**Business risk* - A risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity's ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies.

*Cap and trade* - A system that sets overall emissions limits, allocates emissions allowances to participants, and allows them to trade allowances and emission credits with each other.

*Carve-out method* - Method of dealing with the services provided by a subservice organization, whereby the service organization's description of its system includes the nature of the services provided by a subservice organization, but that subservice organization's relevant control objectives and related controls are excluded from the service organization's description of its system and from the scope of the service auditor's engagement. The service organization's description of its system and the scope of the service auditor's engagement include controls at the service organization to monitor the effectiveness of controls at the subservice organization, which may include the service organization's review of an assurance report on controls at the subservice organization.

\**Comparative financial statements* - Comparative information where amounts and other disclosures for the prior period are included for comparison with the financial statements of the current period but, if audited, are referred to in the auditor's opinion. The level of information included in those comparative financial statements is comparable with that of the financial statements of the current period.

\**Comparative information* - The amounts and disclosures included in the financial statements in respect of one or more prior periods in accordance with the applicable financial reporting framework. In the context of HKSAE 3410, comparative information is defined as the amounts and disclosures included in the GHG statement in respect of one or more prior periods.

*Compilation engagement* - An engagement in which a practitioner applies accounting and financial reporting expertise to assist management in the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework, and reports as required by this HKSRS. Throughout HKSRS 4410 (Revised), the words "compile", "compiling" and "compiled" are used in this context.

\**Complementary user entity controls* - Controls that the service organization assumes, in the design of its service, will be implemented by user entities, and which, if necessary to achieve control objectives, are identified in the description of its system.

\**Compliance framework* - (see *Applicable financial reporting framework* and *General purpose framework*)

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<sup>8</sup> "Partner" and "firm" should be read as referring to their public sector equivalents where relevant.



\**Component* - An entity or business activity for which group or component management prepares financial information that should be included in the group financial statements.

\**Component auditor* - An auditor who, at the request of the group engagement team, performs work on financial information related to a component for the group audit.

\**Component management* - Management responsible for the preparation of the financial information of a component.

\**Component materiality* - The materiality for a component determined by the group engagement team.

*Computer-assisted audit techniques* - Applications of auditing procedures using the computer as an audit tool (also known as CAATs).

*Control activities* - Those policies and procedures that help ensure that management directives are carried out. Control activities are a component of internal control.

*Control environment* - Includes the governance and management functions and the attitudes, awareness and actions of those charged with governance and management concerning the entity's internal control and its importance in the entity. The control environment is a component of internal control.

*Control objective* - The aim or purpose of a particular aspect of controls. Control objectives relate to risks that controls seek to mitigate.

\**Control risk* - (see *Risk of material misstatement*)

*Controls at the service organization* - Controls over the achievement of a control objective that is covered by the service auditor's assurance report.

*Controls at a subservice organization* - Controls at a subservice organization to provide reasonable assurance about the achievement of a control objective.

*Corporate governance* - (see *Governance*)

\**Corresponding figures* - Comparative information where amounts and other disclosures for the prior period are included as an integral part of the current period financial statements, and are intended to be read only in relation to the amounts and other disclosures relating to the current period (referred to as "current period figures"). The level of detail presented in the corresponding amounts and disclosures is dictated primarily by its relevance to the current period figures.

*Criteria* - The benchmarks used to measure or evaluate the underlying subject matter. The "applicable criteria" are the criteria used for the particular engagement.

\**Date of approval of the financial statements* - The date on which all the statements that comprise the financial statements, including the related notes, have been prepared and those with the recognized authority have asserted that they have taken responsibility for those financial statements.

†*Date of report (in relation to quality control)* - The date selected by the practitioner to date the report.

\**Date of the auditor's report* - The date the auditor dates the report on the financial statements in accordance with HKSA 700 (Revised).<sup>9</sup>

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<sup>9</sup> HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*.

\**Date of the financial statements* - The date of the end of the latest period covered by the financial statements.

\**Date the financial statements are issued* - The date that the auditor's report and audited financial statements are made available to third parties.

\**Deficiency in internal control* - This exists when:

- (a) A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or
- (b) A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.

\**Detection risk* - The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

\**Direct assistance* - The use of internal auditors to perform audit procedures under the direction, supervision and review of the external auditor.

\**Element* - (see *Element of a financial statement*)

\**Element of a financial statement (in the context of HKSA 805 (Revised))<sup>10</sup>* - An element, account or item of a financial statement.

*Emissions* - The GHGs that, during the relevant period, have been emitted to the atmosphere or would have been emitted to the atmosphere had they not been captured and channeled to a sink. Emissions can be categorized as:

- Direct emissions (also known as Scope 1 emissions), which are emissions from sources that are owned or controlled by the entity.
- Indirect emissions, which are emissions that are a consequence of the activities of the entity, but which occur at sources that are owned or controlled by another entity. Indirect emissions can be further categorized as:
  - Scope 2 emissions, which are emissions associated with energy that is transferred to and consumed by the entity.
  - Scope 3 emissions, which are all other indirect emissions.

*Emissions deduction* - Any item included in the entity's GHG statement that is deducted from the total reported emissions, but which is not a removal; it commonly includes purchased offsets, but can also include a variety of other instruments or mechanisms such as performance credits and allowances that are recognized by a regulatory or other scheme of which the entity is a part.

*Emissions factor* - A mathematical factor or ratio for converting the measure of an activity (for example, liters of fuel consumed, kilometers travelled, the number of animals in husbandry, or tonnes of product produced) into an estimate of the quantity of GHGs associated with that activity.

*Emissions trading scheme* - A market-based approach used to control greenhouse gases by providing economic incentives for achieving reductions in the emissions of such gases.

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<sup>10</sup> HKSA 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.

*\*Emphasis of Matter paragraph* - A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

*Engagement circumstances* - The broad context defining the particular engagement, which includes: the terms of the engagement; whether it is a reasonable assurance engagement or a limited assurance engagement, the characteristics of the underlying subject matter; the measurement or evaluation criteria; the information needs of the intended users; relevant characteristics of the responsible party, the measurer or evaluator, and the engaging party and their environment; and other matters, for example events, transactions, conditions and practices, that may have a significant effect on the engagement.

*†Engagement documentation* - The record of work performed, results obtained, and conclusions the practitioner reached (terms such as "working papers" or "workpapers" are sometimes used).

*Engagement letter* - Written terms of an engagement in the form of a letter.

*\*†Engagement partner*<sup>11</sup> - The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. "Engagement partner" should be read as referring to its public sector equivalents where relevant.

*\*†Engagement quality control review* - A process designed to provide an objective evaluation, on or before the date of the report, of the significant judgments the engagement team made and the conclusions it reached in formulating the report. The engagement quality control review process is for audits of financial statements of listed entities and those other engagements, if any, for which the firm has determined an engagement quality control review is required.

*\*†Engagement quality control reviewer* - A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgments the engagement team made and the conclusions it reached in formulating the report.

*Engagement risk* - The risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated.

*\*†Engagement team* - All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes an auditor's external expert engaged by the firm or by a network firm. The term "engagement team" also excludes individuals within the client's internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of HKSA 610 (Revised 2013).<sup>12</sup>

*\*†Engagement team (in the context of HKSAE 3000 (Revised))*<sup>13</sup> - All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes a practitioner's external expert engaged by the firm or a network firm.

*Engaging party* - The party(ies) that engages the practitioner to perform the assurance engagement.

*Entity (in the context of HKSAE 3410)* - The legal entity, economic entity, or the identifiable portion of a legal or economic entity (for example, a single factory or other form of facility, such as a land fill site),

<sup>11</sup> "Engagement partner," "partner," and "firm" should be read as referring to their public sector equivalents where relevant.

<sup>12</sup> HKSA 610 (Revised 2013), *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted.

<sup>13</sup> HKSAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

or combination of legal or other entities or portions of those entities (for example, a joint venture) to which the emissions in the GHG statement relate.

*Entity's risk assessment process* - A component of internal control that is the entity's process for identifying business risks relevant to financial reporting objectives and deciding about actions to address those risks, and the results thereof.

*Environmental risk* - In certain circumstances, factors relevant to the assessment of inherent risk for the development of the overall audit plan may include the risk of material misstatement of the financial statements due to environmental matters.

*Error* - An unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

*\*Estimation uncertainty* - The susceptibility of an accounting estimate and related disclosures to an inherent lack of precision in its measurement.

*Evaluate* - Identify and analyze the relevant issues, including performing further procedures as necessary, to come to a specific conclusion on a matter. "Evaluation," by convention, is used only in relation to a range of matters, including evidence, the results of procedures and the effectiveness of management's response to a risk. (also see *Assess*)

*Evidence* - Information used by the practitioner in arriving at the practitioner's conclusion. Evidence includes both information contained in relevant information systems, if any, and other information. For purposes of the HKSAEs:

- (i) Sufficiency of evidence is the measure of the quantity of evidence.
- (ii) Appropriateness of evidence is the measure of the quality of evidence.

*\*Exception* - A response that indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party.

*\*Experienced auditor* - An individual (whether internal or external to the firm) who has practical audit experience, and a reasonable understanding of:

- (a) Audit processes;
- (b) HKSAEs and applicable legal and regulatory requirements;
- (c) The business environment in which the entity operates; and
- (d) Auditing and financial reporting issues relevant to the entity's industry.

*\*Expert* - (see *Auditor's expert* and *Management's expert*)

*\*Expertise* - Skills, knowledge and experience in a particular field.

*\*External confirmation* - Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium.

*\*Fair presentation framework* - (see *Applicable financial reporting framework* and *General purpose framework*)

*\*Financial statements* - A structured representation of historical financial information, including disclosures, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The term "financial statements" ordinarily refers to a complete set of financial statements as determined by

the requirements of the applicable financial reporting framework, but can also refer to a single financial statement. Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of a financial statement, or in the notes, or incorporated therein by cross-reference.

\*<sup>†</sup>*Firm* - A sole practitioner, partnership or corporation or other entity of professional accountants. "Firm" should be read as referring to its public sector equivalents where relevant.

*Forecast* - Prospective financial information prepared on the basis of assumptions as to future events which management expects to take place and the actions management expects to take as of the date the information is prepared (best-estimate assumptions).

\**Fraud* - An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

\**Fraud risk factors* - Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

*Fraudulent financial reporting* - Involves intentional misstatements, including omissions of amounts or disclosures in financial statements, to deceive financial statement users.

*Further procedures* - Procedures performed in response to assessed risks of *material* misstatement, including tests of controls (if any), tests of details and analytical procedures.

*General IT-controls* - Policies and procedures that relate to many applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. General IT-controls commonly include controls over data center and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance.

\**General purpose financial statements* - Financial statements prepared in accordance with a general purpose framework.

\**General purpose framework* - A financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework.

The term "fair presentation framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

- (a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term "compliance framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (a) or (b) above.<sup>14</sup>

*GHG statement* - A statement setting out constituent elements and quantifying an entity's GHG emissions for a period (sometimes known as an emissions inventory) and, where applicable, comparative information and explanatory notes including a summary of significant quantification and reporting policies. An entity's GHG statement may also include a categorized listing of removals or emissions deductions. Where the engagement does not cover the entire GHG statement, the term "GHG statement" is to be read as that portion that is covered by the engagement. The GHG statement is the "subject matter information" of the engagement.<sup>15</sup>

*Greenhouse gases (GHGs)* - Carbon dioxide (CO<sub>2</sub>) and any other gases required by the applicable criteria to be included in the GHG statement, such as: methane; nitrous oxide; sulfur hexafluoride; hydrofluorocarbons; perfluorocarbons; and chlorofluorocarbons. Gases other than carbon dioxide are often expressed in terms of carbon dioxide equivalents (CO<sub>2</sub>-e).

\**Governance* - Describes the role of person(s) or organization(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity.

\**Group* - All the components whose financial information is included in the group financial statements. A group always has more than one component.

\**Group audit* - The audit of group financial statements.

\**Group audit opinion* - The audit opinion on the group financial statements.

\**Group engagement partner* - The partner or other person in the firm who is responsible for the group audit engagement and its performance, and for the auditor's report on the group financial statements that is issued on behalf of the firm. Where joint auditors conduct the group audit, the joint engagement partners and their engagement teams collectively constitute the group engagement partner and the group engagement team.

\**Group engagement team* - Partners, including the group engagement partner, and staff who establish the overall group audit strategy, communicate with component auditors, perform work on the consolidation process, and evaluate the conclusions drawn from the audit evidence as the basis for forming an opinion on the group financial statements.

\**Group financial statements* - Financial statements that include the financial information of more than one component. The term "group financial statements" also refers to combined financial statements aggregating the financial information prepared by components that have no parent but are under common control.

\**Group management* - Management responsible for the preparation of the group financial statements.

\**Group-wide controls* - Controls designed, implemented and maintained by group management over group financial reporting.

\**Historical financial information* - Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.

*Inclusive method* - Method of dealing with the services provided by a subservice organization, whereby the service organization's description of its system includes the nature of the services provided by a subservice organization, and that subservice organization's relevant control objectives

<sup>14</sup> HKSA 200, paragraph 13(a).

<sup>15</sup> HKSAE 3000 (Revised), paragraph 12(x)

and related controls are included in the service organization's description of its system and in the scope of the service auditor's engagement.

*Independence*<sup>16</sup> - Comprises:

- (a) Independence of mind - the state of mind that permits the express of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- (b) Independence in appearance - the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's, or an audit or assurance team member's, integrity, objectivity or professional skepticism has been compromised.

*Information system relevant to financial reporting* - A component of internal control that includes the financial reporting system, and consists of the procedures and records established to initiate, record, process and report entity transactions (as well as events and conditions) and to maintain accountability for the related assets, liabilities and equity.

\**Inherent risk* - (see *Risk of material misstatement*)

\**Initial audit engagement* - An engagement in which either:

- (a) The financial statements for the prior period were not audited; or
- (b) The financial statements for the prior period were audited by a predecessor auditor.

*Inquiry* - Inquiry consists of seeking information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity.

*Inquiry (in the context of HKSRE 2400 (Revised))* - Inquiry consists of seeking information of knowledgeable persons from within or outside the entity.

*Inspection (as an audit procedure)* - Examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset.

\*<sup>†</sup>*Inspection (in relation to quality control)* - In relation to completed engagements, procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures.

*Intended users* - The individual(s) or organization(s), or group(s) thereof that the practitioner expects will use the assurance report. In some cases, there may be intended users, other than those to whom the assurance report is addressed.

*Interim financial information or statements* - Financial information (which may be less than a complete set of financial statements as defined above) issued at interim dates (usually half-yearly or quarterly) in respect of a financial period.

\**Internal audit function* - A function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes.

\**Internal auditors* - Those individuals who perform the activities of the internal audit function. Internal auditors may belong to an internal audit department or equivalent function.

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<sup>16</sup> As defined in the HKICPA *Code of Ethics for Professional Accountants*.



*\*Internal control* - The process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The term "controls" refers to any aspects of one or more of the components of internal control.

*\*International Financial Reporting Standards* - The International Financial Reporting Standards issued by the International Accounting Standards Board.

*Investigate* - Inquire into matters arising from other procedures to resolve them.

*IT environment* - The policies and procedures that the entity implements and the IT infrastructure (hardware, operating systems, etc.) and application software that it uses to support business operations and achieve business strategies.

*Key audit matters* - Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

*Limited assurance (in the context of HKSRE 2400 (Revised))* - The level of assurance obtained where engagement risk is reduced to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for expressing a conclusion in accordance with this HKSRE. The combination of the nature, timing and extent of evidence gathering procedures is at least sufficient for the practitioner to obtain a meaningful level of assurance. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the financial statements.

*Limited assurance engagement* - (see *Assurance engagement*)

*\*†Listed entity* - An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.

*\*Management* - The person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner-manager.

*\*Management bias* - A lack of neutrality by management in the preparation of information.

*\*Management's expert* - An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.

*\*Management's point estimate* - The amount selected by management for recognition or disclosure in the financial statements as an accounting estimate.

*Measurer or evaluator*—The party(ies) who measures or evaluates the underlying subject matter against the criteria. The measurer or evaluator possesses expertise in the underlying subject matter.

*Misappropriation of assets* - Involves the theft of an entity's assets and is often perpetrated by employees in relatively small and immaterial amounts. However, it can also involve management who are usually more capable of disguising or concealing misappropriations in ways that are difficult to detect.

*\*Misstatement* - A difference between the reported amount, classification, presentation, or disclosure of a financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.



Where the auditor expresses an opinion on whether the financial statements are presented fairly, in all material respects, or give a true and fair view, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the auditor's judgment, are necessary for the financial statements to be presented fairly, in all material respects, or to give a true and fair view.

In the context of HKSAE 3000 (Revised), a misstatement is defined as a difference between the subject matter information and the appropriate measurement or evaluation of the underlying subject matter in accordance with the criteria. Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions.

In the context of HKSRS 4410 (Revised), a misstatement is defined as a difference between the amount, classification, presentation, or disclosure of a reported item in the financial information, and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

Where the financial information is prepared in accordance with a fair presentation framework, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the practitioner's judgment, are necessary for the financial information to be presented fairly, in all material respects, or to give a true and fair view.

*\*Misstatement of fact - (with respect to other information)(in the context of HKSAE 3000 (Revised))*  
Other information that is unrelated to matters appearing in the subject matter information or the assurance report that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing the subject matter information.

*Misstatement of the other information*—A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information).

*\*Modified opinion* - A qualified opinion, an adverse opinion or a disclaimer of opinion on the financial statements.

*\*†Monitoring (in relation to quality control)* - A process comprising an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements, designed to provide the firm with reasonable assurance that its system of quality control is operating effectively.

*Monitoring of controls* - A process to assess the effectiveness of internal control performance over time. It includes assessing the design and operation of controls on a timely basis and taking necessary corrective actions modified for changes in conditions. Monitoring of controls is a component of internal control.

*\*Negative confirmation request* - A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.

*\*†Network* - A larger structure:

- (a) That is aimed at cooperation, and
- (b) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

*\*†Network firm* - A firm or entity that belongs to a network.

\**Non-compliance (in the context of HKSA 250<sup>17</sup>)* - Acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or employees. Non-compliance does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management or employees of the entity.

\**Non-response* - A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered.

\**Non-sampling risk* - The risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk.

*Observation* - Consists of looking at a process or procedure being performed by others, for example, the auditor's observation of inventory counting by the entity's personnel, or of the performance of control activities.

\**Opening balances* - Those account balances that exist at the beginning of the period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period. Opening balances also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.

*Organizational boundary* - The boundary that determines which operations to include in the entity's GHG statement.

\**Other information* - Financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report.

*Other information (in the context of HKSAE 3000 (Revised))* - Information (other than the subject matter information and the assurance report thereon) which is included, either by law, regulation or custom, in a document containing the subject matter information and the assurance report thereon.

\**Other Matter paragraph* - A paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

\**Outcome of an accounting estimate* - The actual monetary amount which results from the resolution of the underlying transaction(s), event(s) or condition(s) addressed by the accounting estimate.

*Overall audit strategy* - Sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan.

\*<sup>†</sup>*Partner* - Any individual with authority to bind the firm with respect to the performance of a professional services engagement.

\**Performance materiality* - The amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures. In the context of HKSAE 3410, performance materiality is defined as the amount or amounts set by the practitioner at less than materiality for the GHG statement to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the GHG statement. If applicable, performance materiality also

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<sup>17</sup> HKSA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*.

refers to the amount or amounts set by the practitioner at less than the materiality level or levels for particular types of emissions or disclosures.

\*† *Personnel* - Partners and staff.

\* *Pervasive* - A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment:

- (a) Are not confined to specific elements, accounts or items of the financial statements;
- (b) If so confined, represent or could represent a substantial proportion of the financial statements; or
- (c) In relation to disclosures, are fundamental to users' understanding of the financial statements.

\* *Population* - The entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.

\* *Positive confirmation request* - A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information.

*Practitioner* - A professional accountant in public practice.

*Practitioner (in the context of HKSAE 3000 (Revised))* - The individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm). Where this HKSAE expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "practitioner" is used.

*Practitioner (in the context of HKSRE 2400 (Revised))* - A professional accountant in public practice. The term includes the engagement partner or other members of the engagement team, or, as applicable, the firm. Where HKSRE 2400 (Revised) expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "practitioner" is used. "Engagement partner" and "firm" are to be read as referring to their public sector equivalents where relevant.

*Practitioner (in the context of HKSRS 4410 (Revised))* - A professional accountant in public practice who conducts the compilation engagement. The term includes the engagement partner or other members of the engagement team, or, as applicable, the firm. Where HKSRS 4410 (Revised) expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "practitioner" is used. "Engagement partner" and "firm" are to be read as referring to their public sector equivalents where relevant.

*Practitioner's expert* - An individual or organization possessing expertise in a field other than assurance, whose work in that field is used by the practitioner to assist the practitioner in obtaining sufficient appropriate evidence. A practitioner's expert may be either a practitioner's internal expert (who is a partner or staff, including temporary staff, of the practitioner's firm or a network firm), or a practitioner's external expert.

\* *Preconditions for an audit* - The use by management of an acceptable financial reporting framework in the preparation of the financial statements and the agreement of management and, where appropriate, those charged with governance to the premise<sup>18</sup> on which an audit is conducted.

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<sup>18</sup> HKSA 200, paragraph 13.

\**Predecessor auditor* - The auditor from a different audit firm, who audited the financial statements of an entity in the prior period and who has been replaced by the current auditor.

\**Premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted* - That management and, where appropriate, those charged with governance have acknowledged and understand that they have the following responsibilities that are fundamental to the conduct of an audit in accordance with HKSA's. That is, responsibility:

- (a) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;
- (b) For such internal control as management and, where appropriate, those charged with governance determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- (c) To provide the auditor with:
  - (i) Access to all information of which management and, where appropriate, those charged with governance are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - (ii) Additional information that the auditor may request from management and, where appropriate, those charged with governance for the purpose of the audit; and
  - (iii) Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

In the case of a fair presentation framework, (a) above may be restated as "for the preparation and fair presentation of the financial statements in accordance with the financial reporting framework," or "for the preparation of financial statements *that give a true and fair view* in accordance with the financial reporting framework."

The "premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted" may also be referred to as the "premise."

*Pro forma adjustments* - In relation to unadjusted financial information, these include:

- (a) Adjustments to unadjusted financial information that illustrate the impact of a significant event or transaction ("event" or "transaction") as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration; and
- (b) Adjustments to unadjusted financial information that are necessary for the pro forma financial information to be compiled on a basis consistent with the applicable financial reporting framework of the reporting entity ("entity") and its accounting policies under that framework.

