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

HKICPA Questions & Answers:

The Hong Kong Standard on Auditing for Audits of Financial Statements of Less Complex Entities (HKSA for LCE)

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These Q&As should be read in conjunction with the Institute's *The Hong Kong Standard on Auditing for Audits of Financial Statements of Less Complex Entities* (HKSA for LCE or "the Standard"), its Basis for Conclusions, and other regulations, standards or guidance published and issued by the HKICPA.

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The Standard Setting Department welcomes your comments and feedback, which should be sent to commentletters@hkicpa.org.hk.

Question 1: Eligibility for using the HKSA for LCE in audit engagements

When can the HKSA for LCE be used?

Answer:

The Authority of the Standard in Part A sets out the intended scope of the HKSA for LCE. Limitations for using the Standard are designated into three categories:

(a) Specific classes of entities for which the use of the HKSA for LCE is prohibited (i.e., specific prohibitions);
(b) Qualitative characteristics that describe a less complex entity which, if not exhibited by an entity, would ordinarily preclude the use of the HKSA for LCE for the audit of the financial statements of that entity; and
(c) Quantitative thresholds to be determined by legislative or regulatory authorities or relevant local bodies with standard-setting authority in each jurisdiction.

In determining the appropriate use of the HKSA for LCE, all three categories are to be considered.

The HKSA for LCE includes additional details and specifics on when an auditor can use the Standard. These details and specifics are included in the Authority (Part A) of the Standard and include specific prohibitions, qualitative characteristics, and quantitative thresholds.

Question 2: Quantitative Thresholds for Using the HKSA for LCE

Are there any quantitative thresholds that must be met to determine the appropriate use of the HKSA for LCE?

Answer:

Yes. To determine the appropriate use of the HKSA for LCE, an entity or a group of entities must not only comply with the requirements regarding the specific prohibitions in paragraph A.1. and meet the qualitative characteristics in paragraph A.3. of the Standard, but also not exceed any two of the following quantitative thresholds specified in paragraph A.4-1:

(a) Total revenue of HK$200 million

(b) Total assets of HK$200 million at the end of the reporting period

(c) 100 employees

- ***Meeting the size tests in the first financial year:*** A newly established entity is eligible to use the HKSA for LCE in the audit of its first financial year if it meets the quantitative thresholds and other requirements for using the HKSA for LCE in that year. Likewise, for a group of entities with a newly established holding entity, the group is eligible to use the HKSA for LCE in the audit of its first financial year if it meets the quantitative thresholds and other requirements for using the HKSA for LCE in that year (paragraph A.4-3.).

- ***Meeting the size tests in subsequent financial years:*** For an existing entity or a group of entities, in addition to complying with the specific prohibition and qualitative requirements for the year under consideration, it will need to meet the quantitative thresholds for two consecutive reporting periods before it is eligible to use the HKSA for LCE in the audit of the following year, regardless of its size in that period (paragraph A.4-3.). Further illustrations are provided in Scenarios 1 to 3 below.

- ***Evaluating the quantitative thresholds:*** To evaluate the quantitative thresholds, an entity or a group of entities should use the financial information of the two financial years immediately before the year that the auditor plans to use the HKSA for LCE (paragraph A.4-3.). Illustrations are provided in scenarios 2 to 3 below.

  An entity or a group of entities that already qualifies for and is already using the HKSA for LCE in its audit can continue to use it until it fails the quantitative thresholds for two consecutive financial years. In that case, it will only lose the eligibility to use the HKSA for LCE in the reporting period ***after*** not meeting the quantitative thresholds for the two immediately preceding financial years ("two-year grace period") (paragraph A.4-4.). Illustrations are provided in scenarios 1 to 2 below.

- ***Exception to the two-year rule:*** If a new entity or business unit enters the group and causes the group to exceed the quantitative thresholds in paragraph A.4-1. in the financial year it joins the group, the group will lose the eligibility to use the HKSA for LCE in that year right away, without the two-year grace period mentioned above (paragraph A.4-5.). Scenario 4 below illustrates this.

The following scenarios assume that the HKSA for LCE is effective for the audits of financial statements beginning on or after 15 December 20X3. These scenarios only illustrate the assessment of the quantitative thresholds for the application of the HKSA for LCE, assuming the entity or group of entities meets all other criteria for the application of the HKSA for LCE.

