



# MEMBERS' HANDBOOK

## Update No. 188

(Issued 19 August 2016)

<i>Document Reference and Title</i>	<i>Instructions</i>	<i>Explanations</i>
<b>VOLUME III</b>		
<a href="#"><u>Contents of Volume III</u></a>	Discard the existing pages i, iii - v and replace with the revised pages i, iii - v.	Revised contents page
<b>HONG KONG STANDARDS ON AUDITING</b>		
<a href="#"><u>HKSA 210 Agreeing the Terms of Audit Engagements</u></a>	Replace pages 1, 9, 19-23 with revised pages 1, 9, 19-23.	Notes 1 and 2
<a href="#"><u>HKSA 580 Written Representations</u></a>	Replace pages 1 and 16 with revised pages 1 and 16.	Note 1
<a href="#"><u>HKSA 700 (Revised) Forming an Opinion and Reporting on Financial Statements</u></a>	Replace pages 1, 4, 13, 27 with revised pages 1, 4, 13, 27.	Note 2
<a href="#"><u>HKSA 705 (Revised) Modifications to the Opinion in the Independent Auditor's Report</u></a>	Replace pages 1 and 6 with revised pages 1 and 6.	Note 2
<a href="#"><u>HKSA 706 (Revised) Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</u></a>	Replace pages 1, 9, 11-12 with revised pages 1, 9, 11-12.	Note 2
<a href="#"><u>HKSA 720 (Revised) The Auditor's Responsibilities Relating to Other Information</u></a>	Replace pages 1 and 47 with revised pages 1 and 47.	Note 3
<a href="#"><u>HKSA 800 (Revised) Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks</u></a>	Insert after HKSA 800 (Clarified) revised in July 2010.	Notes 2 and 7
<a href="#"><u>HKSA 805 (Revised) Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</u></a>	Insert after HKSA 805 (Clarified) revised in July 2010.	Notes 2 and 7

<a href="#"><u>HKSA 810 (Revised) Engagements to Report on Summary Financial Statements</u></a>	Discard HKSA 810 revised in August 2015 and replace with the attached HKSA 810 (Revised).	Notes 4 and 7
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## PRACTICE NOTES

<a href="#"><u>PN 600.1 (Revised 2016) Reports by the Auditor under the Banking Ordinance</u></a>	Insert after PN 600.1 (Revised) revised in December 2015.	Notes 5 and 7
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<a href="#"><u>PN 840 (Revised) Reporting on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules</u></a>	Discard PN 840 revised in September 2004 and replace with the attached PN 840 (Revised).	Notes 6 and 7
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<a href="#"><u>PN 900 (Revised 2016) Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard</u></a>	Insert after PN 900 (Revised) issued in September 2014.	Notes 5 and 7
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### Note:

1. Additional local changes are made to the example audit engagement letter in HKSA 210 and the illustrative representation letter in HKSA 580 to reflect the new requirements under HKSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*. The changes are underlined for easy reference and will become effective for audits of financial statements for periods ending on or after 15 December 2016.
2. HKSA 800 (Revised) and HKSA 805 (Revised) are issued in response to the International Auditing and Assurance Board's ("IAASB") finalization on changes for auditor reporting on special purpose financial statements. Reporting on special purpose financial statements is linked to the new and revised HKSAs issued in August 2015 under Members' Handbook Update No. 172 ("new and revised Auditor Reporting standards"). The amendments to HKSA 800 and HKSA 805 are limited to auditor reporting and are not intended to substantively change the underlying premise of these engagements in accordance with the extant HKSAs. There are also conforming amendments to HKSA 700 (Revised). HKSA 800 (Revised), HKSA 805 (Revised) and conforming amendments to HKSA 700 (Revised) will become effective for audits for periods ending on or after 15 December 2016.

In addition, the following HKSAs are also updated for the references to HKSA 800 (Revised) and HKSA 805 (Revised):

- HKSA 210 *Agreeing the Terms of Audit Engagements*
  - HKSA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*
  - HKSA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*
3. An amendment is made to Illustration 8 in Appendix 2 of HKSA 720 (Revised) to relocate the Key Audit Matters section after the Other Information section in this illustrative auditor's report.
  4. HKSA 810 (Revised) is issued in response to the IAASB's finalization on changes for auditor reporting on summary financial statements. The limited amendments to HKSA 810 (Revised) leverage the additional transparency in the auditor's report on the audited financial statements resulting from the new and revised Auditor Reporting standards. HKSA 810 (Revised) will

become effective for engagements to report on summary financial statements for periods ending on or after 15 December 2016.