Pro forma adjustments include the relevant financial information of a business that has been, or is to be, acquired ("acquiree"), or a business that has been, or is to be, divested ("divestee"), to the extent that such information is used in compiling the pro forma financial information ("acquiree or divestee financial information").

*Pro forma financial information* - Financial information shown together with adjustments to illustrate the impact of an event or transaction on unadjusted financial information as if the event had occurred or the transaction had been *undertaken* at an earlier date selected for purposes of the illustration. In this HKSAE, it is presumed that pro forma financial information is presented in columnar format consisting of (a) the unadjusted financial information; (b) the pro forma adjustments; and (c) the resulting pro forma column.

*Professional accountant*<sup>19</sup> - An individual who is a member of the Hong Kong Institute of Certified Public Accountants.

*Professional accountant in public practice*<sup>20</sup> - A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services. This term is also used to refer to a firm of professional accountants in public practice.

\**Professional judgment* - The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.

*Professional judgment (in the context of HKSAE 3000 (Revised))*—The application of relevant training, knowledge and experience, within the context provided by assurance and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.

*Professional judgment (in the context of HKSRE 2400 (Revised))* - The application of relevant training, knowledge and experience, within the context provided by assurance, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the review engagement.

\**Professional skepticism* - An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.

*Professional skepticism (in the context of HKSAE 3000 (Revised))* - An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement, and a critical assessment of evidence.

\**Professional standards* - Hong Kong Standards on Auditing (HKSA) and relevant ethical requirements

†*Professional standards (in the context of HKSQC 1*<sup>21</sup>*)* - Hong Kong Engagement Standards, as defined in the *Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*, and relevant ethical requirements.

*Projection* - Prospective financial information prepared on the basis of:

- (a) Hypothetical assumptions about future events and management actions which are not necessarily expected to take place, such as when some entities are in a start-up phase or are considering a major change in the nature of operations; or
- (b) A mixture of best-estimate and hypothetical assumptions.

*Prospective financial information* - Financial information based on assumptions about events that may occur in the future and possible actions by an entity. Prospective financial information can be in the form of a forecast, a projection or a combination of both. (see *Forecast and Projection*)

*Prospectus* - A document issued pursuant to legal or regulatory requirements relating to the entity's securities on which it is intended that a third party should make an investment decision.

*Public sector* - National governments, regional (for example, state, provincial, territorial) governments, local (for example, city, town) governments and related governmental entities (for example, agencies, boards, commissions and enterprises).

<sup>19</sup> As defined in the HKICPA *Code of Ethics for Professional Accountants*.

<sup>20</sup> As defined in the HKICPA *Code of Ethics for Professional Accountants*.

<sup>21</sup> HKSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*.

*Published financial information* - Financial information of the entity or of an acquiree or a divestee that is made available publicly.

*Purchased offset* - An emissions deduction in which the entity pays for the lowering of another entity's emissions (emissions reductions) or the increasing of another entity's removals (removal enhancements), compared to a hypothetical baseline.

*Quantification* - The process of determining the quantity of GHGs that relate to the entity, either directly or indirectly, as emitted (or removed) by particular sources (or sinks).

\*† *Reasonable assurance (in the context of audit engagements, and in quality control)* - A high, but not absolute, level of assurance.

*Reasonable assurance engagement* - (see *Assurance engagement*)

*Recalculation* - Consists of checking the mathematical accuracy of documents or records.

\* *Related party* - A party that is either:

- (a) A related party as defined in the applicable financial reporting framework; or
- (b) Where the applicable financial reporting framework establishes minimal or no related party requirements:
  - (i) A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity;
  - (ii) Another entity over which the reporting entity has control or significant influence, directly or indirectly through one or more intermediaries; or
  - (iii) Another entity that is under common control with the reporting entity through having:
    - a. Common controlling ownership;
    - b. Owners who are close family members; or
    - c. Common key management.

However, entities that are under common control by a state (that is, a national, regional or local government) are not considered related unless they engage in significant transactions or share resources to a significant extent with one another.

*Related services* - Comprise agreed-upon procedures and compilations.

\*† *Relevant ethical requirements (in the context of HKSQC 1)* - Ethical requirements to which the engagement team and engagement quality control reviewer are subject when undertaking audits or review of financial statements, or other assurance or related services engagements, which ordinarily comprise the provisions of the HKICPA's *Code of Ethics for Professional Accountants* (the Code) together with local requirements that are more restrictive.

*Relevant ethical requirements (in the context of the HKSAs)* - Ethical requirements to which the engagement team and engagement quality control reviewer are subject when undertaking an audit engagement, which ordinarily comprise the provisions of the Code related to an audit of financial statements, together with local requirements that are more restrictive.

*Relevant ethical requirements (in the context of HKSRE 2400 (Revised))* - Ethical requirements to which the engagement team is subject when undertaking a review engagement, which ordinarily comprise the provisions of the Code, together with local requirements that are more restrictive.

*Relevant ethical requirements (in the context of HKSRS 4410 (Revised))* - Ethical requirements to which the engagement team is subject when undertaking a compilation engagement, which ordinarily comprise the provisions of the Code related to compilation engagements, together with local requirements that are more restrictive.

*Removal* - The GHGs that the entity has, during the period, removed from the atmosphere, or that would have been emitted to the atmosphere had they not been captured and channeled to a sink.

*Reperformance* - The auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal controls.

*\*Report on the description and design of controls at a service organization (referred to in HKSA 402<sup>22</sup> as a type 1 report)* - A report that comprises:

- (a) A description, prepared by management of the service organization, of the service organization's system, control objectives and related controls that have been designed and implemented as at a specified date; and
- (b) A report by the service auditor with the objective of conveying reasonable assurance that includes the service auditor's opinion on the description of the service organization's system, control objectives and related controls and the suitability of the design of the controls to achieve the specified control objectives.

Report on the description and design of controls at a service organization (referred to in HKSAE 3402<sup>23</sup> as a "type 1 report")(in the context of HKSAE 3402)—A report that comprises:

- (a) The service organization's description of its system;
- (b) A written statement by the service organization that, in all material respects, and based on suitable criteria:
  - (i) The description fairly presents the service organization's system as designed and implemented as at the specified date;
  - (ii) The controls related to the control objectives stated in the service organization's description of its system were suitably designed as at the specified date; and
- (c) A service auditor's assurance report that conveys a reasonable assurance conclusion about the matters in (b)(i)–(ii) above.

*\*Report on the description, design, and operating effectiveness of controls at a service organization (referred to in HKSA 402 as a type 2 report)* - A report that comprises:

- (a) A description, prepared by management of the service organization, of the service organization's system, control objectives and related controls, their design and implementation as at a specified date or throughout a specified period and, in some cases, their operating effectiveness throughout a specified period; and
- (b) A report by the service auditor with the objective of conveying reasonable assurance that includes:
  - (i) The service auditor's opinion on the description of the service organization's system, control objectives and related controls, the suitability of the design of the controls to

<sup>22</sup> HKSA 402, *Audit Considerations Relating to an Entity Using a Service Organization*.

<sup>23</sup> HKSA 402, *Audit Considerations Relating to an Entity Using a Service Organization*.

achieve the specified control objectives, and the operating effectiveness of the controls;  
and

- (ii) A description of the service auditor's tests of the controls and the results thereof.

*Report on the description, design and operating effectiveness of controls at a service organization (referred to in HKSAE 3402 as a "type 2 report") (in the context of HKSAE 3402)* - A report that comprises:

- (a) The service organization's description of its system;
- (b) A written statement by the service organization that, in all material respects, and based on suitable criteria:
  - (i) The description fairly presents the service organization's system as designed and implemented throughout the specified period;
  - (ii) The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period; and
  - (iii) The controls related to the control objectives stated in the service organization's description of its system operated effectively throughout the specified period; and
- (c) A service auditor's assurance report that:
  - (i) Conveys a reasonable assurance conclusion about the matters in (b)(i)–(iii) above; and
  - (ii) Includes a description of the tests of controls and the results thereof.

*Responsible party* - The party(ies) responsible for the underlying subject matter.

*Review (in relation to quality control)* - Appraising the quality of the work performed and conclusions reached by others.

*Review engagement* - The objective of a review engagement is to enable an auditor 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 auditor's attention that causes the auditor to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.

*Review procedures* - The procedures deemed necessary to meet the objective of a review engagement, primarily inquiries of entity personnel and analytical procedures applied to financial data.

*\*Risk assessment procedures* - The audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.

*\*Risk of material misstatement* - The risk that the financial statements are materially misstated prior to audit. This consists of two components, described as follows at the assertion level:

- (a) *Inherent risk* - The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.



- (b) Control risk - The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

*Risk of material misstatement (in the context of HKSAE 3000 (Revised))* - The risk that the subject matter information is materially misstated prior to the engagement.

\**Sampling* - (see *Audit sampling*)

\**Sampling risk* - The risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure. Sampling risk can lead to two types of erroneous conclusions:

- (a) In the case of a test of controls, that controls are more effective than they actually are, or in the case of a test of details, that a material misstatement does not exist when in fact it does. The auditor is primarily concerned with this type of erroneous conclusion because it affects audit effectiveness and is more likely to lead to an inappropriate audit opinion.
- (b) In the case of a test of controls, that controls are less effective than they actually are, or in the case of a test of details, that a material misstatement exists when in fact it does not. This type of erroneous conclusion affects audit efficiency as it would usually lead to additional work to establish that initial conclusions were incorrect.

\**Sampling unit* - The individual items constituting a population.

*Scope of a review* - The review procedures deemed necessary in the circumstances to achieve the objective of the review.

\**Service auditor* - An auditor who, at the request of the service organization, provides an assurance report on the controls of a service organization.

*Service auditor (in the context of HKSAE 3402)* - A practitioner who, at the request of the service organization, provides an assurance report on controls of a service organization.

\**Service organization* - A third-party organization (or segment of a third-party organization) that provides services to user entities that are part of those entities' information systems relevant to financial reporting.

*Service organization (in the context of HKSAE 3402)* - A third-party organization (or segment of a third-party organization) that provides services to user entities that are likely to be relevant to user entities' internal control as it relates to financial reporting.

*Service organization's statement* - The written statement about the matters referred to in (b) of the definition of a report on the description, design and operating effectiveness of controls at a service organization (in the case of a type 2 report) or (b) of the definition of a report on the description and design of controls at a service organization (in the case of a type 1 report).

\**Service organization's system* - The policies and procedures designed, implemented and maintained by the service organization to provide user entities with the services covered by the service auditor's report.

*Service organization's system (or the system)(in the context of HKSAE 3402)* - The policies and procedures designed and implemented by the service organization to provide user entities with the services covered by the service auditor's assurance report. The service organization's description of its system includes identification of: the services covered; the period, or in the case of a type 1 report, the date, to which the description relates; control objectives; and related controls.

*Significance* - The relative importance of a matter, taken in context. The significance of a matter is judged by the practitioner in the context in which it is being considered. This might include, for example, the reasonable prospect of its changing or influencing the decisions of intended users of the practitioner's report; or, as another example, where the context is a judgment about whether to report a matter to those charged with governance, whether the matter would be regarded as important by them in relation to their duties. Significance can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients.

\**Significant component* - A component identified by the group engagement team (i) that is of individual financial significance to the group, or (ii) that, due to its specific nature or circumstances, is likely to include significant risks of material misstatement of the group financial statements.

\**Significant deficiency in internal control* - A deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

*Significant facility* - A facility that is of individual significance due to the size of its emissions relative to the aggregate emissions included in the GHG statement or its specific nature or circumstances which give rise to particular risks of material misstatement.

\**Significant risk* - An identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration.

*Sink* - A physical unit or process that removes GHGs from the atmosphere.

*Smaller entity* - An entity which typically possesses qualitative characteristics such as:

- (a) Concentration of ownership and management in a small number of individuals (often a single individual - either a natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics); and
- (b) One or more of the following:
  - (i) Straightforward or uncomplicated transactions;
  - (ii) Simple record-keeping;
  - (iii) Few lines of business and few products within business lines;
  - (iv) Few internal controls;
  - (v) Few levels of management with responsibility for a broad range of controls; or
  - (vi) Few personnel, many having a wide range of duties.

These qualitative characteristics are not exhaustive, they are not exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.

*Source* - A physical unit or process that releases GHGs into the atmosphere.

\**Special purpose financial statements* - Financial statements prepared in accordance with a special purpose framework.

\**Special purpose framework* - A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.<sup>24</sup>

\*†*Staff* - Professionals, other than partners, including any experts the firm employs.

\**Statistical sampling* - An approach to sampling that has the following characteristics:

- (a) Random selection of the sample items; and
- (b) The use of probability theory to evaluate sample results, including measurement of sampling risk.

A sampling approach that does not have characteristics (a) and (b) is considered non-statistical sampling.

\**Stratification* - The process of dividing a population into sub-populations, each of which is a group of sampling units which have similar characteristics (often monetary value).

*Subject matter information* - The outcome of the measurement or evaluation of the underlying subject matter against the criteria, that is, the information that results from applying the criteria to the underlying subject matter.

\**Subsequent events* - Events occurring between the date of the financial statements and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report.

\**Subservice organization* - A service organization used by another service organization to perform some of the services provided to user entities that are part of those user entities' information systems relevant to financial reporting.

*Subservice organization (in the context of HKSAE 3402)* - A service organization used by another service organization to perform some of the services provided to user entities that are likely to be relevant to user entities' internal control as it relates to financial reporting.

\**Substantive procedure* - An audit procedure designed to detect material misstatements at the assertion level. Substantive procedures comprise:

- (a) Tests of details (of classes of transactions, account balances, and disclosures); and
- (b) Substantive analytical procedures.

\**Sufficiency (of audit evidence)* - The measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence.

*Suitable criteria* - (see *Criteria*)

\*†*Suitably qualified external person* - An individual outside the firm with the competence and capabilities to act as an engagement partner, for example a partner of another firm, or an employee (with appropriate experience) of either a professional accountancy body whose members may perform audits and reviews of historical financial information, or other assurance or related services engagements, or of an organization that provides relevant quality control services.

\**Summary financial statements (in the context of HKSA 810 (Revised))* - Historical financial information that is derived from financial statements but that contains less detail than the financial

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<sup>24</sup> HKSA 200, paragraph 13(a).

statements, while still providing a structured representation consistent with that provided by the financial statements of the entity's economic resources or obligations at a point in time or the changes therein for a period of time.<sup>25</sup> Different jurisdictions may use different terminology to describe such historical financial information.

*Supplementary information* - Information that is presented together with the financial statements that is not required by the applicable financial reporting framework used to prepare the financial statements, normally presented in either supplementary schedules or as additional notes.

*Test* - The application of procedures to some or all items in a population.

*Test of controls (in the context of HKSAE 3402)* - A procedure designed to evaluate the operating effectiveness of controls in achieving the control objectives stated in the service organization's description of its system.

\**Tests of controls* - An audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.

\**Those charged with governance* - The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.<sup>26</sup>

\**Tolerable misstatement* - A monetary amount set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the monetary amount set by the auditor is not exceeded by the actual misstatement in the population.

\**Tolerable rate of deviation* - A rate of deviation from prescribed internal control procedures set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the rate of deviation set by the auditor is not exceeded by the actual rate of deviation in the population.

*Type of emission* - A grouping of emissions based on, for example, source of emission, type of gas, region, or facility.

*Unadjusted financial information* - Financial information of the entity to which pro forma adjustments are applied by the responsible party.

*Uncertainty* - A matter whose outcome depends on future actions or events not under the direct control of the entity but that may affect the financial statements.

\**Uncorrected misstatements* - Misstatements that the auditor has accumulated during the audit and that have not been corrected.

*Underlying subject matter* - The phenomenon that is measured or evaluated by applying criteria.

\**Unmodified opinion* - The opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.<sup>27</sup>

\**User auditor* - An auditor who audits and reports on the financial statements of a user entity.

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<sup>25</sup> HKSA 200, paragraph 13(f).

<sup>26</sup> For discussion of the diversity of governance structures, see paragraphs A1-A8 of HKSA 260 (Revised), *Communication with Those Charged with Governance*.

<sup>27</sup> HKSA 700 (Revised), paragraphs 25-26 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

*\*User auditor (in the context of HKSAE 3402)* - An auditor who audits and reports on the financial statements of a user entity.<sup>28</sup>

*User entity* - An entity that uses a service organization and whose financial statements are being audited.

*User entity (in the context of HKSAE 3402)* - An entity that uses a service organization.

*Walk-through test* - Involves tracing a few transactions through the financial reporting system.

*\*Written representation* - A written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. Written representations in this context do not include financial statements, the assertions therein, or supporting books and records.

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<sup>28</sup> In the case of a subservice organization, the service auditor of a service organization that uses the services of the subservice organization is also a user auditor.

Issued June 2009; revised July 2010, May 2013, February 2015,  
January 2019, September 2019, July 2020

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Effective as of 15 December 2009

*Hong Kong Standard on Quality Control 1*

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# **Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements**



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

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- (q) Relevant ethical requirements – Ethical requirements to which the engagement team and engagement quality control reviewer are subject when undertaking audits or reviews of financial statements, or other assurance or related services engagements, which ordinarily comprise the provisions of the HKICPA's *Code of Ethics for Professional Accountants* (the Code) together with local requirements that are more restrictive.
- (r) Staff – Professionals, other than partners, including any experts the firm employs.
- (s) Suitably qualified external person – An individual outside the firm with the competence and capabilities to act as an engagement partner, for example, a partner of another firm, or an employee (with appropriate experience) of either a professional accountancy body whose members may perform audits and reviews of historical financial information, or other assurance or related services engagements, or of an organization that provides relevant quality control services.

## Requirements

### Applying, and Complying with, Relevant Requirements

- 13. Personnel within the firm responsible for establishing and maintaining the firm's system of quality control shall have an understanding of the entire text of this HKSQC, including its application and other explanatory material, to understand its objective and to apply its requirements properly.
- 14. The firm shall comply with each requirement of this HKSQC unless, in the circumstances of the firm, the requirement is not relevant to the services provided in respect of audits and reviews of financial statements, and other assurance and related services engagements. (Ref: Para. A1)
- 15. The requirements are designed to enable the firm to achieve the objective stated in this HKSQC. The proper application of the requirements is therefore expected to provide a sufficient basis for the achievement of the objective. However, because circumstances vary widely and all such circumstances cannot be anticipated, the firm shall consider whether there are particular matters or circumstances that require the firm to establish policies and procedures in addition to those required by this HKSQC to meet the stated objective.

### Elements of a System of Quality Control

- 16. The firm shall establish and maintain a system of quality control that includes policies and procedures that address each of the following elements:
  - (a) Leadership responsibilities for quality within the firm.
  - (b) Relevant ethical requirements.
  - (c) Acceptance and continuance of client relationships and specific engagements.
  - (d) Human resources.
  - (e) Engagement performance.
  - (f) Monitoring.
- 17. The firm shall document its policies and procedures and communicate them to the firm's personnel. (Ref: Para. A2-A3)



### **Leadership Responsibilities for Quality within the Firm**

18. The firm shall establish policies and procedures designed to promote an internal culture recognizing that quality is essential in performing engagements. Such policies and procedures shall require the firm's chief executive officer (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent) to assume ultimate responsibility for the firm's system of quality control. (Ref: Para. A4-A5)
19. The firm shall establish policies and procedures such that any person or persons assigned operational responsibility for the firm's system of quality control by the firm's chief executive officer or managing board of partners has sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility. (Ref: Para. A6)

### **Relevant Ethical Requirements**

20. The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. (Ref: Para. A7-A10)

#### *Independence*

21. The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including network firm personnel) maintain independence where required by relevant ethical requirements. Such policies and procedures shall enable the firm to: (Ref: Para. A10)
  - (a) Communicate its independence requirements to its personnel and, where applicable, others subject to them; and
  - (b) Identify threats to independence, evaluate whether the identified threats are at an acceptable level, and if not address them by eliminating the circumstances that create the threats, applying safeguards to reduce threats to an acceptable level, or withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.
22. Such policies and procedures shall require: (Ref: Para. A10)
  - (a) Engagement partners to provide the firm with relevant information about client engagements, including the scope of services, to enable the firm to evaluate the overall impact, if any, on independence requirements;
  - (b) Personnel to promptly notify the firm of circumstances and relationships that create threats to independence so that appropriate action can be taken; and
  - (c) The accumulation and communication of relevant information to appropriate personnel so that:
    - (i) The firm and its personnel can readily determine whether they satisfy independence requirements;
    - (ii) The firm can maintain and update its records relating to independence; and
    - (iii) The firm can take appropriate action regarding identified threats to independence that are not at an acceptable level.
23. The firm shall establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations. The policies and procedures shall include requirements for: (Ref: Para. A10)
  - (a) Personnel to promptly notify the firm of independence breaches of which they become aware;

- (b) The firm to promptly communicate identified breaches of these policies and procedures to:
    - (i) The engagement partner who, with the firm, needs to address the breach; and
    - (ii) Other relevant personnel in the firm and, where appropriate, the network, and those subject to the independence requirements who need to take appropriate action; and
  - (c) Prompt communication to the firm, if necessary, by the engagement partner and the other individuals referred to in subparagraph 23(b)(ii) of the actions taken to resolve the matter, so that the firm can determine whether it should take further action.
24. At least annually, the firm shall obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by relevant ethical requirements. (Ref: Para. A10-A11)
25. The firm shall establish policies and procedures: (Ref: Para. A10)
- (a) Setting out criteria for determining the need to eliminate the circumstances that create a threat of long association with an entity to an acceptable level, when using the same senior personnel on an assurance engagement over a long period of time or criteria for applying safeguards to reduce the threat; and
  - (b) Requiring, for audits of financial statements of listed entities, the rotation of the engagement partner and the individuals responsible for engagement quality control review, and, where applicable, others subject to rotation requirements, after a specified period in compliance with relevant ethical requirements. (Ref: Para. A12-A17)

#### **Acceptance and Continuance of Client Relationships and Specific Engagements**

26. The firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm:
- (a) Is competent to perform the engagement and has the capabilities, including time and resources, to do so; (Ref: Para. A18, A23)
  - (b) Can comply with relevant ethical requirements; and
  - (c) Has considered the integrity of the client, and does not have information that would lead it to conclude that the client lacks integrity. (Ref: Para. A19-A20, A23)
27. Such policies and procedures shall require:
- (a) The firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. (Ref: Para. A21, A23)
  - (b) If a potential conflict of interest is identified in accepting an engagement from a new or an existing client, the firm to determine whether it is appropriate to accept the engagement.

and reinforce the firm's view on the importance of quality and how, practically, it is to be achieved.