Scenario 1

- The entity or group of entities met the quantitative thresholds for two consecutive financial years in 20X2 and 20X3. Therefore, it is eligible to use the HKSA for LCE in its audit of financial statements in the next reporting period in 20X4.
- Having met the quantitative thresholds, the auditor decided to use the HKSA for LCE in the audit for 20X4.
- The entity fails the quantitative thresholds for the 20X4, 20X6 and 20X8 financial years but meets the quantitative thresholds for the intervening years, i.e., 20X5 and 20X7. As the entity has met the quantitative thresholds in 20X2 and 20X3 (and so it is eligible to use the HKSA for LCE for its 20X4 audit), and it has not failed the quantitative thresholds for at least two *consecutive* financial years during 20X4 to 20X8 (see Scenario 2 below), the auditor can continue to apply the HKSA for LCE for those reporting periods.

Financial reporting period	**20X2**	**20X3**	**20X4**	**20X5**	**20X6**	**20X7**	**20X8**
Meets the quantitative thresholds	✓	✓	×	✓	×	✓	×
Eligibility to adopt the HKSA for LCE			✓	✓	✓	✓	✓
Decision to adopt the HKSA for LCE			✓	✓	✓	✓	✓

Scenario 2

- The entity or group of entities met the quantitative thresholds for two consecutive financial years in 20X2 and 20X3. Having met the quantitative thresholds, the auditor decided to use the HKSA for LCE in the audit of the financial statements in the next reporting period in 20X4.
- Later, the entity does not meet the quantitative thresholds for two consecutive financial years in 20X4 and 20X5. It continues to be eligible for and the auditor continues to use the HKSA for LCE for the audit, until the auditor becomes ineligible to do so in 20X6.
- Being not eligible to use the HKSA for LCE on the grounds of its size, it will need to meet the quantitative thresholds for two consecutive financial years again in 20X6 and 20X7, before it will be eligible for the use of the HKSA for LCE in its audit of financial statements in the next reporting period in 20X8.

Financial reporting period	20X2	20X3	20X4	20X5	20X6	20X7	20X8
Meets the quantitative thresholds	✓	✓	×	×	✓	✓	×
Eligibility to adopt the HKSA for LCE			✓	✓	×	×	✓
Decision to adopt the HKSA for LCE			✓	✓	NA	NA	✓

Scenario 3

- The entity or group of entities met the quantitative thresholds for two consecutive financial years in 20X2 and 20X3. Therefore, it is eligible to use the HKSA for LCE in the audit of the financial statements in the next reporting period in 20X4.
- Despite being eligible, the auditor decided not to use the HKSA for LCE in the audit in 20X4.
- In 20X5, the auditor wishes to adopt the HKSA for LCE in the audit. To be eligible, the entity must meet the quantitative thresholds for two consecutive years immediately preceding 20X5, i.e., 20X3 and 20X4.
- Since the entity does not meet the quantitative thresholds consecutively in 20X3 and 20X4, the auditor cannot use the HKSA for LCE in their audit in 20X5. The auditor will only be eligible to do so when the entity subsequently meets the quantitative thresholds for two consecutive years (e.g., in 20X5 and 20X6) and then use it in the next reporting period (i.e., 20X7).

Financial reporting period	20X2	20X3	20X4	20X5	20X6	20X7	20X8
Meets the quantitative thresholds	✓	✓	×	✓	✓	✓	✓
Eligibility to adopt the HKSA for LCE			✓	×	×	✓	✓
Decision to adopt the HKSA for LCE			×	NA	NA	✓	✓

Scenario 4

- The entity or group of entities meeting the quantitative thresholds for two consecutive financial years in 20X2 and 20X3 is eligible to use the HKSA for LCE in 20X4. Once it is eligible, it can continue using the HKSA for LCE unless it fails the quantitative thresholds for two consecutive years (see Scenario 2 above).
- An exception to this two-year grace period is when a new entity or business unit enters the group (e.g., in 20X5) where that new entity or business unit is of such a size that causes the group to fail the quantitative thresholds in that year. In this case, the group will no longer be eligible for the use of the HKSA for LCE in the financial year in which the new entity or business unit enters the group in 20X5. Its auditor will be eligible to

use the HKSA for LCE again if, subsequently, the group meets the quantitative thresholds for two consecutive financial years again (e.g., in 20X6 and 20X7) and then use it in the next reporting period (say in 20X8).