In addition, three illustrative auditor's reports (Illustrations 6 to 8) are added for local reporting purposes and they are elevated from the extant HKSA 810.

5. The Auditing and Assurance Standards Committee has embarked on a project to update the relevant auditing and assurance pronouncements for the new and revised Auditor Reporting standards. The updated pronouncements will become effective for audits of financial statements with period ending on or after 15 December 2016. The above practice notes are updated for changes resulting from the new and revised Auditor Reporting standards.

The key revisions to the practice notes are:

- (a) Updated the references to the new and revised Auditor Reporting standards; and
  - (b) Amended the format of the example auditor's reports to align with the requirements of the new and revised Auditor Reporting standards.
6. PN 840 is revised to incorporate changes arising from amendments to the Solicitors' Accounts Rules and the Accountant's Report Rules (the "Amendment Rules") which come into effect on 1 July 2016. PN 840 (Revised) has also included guidance on circularization, engagement documentation and an illustrative engagement letter. To align with the effective date of the Amendment Rules, the PN 840 (Revised) will be applicable from 1 July 2016.
  7. In order for readers to easily identify all the changes, a marked-up version of the above revised pronouncements is posted at:  
[http://www.hkicpa.org.hk/file/media/section6\\_standards/technical\\_resources/pdf-file/handbook/trackstds188.pdf](http://www.hkicpa.org.hk/file/media/section6_standards/technical_resources/pdf-file/handbook/trackstds188.pdf)



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June 2014\*, August 2015\*\*, January 2016\*\*\*, August 2016\*\*

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

*Hong Kong Standard on Auditing 210*

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# Agreeing the Terms of Audit Engagements

\*\*\* Changes have been made to this HKSA as a result of the Disclosures project (Addressing Disclosures in the Audit of Financial Statements) developed by the International Auditing and Assurance Standards Board. These changes will become effective for audits of financial statements for periods ending on or after 15 December 2016. The changes are marked up and shaded for easy reference.

\*\* Conforming amendments have been made to this HKSA as a result of the new and revised HKSAs issued in Update 172, and will become effective for audits of financial statements for periods ending on or after 15 December 2016. The conforming amendments are underlined for easy reference.

\* Amendments have been made to this HKSA as a result of the Hong Kong Companies Ordinance (Cap. 622) which became effective on 3 March 2014. The amendments apply to the first financial year of companies that begins on or after the commencement date of the new Companies Ordinance and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015).



Hong Kong Institute of  
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香港會計師公會



## Preconditions for an Audit

### *The Financial Reporting Framework* (Ref: Para. 6(a))

- A2. A condition for acceptance of an assurance engagement is that the criteria referred to in the definition of an assurance engagement are suitable and available to intended users.<sup>9</sup> Criteria are the benchmarks used to evaluate or measure the subject matter including, where relevant, benchmarks for presentation and disclosure. Suitable criteria enable reasonably consistent evaluation or measurement of a subject matter within the context of professional judgment. For purposes of the HKSAs, the applicable financial reporting framework provides the criteria the auditor uses to audit the financial statements, including where relevant their fair presentation.
- A3. Without an acceptable financial reporting framework, management does not have an appropriate basis for the preparation of the financial statements and the auditor does not have suitable criteria for auditing the financial statements. In many cases the auditor may presume that the applicable financial reporting framework is acceptable, as described in paragraphs A8-A9.

### Determining the Acceptability of the Financial Reporting Framework

- A4. Factors that are relevant to the auditor's determination of the acceptability of the financial reporting framework to be applied in the preparation of the financial statements include:
- The nature of the entity (for example, whether it is a business enterprise, a public sector entity or a not-for-profit organization);
  - The purpose of the financial statements (for example, whether they are prepared to meet the common financial information needs of a wide range of users or the financial information needs of specific users);
  - The nature of the financial statements (for example, whether the financial statements are a complete set of financial statements or a single financial statement); and
  - Whether law or regulation prescribes the applicable financial reporting framework.
- A5. Many users of financial statements are not in a position to demand financial statements tailored to meet their specific information needs. While all the information needs of specific users cannot be met, there are financial information needs that are common to a wide range of users. Financial statements prepared in accordance with a financial reporting framework designed to meet the common financial information needs of a wide range of users are referred to as general purpose financial statements.
- A6. In some cases, the financial statements will be prepared in accordance with a financial reporting framework designed to meet the financial information needs of specific users. Such financial statements are referred to as special purpose financial statements. The financial information needs of the intended users will determine the applicable financial reporting framework in these circumstances. HKSA 800 (Revised) discusses the acceptability of financial reporting frameworks designed to meet the financial information needs of specific users.<sup>10</sup>

<sup>9</sup> "Hong Kong Framework for Assurance Engagements," paragraph 17(b)(ii).