- A5. Of particular importance in promoting an internal culture based on quality is the need for the firm's leadership to recognize that the firm's business strategy is subject to the overriding requirement for the firm to achieve quality in all the engagements that the firm performs. Promoting such an internal culture includes:
- (a) Establishment of policies and procedures that address performance evaluation, compensation, and promotion (including incentive systems) with regard to its personnel, in order to demonstrate the firm's overriding commitment to quality;
  - (b) Assignment of management responsibilities so that commercial considerations do not override the quality of work performed; and
  - (c) Provision of sufficient resources for the development, documentation and support of its quality control policies and procedures.

*Assigning Operational Responsibility for the Firm's System of Quality Control (Ref: Para. 19)*

- A6. Sufficient and appropriate experience and ability enables the person or persons responsible for the firm's system of quality control to identify and understand quality control issues and to develop appropriate policies and procedures. Necessary authority enables the person or persons to implement those policies and procedures.

**Relevant Ethical Requirements**

*Compliance with Relevant Ethical Requirements (Ref: Para. 20)*

- A7. The Code establishes the fundamental principles of ethics, which are:
- (a) Integrity;
  - (b) Objectivity;
  - (c) Professional competence and due care;
  - (d) Confidentiality; and
  - (e) Professional behavior.

The fundamental principles of ethics establish the standard of behavior expected of a professional accountant.

- A8. The Code provides a conceptual framework that establishes the approach which a professional accountant is required to apply when identifying, evaluating and addressing threats to compliance with the fundamental principles. In the case of audits, reviews and other assurance engagements, the Code sets out *Independence Standards*, established by the application of the conceptual framework to threats to independence in relation to those engagements.
- A9. The fundamental principles are reinforced in particular by:
- The leadership of the firm;
  - Education and training;

- Monitoring; and
- A process for dealing with breaches.

Definition of "Firm," "Network" and "Network Firm" (Ref: Para. 20-25)

A10. The definitions of "firm," "network" or "network firm" in relevant ethical requirements may differ from those set out in this HKSQC. For example, the Code defines the "firm" as:

- (a) A sole practitioner, partnership or corporation of professional accountants;
- (b) An entity that controls such parties through ownership, management or other means; and
- (c) An entity controlled by such parties through ownership, management or other means.

The Code also provides guidance in relation to the terms "network" and "network firm."

In complying with the requirements in paragraphs 20-25, the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.

Written Confirmation (Ref: Para. 24)

A11. Written confirmation may be in paper or electronic form. By obtaining confirmation and taking appropriate action on information indicating a breach, the firm demonstrates the importance that it attaches to independence and makes the issue current for, and visible to, its personnel.

Long Association with an Entity (Ref: Para. 25)

A12. The Code discusses the threat that may be created as a result of an individual's long association with:

- The entity and its operations;
- The entity's senior management; or
- The underlying subject matter and subject matter information of the assurance engagement.

A13. The Code includes examples of factors that are relevant to evaluating the level of a threat that may arise when an individual is involved in an assurance engagement over a long period of time. The Code also provides examples of actions to address threats, including:

- Eliminating the threat, by rotating the individual off the engagement team; or
- Applying safeguards to reduce the threat to an acceptable level, for example by performing regular independent internal or external quality reviews of the engagement.

A14. The Code requires the rotation of the engagement partner, the engagement quality control reviewer, and other key audit partners<sup>4</sup> in respect of certain engagements. Local requirements may establish shorter rotation periods.

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<sup>4</sup> As defined in the Code.

Considerations specific to public sector audit organizations

- A51. In the public sector, a statutorily appointed auditor (for example, an Auditor General, or other suitably qualified person appointed on behalf of the Auditor General) may act in a role equivalent to that of engagement partner with overall responsibility for public sector audits. In such circumstances, where applicable, the selection of the engagement quality control reviewer includes consideration of the need for independence from the audited entity and the ability of the engagement quality control reviewer to provide an objective evaluation.

*Differences of Opinion* (Ref: Para. 43)

- A52. Effective procedures encourage identification of differences of opinion at an early stage, provide clear guidelines as to the successive steps to be taken thereafter, and require documentation regarding the resolution of the differences and the implementation of the conclusions reached.
- A53. Procedures to resolve such differences may include consulting with another practitioner or firm, or a professional or regulatory body.

*Engagement Documentation*

Completion of the Assembly of Final Engagement Files (Ref: Para. 45)

- A54. Law or regulation may prescribe the time limits by which the assembly of final engagement files for specific types of engagement is to be completed. Where no such time limits are prescribed in law or regulation, paragraph 45 requires the firm to establish time limits that reflect the need to complete the assembly of final engagement files on a timely basis. In the case of an audit, for example, such a time limit would ordinarily not be more than 60 days after the date of the auditor's report.
- A55. Where two or more different reports are issued in respect of the same subject matter information of an entity, the firm's policies and procedures relating to time limits for the assembly of final engagement files address each report as if it were for a separate engagement. This may, for example, be the case when the firm issues an auditor's report on a component's financial information for group consolidation purposes and, at a subsequent date, an auditor's report on the same financial information for statutory purposes.

Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation (Ref: Para. 46)

- A56. Relevant ethical requirements establish an obligation for the firm's personnel to observe at all times the confidentiality of information contained in engagement documentation, unless specific client authority has been given to disclose information, or there are responsibilities under law, regulation or relevant ethical requirements to do so.<sup>5</sup> Specific laws or regulations may impose additional obligations on the firm's personnel to maintain client confidentiality, particularly where data of a personal nature are concerned.
- A57. Whether engagement documentation is in paper, electronic or other media, the integrity, accessibility or retrievability of the underlying data may be compromised if the documentation could be altered, added to or deleted without the firm's knowledge, or if it could be permanently lost or damaged. Accordingly, controls that the firm designs and implements to avoid unauthorized alteration or loss of engagement documentation may include those that:
- Enable the determination of when and by whom engagement documentation was created, changed or reviewed;

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<sup>5</sup> See, for example, Chapter A, Part 1, paragraphs R114.1, 114.1 A1 and Part 3, paragraph R360.26 of the Code.

Framework  
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# Hong Kong Framework for Assurance Engagements



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## Ethical Principles and Quality Control Standards

5. Quality control within firms that perform assurance engagements, and compliance with ethical principles, including independence requirements, are widely recognized as being in the public interest and an integral part of high-quality assurance engagements. Such engagements are performed in accordance with HKSAAs, which are premised on the basis that:
  - (a) The members of the engagement team and the engagement quality control reviewer (for those engagements where one has been appointed) are subject to the provisions of the Code related to assurance engagements, or other professional requirements, or requirements in law or regulation, that are at least demanding; and
  - (b) The practitioner performing the engagement is a member of a firm that is subject to HKSQC 1,<sup>2</sup> or other professional requirements, or requirements in law or regulation, regarding the firm's responsibility for its system of quality control, that are at least as demanding as HKSQC 1.

### *The Code<sup>2a</sup>*

6. The Code establishes the fundamental principles of ethics, which are:
  - (a) Integrity;
  - (b) Objectivity;
  - (c) Professional competence and due care;
  - (d) Confidentiality; and
  - (e) Professional behaviour.
7. The fundamental principles of ethics establish the standard of behavior expected of a professional accountant. The Code provides a conceptual framework that professional accountants are to apply in order to identify, evaluate and address threats to compliance with the fundamental principles.
8. The Code sets out requirements and application material on various topics. The Code defines independence as comprising both independence of mind and independence in appearance. Independence safeguards the ability to form an assurance conclusion without being affected by influences that might compromise that conclusion. Independence enhances the ability to act with integrity, to be objective and to maintain an attitude of professional skepticism.

### *HKSQC 1*

9. HKSQC 1 deals with the firm's responsibilities to establish and maintain its system of quality control for assurance engagements. Compliance with HKSQC 1 requires, among other things, that the firm establish and maintain a system of quality control that includes policies and procedures addressing each of the following elements, and that it documents its policies and procedures and communicates them to the firm's personnel:
  - (a) Leadership responsibilities for quality within the firm;

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<sup>2</sup> Hong Kong Standard on Quality Control (HKSQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>2a</sup> The Code has an additional Chapter C, which are either local application or represent an amplification of provisions in Chapter A. There are relevant sections in Chapter A, Parts 1 and 3 for which there are additional requirements in Chapter C or additional local requirements.



HKSA 200  
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Effective for audits of financial statements  
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*Hong Kong Standard on Auditing 200*

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# **Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing**



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required is on whether the financial statements are prepared, in all material respects, in accordance with the framework. Unless specifically stated otherwise, references in the HKSA to the auditor's opinion cover both forms of opinion.

## Definitions

### *Financial Statements* (Ref: Para. 13(f))

- A14. Some financial reporting frameworks may refer to an entity's economic resources or obligations in other terms. For example, these may be referred to as the entity's assets and liabilities, and the residual difference between them may be referred to as equity or equity interests.
- A15. Explanatory or descriptive information required to be included in the financial statements by the applicable financial reporting framework may be incorporated therein by cross-reference to information in another document, such as a management report or a risk report. "Incorporated therein by cross-reference" means cross-referenced from the financial statements to the other document, but not from the other document to the financial statements. Where the applicable financial reporting framework does not expressly prohibit the cross-referencing of where explanatory or descriptive information may be found, and the information has been appropriately cross-referenced, the information will form part of the financial statements.

### **Ethical Requirements Relating to an Audit of Financial Statements** (Ref: Para. 14)

- A16. The auditor is subject to relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements ordinarily comprise the provisions of the HKICPA's *Code of Ethics for Professional Accountants* (the Code) related to an audit of financial statements, together with local requirements that are more restrictive.
- A17. The Code establishes the fundamental principles of ethics, which are:
- (a) Integrity;
  - (b) Objectivity;
  - (c) Professional competence and due care;
  - (d) Confidentiality; and
  - (e) Professional behavior.

The fundamental principles of ethics establish the standard of behavior expected of a professional accountant.

The Code provides a conceptual framework that establishes the approach which a professional accountant is required to apply when identifying, evaluating and addressing threats to compliance with the fundamental principles. In the case of audits, reviews and other assurance engagements, the Code sets out *Independence Standards*, established by the application of the conceptual framework to threats to independence in relation to those engagements.

- A18. In the case of an audit engagement it is in the public interest and, therefore, required by the Code, that the auditor be independent of the entity subject to the audit. The Code describes independence as comprising both independence of mind and independence in appearance. The auditor's independence from the entity safeguards the auditor's ability to form an audit opinion without being affected by influences that might compromise that opinion. Independence enhances the auditor's ability to act with integrity, to be objective and to maintain an attitude of professional skepticism.

A19. Hong Kong Standard on Quality Control (HKSQC) 1<sup>9</sup> deal with the firm's responsibilities to establish and maintain its system of quality control for audit engagements.<sup>10</sup> HKSQC 1 sets out the responsibilities of the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements, including those pertaining to independence.<sup>11</sup> HKSA 220 sets out the engagement partner's responsibilities with respect to relevant ethical requirements. These include remaining alert, through observation and making inquiries as necessary, for evidence of breaches of relevant ethical requirements by members of the engagement team, determining the appropriate action if matters come to the engagement partner's attention that indicate that members of the engagement team have breached relevant ethical requirements, and forming a conclusion on compliance with independence requirements that apply to the audit engagement.<sup>12</sup> HKSA 220 recognizes that the engagement team is entitled to rely on a firm's system of quality control in meeting its responsibilities with respect to quality control procedures applicable to the individual audit engagement, unless information provided by the firm or other parties suggests otherwise.

**Professional Skepticism** (Ref: Para. 15)

A20. Professional skepticism includes being alert to, for example:

- Audit evidence that contradicts other audit evidence obtained.
- Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence.
- Conditions that may indicate possible fraud.
- Circumstances that suggest the need for audit procedures in addition to those required by the HKSA's.

A21. Maintaining professional skepticism throughout the audit is necessary if the auditor is, for example, to reduce the risks of:

- Overlooking unusual circumstances.
- Over generalizing when drawing conclusions from audit observations.
- Using inappropriate assumptions in determining the nature, timing and extent of the audit procedures and evaluating the results thereof.

A22. Professional skepticism is necessary to the critical assessment of audit evidence. This includes questioning contradictory audit evidence and the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of audit evidence obtained in the light of the circumstances, for example, in the case where fraud risk factors exist and a single document, of a nature that is susceptible to fraud, is the sole supporting evidence for a material financial statement amount.

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<sup>9</sup> HKSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>10</sup> HKSA 220, *Quality Control for an Audit of Financial Statements*, paragraph 2

<sup>11</sup> HKSQC 1, paragraphs 20-25

<sup>12</sup> HKSA 220, paragraphs 9-12

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# **Quality Control for an Audit of Financial Statements**



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- (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.
- (k) Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.
- (l) Personnel – Partners and staff.
- (m) Professional standards – HKICPA engagement standards, as defined in the HKICPA's *Preface to the Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services*, and relevant ethical requirements.
- (n) Relevant ethical requirements – Ethical requirements to which the engagement team and engagement quality control reviewer are subject when undertaking an audit engagement, which ordinarily comprise the provisions of the HKICPA's *Code of Ethics for Professional Accountants* (the Code) related to an audit of financial statements, together with local requirements that are more restrictive.
- (o) Staff – Professionals, other than partners, including any experts the firm employs.
- (p) Suitably qualified external person – An individual outside the firm with the competence and capabilities to act as an engagement partner, for example, a partner of another firm, or an employee (with appropriate experience) of either a professional accountancy body whose members may perform audits of historical financial information or of an organization that provides relevant quality control services.

## Requirements

### Leadership Responsibilities for Quality on Audits

8. The engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned. (Ref: Para. A3)

### Relevant Ethical Requirements

9. Throughout the audit engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of breaches of relevant ethical requirements by members of the engagement team. (Ref: Para. A4-A5)
10. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have breached relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action. (Ref: Para. A5)

### Independence

11. The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall: (Ref: Para. A5)
  - (a) Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate threats to independence;

- (b) Evaluate information on identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement;
- (c) Evaluate whether the identified threats are at an acceptable level; and
- (d) Take appropriate action to address the threats that are not at an acceptable level by eliminating the circumstances that create the threats, applying safeguards to reduce threats to an acceptable level, or withdrawing from the audit engagement, where withdrawal is possible under applicable law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action. (Ref: Para. A6-A7)

### **Acceptance and Continuance of Client Relationships and Audit Engagements**

- 12. The engagement partner shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate. (Ref: Para. A8-A10)
- 13. If the engagement partner obtains information that would have caused the firm to decline the audit engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action. (Ref: Para. A10)

### **Assignment of Engagement Teams**

- 14. The engagement partner shall be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to:
  - (a) Perform the audit engagement in accordance with professional standards and applicable legal and regulatory requirements; and
  - (b) Enable an auditor's report that is appropriate in the circumstances to be issued. (Ref: Para. A11-A13)

### **Engagement Performance**

#### *Direction, Supervision and Performance*

- 15. The engagement partner shall take responsibility for:
  - (a) The direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements; and (Ref: Para. A15-A16, A21)
  - (b) The auditor's report being appropriate in the circumstances.

#### *Reviews*

- 16. The engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures. (Ref: Para. A17-A18, A21)
- 17. On or before the date of the auditor's report, the engagement partner shall, through a review of the audit documentation and discussion with the engagement team, be satisfied that



sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. (Ref: Para. A19-A21)

*Consultation*

18. The engagement partner shall:
  - (a) Take responsibility for the engagement team undertaking appropriate consultation on difficult or contentious matters;
  - (b) Be satisfied that members of the engagement team have undertaken appropriate consultation during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm;
  - (c) Be satisfied that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and
  - (d) Determine that conclusions resulting from such consultations have been implemented. (Ref: Para. A22-A23)

*Engagement Quality Control Review*

19. For audits of financial statements of listed entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement partner shall:
  - (a) Determine that an engagement quality control reviewer has been appointed;
  - (b) Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and
  - (c) Not date the auditor's report until the completion of the engagement quality control review. (Ref: Para. A24-A26)
20. The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve:
  - (a) Discussion of significant matters with the engagement partner;
  - (b) Review of the financial statements and the proposed auditor's report;
  - (c) Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached; and
  - (d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate. (Ref: Para. A27-A29, A31-A33)
21. For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:
  - (a) The engagement team's evaluation of the firm's independence in relation to the audit engagement;

**Leadership Responsibilities for Quality on Audits** (Ref: Para. 8)

A3. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each audit engagement, emphasize:

- (a) The importance to audit quality of:
  - (i) Performing work that complies with professional standards and applicable legal and regulatory requirements;
  - (ii) Complying with the firm's quality control policies and procedures as applicable;
  - (iii) Issuing auditor's reports that are appropriate in the circumstances; and
  - (iv) The engagement team's ability to raise concerns without fear of reprisals; and
- (b) The fact that quality is essential in performing audit engagements.

**Relevant Ethical Requirements**

*Compliance with Relevant Ethical Requirements* (Ref: Para. 9)

A4. The Code establishes the fundamental principles of ethics which are:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional behavior.

The fundamental principles of ethics establish the standard of behavior expected of a professional accountant.

*Definition of "Firm," "Network" and "Network Firm"* (Ref: Para. 9-11)

A5. The definitions of "firm," "network" or "network firm" in relevant ethical requirements may differ from those set out in this HKSA. For example, the Code defines the "firm" as:

- (a) A sole practitioner, partnership or corporation of professional accountants;
- (b) An entity that controls such parties through ownership, management or other means; and
- (c) An entity controlled by such parties through ownership, management or other means.

The Code also provides guidance in relation to the terms "network" and "network firm."

In complying with the requirements in paragraphs 9-11, the definitions used in the relevant ethical requirements apply in so far as is necessary to interpret those ethical requirements.

*Threats to Independence* (Ref: Para. 11(c))

- A6. The engagement partner may identify a threat to independence regarding the audit engagement that may not be at an acceptable level. In that case, as required by paragraph 11(d), the engagement partner reports to the relevant person(s) within the firm to determine the appropriate action, which may include eliminating the circumstance that creates the threat, applying safeguards to reduce the threat to an acceptable level or withdrawing from the audit engagement, where withdrawal is possible under applicable law or regulation.

Considerations Specific to Public Sector Entities

- A7. Statutory measures may provide safeguards for the independence of public sector auditors. However, public sector auditors or audit firms carrying out public sector audits on behalf of the statutory auditor may, depending on the terms of the mandate in a particular jurisdiction, need to adapt their approach in order to promote compliance with the spirit of paragraph 11. This may include, where the public sector auditor's mandate does not permit withdrawal from the engagement, disclosure through a public report, of circumstances that have arisen that would, if they were in the private sector, lead the auditor to withdraw.

**Acceptance and Continuance of Client Relationships and Audit Engagements** (Ref: Para. 12)

- A8. HKSQC 1 requires the firm to obtain information considered necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client.<sup>6</sup> Information such as the following assists the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate:

- The integrity of the principal owners, key management and those charged with governance of the entity;
- Whether the engagement team is competent to perform the audit engagement and has the necessary capabilities, including time and resources;
- Whether the firm and the engagement team can comply with relevant ethical requirements; and
- Significant matters that have arisen during the current or previous audit engagement, and their implications for continuing the relationship.

- A9. Law, regulation, or relevant ethical requirements<sup>7</sup> may require the auditor to request, prior to accepting the engagement, the predecessor auditor to provide known information regarding any facts or circumstances that, in the predecessor auditor's judgment, the auditor needs to be aware of before deciding whether to accept the engagement. In some circumstances, the predecessor auditor may be required, on request by the proposed successor auditor, to provide information regarding identified or suspected non-compliance with laws and regulations to the proposed successor auditor. For example, where the predecessor auditor has withdrawn from the engagement as a result of identified or suspected non-compliance with laws and regulations, the Code requires that the predecessor auditor, on request by a proposed successor auditor, provides all such facts and other information concerning such non-compliance that, in the predecessor auditor's opinion, the proposed successor auditor needs to be aware of before deciding whether to accept the audit appointment.<sup>8</sup>

<sup>6</sup> HKSQC 1, paragraph 27(a)

<sup>7</sup> See, for example, Chapter A, Part 3, paragraph R320.8 of the Code.

<sup>8</sup> See, for example, Chapter A, Part 3, paragraphs R360.22 and R360.23 of the Code.

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# **Consideration of Laws and Regulations in an Audit of Financial Statements**



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- Environmental protection.
- Public health and safety.

#### Considerations Specific to Public Sector Entities

A7. In the public sector, there may be additional audit responsibilities with respect to the consideration of laws and regulations which may relate to the audit of financial statements or may extend to other aspects of the entity's operations.

#### Additional Responsibilities Established by Law, Regulation or Relevant Ethical Requirements (Ref: Para. 9)

A8. Law, regulation or relevant ethical requirements may require the auditor to perform additional procedures and take further actions. For example, the HKICPA's *Code of Ethics for Professional Accountants* (the Code) requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed. Such steps may include the communication of identified or suspected non-compliance with laws and regulations to other auditors within a group, including a group engagement partner, component auditors or other auditors performing work at components of a group for purposes other than the audit of the group financial statements.<sup>11</sup>

#### Definition (Ref: Para. 12)

- A9. Acts of non-compliance with laws and regulations include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, by management or by other individuals working for or under the direction of the entity.
- A10. Non-compliance also includes personal misconduct related to the business activities of the entity, for example, in circumstances where an individual in a key management position, in a personal capacity, has accepted a bribe from a supplier of the entity and in return secures the appointment of the supplier to provide services or contracts to the entity.

### The Auditor's Consideration of Compliance with Laws and Regulations

#### *Obtaining an Understanding of the Legal and Regulatory Framework* (Ref: Para. 13)

- A11. To obtain a general understanding of the legal and regulatory framework, and how the entity complies with that framework, the auditor may, for example:
- Use the auditor's existing understanding of the entity's industry, regulatory and other external factors;
  - Update the understanding of those laws and regulations that directly determine the reported amounts and disclosures in the financial statements;
  - Inquire of management as to other laws or regulations that may be expected to have a fundamental effect on the operations of the entity;
  - Inquire of management concerning the entity's policies and procedures regarding compliance with laws and regulations; and
  - Inquire of management regarding the policies or procedures adopted for identifying, evaluating and accounting for litigation claims.