Financial reporting period	**20X2**	**20X3**	**20X4**	**20X5**	**20X6**
Meets the quantitative thresholds	✓	✓	✓	× (a new co or business unit joins the group)	✓
Eligibility to adopt the HKSA for LCE			✓	×	×
Decision to adopt the HKSA for LCE			✓	NA	NA

Question 3: Eligibility for using the HKSA for LCE to audit financial statements prepared under the HKFRS for PE or the SME-FRF & FRS

Is an entity that prepares financial statements using the *HKFRS for Private Entities Accounting Standard* (HKFRS for PE) or the *Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard* (SME-FRF & FRS) automatically qualified to be audited under the HKSA for LCE?

Answer:

No. While the eligibility characteristics for applying the HKFRS for PE or the SME-FRF & FRS, and that for the HKSA for LCE exhibit certain similarities, they are distinct frameworks for different purposes (financial reporting vs. auditing). Their application is determined by separate, independent assessments by different parties: the entity and auditors.

Accordingly, an entity's choice of financial reporting framework does not automatically determine the entity's applicability of the HKSA for LCE in auditing.

Financial Reporting Frameworks

For the preparation of financial statements, there are currently three financial reporting frameworks issued by the Institute:

- HKFRS Accounting Standards
- HKFRS for Private Entities Accounting Standard (HKFRS for PE)
- SME-FRF & FRS

While the HKFRS Accounting Standards apply to all Hong Kong incorporated entities, the applications of the HKFRS for PE and the SME-FRF & FRS are subject to specific eligibility criteria.

Entities should determine the appropriate financial reporting framework based on their specific circumstances, including applicable laws, regulations and professional requirements. For example, the Insurance Authority clarifies that the HKFRS Accounting Standards and the HKFRS for PE (subject to eligibility assessment) are the applicable accounting standards for the financial statements of licensed insurance broker companies, provided these companies meet the eligibility criteria.

Eligibility Criteria: HKSA for LCE vs. HKFRS for PE or SME-FRF & FRS

The auditor's decision to use the HKSA for LCE is independent of the financial reporting framework used by the entity. To apply the HKSA for LCE in audit engagements, the auditor should perform an assessment based on the eligibility criteria set out in the HKSA for LCE, encompassing three categories, all of which must be met for the Standard to be applied (see Part A of the Standard and Question 1 of these Q&As).

Some eligibility criteria for the HKSA for LCE differ from those for the financial reporting frameworks. In particular, certain qualitative characteristics evaluated for the application of the HKSA for LCE—such as the complexity of the entity's IT environment—are not part of the eligibility criteria for financial reporting frameworks such as the HKFRS for PE or the SME-

FRF & FRS. These frameworks primarily focus on the entity's size and/or business type, as well as its nature (e.g., whether it has public accountability; is a private company or is a company limited by guarantee under the Companies Ordinance).

Consequently,

1. An entity eligible to prepare its financial statements under the HKFRS for PE or the SME-FRF & FRS may exhibit qualitative characteristics that preclude its auditors from using the HKSA for LCE.

2. Conversely, an entity applying the HKFRS Accounting Standards (even if eligible for the HKFRS for PE or the SME-FRF & FRS) can still be audited under the HKSA for LCE, provided the entity meets all the specific eligibility criteria in the HKSA for LCE.

Auditors should perform a case-by-case assessment of the eligible use of the HKSA for LCE based on the Authority of the Standard (see Part A of the Standard and Questions 1 and 2 of these Q&As).

Question 4: Areas for Attention When Applying the HKSA for LCE

What key areas should I be aware of when applying the HKSA for LCE in an audit engagement?

Answer:

- ***Standalone nature of the HKSA for LCE.*** The HKSA for LCE is a standalone, self-contained standard, with no intended need to reference back to the Hong Kong Standards on Auditing (HKSAs). Auditors applying the HKSA for LCE must exercise caution from inadvertently reverting to HKSA requirements in areas not covered by the HKSA for LCE. Therefore, it is essential for auditors to conduct a thorough and comprehensive assessment of eligibility for using the HKSA for LCE to ensure that the relevant audit engagement will be adequately addressed by requirements in the HKSA for LCE.

- ***Needing to navigate different sections for the same topic.*** The HKSA for LCE is designed to align with the flow of an audit engagement. In contrast to the HKSAs, which typically address a single topic—from risk assessment procedures and evaluation to auditor conclusions and reporting—within one standard, the HKSA for LCE organizes its requirements into distinct parts corresponding to the various stages of an audit. This structure requires auditors to refer to different parts for requirements related to the same topic.