<sup>10</sup> HKSA 800 (Revised) "Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks," paragraph 8.

- e. For such internal control as you determine is necessary to enable the preparation of (consolidated)\* financial statements that are free from material misstatement, whether due to fraud or error;
- f. To provide us with<sup>1</sup>:
  - (i) Access to all information of which you are aware that is relevant to the preparation of the (consolidated)\* financial statements such as Company's accounting records and all other relevant records and documentation, including minutes of all management and shareholders' meetings and other matters;
  - (ii) Additional information that we may request from you for the purpose of the audit; and
  - (iii) Unrestricted access to persons related to the Company (and its subsidiaries)\* from whom we determine it necessary to obtain audit evidence;
- g. To provide us with (i) any proposed written resolution and (ii) any other document relating to the resolution that is required to be sent to a member of the Company, on or before the circulation of written resolution to a member of the Company; and
- h. To notify us any passed written resolution within 15 days after resolution is passed.

2.2 You are also responsible for the preparation and approval of the directors' report in accordance with the CO [as well as the other information included in the annual report]<sup>#</sup>.

### **Responsibilities of the auditor**

- 3.1 We have a statutory responsibility to prepare a report to the members to state whether in our opinion the (consolidated)\* financial statements give a true and fair view of the financial position and financial performance of the Company (and its subsidiaries)\* for the financial year and whether they have been properly prepared in compliance with the CO. We shall also state our opinion in the auditor's report if we are of the opinion that:
- a. adequate accounting records have not been kept by the Company (and its subsidiaries)\*; or
  - b. the (consolidated)\* financial statements are not in agreement with the accounting records in any material respect; and

We shall also state the fact in the auditor's report if we have failed to obtain all the information or explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

In addition, where the (consolidated)\* financial statements do not contain information on directors' emoluments, etc under section 383(1) of the CO, the CO requires us to include in our report, as far as we are reasonably able to do so, a statement giving the particulars that are required to be, but have not been, contained in the (consolidated)\* financial statements.

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<sup>1</sup> See paragraph A23 for examples of other matters relating to management's responsibilities that may be included.

- 3.2 We have a professional responsibility to report if the (consolidated)\* financial statements do not comply in any material respect with [*insert applicable financial reporting framework*] [*Hong Kong Financial Reporting Standards*][*Hong Kong Financial Reporting Standard for Private Entities*], unless in our opinion the noncompliance is justified in the circumstances. In determining whether or not the departure is justified, we consider:
- a. whether the departure is required in order for the (consolidated)\* financial statements to give a true and fair view; and
  - b. whether adequate disclosure has been made concerning the departure.
- 3.3 We are required to read the information in the directors' report for the financial year to identify and report inconsistencies with the (consolidated)\* financial statements. As required by the CO, if we are of the opinion that the information in the directors' report for a financial year is not consistent with the (consolidated)\* financial statements for the financial year, we shall state that opinion in our auditor's report; and we may bring that opinion to the members' attention at a general meeting. However, we are not required to audit or review the director's report and accordingly we will not express an opinion or review conclusion or any assurance on it.

[3.4 We are required to read the other information included in the annual report. This responsibility applies regardless of whether the other information is made available to us prior to, or after, the date of the auditor's report. We will consider whether the other information is materially inconsistent with the (consolidated)\* financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is an uncorrected material misstatement of this other information, we are required to include that fact in the auditor's report. Our opinion on the (consolidated)\* financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. If we conclude that a material misstatement exists in other information obtained after the date of the auditor's report and the other information is not corrected after communicating with those charged with governance, we will take appropriate actions considering our legal rights and obligations.] #

### Scope of audit

- 4.1 Our audit will be conducted in accordance with ~~Hong Kong Standards on Auditing~~ ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements. As part of an audit in accordance with HKSA, we exercise professional judgment and maintain professional skepticism throughout and plan and perform the audit to obtain reasonable assurance about whether the (consolidated)\* financial statements are free from material misstatement. An audit involvesWe also:
- a. ~~performing procedures to obtain audit evidence about the amounts and disclosures in the (consolidated)\* financial statements. The procedures selected depend on the auditors judgment, including the assessment of~~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.
  - b. 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 entity's internal control.<sup>2</sup> However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the (consolidated)\* financial statements that we have identified during the audit. Any such report may not be provided to third parties without our prior written consent. Such consent will be granted only on the basis that such reports are not prepared with the interests of anyone other than the Company in mind and that we accept no duty or responsibility to any other party as concerns the reports.