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<sup>11</sup> See Chapter A, Part 3, paragraphs R360.16–360.18 A1 of the Code.

jurisdictions, the auditor may be required to report misstatements to an appropriate authority in cases where management or those charged with governance fail to take corrective action.

- A30. In other cases, the relevant ethical requirements may require the auditor to determine whether reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity is an appropriate action in the circumstances. For example, the Code requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed, which may include reporting to an appropriate authority outside the entity.<sup>17</sup> The Code explains that such reporting would not be considered a breach of the duty of confidentiality under the Code.<sup>18</sup>
- A31. Even if law, regulation or relevant ethical requirements do not include requirements that address reporting identified or suspected non-compliance, they may provide the auditor with the right to report identified or suspected non-compliance to an appropriate authority outside the entity. For example, when auditing the financial statements of financial institutions, the auditor may have the right under law or regulation to discuss matters such as identified or suspected non-compliance with laws and regulations with a supervisory authority.
- A32. In other circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the auditor's duty of confidentiality under law, regulation or relevant ethical requirements.
- A33. The determination required by paragraph 29 may involve complex considerations and professional judgments. Accordingly the auditor may consider consulting internally (e.g., within the firm or a network firm) or on a confidential basis with a regulator or professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The auditor may also consider obtaining legal advice to understand the auditor's options and the professional or legal implications of taking any particular course of action.

#### Considerations Specific to Public Sector Entities

- A34. A public sector auditor may be obliged to report on identified or suspected non-compliance to the legislature or other governing body or to report them in the auditor's report.

#### **Documentation** (Ref: Para. 30)

- A35. The auditor's documentation of findings regarding identified or suspected non-compliance with laws and regulations may include, for example:
- Copies of records or documents.
  - Minutes of discussions held with management, those charged with governance or parties outside the entity.
- A36. Law, regulation or relevant ethical requirements may also set out additional documentation requirements regarding identified or suspected non-compliance with laws and regulations.<sup>19</sup>

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<sup>17</sup> See, for example, Chapter A, Part 3, paragraphs 360.21 A1 and 360.25 A1 – R360.27 of the Code.

<sup>18</sup> See, for example, Chapter A, Part 1, paragraphs R114.1–114.1 A1 and Part 3, paragraph R360.26 of the Code.

<sup>19</sup> See, for example, Chapter A, Part 3, paragraph R360.28 of the Code.

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# Communication with Those Charged with Governance



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*Significant Findings from the Audit*

16. The auditor shall communicate with those charged with governance: (Ref: Para. A17–A18)
- (a) The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity; (Ref: Para. A19–A20)
  - (b) Significant difficulties, if any, encountered during the audit; (Ref: Para. A21)
  - (c) Unless all of those charged with governance are involved in managing the entity:
    - (i) Significant matters arising during the audit that were discussed, or subject to correspondence, with management; and (Ref: Para. A22)
    - (ii) Written representations the auditor is requesting;
  - (d) Circumstances that affect the form and content of the auditor's report, if any; and (Ref: Para. A23–A25)
  - (e) Any other significant matters arising during the audit that, in the auditor's professional judgment, are relevant to the oversight of the financial reporting process. (Ref: Para. A26–A28)

*Auditor Independence*

17. In the case of listed entities, the auditor shall communicate with those charged with governance:
- (a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and
    - (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and
    - (ii) In respect of threats to independence that are not at an acceptable level, the actions taken to address the threats, including actions that were taken to eliminate the circumstances that create the threats, or applying safeguards to reduce the threats to an acceptable level. (Ref: Para. A29–A32)

**The Communication Process***Establishing the Communication Process*

18. The auditor shall communicate with those charged with governance the form, timing and expected general content of communications. (Ref: Para. A37–A45)

*Forms of Communication*

19. The auditor shall communicate in writing with those charged with governance regarding significant findings from the audit if, in the auditor's professional judgment, oral communication would not be adequate. Written communications need not include all matters that arose during the course of the audit. (Ref: Para. A46–A48)
20. The auditor shall communicate in writing with those charged with governance regarding auditor independence when required by paragraph 17.

*Timing of Communications*

21. The auditor shall communicate with those charged with governance on a timely basis. (Ref: Para. A49–A50)

*Adequacy of the Communication Process*

22. The auditor shall evaluate whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. If it has not, the auditor shall evaluate the effect, if any, on the auditor's assessment of the risks of material misstatement and ability to obtain sufficient appropriate audit evidence, and shall take appropriate action. (Ref: Para. A51–A53)

**Documentation**

23. Where matters required by this HKSA to be communicated are communicated orally, the auditor shall include them in the audit documentation, and when and to whom they were communicated. Where matters have been communicated in writing, the auditor shall retain a copy of the communication as part of the audit documentation.<sup>2</sup> (Ref: Para. A54)

**Conformity and Compliance with International Standards on Auditing**

24. As of September 2019, this HKSA conforms with International Standard on Auditing (ISA) 260 (Revised), *Communication with Those Charged with Governance* except that references to IESBA's Code of Ethics for Professional Accountants are replaced by HKICPA's Code of Ethics for Professional Accountants. With the exception of the foregoing difference, compliance with the requirements of this HKSA ensures compliance with ISA 260 (Revised).
25. Additional local guidance is provided in footnotes 1a and 1b.

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**Application and Other Explanatory Material****Those Charged with Governance** (Ref: Para. 11)

- A1. Governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. For example:
  - In some jurisdictions, a supervisory (wholly or mainly non-executive) board exists that is legally separate from an executive (management) board (a "two-tier board" structure). In other jurisdictions, both the supervisory and executive functions are the legal responsibility of a single, or unitary, board (a "one-tier board" structure).
  - In some entities, those charged with governance hold positions that are an integral part of the entity's legal structure, for example, company directors. In others, for example, some government entities, a body that is not part of the entity is charged with governance.

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<sup>2</sup> HKSA 230, *Audit Documentation*, paragraphs 8–11, and A6

- A27. Other significant matters arising during the audit that are directly relevant to those charged with governance in overseeing the financial reporting process may include such matters as material misstatements of the other information that have been corrected.
- A28. To the extent not already addressed by the requirements in paragraphs 16(a)–(d) and related application material, the auditor may consider communicating about other matters discussed with, or considered by, the engagement quality control reviewer, if one has been appointed, in accordance with HKSA 220.<sup>23</sup>

*Auditor Independence* (Ref: Para. 17)

- A29. The auditor is required to comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements.<sup>24</sup>
- A30. The communication about relationships and other matters, and how threats to independence that are not at an acceptable level have been addressed varies with the circumstances of the engagement and generally addresses the threats to independence, safeguards to reduce the threats, and measures to eliminate circumstances that created threats.
- A31. Relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance in circumstances where breaches of independence requirements have been identified. For example, the HKICPA's *Code of Ethics for Professional Accountants* (the Code) requires the auditor to communicate with those charged with governance in writing about any breach and the action the firm has taken or proposes to take.<sup>25</sup>
- A32. The communication requirements relating to auditor independence that apply in the case of listed entities may also be appropriate in the case of some other entities, including those that may be of significant public interest, for example because they have a large number and wide range of stakeholders and considering the nature and size of the business. Examples of such entities may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as charities. On the other hand, there may be situations where communications regarding independence may not be relevant, for example, where all of those charged with governance have been informed of relevant facts through their management activities. This is particularly likely where the entity is owner-managed, and the auditor's firm and network firms have little involvement with the entity beyond a financial statement audit.

*Supplementary Matters* (Ref: Para. 3)

- A33. The oversight of management by those charged with governance includes ensuring that the entity designs, implements and maintains appropriate internal control with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

<sup>23</sup> See paragraphs 19–22 and A23–A32 of HKSA 220, *Quality Control for an Audit of Financial Statements*.

<sup>24</sup> HKSA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*, paragraph 14

<sup>25</sup> See, for example, Chapter A, Part 4A, paragraphs R400.80–R400.82 and R400.84 of the Code

- It may be appropriate to communicate a significant difficulty encountered during the audit as soon as practicable if those charged with governance are able to assist the auditor to overcome the difficulty, or if it is likely to lead to a modified opinion. Similarly, the auditor may communicate orally to those charged with governance as soon as practicable significant deficiencies in internal control that the auditor has identified, prior to communicating these in writing as required by HKSA 265.<sup>26</sup>
- When HKSA 701 applies, the auditor may communicate preliminary views about key audit matters when discussing the planned scope and timing of the audit (see paragraph A13), and the auditor also may have more frequent communications to further discuss such matters when communicating about significant audit findings.
- Communications regarding independence may be appropriate whenever significant judgments are made about threats to independence and how threats to independence that are not at an acceptable level will be addressed, for example, when accepting an engagement to provide non-audit services, and at a concluding discussion.
- Communications regarding findings from the audit, including the auditor's views about the qualitative aspects of the entity's accounting practices, may also be made as part of the concluding discussion.
- When auditing both general purpose and special purpose financial statements, it may be appropriate to coordinate the timing of communications.

A50. Other factors that may be relevant to the timing of communications include:

- The size, operating structure, control environment, and legal structure of the entity being audited.
- Any legal obligation to communicate certain matters within a specified timeframe.
- The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.
- The time at which the auditor identifies certain matters, for example, the auditor may not identify a particular matter (e.g., noncompliance with a law) in time for preventive action to be taken, but communication of the matter may enable remedial action to be taken.

*Adequacy of the Communication Process (Ref: Para. 22)*

A51. The auditor need not design specific procedures to support the evaluation of the two-way communication between the auditor and those charged with governance; rather, that evaluation may be based on observations resulting from audit procedures performed for other purposes. Such observations may include:

- The appropriateness and timeliness of actions taken by those charged with governance in response to matters raised by the auditor. Where significant matters raised in previous communications have not been dealt with effectively, it may be appropriate for the auditor to inquire as to why appropriate action has not been taken, and to consider raising the point again. This avoids the risk of giving an impression that the auditor is satisfied that the matter has been adequately addressed or is no longer significant.

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<sup>26</sup> HKSA 265, paragraphs 9 and A14

HKSA 610 (Revised 2013)  
Revised July 2012, December 2012, May 2013,  
September 2019, July 2020

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*Hong Kong Standard on Auditing 610 (Revised 2013)*

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# Using the Work of Internal Auditors



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Application of a Systematic and Disciplined Approach (Ref: Para. 15(c))

- A10. The application of a systematic and disciplined approach to planning, performing, supervising, reviewing and documenting its activities distinguishes the activities of the internal audit function from other monitoring control activities that may be performed within the entity.
- A11. Factors that may affect the external auditor's determination of whether the internal audit function applies a systematic and disciplined approach include the following:
- The existence, adequacy and use of documented internal audit procedures or guidance covering such areas as risk assessments, work programs, documentation and reporting, the nature and extent of which is commensurate with the size and circumstances of an entity.
  - Whether the internal audit function has appropriate quality control policies and procedures, for example, such as those policies and procedures in HKSQC 1<sup>16</sup> that would be applicable to an internal audit function (such as those relating to leadership, human resources and engagement performance) or quality control requirements in standards set by the relevant professional bodies for internal auditors. Such bodies may also establish other appropriate requirements such as conducting periodic external quality assessments.

Circumstances When Work of the Internal Audit Function Cannot Be Used (Ref: Para. 16)

- A12. The external auditor's evaluation of whether the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors, the level of competence of the internal audit function, and whether it applies a systematic and disciplined approach may indicate that the risks to the quality of the work of the function are too significant and therefore it is not appropriate to use any of the work of the function as audit evidence.
- A13. Consideration of the factors in paragraphs A7, A8 and A11 of this HKSA individually and in aggregate is important because an individual factor is often not sufficient to conclude that the work of the internal audit function cannot be used for purposes of the audit. For example, the internal audit function's organizational status is particularly important in evaluating threats to the objectivity of the internal auditors. If the internal audit function reports to management, this would be considered a significant threat to the function's objectivity unless other factors such as those described in paragraph A7 of this HKSA collectively provide sufficient safeguards to reduce the threat to an acceptable level.
- A14. In addition, the Code<sup>17</sup> states that a self-review threat is created when the external auditor accepts an engagement to provide internal audit services to an audit client, and the results of those services will be used in conducting the audit. This is because of the possibility that the engagement team will use the results of the internal audit service without properly evaluating those results or without exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm. The Code<sup>18</sup> discusses the prohibitions that apply in certain circumstances and the threats and the safeguards that can be applied to reduce the threats to an acceptable level in other circumstances.

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<sup>16</sup> Hong Kong Standard on Quality Control (HKSQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>17</sup> The HKICPA's *Code of Ethics for Professional Accountants* (the Code), Chapter A, Part 4A, paragraphs 605.4 A2–605.4 A3

<sup>18</sup> The Code, Chapter A, Part 4A, paragraphs 605.1–R605.5.



HKSA 620  
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Effective for audits of financial statements  
for periods beginning on or after 15 December 2009

*Hong Kong Standard on Auditing 620*

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# Using the Work of an Auditor's Expert



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**Nature, Timing and Extent of Audit Procedures** (Ref: Para. 8)

A10. The nature, timing and extent of audit procedures with respect to the requirements in paragraphs 9-13 of this HKSA will vary depending on the circumstances. For example, the following factors may suggest the need for different or more extensive procedures than would otherwise be the case:

- The work of the auditor's expert relates to a significant matter that involves subjective and complex judgments.
- The auditor has not previously used the work of the auditor's expert, and has no prior knowledge of that expert's competence, capabilities and objectivity.
- The auditor's expert is performing procedures that are integral to the audit, rather than being consulted to provide advice on an individual matter.
- The expert is an auditor's external expert and is not, therefore, subject to the firm's quality control policies and procedures.

*The Auditor's Firm's Quality Control Policies and Procedures* (Ref: Para. 8(e))

A11. An auditor's internal expert may be a partner or staff, including temporary staff, of the auditor's firm, and therefore subject to the quality control policies and procedures of that firm in accordance with HKSQC 1<sup>9</sup> or local requirements that are at least as demanding.<sup>10</sup> Alternatively, an auditor's internal expert may be a partner or staff, including temporary staff, of a network firm, which may share common quality control policies and procedures with the auditor's firm.

A12. An auditor's external expert is not a member of the engagement team and is not subject to quality control policies and procedures in accordance with HKSQC 1.<sup>11</sup> In some jurisdictions, however, law or regulation may require that an auditor's external expert be treated as a member of the engagement team, and may therefore be subject to relevant ethical requirements, including those pertaining to independence, and other professional requirements, as determined by that law or regulation.

A13. Engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise.<sup>12</sup> The extent of that reliance will vary with the circumstances, and may affect the nature, timing and extent of the auditor's procedures with respect to such matters as:

- Competence and capabilities, through recruitment and training programs.
- Objectivity. Auditor's internal experts are subject to relevant ethical requirements, including those pertaining to independence.

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<sup>9</sup> HKSQC 1, "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements," paragraph 12(f).

<sup>10</sup> HKSA 220, paragraph 2.

<sup>11</sup> HKSQC 1, paragraph 12(f).

<sup>12</sup> HKSA 220, paragraph 4.

- The auditor's expert's competence with respect to relevant accounting and auditing requirements, for example, knowledge of assumptions and methods, including models where applicable, that are consistent with the applicable financial reporting framework.
  - Whether unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures indicate that it may be necessary to reconsider the initial evaluation of the competence, capabilities and objectivity of the auditor's expert as the audit progresses.
- A18. A broad range of circumstances may threaten objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats, and intimidation threats. Such threats may be addressed by eliminating the circumstances that create the threats, or applying safeguards to reduce threats to an acceptable level. There may also be safeguards specific to the audit engagement.
- A19. The evaluation of whether the threats to objectivity are at an acceptable level may depend upon the role of the auditor's expert and the significance of the expert's work in the context of the audit. In some cases, it may not be possible to eliminate circumstances that create threats or apply safeguards to reduce threats to an acceptable level, for example, if a proposed auditor's expert is an individual who has played a significant role in preparing the information that is being audited, that is, if the auditor's expert is a management's expert.
- A20. When evaluating the objectivity of an auditor's external expert, it may be relevant to:
- (a) Inquire of the entity about any known interests or relationships that the entity has with the auditor's external expert that may affect that expert's objectivity.
  - (b) Discuss with that expert any applicable safeguards, including any professional requirements that apply to that expert; and evaluate whether the safeguards are adequate to reduce threats to an acceptable level. Interests and relationships that may be relevant to discuss with the auditor's expert include:
    - Financial interests.
    - Business and personal relationships.
    - Provision of other services by the expert, including by the organization in the case of an external expert that is an organization.

In some cases, it may also be appropriate for the auditor to obtain a written representation from the auditor's external expert about any interests or relationships with the entity of which that expert is aware.

**Obtaining an Understanding of the Field of Expertise of the Auditor's Expert (Ref: Para. 10)**

- A21. The auditor may obtain an understanding of the auditor's expert's field of expertise through the means described in paragraph A7, or through discussion with that expert.
- A22. Aspects of the auditor's expert's field relevant to the auditor's understanding may include:
- Whether that expert's field has areas of specialty within it that are relevant to the audit (see paragraph A17).
  - Whether any professional or other standards, and regulatory or legal requirements apply.

HKSA 700 (Revised)  
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June 2017, September 2019, July 2020

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*Hong Kong Standard on Auditing 700 (Revised)*

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# **Forming an Opinion and Reporting on Financial Statements**



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on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

- (iii) To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
  - (iv) To conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern.
  - (v) When the financial statements are prepared in accordance with a fair presentation framework, to evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (c) When HKSA 600<sup>17</sup> applies, further describe the auditor's responsibilities in a group audit engagement by stating that:
- (i) The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the group financial statements;
  - (ii) The auditor is responsible for the direction, supervision and performance of the group audit; and
  - (iii) The auditor remains solely responsible for the auditor's opinion.
40. The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report also shall: (Ref: Para. A50)
- (a) State that the auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit;
  - (b) For audits of financial statements of listed entities, state that the auditor provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, actions taken to eliminate threats or safeguards applied; and

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<sup>17</sup> HKSA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

X Corporations Act."<sup>25b</sup> HKSA 210 deals with circumstances where there are conflicts between the financial reporting standards and the legislative or regulatory requirements.<sup>26</sup>

- A30. As indicated in paragraph A13, the financial statements may be prepared in accordance with two financial reporting frameworks, which are therefore both applicable financial reporting frameworks. Accordingly, each framework is considered separately when forming the auditor's opinion on the financial statements, and the auditor's opinion in accordance with paragraphs 25–27 refers to both frameworks as follows:
- (a) If the financial statements comply with each of the frameworks individually, two opinions are expressed: that is, that the financial statements are prepared in accordance with one of the applicable financial reporting frameworks (e.g., HKFRSs) and an opinion that the financial statements are prepared in accordance with the other applicable financial reporting framework (e.g., IFRSs). These opinions may be expressed separately or in a single sentence (e.g., the financial statements are presented fairly, in all material respects [...]), in accordance with HKFRSs and IFRSs).
  - (b) If the financial statements comply with one of the frameworks but fail to comply with the other framework, an unmodified opinion can be given that the financial statements are prepared in accordance with the one framework (e.g., HKFRSs) but a modified opinion given with regard to the other framework in accordance with HKSA 705 (Revised).
- A31. As indicated in paragraph A15, the financial statements may represent compliance with the applicable financial reporting framework and, in addition, disclose the extent of compliance with another financial reporting framework. Such supplementary information is covered by the auditor's opinion if it cannot be clearly differentiated from the financial statements (see paragraphs 53–54 and related application material in paragraphs A78–A84). Accordingly,
- (a) If the disclosure as to the compliance with the other framework is misleading, a modified opinion is expressed in accordance with HKSA 705 (Revised).
  - (b) If the disclosure is not misleading, but the auditor judges it to be of such importance that it is fundamental to the users' understanding of the financial statements, an Emphasis of Matter paragraph is added in accordance with HKSA 706 (Revised), drawing attention to the disclosure.

#### Basis for Opinion (Ref: Para. 28)

- A32. The Basis for Opinion section provides important context about the auditor's opinion. Accordingly, this HKSA requires the Basis for Opinion section to directly follow the Opinion section in the auditor's report.
- A33. The reference to the standards used conveys to the users of the auditor's report that the audit has been conducted in accordance with established standards.

#### Relevant ethical requirements (Ref: Para. 28(c))

- A34. The identification of the jurisdiction of origin of relevant ethical requirements increases transparency about those requirements relating to the particular audit engagement. HKSA 200 explains that relevant ethical requirements ordinarily comprise the provisions of the Code related to an audit of financial statements.<sup>27</sup> When the relevant ethical requirements include

<sup>25b</sup> For companies incorporated in Hong Kong, the applicable Corporations Act is the Hong Kong Companies Ordinance.

<sup>26</sup> HKSA 210, paragraph 18

<sup>27</sup> HKSA 200, paragraph A16



those of the Code, the statement may also make reference to the Code. If the Code constitutes all of the ethical requirements relevant to the audit, the statement need not identify a jurisdiction of origin.

- A35. In some jurisdictions, relevant ethical requirements may exist in several different sources, such as the ethical code(s) and additional rules and requirements within law and regulation. When the independence and other relevant ethical requirements are contained in a limited number of sources, the auditor may choose to name the relevant source(s) (e.g., the name of the code, rule or regulation applicable in the jurisdiction), or may refer to a term that is commonly understood and that appropriately summarizes those sources (e.g., independence requirements for audits of private entities in Jurisdiction X).
- A36. Law or regulation, or the terms of an audit engagement may require the auditor to provide in the auditor's report more specific information about the sources of the relevant ethical requirements, including those pertaining to independence, that applied to the audit of the financial statements.
- A37. In determining the appropriate amount of information to include in the auditor's report when there are multiple sources of relevant ethical requirements relating to the audit of the financial statements, an important consideration is balancing transparency against the risk of obscuring other useful information in the auditor's report.

#### Considerations specific to group audits

- A38. In group audits when there are multiple sources of relevant ethical requirements, including those pertaining to independence, the reference in the auditor's report to the jurisdiction ordinarily relates to the relevant ethical requirements that are applicable to the group engagement team. This is because, in a group audit, component auditors are also subject to ethical requirements that are relevant to the group audit.<sup>28</sup>
- A39. The HKSA's do not establish specific independence or ethical requirements for auditors, including component auditors, and thus do not extend, or otherwise override, the independence requirements of the Code or other ethical requirements to which the group engagement team is subject, nor do the HKSA's require that the component auditor in all cases to be subject to the same specific independence requirements that are applicable to the group engagement team. As a result, relevant ethical requirements, including those pertaining to independence, in a group audit situation may be complex. HKSA 600<sup>29</sup> provides guidance for auditors in performing work on the financial information of a component for a group audit, including those situations where the component auditor does not meet the independence requirements that are relevant to the group audit.