  For example, when addressing "going concern," auditors must refer to different parts in the HKSA for LCE for relevant requirements and Essential Explanatory Material (EEM):

  - Risk identification and Assessment: Part 6
  - Responding to Assessed Risks of Material Misstatement: Part 7
  - Concluding: Part 8
  - Forming an Opinion: Part 9

- ***Qualitative characteristics relating to accounting estimates.*** Paragraph A.3. of the HKSA for LCE describes an LCE in the context of accounting estimates as:

  (a) Having few accounts or disclosures in the financial statements that necessitate the use of significant management judgment in applying the requirements of the financial reporting framework.

  (b) The financial statements ordinarily do not include accounting estimates that involve the use of methods, models, assumptions, or data, that are complex.

  For instance, fair value accounting estimates that use unobservable inputs to measure the fair value of the asset or liability, known as Level 3 inputs under International Financial Reporting Standards, are commonly not associated with LCEs.[1]

  Meanwhile, the International Auditing and Assurance Standards Board (IAASB) has clarified that the presence of one or a small number of accounting estimates with a higher

[1] ISA for LCE Authority Supplemental Guidance (https://www.iaasb.org/publications/isa-lce-authority-standard-supplemental-guidance) published by the IAASB.

degree of complexity may not be indicative of the complexity of the entity as a whole. The Standard's focus is not on the isolated or "one-off" accounting estimates or transactions that do not otherwise increase the complexity of the entity as a whole.[2]

In Hong Kong, it is common for non-regulated private entities, without substantial businesses and/or operations, to hold investment properties with fair value accounting estimates determined using unobservable inputs, i.e., Level 3 inputs under the HKFRS Accounting Standards. Entities with fair value accounting estimates that use unobservable inputs to measure the fair value of the asset or liability would generally be ineligible for using the HKSA For LCE in their audits.[3] Following the IAASB's clarification outlined above, auditors must exercise professional judgment in determining whether an entity's accounting estimate with unobservable inputs is isolated or "one-off", or relates to the entity's main business activities which would be likely to be an indicator of complexity more pervasively and thus preclude the use of the HKSA for LCE.

- ***No illustration on modified opinions.*** The HKSA for LCE does not provide illustrative examples of modified opinions. Auditors are to refer to separate publications, such as the IAASB's ISA for LCE Auditor Reporting Supplemental Guide (Auditor Reporting Supplemental Guide), for relevant guidance and illustration when and as necessary.

  The HKSA for LCE is converged with the IAASB's ISA for LCE, with local refinements to the Authority on the eligible use of the Standard in the Hong Kong context. Accordingly, the illustrative auditor's reports in the Auditor Reporting Supplemental Guide are generally applicable to auditor's reports prepared under the HKSA for LCE. However, tailoring is necessary to reflect the specific facts and circumstances of each engagement, including with respect of the use of the HKSA for LCE, applicable laws and regulations in Hong Kong.

- ***Timing differences with HKSA updates***. The HKSA for LCE is converged with the *International Standard on Auditing for Audits of Financial Statements of Less Complex Entities* (ISA for LCE). Any maintenance of the HKSA for LCE, other than local refinements and guidance, will follow the updates made to the ISA for LCE.

  After the ISA for LCE/HKSA for LCE becomes effective on 15 December 2025, there will be an initial period of stability of at least three years. This means that any possible future revisions to the ISA for LCE would not become effective before 15 December 2028. This initial period of stability provides stakeholders time to adopt and implement the Standard before introducing any possible revisions.[4] However, it also means that the new and revised requirements in the ISAs/HKSAs that become effective between 2025 and 2028 may diverge from those in the ISA for LCE/HKSA for LCE. Consequently, auditors must apply different requirements across audit engagements of the HKSAs and the HKSA for LCE on the same topic. This divergence may include, but is not limited to, the following HKSAs:

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[2] IAASB Basis for Conclusions: ISA for LCE, paragraph 53

[3] Refer to the examples under "Application of the Financial Reporting Framework and Accounting Estimates" on pages 13–14 of ISA for LCE: Authority Supplemental Guidance published by the IAASB (August 2024)

[4] IAASB Basis for Conclusions: ISA for LCE, paragraph 142

Standard	Effective Date
HKSA 570 (Revised 2024), *Going Concern*	Audits of financial statements for periods beginning on or after 15 December 2026
HKSA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*	Audits of financial statements for periods beginning on or after 15 December 2026

Question 5: Using the HKSA for LCE for Audits of Consolidated Financial Statements

Can the HKSA for LCE be applied to audits of consolidated financial statements?