#### Key Audit Matters (Ref: Para. 31)

- A40. Law or regulation may require communication of key audit matters for audits of entities other than listed entities, for example, entities characterized in such law or regulation as public interest entities.

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<sup>28</sup> HKSA 600, paragraph A37

<sup>29</sup> HKSA 600, paragraphs 19–20

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.<sup>5</sup> Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Paragraph 41(b) of this HKSA explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or HKSA's expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.<sup>6</sup>
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions

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

<sup>6</sup> This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

*[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law or regulation. The matters addressed by other law or regulation (referred to as "other reporting responsibilities") shall be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the HKSA's as part of the Report on the Audit of the Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the HKSA's may be combined (i.e., included in the Report on the Audit of the Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the HKSA's where such a difference exists.]<sup>7</sup>*

The engagement partner on the audit resulting in this independent auditor's report is *[name]*.

XYZ & Co.

Certified Public Accountants (Practising) or Certified Public Accountants

*[Auditor Address]*

*[Date]*

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<sup>7</sup> For further guidance on non-compliance with the Hong Kong Companies Ordinance, refer to HKSA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, Appendix, Illustrations 3, 4 and 5.

issue an auditor's report that includes our opinion.<sup>12</sup> Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Paragraph 41(b) of this HKSA explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or HKSA's expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.<sup>13</sup>
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions

<sup>12</sup> Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

<sup>13</sup> This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements.

taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

*[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law or regulation. The matters addressed by other law or regulation (referred to as "other reporting responsibilities") shall be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the HKSAs as part of the Report on the Audit of the Consolidated Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the HKSAs may be combined (i.e., included in the Report on the Audit of the Consolidated Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the HKSAs where such a difference exists.]<sup>14</sup>*

The engagement partner on the audit resulting in this independent auditor's report is [name].

XYZ & Co.

Certified Public Accountants (Practising) or Certified Public Accountants

[Auditor Address]

[Date]

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<sup>14</sup> For further guidance on non-compliance with the Hong Kong Companies Ordinance, refer to HKSA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, Appendix, Illustrations 3, 4 and 5.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.<sup>42</sup> Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Paragraph 41(b) of this HKSA explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or HKSA's expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.<sup>43</sup>
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions

<sup>42</sup> Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

<sup>43</sup> This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

*[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law or regulation. The matters addressed by other law or regulation (referred to as "other reporting responsibilities") shall be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the HKSA's as part of the Report on the Audit of the Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the HKSA's may be combined (i.e., included in the Report on the Audit of the Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the HKSA's where such a difference exists.]*

The engagement partner on the audit resulting in this independent auditor's report is [name].

XYZ & Co.

Certified Public Accountants (Practising) or Certified Public Accountants

[Auditor Address]

[Date]

HKSA 720 (Revised)  
Issued August 2015; revised August 2016, June 2017,  
September 2019, July 2020

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Effective for audits of financial statements  
for periods ending on or after 15 December 2016

*Hong Kong Standard on Auditing 720 (Revised)*

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# **The Auditor's Responsibilities Relating to Other Information**



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## Introduction

### Scope of this HKSA

1. This Hong Kong Standard on Auditing (HKSA) deals with the auditor's responsibilities relating to other information, whether financial or non-financial information (other than financial statements and the auditor's report thereon), included in an entity's annual report. An entity's annual report may be a single document or a combination of documents that serve the same purpose.
2. This HKSA is written in the context of an audit of financial statements by an independent auditor. Accordingly, the objectives of the auditor in this HKSA are to be understood in the context of the overall objectives of the auditor as stated in paragraph 11 of HKSA 200<sup>1</sup> The requirements in the HKSAs are designed to enable the auditor to achieve the objectives specified in the HKSAs, and thereby the overall objectives of the auditor. The auditor's opinion on the financial statements does not cover the other information, nor does this HKSA require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements.
3. This HKSA requires the auditor to read and consider the other information because other information that is materially inconsistent with the financial statements or the auditor's knowledge obtained in the audit may indicate that there is a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor's report thereon. Such material misstatements may also inappropriately influence the economic decisions of the users for whom the auditor's report is prepared.
4. This HKSA may also assist the auditor in complying with relevant ethical requirements<sup>2</sup> that require the auditor to avoid being knowingly associated with information that the auditor believes contains a materially false or misleading statement, statements or information provided recklessly, or omits or obscures required information where such omission or obscurity would be misleading.
5. Other information may include amounts or other items that are intended to be the same as, to summarize, or to provide greater detail, about amounts or other items in the financial statements, and other amounts or other items about which the auditor has obtained knowledge in the audit. Other information may also include other matters.
6. The auditor's responsibilities relating to other information (other than applicable reporting responsibilities) apply regardless of whether the other information is obtained by the auditor prior to, or after, the date of the auditor's report.
7. This HKSA does not apply to:
  - (a) Preliminary announcements of financial information; or
  - (b) Securities offering documents, including prospectuses.

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<sup>1</sup> HKSA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*

<sup>2</sup> HKICPA's *Code of Ethics for Professional Accountants* (the Code), Chapter A, Part 1, paragraph R111.2

materially false or misleading statement, a statement provided recklessly, or omits or obscures necessary information such that the other information is misleading.<sup>12</sup>

Remaining alert for other indications that the other information appears to be materially misstated could potentially result in the auditor identifying such matters as:

- Differences between the other information and the general knowledge, apart from the knowledge obtained in the audit, of the engagement team member reading the other information that lead the auditor to believe that the other information appears to be materially misstated; or
- An internal inconsistency in the other information that leads the auditor to believe that the other information appears to be materially misstated.

**Responding When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated** (Ref: Para. 16)

- A39. The auditor's discussion with management about a material inconsistency (or other information that appears to be materially misstated) may include requesting management to provide support for the basis of management's statements in the other information. Based on management's further information or explanations, the auditor may be satisfied that the other information is not materially misstated. For example, management explanations may indicate reasonable and sufficient grounds for valid differences of judgment.
- A40. Conversely, the discussion with management may provide further information that supports the auditor's conclusion that a material misstatement of the other information exists.
- A41. It may be more difficult for the auditor to challenge management on matters of judgment than on those of a more factual nature. However, there may be circumstances where the auditor concludes that the other information contains a statement that is not consistent with the financial statements or the auditor's knowledge obtained in the audit. These circumstances may raise doubt about the other information, the financial statements, or the auditor's knowledge obtained in the audit.
- A42. As there is a wide range of possible material misstatements of the other information, the nature and extent of other procedures the auditor may perform to conclude whether a material misstatement of the other information exists are matters of the auditor's professional judgment in the circumstances.
- A43. When a matter is unrelated to the financial statements or the auditor's knowledge obtained in the audit, the auditor may not be able to fully assess management's responses to the auditor's inquiries. Nevertheless, based on management's further information or explanations, or following changes made by management to the other information, the auditor may be satisfied that a material inconsistency no longer appears to exist or that the other information no longer appears to be materially misstated. When the auditor is unable to conclude that a material inconsistency no longer appears to exist or that the other information no longer appears to be materially misstated, the auditor may request management to consult with a qualified third party (for example, a management's expert or legal counsel). In certain cases, after considering the responses from management's consultation, the auditor may not be able to conclude whether or not a material misstatement of the other information exists. Actions the auditor may then take include one or more of the following:
- Obtaining advice from the auditor's legal counsel;

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<sup>12</sup> The Code, Chapter A, Part 1, paragraph R111.2

HKSA 800 (Revised)  
Issued August 2016; revised June 2017, July 2020

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Effective for audits of financial statements  
for periods ending on or after 15 December 2016

*Hong Kong Standard on Auditing 800 (Revised)*

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# **Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks**



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- Obtain an understanding of internal control relevant to audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.<sup>7</sup>
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is [*name*].

XYZ & Co.

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

[Auditor address]

[Date]

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<sup>7</sup> This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

HKSA 805 (Revised)  
Issued August 2016; revised June 2017, July 2020

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Effective for audits for periods  
ending on or after 15 December 2016

*Hong Kong Standard on Auditing 805 (Revised)*

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# **Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement**



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SPECIAL CONSIDERATIONS—AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS  
OR ITEMS OF A FINANCIAL STATEMENT

Paragraph 41(b) of HKSA 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of HKSA 700 (Revised) explains that when law, regulation or HKSAs expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the schedule, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.<sup>8</sup>
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the schedule or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

The engagement partner on the audit resulting in this independent auditor's report is [*name*].

XYZ & Co.

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

[Auditor address]

[Date]

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<sup>8</sup> This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the schedule.

HKSA 810 (Revised)  
Issued August 2016; revised June 2017, September 2019, July 2020

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Effective for engagements to report  
on summary financial statements  
for periods ending on or after 15 December 2016

*Hong Kong Standard on Auditing 810 (Revised)*

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# Engagements to Report on Summary Financial Statements



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A12. In contrast, paragraphs 14–15 deal with the auditor's responsibilities relating to information included in a document that also contains the summary financial statements and the auditor's report thereon. This information may include:

- Some or all of the same matters as those dealt with in the other information included in the annual report (e.g., when the summary financial statements and the auditor's report thereon are included in a summary annual report); or
- Matters that are not dealt with in the other information included in the annual report.

A13. In reading the information included in a document containing the summary financial statements and the auditor's report thereon, the auditor may become aware that such information is misleading and may need to take appropriate action. Relevant ethical requirements<sup>14</sup> require the auditor to avoid being knowingly associated with information that the auditor believes contains a materially false or misleading statement, statements or information provided recklessly, or omits or obscures required information where such omission or obscurity would be misleading.

*Information in a Document Containing the Summary Financial Statements that Deals with Some or All of the Same Matters as the Other Information in the Annual Report*

A14. When information is included in a document containing the summary financial statements and the auditor's report thereon and that information deals with some or all of the same matters as the other information included in the annual report, the work performed on that other information in accordance with HKSA 720 (Revised) may be adequate for the purposes of paragraphs 14–15 of this HKSA.

A15. When an uncorrected material misstatement of the other information has been identified in the auditor's report on the audited financial statements and that uncorrected material misstatement relates to a matter that is dealt with in the information in a document containing the summary financial statements and the auditor's report thereon, a material inconsistency between the summary financial statements and that information may exist or the information may be misleading.

*Information in a Document Containing the Summary Financial Statements that Deals with Matters Not Dealt with in the Other Information in the Annual Report*

A16. HKSA 720 (Revised), adapted as necessary in the circumstances, may be helpful to the auditor in determining the appropriate action to respond to management's refusal to make necessary revisions to the information, including considering the implications for the auditor's report on the summary financial statements.

**Auditor's Report on Summary Financial Statements**

*Elements of the Auditor's Report*

Title (Ref: Para. 16(a))

A17. A title indicating the report is the report of an independent auditor, for example, "Report of the Independent Auditor," affirms that the auditor has met all of the relevant ethical requirements regarding independence. This distinguishes the report of the independent auditor from reports issued by others.

Addressee (Ref: Para. 16(b), 17)

A18. Factors that may affect the auditor's evaluation of the appropriateness of the addressee of the summary financial statements include the terms of the engagement, the nature of the entity, and the purpose of the summary financial statements.

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<sup>14</sup> HKICPA's *Code of Ethics for Professional Accountants* (the Code), Chapter A, Part 1, paragraph R111.2

HKSRE 2400 (Revised)  
Issued December 2012; revised January 2019, September 2019,  
July 2020

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*Hong Kong Standard on Review Engagements 2400 (Revised)*

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# **Engagements to Review Historical Financial Statements**



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

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- (i) *Relevant ethical requirements*—Ethical requirements to which the engagement team is subject when undertaking review engagements, which ordinarily comprise the provisions of the HKICPA's *Code of Ethics for Professional Accountants* (the Code) related to a review of financial statements, together with local requirements that are more restrictive.
- (j) *Special purpose financial statements*—Financial statements prepared in accordance with a special purpose framework.
- (k) *Special purpose framework*—A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.

## Requirements

### Conduct of a Review Engagement in Accordance with this HKSRE

- 18. The practitioner shall have an understanding of the entire text of this HKSRE, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. (Ref: Para. A14)

#### *Complying with Relevant Requirements*

- 19. The practitioner shall comply with each requirement of this HKSRE, unless a requirement is not relevant to the review engagement. A requirement is relevant to the review engagement when the circumstances addressed by the requirement exist.
- 20. The practitioner shall not represent compliance with this HKSRE in the practitioner's report unless the practitioner has complied with all the requirements of this HKSRE relevant to the review engagement.

### Ethical Requirements

- 21. The practitioner shall comply with relevant ethical requirements, including those pertaining to independence. (Ref: Para. A15–A16)

### Professional Skepticism and Professional Judgment

- 22. The practitioner shall plan and perform the engagement with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated. (Ref: Para. A17–A20)
- 23. The practitioner shall exercise professional judgment in conducting a review engagement. (Ref: Para. A21–A25)

### Engagement Level Quality Control

- 24. The engagement partner shall possess competence in assurance skills and techniques, and competence in financial reporting, appropriate to the engagement circumstances. (Ref: Para. A26)

25. The engagement partner shall take responsibility for: (Ref: Para. A27–A30)
- (a) The overall quality of each review engagement to which that partner is assigned;
  - (b) The direction, supervision, planning and performance of the review engagement in compliance with professional standards and applicable legal and regulatory requirements; (Ref: Para. A31)
  - (c) The practitioner's report being appropriate in the circumstances; and
  - (d) The engagement being performed in accordance with the firm's quality control policies, including the following:
    - (i) Being satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and engagements have been followed, and that conclusions reached are appropriate, including considering whether there is information that would lead the engagement partner to conclude that management lacks integrity; (Ref: Para. A32–A33)
    - (ii) Being satisfied that the engagement team collectively has the appropriate competence and capabilities, including assurance skills and techniques and expertise in financial reporting, to:
      - a. Perform the review engagement in accordance with professional standards and applicable legal and regulatory requirements; and
      - b. Enable a report that is appropriate in the circumstances to be issued; and
    - (iii) Taking responsibility for appropriate engagement documentation being maintained.

*Relevant Considerations after Engagement Acceptance*

26. If the engagement partner obtains information that would have caused the firm to decline the engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action.

*Compliance with Relevant Ethical Requirements*

27. Throughout the engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of breaches of relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have breached relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action.



- A5. Local requirements that deal with the firm's responsibilities to establish and maintain a system of quality control are at least as demanding as HKSQC 1 when they address all the elements referred to in paragraph A3, and impose obligations on the firm that achieve the aims of the requirements set out in HKSQC 1.

### **The Engagement to Review Historical Financial Statements (Ref: Para. 5–8, 14)**

- A6. Reviews of financial statements may be performed for a wide range of entities that vary by type or size, or by the level of complexity in their financial reporting. In some jurisdictions, the review of financial statements of certain types of entity may also be the subject of local laws or regulations and related reporting requirements.
- A7. Reviews may be performed in a variety of circumstances. For example, they may be required for entities that are exempt from requirements specified in law or regulation for mandatory audit. Reviews may also be requested on a voluntary basis, such as in connection with financial reporting undertaken for arrangements under the terms of a private contract, or to support funding arrangements.

### **Objectives (Ref: Para. 15)**

- A8. This HKSRE requires the practitioner to disclaim a conclusion on the financial statements if:
- (a) The practitioner issues a report, or is required to issue a report for the engagement; and
  - (b) The practitioner is unable to form a conclusion on the financial statements due to inability to obtain sufficient appropriate evidence, and the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.
- A9. The situation of being unable to obtain sufficient appropriate evidence in a review engagement (referred to as a scope limitation) may arise from:
- (a) Circumstances beyond the control of the entity;
  - (b) Circumstances relating to the nature or timing of the practitioner's work; or
  - (c) Limitations imposed by management or those charged with governance of the entity.
- A10. This HKSRE sets out requirements and guidance for the practitioner when the practitioner encounters a scope limitation, either prior to accepting a review engagement, or during the engagement.

### **Definitions (Ref: Para. 16)**

#### *Use of the Terms "Management" and "Those Charged with Governance"*

- A11. The respective responsibilities of management and those charged with governance will differ between jurisdictions, and between entities of various types. These differences affect the way the practitioner applies the requirements of this HKSRE in relation to management or those charged with governance. Accordingly, the phrase "management and, where appropriate, those charged with governance" used in various places throughout this HKSRE is intended to alert the practitioner to the fact that different entity environments may have different management and governance structures and arrangements.

A12. Various responsibilities relating to preparation of financial information and external financial reporting will fall to either management or those charged with governance according to factors such as:

- The resources and structure of the entity; and
- The respective roles of management and those charged with governance within the entity as set out in relevant law or regulation or, if the entity is not regulated, in any formal governance or accountability arrangements established for the entity (for example, as recorded in contracts, a constitution or other type of establishment documents of the entity).

For example, in small entities there is often no separation of the management and governance roles. In larger entities, management is often responsible for execution of the business or activities of the entity and reporting thereon, while those charged with governance oversee management. In some jurisdictions, the responsibility for preparation of financial statements for an entity is the legal responsibility of those charged with governance, and in some other jurisdictions it is a management responsibility.

*Limited Assurance – Use of the Term Sufficient Appropriate Evidence* (Ref: Para. 17(f))

A13. Sufficient appropriate evidence is required to obtain limited assurance to support the practitioner's conclusion. Evidence is cumulative in nature and is primarily obtained from the procedures performed during the course of the review.

**Conduct of a Review Engagement in Accordance with this HKSRE** (Ref: Para. 18)

A14. This HKSRE does not override laws and regulations that govern a review of financial statements. In the event that those laws and regulations differ from the requirements of this HKSRE, a review conducted only in accordance with laws and regulations will not automatically comply with this HKSRE.

**Ethical Requirements** (Ref: Para. 21)

A15. The Code establishes the fundamental principles of ethics, which are:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional behavior.

The fundamental principles of ethics establish the standard of behavior expected of a professional accountant.

The Code provides a conceptual framework that establishes the approach which a professional accountant is required to apply when identifying, evaluating and addressing threats to compliance with the fundamental principles. In the case of audits, reviews and other assurance engagements, the Code sets out *Independence Standards*, established by the application of the conceptual framework to threats to independence in relation to those engagements.

- A95. In some cases, the relevant ethical requirements may require the practitioner to report or to consider whether reporting identified or suspected fraud or non-compliance with laws and regulations to an appropriate authority outside the entity is an appropriate action in the circumstances. For example, the Code requires the practitioner to take steps to respond to identified or suspected non-compliance with laws and regulations, and consider whether further action is needed, which may include reporting to an appropriate authority outside the entity.<sup>12</sup> The Code explains that such reporting would not be considered a breach of the duty of confidentiality under the Code.<sup>13</sup>
- A96. Even if law, regulation or relevant ethical requirements do not include requirements that address reporting identified or suspected non-compliance, they may provide the practitioner with the right to report identified or suspected fraud or non-compliance with laws and regulations to an appropriate authority outside the entity.
- A97. In other circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the practitioner's duty of confidentiality under law, regulation or relevant ethical requirements.
- A98. The determination required by paragraph 52(d) may involve complex considerations and professional judgments. Accordingly, the practitioner may consider consulting internally (e.g., within the firm or a network firm) or on a confidential basis with a regulator or a professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The practitioner may also consider obtaining legal advice to understand the practitioner's options and the professional or legal implications of taking any particular course of action.

Events or conditions that may cast doubt regarding use of the going concern assumption in the financial statements (Ref: Para. 54)

- A99. The list of factors below gives examples of events or conditions that, individually or collectively, may cast significant doubt about the going concern assumption. The list is not all-inclusive, and the existence of one or more of the items does not always signify that uncertainty exists about whether the entity can continue as a going concern.

#### Financial

- Net liability or net current liability position
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment, or excessive reliance on short-term borrowings to finance long-term assets
- Indications of withdrawal of financial support by creditors
- Negative operating cash flows indicated by historical or prospective financial statements
- Adverse key financial ratios
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows
- Arrears or discontinuance of dividends

<sup>12</sup> See, for example, Chapter A, Part 3, paragraphs R360.36–360.36 A3 of the Code.

<sup>13</sup> See, for example, Chapter A, Part 1, paragraphs R114.1, 114.1 A1 and Part 3, paragraph R360.37 of the Code.

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*Hong Kong Standard on Assurance Engagements 3000 (Revised)*

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# **Assurance Engagements Other than Audits or Reviews of Historical Financial Information**



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## Introduction

1. This Hong Kong Standard on Assurance Engagements (HKSAE) deals with assurance engagements other than audits or reviews of historical financial information, which are dealt with in Hong Kong Standards on Auditing (HKSA) and Hong Kong Standards on Review Engagements (HKSR), respectively. (Ref: Para. A21–A22)
2. Assurance engagements include both attestation engagements, in which a party other than the practitioner measures or evaluates the underlying subject matter against the criteria, and direct engagements, in which the practitioner measures or evaluates the underlying subject matter against the criteria. This HKSAE contains requirements and application and other explanatory material specific to reasonable and limited assurance attestation engagements. This HKSAE may also be applied to reasonable and limited assurance direct engagements, adapted and supplemented as necessary in the engagement circumstances.
3. This HKSAE is premised on the basis that:
  - (a) The members of the engagement team and the engagement quality control reviewer (for those engagements where one has been appointed) are subject to the provisions of the *Code of Ethics for Professional Accountants*<sup>1a</sup> issued by the Hong Kong Institute of Certified Public Accountants (the Code) related to assurance engagements, or other professional requirements, or requirements in law or regulation, that are at least as demanding; and (Ref: Para. A30–A34)
  - (b) The practitioner who is performing the engagement is a member of a firm that is subject to HKSQC 1,<sup>1</sup> or other professional requirements, or requirements in law or regulation, regarding the firm's responsibility for its system of quality control, that are at least as demanding as HKSQC 1. (Ref: Para. A61–A66)
4. Quality control within firms that perform assurance engagements, and compliance with ethical principles, including independence requirements, are widely recognized as being in the public interest and an integral part of high-quality assurance engagements. Professional accountants in public practice will be familiar with such requirements. If a competent practitioner other than a professional accountant in public practice chooses to represent compliance with this or other HKSAEs, it is important to recognize that this HKSAE includes requirements that reflect the premise in the preceding paragraph.