Answer:

Yes. The HKSA for LCE can be applied to audits of consolidated financial statements, which are considered as "group financial statements"[5] under the HKSA for LCE, provided that the group (i.e., the parent and its entities or business units) meets all eligibility criteria set out in the Authority, namely specific prohibitions, qualitative characteristics and quantitative thresholds (see Part A of the Standard and Questions 1 and 2 of these Q&As) and subject to the prohibited scenarios discussed below.

With respect to the qualitative characteristics, paragraph A.3. of the Standard outlines additional characteristics specific to group audits for the purpose of determining the appropriate use of the HKSA for LCE. These are set out below:

Paragraph A.3: Additional Characteristics Relevant for Group Audits when Determining the Appropriateness of the HKSA for LCE

Additional Characteristics Relevant for Group Audits For group audits, the following qualitative characteristics are to be considered in addition to other characteristics of an LCE described in paragraph A.3. of the Standard:	
Group Structure and Activities	The group has few entities or business units (e.g., 5 or less). Entities or business units within the group operate in jurisdictions with similar characteristics, for example laws or regulations and business practices.
Access to Information or People	Group management will be able to provide the engagement team with access to information and unrestricted access to persons within the group as determined necessary by the group auditor.
Consolidation Process	The group has a simple consolidation process. For example: • Intercompany or other consolidation adjustments are not complex; • Financial information of all entities or business units has been prepared in accordance with similar accounting policies applied to the group financial statements; and • All entities or business units have the same financial reporting period-end as that used for group financial reporting.

[5] In the HKSA for LCE, "group financial statements" are financial statements that include the financial information of more than one entity or business unit through a consolidation process. For purposes of the HKSA for LCE, a consolidation process includes:
(a) Consolidation, proportionate consolidation, or an equity method of accounting;
(b) The presentation in combined financial statements of the financial information of entities or business units that have no parent but are under common control or common management; or
(c) The aggregation of the financial information of entities or business units such as branches or divisions.

HKSA for LCE Part 10: Audits of Group Financial Statements

Part 10 of the Standard sets out special considerations that apply to an audit of group financial statements (group audit).

All Parts of the HKSA for LCE apply to a group audit. The requirements and guidance in Part 10 refer to, or expand on, the application of other Parts of the HKSA for LCE to a group audit.

Prohibited Scenarios for Applying the HKSA for LCE in Group Audits

Notwithstanding the above, the Authority of the HKSA for LCE (paragraph A.1.(d)) explicitly prohibits the application of the HKSA for LCE for a group audit if:

- Any of the group's individual entities or business units are prohibited from using the HKSA for LCE as described in paragraph A.1.(b) or A.1.(c)-(c-1); or
- Component auditors[6] are involved, except when the component auditor's involvement is limited to circumstances in which a physical presence is needed for a specific audit procedure for the group audit (e.g., attending a physical inventory count or physically inspecting assets or documents).

[6] The EEM accompanying paragraph A.1. of the Standard includes guidance on "component auditors" for the purposes of the HKSA for LCE.

Question 6: Tailoring the Auditor's Report under the HKSA for LCE

Paragraph 9.4 of the Standard provides an illustrative auditor's report under the HKSA for LCE for an audit of a complete set of financial statements of a Hong Kong-incorporated entity prepared in accordance with the HKFRS Accounting Standards or the HKFRS for Private Entities (a general purpose framework). This illustration is not intended for group audit engagements or financial statements prepared under a compliance framework.

How should the auditor's report be tailored when applying the HKSA for LCE in the following scenarios?

(a) Audits of financial statements prepared under the SME-FRF & FRS

(b) Group Audits, including audits of consolidated financial statements

(c) Reporting on other information included in the financial statements

Answer:

(a) Audits of Financial Statements Prepared under the SME-FRF & FRS

For audits of financial statements prepared under a compliance framework, such as the SME-FRF & FRS, auditors applying the HKSA for LCE should tailor the auditor's report in accordance with paragraph 9.3.1 and footnote 39 of the Standard.

To support auditors with these engagements, the Institute's Practice Note (PN) 900 (Revised), *Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard* includes illustrative auditor's reports for financial statements prepared under the SME-FRF & FRS in Appendices 1 to 3.

(b) Group Audits, Including Audits of Consolidated Financial Statements

Auditors should tailor the report to state that the opinion is in respect of the consolidated financial statements (or other appropriate terminology describing the group financial statements). The tailoring would ordinarily include, but is not limited to, the following:

Elements in the Auditor's Report	Auditor's Reports for Group Audits
Terminologies	Throughout the report,* • Replace all references to **"the Company"** with **"the Group"** • Replace **"financial statements"** with **"consolidated financial statements"** ** Or use other terminology appropriate to the circumstances*
Opinion	State that the auditor has audited the **"consolidated financial statements* of [ABC Company] and its subsidiaries ('the Group')."** Titles of the statements referenced in the auditor's report should be consistent with those used in the consolidated financial statements. Examples include:*

	• *consolidated* statement of financial position • *consolidated* statement of profit or loss and *consolidated* statement of profit or loss and other comprehensive income^ • *consolidated* statement of changes in equity • *consolidated* statement of cash flows • notes to the *consolidated* financial statements ** Or use other terminology appropriate to the circumstances* *^ HKFRS Accounting Standards, HKAS 1, Presentation of Financial Statements allows entities to present comprehensive income using either a one statement approach (i.e. a single "statement of profit or loss and other comprehensive income") or a two-statement approach (i.e. a "statement of profit or loss" together with a "statement of profit or loss and other comprehensive income"). Different terms may be used as long as they are consistent with the titles of the corresponding statements*
Responsibilities of Management	Update references to "the Group" and "consolidated financial statements":* **Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements** The directors are responsible for the preparation of the **consolidated** financial statements that give a true and fair view in accordance with [HKFRS Accounting Standards][HKFRS for Private Entities Accounting Standard] as issued by the HKICPA and the Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of **consolidated** financial statements that are free from material misstatement, whether due to fraud or error. In preparing the **consolidated** financial statements, the directors are responsible for assessing the **Group's** ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the **Group** or to cease operations, or have no realistic alternative but to do so. ** Or use other terminology appropriate to the circumstances*
Auditor's Responsibilities	In addition to the applicable updates referring to "the Group" and "consolidated financial statements," include the following additional auditor's responsibilities regarding the scope of the group audit: Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

For audits conducted under the HKSA for LCE, the following illustrative auditor's reports for consolidated financial statements are available:

- **HKSA for LCE, Part 9, Illustration 2**: Auditor's report on consolidated financial statements of an entity incorporated in Hong Kong prepared in accordance with a fair presentation framework.
- **PN 900, Appendix 2:** Auditor's report for an entity other than a listed entity incorporated in Hong Kong submitting consolidated financial statements and where the consolidated financial statements are prepared in accordance with the SME-FRF & FRS.
- **IAASB Auditor Reporting Supplemental Guide, Appendix – Illustrative Report 2**: Qualified opinion due to the group auditor's inability to obtain sufficient audit evidence on which to base the group audit opinion.

(c) Other Information Included in the Financial Statements

In the HKSA for LCE, "other information" by definition is financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report.

- If the auditor identifies "other information" in the annual report, the auditor has a responsibility to undertake work in relation to such "other information" under Parts 9.8 and 9.9 of the HKSA for LCE.
- If the auditor obtained some, or all of, the other information at the date of the auditor's report, the auditor shall include an Other Information section in the auditor's report in accordance with paragraph 9.8.8 (Table E) of the HKSA for LCE.

In the Auditor Reporting Supplemental Guide, Illustrative Report 5 provides an illustration of an auditor's report where there is "other information." In this illustration, the auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information. When applying this illustration, it is important to tailor it to the specific circumstances of the engagement and in accordance with applicable laws and regulations.

For companies incorporated in Hong Kong, section 406(2) of the Companies Ordinance (Cap. 622) requires auditors to state in the auditor's report if, in their opinion, the information in a directors' report for a financial year is not consistent with the financial statements for the financial year, i.e., report by exception. Where such inconsistencies exist, the auditor must state that opinion and a description of the inconsistencies under the last section "Report on the Directors' Report under section 406(2) of the Companies Ordinance" of the auditor's report. An illustrative example of this reporting is provided in Appendix 12 of the Standard for general guidance. Additionally, such inconsistencies would also be expected to be included under the section "Other Information" in accordance with paragraph 9.8.2. of the Standard.

Date of Q&A: Updated in February 2026