## Scope

5. This HKSAE covers assurance engagements other than audits or reviews of historical financial information, as described in the *Hong Kong Framework for Assurance Engagements* (Assurance Framework). Where a subject-matter specific HKSAE is relevant to the subject matter of a particular engagement, that HKSAE applies in addition to this HKSAE. (Ref: Para. A21–A22)
6. Not all engagements performed by practitioners are assurance engagements. Other frequently performed engagements that are not assurance engagements, as defined by paragraph 12(a) (and therefore are not covered by the HKSAEs) include:
  - (a) Engagements covered by Hong Kong Standards on Related Services (HKSR), such as agreed-upon procedure and compilation engagements;<sup>2</sup>

<sup>1a</sup> The Code has an additional Chapter C, which are either local application or represent an amplification of provisions in Chapter A. There are relevant sections in Chapter A, Parts 1, 3 and 4B for which there are additional requirements in Chapter C or additional local requirements.

<sup>1</sup> Hong Kong Standard on Quality Control (HKSQC) 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements

<sup>2</sup> HKSR 4400, Engagements to Perform Agreed-Up Procedures Regarding Financial Information, and HKSR 4410 (Revised), Compilation Engagements

## Requirements

### Conduct of an Assurance Engagement in Accordance with HKSAEs

#### *Complying with Standards that are Relevant to the Engagement*

14. The practitioner shall comply with this HKSAE and any subject matter-specific HKSAEs relevant to the engagement.
15. The practitioner shall not represent compliance with this or any other HKSAE unless the practitioner has complied with the requirements of this HKSAE and any other HKSAE relevant to the engagement. (Ref: Para. A21–A22, A171)

#### *Text of an HKSAE*

16. The practitioner shall have an understanding of the entire text of an HKSAE, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. (Ref: Para. A23–A28)

#### *Complying with Relevant Requirements*

17. Subject to the following paragraph, the practitioner shall comply with each requirement of this HKSAE and of any relevant subject matter-specific HKSAE unless, in the circumstances of the engagement the requirement is not relevant because it is conditional and the condition does not exist. Requirements that apply to only limited assurance or reasonable assurance engagements have been presented in a columnar format with the letter "L" (limited assurance) or "R" (reasonable assurance) after the paragraph number. (Ref: Para. A29)
18. In exceptional circumstances, the practitioner may judge it necessary to depart from a relevant requirement in an HKSAE. In such circumstances, the practitioner shall perform alternative procedures to achieve the aim of that requirement. The need for the practitioner to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the engagement, that procedure would be ineffective in achieving the aim of the requirement.

#### *Failure to Achieve an Objective*

19. If an objective in this HKSAE or a relevant subject matter-specific HKSAE cannot be achieved, the practitioner shall evaluate whether this requires the practitioner to modify the practitioner's conclusion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective in a relevant HKSAE represents a significant matter requiring documentation in accordance with paragraph 79 of this HKSAE.

### Ethical Requirements

20. The practitioner shall comply with the provisions of the Code related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. (Ref: Para. A30–A34, A60)

### Acceptance and Continuance

21. The engagement partner shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and assurance engagements have been followed by the firm, and shall determine that conclusions reached in this regard are appropriate.
22. The practitioner shall accept or continue an assurance engagement only when: (Ref: Para. A30–A34)

34. Throughout the engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of breaches of relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have breached relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action.
35. The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the assurance engagement.

#### *Engagement Quality Control Review*

36. For those engagements, if any, for which a quality control review is required by law or regulation or for which the firm has determined that an engagement quality control review is required:
  - (a) The engagement partner shall take responsibility for discussing significant matters arising during the engagement with the engagement quality control reviewer, and not date the assurance report until completion of that review; and
  - (b) The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the assurance report. This evaluation shall involve: (Ref: Para. A75)
    - (i) Discussion of significant matters with the engagement partner;
    - (ii) Review of the subject matter information and the proposed assurance report;
    - (iii) Review of selected engagement documentation relating to the significant judgments the engagement team made and the conclusions it reached; and
    - (iv) Evaluation of the conclusions reached in formulating the assurance report and consideration of whether the proposed assurance report is appropriate.

#### **Professional Skepticism, Professional Judgment, and Assurance Skills and Techniques**

37. The practitioner shall plan and perform an engagement with professional skepticism, recognizing that circumstances may exist that cause the subject matter information to be materially misstated. (Ref: Para. A76–A80)
38. The practitioner shall exercise professional judgment in planning and performing an assurance engagement, including determining the nature, timing and extent of procedures. (Ref: Para. A81–A85)
39. The practitioner shall apply assurance skills and techniques as part of an iterative, systematic engagement process.

#### **Planning and Performing the Engagement**

##### *Planning*

40. The practitioner shall plan the engagement so that it will be performed in an effective manner, including setting the scope, timing and direction of the engagement, and determining the nature, timing and extent of planned procedures that are required to be carried out in order to achieve the objective of the practitioner. (Ref: Para. A86–A89)
41. The practitioner shall determine whether the criteria are suitable for the engagement circumstances, including that they exhibit the characteristics identified in paragraph 24(b)(ii).



68. The practitioner's conclusion shall be clearly separated from information or explanations that are not intended to affect the practitioner's conclusion, including any Emphasis of Matter, Other Matter, findings related to particular aspects of the engagements, recommendations or additional information included in the assurance report. The wording used shall make it clear that an Emphasis of Matter, Other Matter, findings, recommendations or additional information is not intended to detract from the practitioner's conclusion. (Ref: Para. A159–A161)

*Assurance Report Content*

69. The assurance report shall include, at a minimum, the following basic elements:
- (a) A title that clearly indicates the report is an independent assurance report. (Ref: Para. A162)
  - (b) An addressee. (Ref: Para. A163)
  - (c) An identification or description of the level of assurance obtained by the practitioner, the subject matter information and, when appropriate, the underlying subject matter. When the practitioner's conclusion is phrased in terms of a statement made by the appropriate party, that statement shall accompany the assurance report, be reproduced in the assurance report or be referenced therein to a source that is available to the intended users. (Ref: Para A164)
  - (d) Identification of the applicable criteria. (Ref: Para. A165)
  - (e) Where appropriate, a description of any significant inherent limitations associated with the measurement or evaluation of the underlying subject matter against the applicable criteria. (Ref: Para. A166)
  - (f) When the applicable criteria are designed for a specific purpose, a statement alerting readers to this fact and that, as a result, the subject matter information may not be suitable for another purpose. (Ref: Para. A167–A168)
  - (g) A statement to identify the responsible party and the measurer or evaluator if different, and to describe their responsibilities and the practitioner's responsibilities. (Ref: Para. A169)
  - (h) A statement that the engagement was performed in accordance with this HKSAE or, where there is a subject-matter specific HKSAE, that HKSAE. (Ref: Para. A170–A171)
  - (i) A statement that the firm of which the practitioner is a member applies HKSQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as HKSQC 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as HKSQC 1. (Ref: Para. A172)
  - (j) A statement that the practitioner complies with the independence and other ethical requirements of the Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as the provisions of the Code related to assurance engagements. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as the provisions of the Code related to assurance engagements. (Ref: Para. A173)
  - (k) An informative summary of the work performed as the basis for the practitioner's conclusion. In the case of a limited assurance engagement, an appreciation of the nature, timing and extent of procedures performed is essential to understanding the practitioner's conclusion. In a limited assurance engagement, the summary of the work performed shall state that:

- A27. Definitions are provided in the HKSAEs to assist in the consistent application and interpretation of the HKSAEs, and are not intended to override definitions that may be established for other purposes, whether by laws, regulations or otherwise.
- A28. Appendices form part of the application and other explanatory material. The purpose and intended use of an appendix are explained in the body of the related HKSAE or within the title and introduction of the appendix itself.

*Complying with Relevant Requirements* (Ref: Para. 17)

- A29. Although some procedures are required only for reasonable assurance engagements, they may nonetheless be appropriate in some limited assurance engagements.

**Ethical Requirements** (Ref: Para. 3(a), 20, 22(a))

- A30. The Code establishes the following fundamental principles of ethics, which are:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional behavior.

The fundamental principles of ethics establish the standard of behavior expected of a professional accountant.

- A31. The Code provides a conceptual framework which a professional accountant is required to apply when addressing threats to compliance with the fundamental principles, including:

- (a) Identify threats to compliance with the fundamental principles. Threats fall into one or more of the following categories:
  - (i) Self-interest;
  - (ii) Self-review;
  - (iii) Advocacy;
  - (iv) Familiarity; and
  - (v) Intimidation;
- (b) Evaluating whether the threats identified are at an acceptable level; and
- (c) If the identified threats to compliance with the fundamental principles are not at an acceptable level, addressing them by eliminating the circumstances that create the threats, applying safeguards to reduce threats to an acceptable level, or withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.

- A32. The Code sets out requirements and application material on various topics, including:

- Conflicts of interest;
- Professional appointments;

- Second opinions;
- Fees and other types of remuneration;
- Inducements, including gifts and hospitality;
- Custody of client assets; and
- Responding to Non-Compliance with Laws and Regulations.

A33. The Code also includes the *Independence Standards*. The Code defines independence as comprising both independence of mind and independence in appearance. Independence safeguards the ability to form an assurance conclusion without being affected by influences that might compromise that conclusion. Independence enhances the ability to act with integrity, to be objective and to maintain an attitude of professional skepticism. Matters addressed in the *Independence Standards* in the Code include, for example:

- Fees;
- Gifts and hospitality;
- Actual or threatened litigation;
- Financial interests;
- Loans and guarantees;
- Business relationships;
- Family and personal relationships;
- Recent service with an assurance client;
- Serving as a director or officer of an assurance client;
- Employment with an assurance client;
- Long association of personnel with an assurance client;
- Provision of non-assurance services to an assurance client; and
- Reports that include a restriction on use and distribution.

A34. Professional requirements, or requirements imposed by law or regulation, are at least as demanding as the provisions of the Code related to assurance engagements when they address all the matters referred to in paragraphs A30–A33 and impose obligations that achieve the aims of the requirements set out in the Code related to such assurance engagements.

### **Acceptance and Continuance**

*Preconditions for the Engagement* (Ref: Para. 24)

A35. In a public sector environment, some of the preconditions for an assurance engagement may be assumed to be present, for example:

In considering deficiencies identified in the firm's system of quality control that may affect the assurance engagement, the engagement partner may consider measures taken by the firm to rectify those deficiencies.

- A66. A deficiency in the firm's system of quality control does not necessarily indicate that an assurance engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the practitioner's report was not appropriate.

*Skills, Knowledge and Experience with Respect to the Underlying Subject Matter and Its Measurement or Evaluation (Ref: Para. 31(c))*

- A67. A practitioner may be requested to perform assurance engagements with respect to a wide range of underlying subject matter and subject matter information. Some may require specialized skills and knowledge beyond those ordinarily possessed by a particular individual.
- A68. The Code provides requirements and guidance on the self-interest threat to compliance with the principle of professional competence and due care that is created if the engagement team does not possess, or cannot acquire, the competencies to perform the professional services.<sup>4</sup> The practitioner has sole responsibility for the assurance conclusion expressed, and that responsibility is not reduced by the practitioner's use of the work of a practitioner's expert. Nonetheless, if the practitioner using the work of a practitioner's expert, having followed this HKSAE, concludes that the work of that expert is adequate for the practitioner's purposes, the practitioner may accept that expert's findings or conclusions in the expert's field as appropriate evidence.

*Assignment of the Team*

*Collective Competence and Capabilities (Ref: Para. 32)*

- A69. HKSQC 1 requires the firm to establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm is competent to perform the engagement and has the capabilities, including time and resources, to do so.<sup>5</sup>

*Practitioner's Expert (Ref: Para. 32(a), 32(b)(i))*

- A70. Some of the assurance work may be performed by a multi-disciplinary team that includes one or more practitioner's expert. For example, a practitioner's expert may be needed to assist the practitioner in obtaining an understanding of the underlying subject matter and other engagement circumstances or in one or more of the matters mentioned in paragraph 46R (in the case of a reasonable assurance engagement) or 46L (in the case of a limited assurance engagement).
- A71. When the work of a practitioner's expert is to be used, it may be appropriate to perform some of the procedures required by paragraph 52 at the engagement acceptance or continuance stage.

*Other Practitioners (Ref: Para. 32(b)(ii))*

- A72. The subject matter information may include information upon which another practitioner may have expressed a conclusion. The practitioner, in concluding on the subject matter information, may decide to use the evidence on which that other practitioner's conclusion is based to provide evidence regarding the subject matter information.

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<sup>4</sup> The Code, Chapter A, Part 3, paragraph 320.3 A3

<sup>5</sup> HKSQC 1, paragraph 26

A73. The work of another practitioner may be used in relation to, for example, an underlying subject matter at a remote location or in a foreign jurisdiction. Such other practitioners are not part of the engagement team. Relevant considerations when the engagement team plans to use the work of another practitioner may include:

- Whether the other practitioner understands and complies with the ethical requirements that are relevant to the engagement and, in particular, is independent.
- The other practitioner's professional competence.
- The extent of the engagement team's involvement in the work of the other practitioner.
- Whether the other practitioner operates in a regulatory environment that actively oversees that practitioner.

*Review Responsibilities* (Ref: Para. 33(c))

A74. Under HKSQC 1, the firm's review responsibility policies and procedures are determined on the basis that the work of less experienced team members is reviewed by more experienced team members.<sup>6</sup>

*Engagement Quality Control Review* (Ref: Para. 36(b))

A75. Other matters that may be considered in an engagement quality control review include:

- (a) The engagement team's evaluation of the firm's independence in relation to the engagement;
- (b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and
- (c) Whether engagement documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached.

**Professional Skepticism and Professional Judgment**

*Professional Skepticism* (Ref: Para. 37)

A76. Professional skepticism is an attitude that includes being alert to, for example:

- Evidence that is inconsistent with other evidence obtained.
- Information that calls into question the reliability of documents and responses to inquiries to be used as evidence.
- Circumstances that suggest the need for procedures in addition to those required by relevant HKSAEs.
- Conditions that may indicate likely misstatement.

A77. Maintaining professional skepticism throughout the engagement is necessary if the practitioner is, for example, to reduce the risks of:

- Overlooking unusual circumstances.
- Overgeneralizing when drawing conclusions from observations.
- Using inappropriate assumptions in determining the nature, timing and extent of the procedures, and evaluating the results thereof.

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<sup>6</sup> HKSQC 1, paragraph 33

A128. The evaluation of whether the threats to objectivity are at an acceptable level may depend upon the role of the practitioner's expert and the significance of the expert's work in the context of the engagement. In some cases, it may not be possible to eliminate circumstances that create threats or apply safeguards to reduce threats to an acceptable level, for example, if a proposed practitioner's expert is an individual who has played a significant role in preparing the subject matter information.

A129. When evaluating the objectivity of a practitioner's external expert, it may be relevant to:

- Inquire of the appropriate party(ies) about any known interests or relationships that the appropriate party(ies) has with the practitioner's external expert that may affect that expert's objectivity.
- Discuss with that expert any applicable safeguards, including any professional requirements that apply to that expert, and evaluate whether the safeguards are adequate to reduce threats to an acceptable level. Interests and relationships that it may be relevant to discuss with the practitioner's expert include:
  - Financial interests.
  - Business and personal relationships.
  - Provision of other services by the expert, including by the organization in the case of an external expert that is an organization.

In some cases, it may also be appropriate for the practitioner to obtain a written representation from the practitioner's external expert about any interests or relationships with the appropriate party(ies) of which that expert is aware.

Obtaining an Understanding of the Field of Expertise of the Practitioner's Expert (Ref: Para. 52(b))

A130. Having a sufficient understanding of the field of expertise of the practitioner's expert enables the practitioner to:

- (a) Agree with the practitioner's expert the nature, scope and objectives of that expert's work for the practitioner's purposes; and
- (b) Evaluate the adequacy of that work for the practitioner's purposes.

A131. Aspects of the practitioner's expert's field relevant to the practitioner's understanding may include:

- Whether that expert's field has areas of specialty within it that are relevant to the engagement.
- Whether any professional or other standards and regulatory or legal requirements apply.
- What assumptions and methods, including models where applicable, are used by the practitioner's expert, and whether they are generally accepted within that expert's field and appropriate in the circumstances of the engagement.
- The nature of internal and external data or information the practitioner's expert uses.

Agreement with the Practitioner's Expert (Ref: Para. 52(c))

A132. It may be appropriate for the practitioner's agreement with the practitioner's expert to also include matters such as the following:

- (a) The respective roles and responsibilities of the practitioner and that expert;

governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the practitioner is required to report the identified or suspected non-compliance to an appropriate authority pursuant to anti-money laundering legislation.<sup>7a</sup> In these circumstances, the issues considered by the practitioner may be complex and the practitioner may consider it appropriate to obtain legal advice.

*Reporting of Identified or Suspected Non-Compliance with Laws and Regulations to an Appropriate Authority outside the Entity*

A195. Law, regulation or relevant ethical requirements may:

- (a) Require the practitioner to report identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity.
- (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.<sup>8</sup>

A196. Reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be required or appropriate in the circumstances because:

- (a) Law, regulation or relevant ethical requirements require the practitioner to report;
- (b) The practitioner has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements; or
- (c) Law, regulation or relevant ethical requirements provide the practitioner with the right to do so.

A197. The reporting of identified or suspected non-compliance with laws and regulations in accordance with law, regulation or relevant ethical requirements may include non-compliance with laws and regulations that the practitioner comes across or is made aware of when performing the engagement but which may not affect the subject matter information. Under this HKSAE, the practitioner is not expected to have a level of understanding of laws and regulations beyond those affecting the subject matter information. However, law, regulation or relevant ethical requirements may expect the practitioner to apply knowledge, professional judgment and expertise in responding to such non-compliance. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

A198. In some circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the practitioner's duty of confidentiality under law, regulation, or relevant ethical requirements. In other cases, reporting identified or suspected non-compliance to an appropriate authority outside the entity would not be considered a breach of the duty of confidentiality under the relevant ethical requirements.<sup>9</sup>

A199. The practitioner may consider consulting internally (e.g., within the firm or network firm), obtaining legal advice to understand the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or a professional body (unless doing so is prohibited by law or regulations or would breach the duty of confidentiality).<sup>10</sup>

**Documentation** (Ref: Para. 79–83)

A200. Documentation includes a record of the practitioner's reasoning on all significant matters that require the exercise of professional judgment, and related conclusions. When difficult questions of principle or professional judgment exist, documentation that includes the relevant facts that were known by the practitioner at the time the conclusion was reached may assist in demonstrating the practitioner's knowledge.

<sup>7a</sup> Additional guidance is provided in Appendix 4 of HKSA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.

<sup>8</sup> See, for example, Chapter A, Part 3, paragraphs R360.36–R360.37 of the Code.

<sup>9</sup> See, for example, Chapter A, Part 1, paragraphs R114.1, 114.1 A1 and Part 3, paragraph R360.37 of the Code.

<sup>10</sup> See, for example, Chapter A, Part 3, paragraph 360.39 A1 of the Code.

- Signing off on completion checklists relating to the file assembly process.
- Documenting evidence that the practitioner has obtained, discussed and agreed with the relevant members of the engagement team before the date of the assurance report.

A207. HKSQC 1 (or local requirements that are at least as demanding as HKSQC 1) requires firms to establish policies and procedures for the retention of engagement documentation.<sup>13</sup> The retention period for assurance engagements ordinarily is no shorter than five years from the date of the assurance report.<sup>14</sup>

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<sup>13</sup> HKSQC 1, paragraph 47

<sup>14</sup> HKSQC 1, paragraph A61



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Effective for service auditors' assurance reports  
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*Hong Kong Standard on Assurance Engagements 3402*

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# **Assurance Reports on Controls at a Service Organization**



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

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## Introduction

### Scope of this HKSAE

1. This Hong Kong Standard on Assurance Engagements (HKSAE) deals with assurance engagements undertaken by a practitioner<sup>1</sup> to provide a report for use by user entities and their auditors on the controls at a service organization that provides a service to user entities that is likely to be relevant to user entities' internal control as it relates to financial reporting. It complements HKSA 402,<sup>2</sup> in that reports prepared in accordance with this HKSAE are capable of providing appropriate evidence under HKSA 402. (Ref: Para. A1)
2. The "Hong Kong Framework for Assurance Engagements" (the Assurance Framework) states that an assurance engagement may be a "reasonable assurance" engagement or a "limited assurance" engagement and that an assurance engagement may be either an attestation engagement or a "direct" engagement.<sup>3</sup> This HKSAE only deals with reasonable assurance attestation engagements.<sup>4</sup>
3. This HKSAE applies only when the service organization is responsible for, or otherwise able to make a statement about, the suitable design of controls. This HKSAE does not deal with assurance engagements:
  - (a) To report only on whether controls at a service organization operated as described, or
  - (b) To report on controls at a service organization other than those related to a service that is likely to be relevant to user entities' internal control as it relates to financial reporting (for example, controls that affect user entities' production or quality control).

This HKSAE, however, provides some guidance for such engagements carried out under HKSAE 3000 (Revised). (Ref: Para. A2)

4. In addition to issuing an assurance report on controls, a service auditor may also be engaged to provide reports such as the following, which are not dealt with in this HKSAE:
  - (a) A report on a user entity's transactions or balances maintained by a service organization; or
  - (b) An agreed-upon procedures report on controls at a service organization.

### *Relationship with HKSAE 3000 (Revised), Other Professional Pronouncements and Other Requirements*

5. The service auditor is required to comply with HKSAE 3000 (Revised) and this HKSAE when performing assurance engagements on controls at a service organization. This HKSAE supplements, but does not replace, HKSAE 3000 (Revised), and expands on how HKSAE 3000 (Revised) is to be applied in a reasonable assurance engagement to report on controls at a service organization.
6. Compliance with HKSAE 3000 (Revised) requires, among other things, compliance with the provisions of the HKICPA's *Code of Ethics for Professional Accountants* (the Code) related to assurance engagements, or other professional requirements, or requirements imposed by law and

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<sup>1</sup> HKSAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, paragraph 12(r)

<sup>2</sup> HKSA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

<sup>3</sup> HKSAE 3000 (Revised), paragraph 12

<sup>4</sup> Paragraphs 13 and 53(k) of this HKSAE

**Ethical Requirements**

11. The service auditor shall comply with the provisions of the Code relating to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. (Ref: Para. A5)

**Management and Those Charged with Governance**

12. Where this HKSAE requires the service auditor to inquire of, request representations from, communicate with, or otherwise interact with the service organization, the service auditor shall determine the appropriate person(s) within the service organization's management or governance structure with whom to interact. This shall include consideration of which person(s) have the appropriate responsibilities for and knowledge of the matters concerned. (Ref: Para. A6)

**Acceptance and Continuance**

13. Before agreeing to accept, or continue, an engagement the service auditor shall:
  - (a) Determine whether:
    - (i) The service auditor has the capabilities and competence to perform the engagement; (Ref: Para. A7)
    - (ii) The criteria the practitioner expects to be applied by the service organization to prepare the description of its system are suitable and will be available to user entities and their auditors; and
    - (iii) The scope of the engagement and the service organization's description of its system will not be so limited that they are unlikely to be useful to user entities and their auditors.
  - (b) Obtain the agreement of the service organization that it acknowledges and understands its responsibility:
    - (i) For the preparation of the description of its system, and accompanying service organization's statement, including the completeness, accuracy and method of presentation of that description and statement; (Ref: Para. A8)
    - (ii) To have a reasonable basis for the service organization's statement accompanying the description of its system; (Ref: Para. A9)
    - (iii) For stating in the service organization's statement the criteria it used to prepare the description of its system;
    - (iv) For stating in the description of its system:
      - a. The control objectives; and
      - b. Where they are specified by law or regulation, or another party (for example, a user group or a professional body), the party who specified them;
    - (v) For identifying the risks that threaten achievement of the control objectives stated in the description of its system, and designing and implementing controls to provide reasonable assurance that those risks will not prevent achievement of the control objectives stated in the description of its system, and therefore that the stated control objectives will be achieved; and (Ref: Para. A10)

system includes control objectives and related controls at the subservice organization, and that the service auditor's procedures extended to controls at the subservice organization.

- (d) Identification of the applicable criteria, and the party specifying the control objectives.
- (e) A statement that the report and, in the case of a type 2 report, the description of tests of controls are intended only for user entities and their auditors, who have a sufficient understanding to consider it, along with other information including information about controls operated by user entities themselves, when assessing the risks of material misstatements of user entities' financial statements. (Ref: Para. A48)
- (f) A statement that the service organization is responsible for:
  - (i) Preparing the description of its system, and the accompanying statement, including the completeness, accuracy and method of presentation of that description and that statement;
  - (ii) Providing the services covered by the service organization's description of its system;
  - (iii) Stating the control objectives (where not identified by law or regulation, or another party, for example, a user group or a professional body); and
  - (iv) Designing and implementing controls to achieve the control objectives stated in the service organization's description of its system.
- (g) A statement that the service auditor's responsibility is to express an opinion on the service organization's description, on the design of controls related to the control objectives stated in that description and, in the case of a type 2 report, on the operating effectiveness of those controls, based on the service auditor's procedures.
- (h) A statement that the firm of which the practitioner is a member applies HKSQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as HKSQC 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as HKSQC 1.
- (i) A statement that the practitioner complies with the independence and other ethical requirements of the Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as the provisions of the Code related to assurance engagements. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as the provisions of the Code related to assurance engagements.
- (j) A statement that the engagement was performed in accordance with HKSAC 3402, *Assurance Reports on Controls at a Service Organization*, which requires that the service auditor plan and perform procedures to obtain reasonable assurance about whether, in all material respects, the service organization's description of its system is fairly presented and the controls are suitably designed and, in the case of a type 2 report, are operating effectively.
- (k) A summary of the service auditor's procedures to obtain reasonable assurance and a statement of the service auditor's belief that the evidence obtained is sufficient and appropriate to provide a basis for the service auditor's opinion, and, in the case of a type 1 report, a statement that the service auditor has not performed any procedures

- A2. The service organization may not be able to assert that the system is suitably designed when, for example, the service organization is operating a system that has been designed by a user entity or is stipulated in a contract between a user entity and the service organization. Because of the inextricable link between the suitable design of controls and their operating effectiveness, the absence of a statement with respect to the suitability of design will likely preclude the service auditor from concluding that the controls provide reasonable assurance that the control objectives have been met and thus from opining on the operating effectiveness of controls. As an alternative, the practitioner may choose to accept an agreed-upon procedures engagement to perform tests of controls, or an assurance engagement under HKSAE 3000 (Revised) to conclude on whether, based on tests of controls, the controls have operated as described.

#### **Definitions** (Ref: Para. 9(d) and 9(g))

- A3. The definition of “controls at the service organization” includes aspects of user entities’ information systems maintained by the service organization, and may also include aspects of one or more of the other components of internal control at a service organization. For example, it may include aspects of a service organization’s control environment, monitoring, and control activities when they relate to the services provided. It does not, however, include controls at a service organization that are not related to the achievement of the control objectives stated in the service organization’s description of its system, for example, controls related to the preparation of the service organization’s own financial statements.
- A4. When the inclusive method is used, the requirements in this HKSAE also apply to the services provided by the subservice organization, including obtaining agreement regarding the matters in paragraph 13(b)(i)-(vi) as applied to the subservice organization rather than the service organization. Performing procedures at the subservice organization entails coordination and communication between the service organization, the subservice organization, and the service auditor. The inclusive method generally is feasible only if the service organization and the subservice organization are related, or if the contract between the service organization and the subservice organization provides for its use.

#### **Ethical Requirements** (Ref: Para. 11)

- A5. The service auditor is subject to relevant independence requirements, which ordinarily comprise the *Independence Standards* of the Code together with local requirements that are more restrictive. In performing an engagement in accordance with this HKSAE, the Code does not require the service auditor to be independent from each user entity.

#### **Management and Those Charged with Governance** (Ref: Para. 12)

- A6. Management and governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. Such diversity means that it is not possible for this HKSAE to specify for all engagements the person(s) with whom the service auditor is to interact regarding particular matters. For example, the service organization may be a segment of a third-party organization and not a separate legal entity. In such cases, identifying the appropriate management personnel or those charged with governance from whom to request written representations may require the exercise of professional judgment.

#### **Acceptance and Continuance**

##### *Capabilities and Competence to Perform the Engagement* (Ref: Para. 13(a)(i))

- A7. Relevant capabilities and competence to perform the engagement include matters such as the following:
- Knowledge of the relevant industry;

*Using the Work of the Internal Audit Function (Ref: Para. 34)*

A39. The nature, timing and extent of the service auditor's procedures on specific work of the internal auditors will depend on the service auditor's assessment of the significance of that work to the service auditor's conclusions (for example, the significance of the risks that the controls tested seek to mitigate), the evaluation of the internal audit function and the evaluation of the specific work of the internal auditors. Such procedures may include:

- Examination of items already examined by the internal auditors;
- Examination of other similar items; and
- Observation of procedures performed by the internal auditors.

*Effect on the Service Auditor's Assurance Report (Ref: Para. 36-37)*

A40. Irrespective of the degree of autonomy and objectivity of the internal audit function, such function is not independent of the service organization as is required of the service auditor when performing the engagement. The service auditor has sole responsibility for the opinion expressed in the service auditor's assurance report, and that responsibility is not reduced by the service auditor's use of the work of the internal auditors.

A41. The service auditor's description of work performed by the internal audit function may be presented in a number of ways, for example:

- By including introductory material to the description of tests of controls indicating that certain work of the internal audit function was used in performing tests of controls.
- Attribution of individual tests to internal audit.

**Written Representations (Ref: Para. 38 and 40)**

A42. The written representations required by paragraph 38 are separate from, and in addition to, the service organization's statement, as defined at paragraph 9(o).

A43. If the service organization does not provide the written representations requested in accordance with paragraph 38(c) of this HKSAE, it may be appropriate for the service auditor's opinion to be modified in accordance with paragraph 55(d) of this HKSAE.

**Other Information (Ref: Para. 42)**

A44. The Code requires that a service auditor not be associated with information where the service auditor believes that the information:

- (a) Contains a materially false or misleading statement;
- (b) Contains statements or information provided recklessly; or
- (c) Omits or obscures required information where such omission or obscurity would be misleading.<sup>14</sup>

If other information included in a document containing the service organization's description of its system and the service auditor's assurance report contains future-oriented information such

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<sup>14</sup> The Code, Chapter A, Part 1, paragraph R111.2

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*Hong Kong Standard on Assurance Engagements 3410*

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# **Assurance Engagements on Greenhouse Gas Statements**



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*Attestation and Direct Engagements*

5. The *Hong Kong Framework for Assurance Engagements* (the Assurance Framework) notes that an assurance engagement may be either an attestation engagement or a direct engagement. This HKSAE deals only with attestation engagements.<sup>3</sup>

*Procedures for Reasonable Assurance and Limited Assurance Engagements*

6. HKSAE 3000 (Revised) notes that an assurance engagement may be either a reasonable assurance engagement or a limited assurance engagement.<sup>4</sup> This HKSAE deals with both reasonable and limited assurance engagements.
7. In both reasonable assurance and limited assurance engagements on a GHG statement, the practitioner chooses a combination of assurance procedures, which can include: inspection; observation; confirmation; recalculation; reperformance; analytical procedures; and inquiry. Determining the assurance procedures to be performed on a particular engagement is a matter of professional judgment. Because GHG statements cover a wide range of circumstances, the nature, timing and extent of procedures are likely to vary considerably from engagement to engagement.
8. Unless otherwise stated, each requirement of this HKSAE applies to both reasonable and limited assurance engagements. Because the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the procedures the practitioner will perform in a limited assurance engagement will vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement.<sup>5</sup> Requirements that apply to only one or the other type of engagement have been presented in a columnar format with the letter “L” (limited assurance) or “R” (reasonable assurance) after the paragraph number. Although some procedures are required only for reasonable assurance engagements, they may nonetheless be appropriate in some limited assurance engagements (see also paragraph A90, which outlines the primary differences between the practitioner’s further procedures for a reasonable assurance engagement and a limited assurance engagement on a GHG statement). (Ref: Para. A4, A90)

*Relationship with HKSAE 3000 (Revised), Other Professional Pronouncements, and Other Requirements*

9. *The practitioner is required to comply with HKSAE 3000 (Revised) and this HKSAE when performing an assurance engagement to report on an entity’s GHG statement.* This HKSAE supplements, but does not replace, HKSAE 3000 (Revised), and expands on how HKSAE 3000 (Revised) is to be applied in an assurance engagement to report on an entity’s GHG statement. (Ref: Para. A17)
10. Compliance with HKSAE 3000 (Revised) requires, among other things, compliance with the provisions of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants (the Code) related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.<sup>6</sup> It also requires the engagement partner to be a member of a firm that

<sup>3</sup> HKSAE 3000 (Revised), paragraph 12(a)(ii)

<sup>4</sup> HKSAE 3000 (Revised), paragraph 12(a)(i)(b)

<sup>5</sup> HKSAE 3000 (Revised), paragraph 12(a)(iii)

<sup>6</sup> HKSAE 3000 (Revised), paragraphs 3(a), 20 and 34

- (g) If the GHG statement includes emissions deductions that are covered by the practitioner's conclusion, identification of those emissions deductions, and a statement of the practitioner's responsibility with respect to them. (Ref: Para. A136–A139)
- (h) Identification of the applicable criteria;
- (i) Identification of how those criteria can be accessed;
- (ii) If those criteria are available only to specific intended users, or are relevant only to a specific purpose, a statement alerting readers to this fact and that, as a result, the GHG statement may not be suitable for another purpose. The statement shall also restrict the use of the assurance report to those intended users or that purpose; and (Ref: Para. A140–A141)
- (iii) If established criteria need to be supplemented by disclosures in the explanatory notes to the GHG statement for those criteria to be suitable, identification of the relevant note(s). (Ref: Para. A131)
- (i) A statement that the firm of which the practitioner is a member applies HKSQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as HKSQC 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as HKSQC 1.
- (j) A statement that the practitioner complies with the independence and other ethical requirements of the Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as the provisions of the Code related to assurance engagements. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as the provisions of the Code related to assurance engagements.
- (k) A description of the practitioner's responsibility, including:
- (i) A statement that the engagement was performed in accordance with HKSAC 3410, *Assurance Engagements on Greenhouse Gas Statements*; and
- (ii) An informative summary of the work performed as a basis for the practitioner's conclusion. In the case of a limited assurance engagement, an appreciation of the nature, timing, and extent of procedures performed is essential to understanding the practitioner's conclusion. In a limited assurance engagement, the summary of the work performed shall state that:
- The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; and
  - Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. (Ref: Para. A142–A144).
- (l) The practitioner's conclusion:
- (i) In a reasonable assurance engagement, the conclusion shall be expressed in a positive form; or

## Conformity and Compliance with International Standards on Assurance Engagements

79. As of September 2019, this HKSAE conforms with International Standard on Assurance Engagements (ISAE) 3410, “Assurance Engagements on Greenhouse Gas Statements” except that references to IESBA’s Code of Ethics for Professional Accountants are replaced by HKICPA’s Code of Ethics for Professional Accountants. With the exception of the foregoing difference, compliance with the requirements of this HKSAE ensures compliance with ISAE 3410.
80. Additional local guidance is provided in footnotes 28, 30a, 32 and 34a.

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## Application and Other Explanatory Material

### Introduction

#### *Assurance Engagements Covering Information in Addition to the GHG Statement (Ref: Para. 3)*

- A1. In some cases, the practitioner may perform an assurance engagement on a report that includes GHG information, but that GHG information does not comprise a GHG statement as defined in paragraph 14(m). In such cases, this HKSAE may provide guidance for such an engagement.
- A2. Where a GHG statement is a relatively minor part of the overall information that is covered by the practitioner’s conclusion, the extent to which this HKSAE is relevant is a matter for the practitioner’s professional judgment in the circumstances of the engagement.

#### *Key Performance Indicators Based on GHG Data (Ref: Para. 4(b))*

- A3. An example of a key performance indicator based on GHG data is the weighted average of emissions per kilometer of vehicles manufactured by an entity during a period, which is required to be calculated and disclosed by law or regulation in some jurisdictions.

#### *Procedures for Reasonable Assurance and Limited Assurance Engagements (Ref: Para. 8)*

- A4. Some procedures that are required only for reasonable assurance engagements may nonetheless be appropriate in some limited assurance engagements. For example, although obtaining an understanding of control activities is not required for limited assurance engagements, in some cases, such as when information is recorded, processed, or reported only in electronic form, the practitioner may nonetheless decide that testing controls, and therefore obtaining an understanding of relevant control activities, is necessary for a limited assurance engagement (see also paragraph A90).

#### *Independence (Ref: Para. 10 and 15)*

- A5. The Code sets out *Independence Standards*, established by the application of the conceptual framework to threats to independence in relation to these engagements. Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:
- Self-interest, for example, undue dependence on total fees from the entity.
  - Self-review, for example, performing another service for the entity that directly affects the GHG statement, such as involvement in the quantification of the entity’s emissions.

- Advocacy, for example, acting as an advocate on behalf of the entity with respect to the interpretation of the applicable criteria.
- Familiarity, for example, a member of the engagement team having a long association, or close or immediate family relationship, with an employee of the entity who is in a position to exert direct and significant influence over the preparation of the GHG statement.
- Intimidation, for example, being pressured to reduce inappropriately the extent of work performed in order to lower fees, or being threatened with withdrawal of the practitioner's registration by a registering authority that is associated with the entity's industry group.

A6. In cases when identified threats are not at an acceptable level, the Code requires that the threats be addressed by eliminating the circumstances that create the threats, applying safeguards to reduce threats to an acceptable level, or withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.

*Local Law or Regulation and the Provisions of an Emissions Trading Scheme* (Ref: Para. 11)

A7. Local law or regulation or the provisions of an emissions trading scheme may: include requirements in addition to the requirements of this HKSAE; require that specific procedures be undertaken on all engagements; or require that procedures be undertaken in a particular way. For example, local laws or regulations or the provisions of an emissions trading scheme may require the practitioner to report in a format that is not in compliance with this HKSAE. When the law or regulation prescribes the layout or wording of the assurance report in a form or in terms that are significantly different from this HKSAE, and the practitioner concludes that additional explanation in the assurance report cannot mitigate possible misunderstanding, the practitioner may consider including a statement in the report that the engagement is not conducted in accordance with this HKSAE.

## Definitions

*Emissions* (Ref: Para. 14(f), Appendix 1)

- A8. Scope 1 emissions may include stationary combustion (from fuel burned in the entity's stationary equipment, such as boilers, incinerators, engines, and flares), mobile combustion (from fuel burned in the entity's transport devices, such as trucks, trains, airplanes and boats), process emissions (from physical or chemical processes, such as cement manufacturing, petrochemical processing, and aluminum smelting), and fugitive emissions (intentional and unintentional releases, such as equipment leaks from joints and seals and emissions from wastewater treatment, pits, and cooling towers).
- A9. Almost all entities purchase energy in a form such as electricity, heat or steam; therefore, almost all entities have Scope 2 emissions. Scope 2 emissions are indirect because the emissions associated with, for example, electricity that the entity purchases occur at the power station, which is outside the entity's organizational boundary.
- A10. Scope 3 emissions may include emissions associated with, for example: employee business travel; outsourced activities; consumption of fossil fuel or electricity required to use the entity's products; extraction and production of materials purchased as inputs to the entity's processes; and transportation of purchased fuels. Scope 3 emissions are further discussed in paragraphs A31–A34.

*Emissions Deductions* (Ref: Para. 14(g), 17(a)(iii), Appendix 1)

- A11. In some cases, emissions deductions include jurisdiction-specific credits and allowances for which there is no established link between the quantity of emissions allowed by the criteria to be deducted, and any lowering of emissions that may occur as a result of money paid or other action taken by the entity in order for it to claim the emissions deduction.
- A12. Where an entity's GHG statement includes emissions deductions that are within the scope of the engagement, the requirements of this HKSAE apply in relation to emissions deductions as appropriate (see also paragraphs A136-A139).

*Purchased Offset* (Ref: Para. 14(q), Appendix 1)

- A13. When the entity purchases an offset from another entity, that other entity may spend the money it receives from the sale on emissions reduction projects (such as replacing energy generation using fossil fuels with renewable energy sources, or implementing energy efficiency measures), or on removing emissions from the atmosphere (for example, by planting and maintaining trees that would otherwise not have been planted or maintained), or the money may be compensation for not undertaking an action that would otherwise be undertaken (such as deforestation or forest degradation). In some jurisdictions, offsets can only be purchased if the emissions reduction or removal enhancement has already occurred.

*Removal* (Ref: Para. 14(s), Appendix 1)

- A14. Removal may be achieved by storing GHGs in geological sinks (for example, underground) or biological sinks (for example, trees). Where the GHG statement includes the removal of GHGs that the entity would have otherwise emitted to the atmosphere, they are commonly reported in the GHG statement on a gross basis, that is, both the source and the sink are quantified in the GHG statement. Where removals are covered by the practitioner's conclusion, the requirements of this HKSAE apply in relation to those removals as appropriate.

*Significant Facility* (Ref: Para. 14(t) and 31)

- A15. As the individual contribution of a facility to the aggregate emissions reported in the GHG statement increases, the risks of material misstatement to the GHG statement ordinarily increase. The practitioner may apply a percentage to a chosen benchmark as an aid to identify facilities that are of individual significance due to the size of their emissions relative to the aggregate emissions included in the GHG statement. Identifying a benchmark and determining a percentage to be applied to it involve the exercise of professional judgment. For example, the practitioner may consider that facilities exceeding 15% of total production volume are significant facilities. A higher or lower percentage may, however, be determined to be appropriate in the circumstances in the practitioner's professional judgment. This may be the case when, for example: there is a small number of facilities, none of which is less than 15% of total production volume, but in the practitioner's professional judgment not all the facilities are significant; or when there are a number of facilities that are marginally below 15% of total production volume which in the practitioner's professional judgment are significant.
- A16. The practitioner may also identify a facility as significant due to its specific nature or circumstances which give rise to particular risks of material misstatement. For example, a facility could be using different data gathering processes or quantification techniques from other facilities, require the use of particularly complex or specialized calculations, or involve particularly complex or specialized chemical or physical processes.

**HKSAE 3000 (Revised)** (Ref: Para. 9, 15)

- A17. HKSAE 3000 (Revised) includes requirements that apply to assurance engagements (other than audits or reviews of historical financial information), including engagements in accordance with this HKSAE. In some cases, this HKSAE may include additional requirements or application material in relation to those topics.

HKSAE 3420  
Issued April 2013, revised March 2014, December 2015,  
September 2019, July 2020

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Effective for assurance reports  
dated on or after 15 December 2015

*Hong Kong Standard on Assurance Engagements 3420*

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# **Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus**



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**ASSURANCE ENGAGEMENTS TO REPORT ON THE COMPILATION OF  
PRO FORMA FINANCIAL INFORMATION INCLUDED IN A PROSPECTUS**

*Nature of Reasonable Assurance Engagement*

6. A reasonable assurance engagement to report on the compilation of pro forma financial information involves performing the procedures set out in this HKSAE to assess whether the applicable criteria used by the responsible party in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether: (Ref: Para. A6)
- The related pro forma adjustments give appropriate effect to those criteria; and
  - The resulting pro forma column (see paragraph 11(c)) reflects the proper application of those adjustments to the unadjusted financial information.

It also involves evaluating the overall presentation of the pro forma financial information. The engagement, however, does not involve the practitioner updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, or performing an audit or review of the financial information used in compiling the pro forma financial information.

*Relationship with HKSAE 3000 (Revised), Other Professional Pronouncements, and Other Requirements*

7. The practitioner is required to comply with HKSAE 3000 (Revised) and this HKSAE when performing an assurance engagement to report on the compilation of pro forma financial information included in a prospectus. This HKSAE supplements, but does not replace, HKSAE 3000 (Revised), and expands on how HKSAE 3000 (Revised) is to be applied in a reasonable assurance engagement to report on the compilation of pro forma financial information included in a prospectus.
8. Compliance with HKSAE 3000 (Revised) requires, among other things, compliance with the provisions of the HKICPA's *Code of Ethics for Professional Accountants* (the Code) related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.<sup>3</sup> It also requires the engagement partner to be a member of a firm that applies HKSQC 1,<sup>4</sup> or other professional requirements, or requirements in law or regulation, that are at least as demanding as HKSQC 1.

**Effective Date**

9. This HKSAE is effective for assurance reports dated on or after 15 December 2015.

**Objectives**

10. The objectives of the practitioner are<sup>4a</sup>:
- (a) To obtain reasonable assurance about whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria; and
  - (b) To report in accordance with the practitioner's findings.

**Definitions**

11. For purposes of this HKSAE, the following terms have the meanings attributed below:
- (a) **Applicable criteria** – The criteria used by the responsible party when compiling the pro forma financial information. Criteria may be established by an authorized or recognized standard-setting organization or by law or regulation<sup>2a</sup>. Where established criteria do not exist, they will be developed by the responsible party. (Ref: Para. A7–A9)

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<sup>3</sup> HKSAE 3000 (Revised), paragraphs 3(a), 20 and 34

<sup>4</sup> HKSAE 3000 (Revised), paragraphs 3(b) and 31(a). Hong Kong Standard on Quality Control (HKSQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>4a</sup> For reporting under the Listing Rules, refer to the Listing Rules 4.29(7)/ 7.31(7) as set out in Appendix 2.

**ASSURANCE ENGAGEMENTS TO REPORT ON THE COMPILATION OF  
PRO FORMA FINANCIAL INFORMATION INCLUDED IN A PROSPECTUS**

- (iv) A reference to the applicable criteria on the basis of which the responsible party has performed the compilation of the pro forma financial information, and the source of the criteria;
- (d) A statement that the responsible party is responsible for compiling the pro forma financial information on the basis of the applicable criteria;
- (e) A description of the practitioner's responsibilities, including statements that:
  - (i) The practitioner's responsibility is to express an opinion about whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria;
  - (ii) For purposes of this engagement, the practitioner is not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor has the practitioner, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information; and
  - (iii) The purpose of pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, the practitioner does not provide any assurance that the actual outcome of the event or transaction at that date would have been as presented;
- (f) A statement that the engagement was performed in accordance with HKSAE 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, which requires that the practitioner plan and perform procedures to obtain reasonable assurance about whether the responsible party has compiled, in all material respects, the pro forma financial information on the basis of the applicable criteria;
- (g) A statement that the firm of which the practitioner is a member applies HKSQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as HKSQC 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as HKSQC 1.
- (h) A statement that the practitioner complies with the independence and other ethical requirements of the Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as the provisions of the Code related to assurance engagements. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as the provisions of the Code related to assurance engagements.
- (i) Statements that:
  - (i) A reasonable assurance engagement to report on whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the responsible party in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:
    - The related pro forma adjustments give appropriate effect to those criteria; and
    - The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information;

**ASSURANCE ENGAGEMENTS TO REPORT ON THE COMPILATION OF  
PRO FORMA FINANCIAL INFORMATION INCLUDED IN A PROSPECTUS**

income statement to illustrate what the results of operations might have been for the period ended on that date. In such cases, the nature of the pro forma financial information may be described by titles such as "Statement of Pro Forma Net Assets as at 31 December 20X1" and "Pro Forma Income Statement for the Year Ended 31 December 20X1."

**Compilation of Pro Forma Financial Information**

*Unadjusted Financial Information* (Ref: Para. 5, 11(f), 14(a))

- A4. In many cases, the source from which the unadjusted financial information has been extracted will be published financial information such as annual or interim financial statements.
- A5. Depending on how the responsible party chooses to illustrate the impact of the event or transaction, the unadjusted financial information may comprise either:
- One or more single financial statements, such as a statement of financial position and a statement of comprehensive income; or
  - Financial information that is appropriately condensed<sup>4b</sup> from a complete set of financial statements, for example, a statement of net assets.

**Nature of Reasonable Assurance Engagement** (Ref: Para. 6)

- A6. In this HKSAE, describing the pro forma financial information as being "properly compiled" means that the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria.

**Definitions**

*Applicable Criteria* (Ref: Para. 11(a))

- A7. Where established criteria for compiling the pro forma financial information do not exist, the responsible party will have developed the criteria based on, for example, practice in a particular industry or the criteria of a jurisdiction that has developed established criteria, and disclosed that fact.
- A8. The applicable criteria for compiling the pro forma financial information will be suitable in the circumstances if they meet the requirements set out in paragraph 14.
- A9. Accompanying explanatory notes may include some additional detail about the criteria to describe how they illustrate the effects of the particular event or transaction. This may include, for example:
- The date at which the event is assumed to have occurred or the transaction been undertaken.
  - The approach used for allocating income, overheads, assets and liabilities between relevant businesses in a divestment.

**Engagement Acceptance**

*Capabilities and Competence to Perform the Engagement* (Ref: Para. 13(a))

- A10. The Code requires the practitioner to comply with the principle of professional competence and due care by attaining and maintaining professional knowledge and skill, in order to provide competent professional service, based on current technical and professional standards and relevant legislation, and acting diligently and in accordance with such professional standards and legislation.<sup>7</sup> In the context of this requirement of the Code, professional competence to perform the engagement may include matters such as the following:
- Knowledge and experience of the industry in which the entity operates;
  - An understanding of the relevant securities laws and regulations and related developments;
  - An understanding of the listing requirements of the relevant securities exchange and of capital market transactions such as mergers, acquisitions and securities offerings;

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<sup>7</sup> The Code, Chapter A, Part 1, paragraph R113.1

Further Appropriate Action (Ref: Para. 23(b), 24)

A40. Further appropriate action that the practitioner may take includes, for example:

- In relation to the requirement in paragraph 23(b):
  - Discussing the matter with the responsible party.
  - Where possible under relevant law or regulation, making a reference in the practitioner's report to the modified audit opinion, review conclusion, or the Emphasis of Matter paragraph, if, in the practitioner's professional judgment, the matter is of sufficient relevance and importance to users' understanding of the pro forma financial information.
- In relation to the requirement in paragraph 24, where possible under relevant law or regulation, modifying the practitioner's opinion.
- Where possible under relevant law or regulation, withholding the report or withdrawing from the engagement.
- Seeking legal advice.

*Evaluating the Presentation of the Pro Forma Financial Information*

Avoiding Association with Misleading Financial Information (Ref: Para. 26(b))

A41. The Code requires that a practitioner not knowingly be associated with reports, returns, communications or other information that the practitioner believes:<sup>9</sup>

- (a) Contain a materially false or misleading statement;
- (b) Contain statements or information provided recklessly; or
- (c) Omit or obscure required information where such omission or obscurity would be misleading.

Disclosures Accompanying the Pro Forma Financial Information<sup>9a</sup> (Ref: Para. 14(c), 26(c))

A42. Appropriate disclosures may include matters such as:

- The nature and purpose of the pro forma financial information, including the nature of the event or transaction, and the date at which such event is assumed to have occurred or transaction been undertaken;
- The source from which the unadjusted financial information has been extracted, and whether or not an audit or review report on such a source has been published;
- The pro forma adjustments, including a description and explanation of each adjustment. This includes, in the case of acquiree or divestee financial information, the source from which such information has been extracted and whether or not an audit or review report on such a source has been published;
- If not publicly available, a description of the applicable criteria on the basis of which the pro forma financial information has been compiled; and
- A statement to the effect that the pro forma financial information has been compiled for illustrative purposes only and that, because of its nature, it does not represent the entity's actual financial position, financial performance, or cash flows.

Relevant law or regulation may require these or other specific disclosures.

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<sup>9</sup> The Code, Chapter A, Part 1, paragraph R111.2

<sup>9a</sup> For reporting under the Listing Rules, refer to Listing Rules 4.29(2)/ 7.31(2) as set out in Appendix 2.

HKSRS 4400  
Issued November 2004; revised July 2020

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Effective upon issue

*Hong Kong Standard on Related Services 4400*

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# **Engagements to Perform Agreed-Upon Procedures Regarding Financial Information**



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## Introduction

1. The purpose of this Hong Kong Standard on Related Services (HKSRS) is to establish standards and provide guidance on the auditor's<sup>1</sup> professional responsibilities when an engagement to perform agreed-upon procedures regarding financial information is undertaken and on the form and content of the report that the auditor issues in connection with such an engagement.
2. This HKSRS is directed toward engagements regarding financial information. However, it may provide useful guidance for engagements regarding non-financial information, provided the auditor has adequate knowledge of the subject matter in question and reasonable criteria exist on which to base findings. Guidance in other HKSRSs may be useful to the auditor in applying this HKSRS.
3. An engagement to perform agreed-upon procedures may involve the auditor in performing certain procedures concerning individual items of financial data (for example, accounts payable, accounts receivable, purchases from related parties and sales and profits of a segment of an entity), a financial statement (for example, a balance sheet) or even a complete set of financial statements.

## Objective of an Agreed-upon Procedures Engagement

4. **The objective of an agreed-upon procedures engagement is for the auditor to carry out procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings.**
5. As the auditor simply provides a report of the factual findings of agreed-upon procedures, no assurance is expressed. Instead, users of the report assess for themselves the procedures and findings reported by the auditor and draw their own conclusions from the auditor's work.
6. The report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results.

## General Principles of an Agreed-upon Procedures Engagement

7. **The auditor should comply with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code").** Ethical principles governing the auditor's professional responsibilities for this type of engagement are:
  - (a) Integrity;
  - (b) Objectivity;
  - (c) Professional competence and due care;
  - (d) Confidentiality; and
  - (e) Professional behaviour.

Independence is not a requirement for agreed-upon procedures engagements; however, the terms or objectives of an engagement or local standards may require the auditor to comply with the *Independence Standards* of the Code. Where the auditor is not independent, a statement to that effect would be made in the report of factual findings.

8. **The auditor should conduct an agreed-upon procedures engagement in accordance with this HKSRS and the terms of the engagement.**

## Defining the Terms of the Engagement

9. **The auditor should ensure with representatives of the entity and, ordinarily, other specified parties who will receive copies of the report of factual findings, that there is a clear understanding regarding the agreed procedures and the conditions of the engagement.** Matters to be agreed include the following:

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<sup>1</sup> The term auditor is used when describing both auditing and related services which may be performed. Such reference is not intended to imply that a person performing related services need be the auditor of the entity's financial statements.

HKSRS 4410 (Revised)  
Revised July 2012, January 2019, September 2019, July 2020

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Effective for compilation engagement  
reports dated on or after 1 July 2013

*Hong Kong Standard on Related Services 4410 (Revised)*

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# Compilation Engagements



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financial information to be presented fairly, in all material respects, or to give a true and fair view.

- (f) *Practitioner* – A professional accountant in public practice who conducts the compilation engagement. The term includes the engagement partner or other members of the engagement team, or, as applicable, the firm. Where this HKSRS expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “practitioner” is used. “Engagement partner” and “firm” are to be read as referring to their public sector equivalents where relevant.
- (g) *Relevant ethical requirements* – Ethical requirements to which the engagement team is subject when undertaking a compilation engagement, which ordinarily comprise the HKICPA's *Code of Ethics for Professional Accountants* (the Code), together with local requirements that are more restrictive. (Ref: Para. A21)

## Requirements

### Conduct of a Compilation Engagement in Accordance with this HKSRS

- 18. The practitioner shall have an understanding of the entire text of this HKSRS, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.

#### *Complying with Relevant Requirements*

- 19. The practitioner shall comply with each requirement of this HKSRS unless a particular requirement is not relevant to the compilation engagement, for example if the circumstances addressed by the requirement do not exist in the engagement.
- 20. The practitioner shall not represent compliance with this HKSRS unless the practitioner has complied with all requirements of this HKSRS relevant to the compilation engagement.

### Ethical Requirements

- 21. The practitioner shall comply with relevant ethical requirements. (Ref: Para. A19–A26)

### Professional Judgment

- 22. The practitioner shall exercise professional judgment in conducting a compilation engagement. (Ref: Para. A27–A29)

### Engagement Level Quality Control

- 23. The engagement partner shall take responsibility for:
  - (a) The overall quality of each compilation engagement to which that partner is assigned; and
  - (b) The engagement being performed in accordance with the firm's quality control policies and procedures, by: (Ref: Para. A30)
    - (i) Following appropriate procedures regarding the acceptance and continuance of client relationships and engagements; (Ref: Para. A31)

- (ii) Being satisfied that the engagement team collectively has the appropriate competence and capabilities to perform the compilation engagement;
- (iii) Being alert for indications of breaches of relevant ethical requirements by members of the engagement team, and determining the appropriate action if matters come to the engagement partner's attention indicating that members of the engagement team have breached relevant ethical requirements; (Ref: Para. A32)
- (iv) Directing, supervising and performing the engagement in compliance with professional standards and applicable legal and regulatory requirements; and
- (v) Taking responsibility for appropriate engagement documentation being maintained.

### **Engagement Acceptance and Continuance**

#### *Continuance of Client Relationships, Engagement Acceptance and Agreeing the Terms of the Engagement*

24. The practitioner shall not accept the engagement unless the practitioner has agreed the terms of engagement with management, and the engaging party if different, including:
- (a) The intended use and distribution of the financial information, and any restrictions on either its use or its distribution where applicable; (Ref: Para. A20, A33–A34, A37–A38)
  - (b) Identification of the applicable financial reporting framework; (Ref: Para. A20, A35–A38)
  - (c) The objective and scope of the compilation engagement; (Ref: Para. A20)
  - (d) The responsibilities of the practitioner, including the requirement to comply with relevant ethical requirements; (Ref: Para. A20)
  - (e) The responsibilities of management for: (Ref: Para. A39–A41)
    - (i) The financial information, and for the preparation and presentation thereof, in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial information and the intended users;
    - (ii) The accuracy and completeness of the records, documents, explanations and other information provided by management for the compilation engagement; and
    - (iii) Judgments needed in the preparation and presentation of the financial information, including those for which the practitioner may provide assistance in the course of the compilation engagement; and (Ref: Para. A27)
  - (f) The expected form and content of the practitioner's report.
25. The practitioner shall record the agreed terms of engagement in an engagement letter or other suitable form of written agreement, prior to performing the engagement. (Ref: Para. A42–A44)

*Financial Reporting Frameworks (Ref: Para. 10)*

A16. The financial information may be prepared in accordance with a financial reporting framework designed to meet:

- The common financial information needs of a wide range of users (that is, a “general purpose financial reporting framework”); or
- The financial information needs of specific users (that is, a “special purpose financial reporting framework”).

The requirements of the applicable financial reporting framework determine the form and content of the financial information. The financial reporting framework may, in some cases, be referred to as the “basis of accounting.”

A17. Examples of commonly used general purpose financial reporting frameworks are:

- Hong Kong Financial Reporting Standards (HKFRS).
- International Financial Reporting Standards (IFRS).
- Hong Kong Financial Reporting Standards for Private Entities (HKFRS-PE).
- Hong Kong Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME-FRF & SME-FRS).
- International Financial Reporting Standards for Small- and Medium-Sized Entities (IFRS for SMEs).

A18. Examples of special purpose financial reporting frameworks that may be used, depending on the particular purpose of the financial information, are:

- The tax basis of accounting used in a particular jurisdiction to prepare financial information to fulfill tax compliance obligations.
- For entities not required to use an established financial reporting framework:
  - A basis of accounting used in the financial information of a particular entity that is appropriate for the intended use of the financial information and the entity’s circumstances (for example, use of the cash basis of accounting with selected accruals, such as accounts receivable and accounts payable, leading to a balance sheet and income statement; or use of an established financial reporting framework that is modified to suit the particular purpose for which the financial information is prepared).
  - The cash basis of accounting leading to a statement of receipts and disbursements (for example, for the purpose of allocating the excess of cash receipts over disbursements to the owners of a rental property; or to record movements in the petty cash fund of a club).

**Ethical Requirements (Ref: Para. 21)**

A19. The Code establishes the fundamental principles of ethics which are:

- (a) Integrity;

- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional behavior.

The fundamental principles of ethics establish the standard of behavior expected of a professional accountant.

The Code provides a conceptual framework that establishes the approach which a professional accountant is required to apply when identifying, evaluating and addressing threats to compliance with the fundamental principles. In the case of audits, reviews and other assurance engagements, the Code sets out *Independence Standards*, established by the application of the conceptual framework to threats to independence in relation to those engagements.

*Ethical Considerations Regarding the Practitioner's Association with Information (Ref: Para. 21, 24(a)–(d))*

- A20. Under the Code,<sup>5</sup> in applying the principle of integrity, a professional accountant is required to not knowingly be associated with reports, returns, communications or other information where the professional accountant believes that the information:
- (a) Contains a materially false or misleading statement;
  - (b) Contains statements or information provided recklessly; or
  - (c) Omits or obscures required information where such omission or obscurity would be misleading.

When a professional accountant becomes aware that the accountant has been associated with such information, the accountant is required by the Code to take steps to be disassociated from that information.

*Independence (Ref: Para. 17(g), 21)*

- A21. Notwithstanding that the *Independence Standards* of the Code do not apply to compilation engagements, local ethical codes or laws or regulations may specify requirements or disclosure rules pertaining to independence.

*Reporting of Identified or Suspected Non-Compliance with Laws and Regulations to an Appropriate Authority outside the Entity*

- A22. Law, regulation or relevant ethical requirements may:
- (a) Require the practitioner to report identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity.
  - (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.<sup>6</sup>

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<sup>5</sup> The Code, Chapter A, Part 1, paragraph R111.2

<sup>6</sup> See, for example, Chapter A, Part 3, paragraphs R360.36 and R360.37 of the Code.

- A23. Reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be required or appropriate in the circumstances because:
- (a) Law, regulation or relevant ethical requirements require the practitioner to report;
  - (b) The practitioner has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements; or
  - (c) Law, regulation or relevant ethical requirements provide the practitioner with the right to do so.
- A24. Under paragraph 28 of this HKSRS, the practitioner is not expected to have a level of understanding of laws and regulations beyond that necessary to be able to perform the compilation engagement. However, law, regulation or relevant ethical requirements may expect the practitioner to apply knowledge, professional judgment and expertise in responding to identified or suspected non-compliance. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.
- A25. In some circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the practitioner's duty of confidentiality under law, regulation or relevant ethical requirements. In other cases, reporting identified or suspected non-compliance to an appropriate authority outside the entity would not be considered a breach of the duty of confidentiality under the relevant ethical requirements.<sup>7</sup>
- A26. The practitioner may consider consulting internally (e.g., within the firm or network firm), obtaining legal advice to understand the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or a professional body (unless doing so is prohibited by law or regulations or would breach the duty of confidentiality).<sup>8</sup>

**Professional Judgment (Ref: Para. 22, 24(e)(iii))**

- A27. Professional judgment is essential to the proper conduct of a compilation engagement. This is because interpretation of relevant ethical requirements and the requirements of this HKSRS, and the need for informed decisions throughout the performance of a compilation engagement, require the application of relevant knowledge and experience to the facts and circumstances of the engagement. Professional judgment is necessary, in particular, when the engagement involves assisting management of the entity regarding decisions about:
- The acceptability of the financial reporting framework that is to be used to prepare and present the financial information of the entity, in view of the intended use of the financial information and the intended users thereof.
  - The application of the applicable financial reporting framework, including:
    - Selection of appropriate accounting policies under that framework;

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<sup>7</sup> See, for example, Chapter A, Part 1, paragraphs R114.1, 114.1 A1 and Part 3, paragraph R360.37 of the Code.

<sup>8</sup> See, for example, Chapter A, Part 3, paragraph 360.39 A1 of the Code.

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Effective for audits of financial statements  
for periods ending on or after 15 December 2016

*Practice Note 600.1 (Revised)*

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# **Reports by the Auditor under the Hong Kong Companies Ordinance (Cap. 622)**



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material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the initial financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the initial financial statements, including the disclosures, and whether the initial financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the initial financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is [*name*].

ABC & Co.

Certified Public Accountants (Practising) or Certified Public Accountants

[*Auditor Address*]

[*Date*]



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# **Special Considerations in Auditing Financial Instruments**



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- Management's and, where appropriate, those charged with governance's understanding of the financial instruments, their use and the accounting requirements.
- Their exact terms and characteristics so that their implications can be fully understood and, in particular where transactions are linked, the overall impact of the financial instrument transactions.
- How they fit into the entity's overall risk management strategy.

Inquiries of the internal audit function, the risk management function, if such functions exist, and discussions with those charged with governance may inform the auditor's understanding.

77. In some cases, a contract, including a contract for a non-financial instrument may contain a derivative. Some financial reporting frameworks permit or require such "embedded" derivatives to be separated from the host contract in some circumstances. Understanding management's process for identifying, and accounting for, embedded derivatives will assist the auditor in understanding the risks to which the entity is exposed.

*Using Those with Specialized Skills and Knowledge in the Audit*<sup>14</sup>

78. A key consideration in audits involving financial instruments, particularly complex financial instruments, is the competence of the auditor. HKSA 220<sup>15</sup> requires the engagement partner to be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to perform the audit engagement in accordance with professional standards and applicable legal and regulatory requirements and to enable an auditor's report that is appropriate in the circumstances to be issued. Further, relevant ethical requirements<sup>16</sup> require the auditor to determine whether acceptance of the engagement would create any threats to compliance with the fundamental principles, including the professional competence and due care. Paragraph 79 below provides examples of the types of matters that may be relevant to the auditor's considerations in the context of financial instruments.
79. Accordingly, auditing financial instruments may require the involvement of one or more experts or specialists, for example, in the areas of:
- Understanding the financial instruments used by the entity and their characteristics, including their level of complexity. Using specialized skills and knowledge may be needed in checking whether all aspects of the financial instrument and related considerations have been captured in the financial statements, and evaluating whether adequate disclosure in accordance with the applicable financial reporting framework has been made where disclosure of risks is required.
  - Understanding the applicable financial reporting framework, especially when there are areas known to be subject to differing interpretations, or practice is inconsistent or developing.

<sup>14</sup> When such a person's expertise is in auditing and accounting, regardless of whether the person is from within or external to the firm, this person is considered to be part of the engagement team and is subject to the requirements of HKSA 220, *Quality Control for an Audit of Financial Statements*. When such a person's expertise is in a field other than accounting or auditing, such person is considered to be an auditor's expert, and the provisions of HKSA 620, *Using the Work of an Auditor's Expert*, apply. HKSA 620 explains that distinguishing between specialized areas of accounting or auditing, and expertise in another field, will be a matter of professional judgment, but notes the distinction may be made between expertise in methods of accounting for financial instruments (accounting and auditing expertise) and expertise in complex valuation techniques for financial instruments (expertise in a field other than accounting or auditing).

<sup>15</sup> HKSA 220, paragraph 14

<sup>16</sup> The *Code of Ethics for Professional Accountants*, Chapter A, Part 3, paragraphs 320.1–320.10 A1