- ~~c. An audit also includes evaluating~~ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by you, as well as
- ~~d. Conclude on the appropriateness of your 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.~~
- ~~e. evaluating~~ 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.

4.2 Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with HKSA's.

~~4.3 In making our risk assessments, we consider internal control relevant to the entity's preparation of the (consolidated)\* financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the (consolidated)\* financial statements that we have identified during the audit. Any such report may not be provided to third parties without our prior written consent. Such consent will be granted only on the basis that such reports are not prepared with the interests of anyone other than the Company in mind and that we accept no duty or responsibility to any other party as concerns the reports.~~

(4.43) In connection with the audit of the consolidated financial statements, we draw your attention to section 412 of the CO which gives the rights to the auditor of the holding company to require a person that is a related entity of the company to provide any information or explanation that the auditor reasonably requires for the performance of the duties as auditor of the holding company. As defined in section 412 of the CO, a related entity includes an auditor of a subsidiary undertaking.

4.54 In order to express an opinion on the consolidated financial statements which include the financial information of subsidiaries, joint arrangements or associates of which we are not the auditor, it will be necessary for us to communicate directly with the other auditor(s) concerned to satisfy ourselves that:

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<sup>2</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

- a. so far as is practicable, there is uniformity within the Company and its subsidiaries in the application of accounting policies;
- b. the consolidated financial statements contain the information required by the CO, applicable accounting standards and any other legislation or non-statutory requirements affecting the presentation of financial statements; and
- c. all material aspects of the consolidated financial statements have been subjected to an audit, the nature and extent of which is adequate and reasonable, in our view, for the purpose of forming an opinion on the consolidated financial statements.)\*

4.6-5 As part of our audit procedures, we will request you to provide written confirmation concerning representations which we have received from you during the course of the audit in connection with the audit. In connection with representations and the supply of information to us generally, we draw your attention to section 412 of the CO which sets out the rights of the auditor in relation to obtaining information from a person that is a related entity as defined in this section of the CO. You are also referred to section 413 of the CO which sets out the offences relating to section 412 of the CO.

4.7-6 In order to assist us with the audit of your (consolidated)\* financial statements, we shall request sight of all documents or statements, including the chairman's statement, operating and financial review and the directors' report, which are due to be issued with the (consolidated)\* financial statements. We are also entitled to attend all general meetings of the Company and to receive notice of all such meetings.

4.8-7 The responsibility for safeguarding the assets of the Company (and its subsidiaries)\* and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with you. However, we shall endeavour to plan our audit so that we have a reasonable expectation of detecting material misstatements in the (consolidated)\* financial statements or books of account (including those resulting from fraud, error or non-compliance with law or regulations), but our audit should not be relied upon to disclose all such material misstatements or frauds, errors or instances of non-compliance as may exist.

4.9-8 (Where appropriate - Note) We shall not be treated as having notice, for the purposes of our audit responsibilities, of information provided to members of our firm other than those engaged on the audit (for example information provided in connection with accounting, taxation and other services).

4.10-9 Once we have issued our report we have no further direct responsibility in relation to the (consolidated)\* financial statements for that period. However, you agree that you will inform us of any material event occurring between the date of our report and that of the Annual General Meeting which may affect the (consolidated)\* financial statements.

## Reporting

5.1 *[Insert appropriate reference to the expected form and content of the auditor's report including, if applicable, the reporting on other information in accordance with HKSA 720 (Revised).]*

5.2 The form and content of our report may need to be amended in the light of our audit findings.

## (Other services

6. You have requested that we provide other services in respect of ..... The terms under which we provide these other services are dealt with in a separate letter.)\*

**Fees**

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

**Agreement of terms**

- 8.1 Once it has been agreed, this letter will remain effective, from one audit appointment to another, until it is replaced. Please sign and return the enclosed copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the (consolidated)\* financial statements including our respective responsibilities.

- (8.2 Since the terms of our engagement as auditors of the subsidiaries listed in the attached appendix are the same, we will not send separate letters to the board of directors of each subsidiary. We would therefore be grateful if you would forward copies of this letter to the boards of directors of each such subsidiary and confirm that these boards have also agreed and confirmed their acceptance of this letter.)\*

Yours faithfully,

ABC & Co.

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

Date

We agree to the terms of this letter.

(Signed)

.....  
Director, for and on behalf of the board of

Date

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\* Delete where not applicable.

**Note**

*When accounting, taxation or other services are undertaken on behalf of an audit client, information may be provided to members of the audit firm other than those engaged on the audit. In such cases, it may be appropriate for the audit engagement letter to include this or a similar paragraph to indicate that the auditor is not to be treated as having notice, for the purposes of the auditor's responsibilities, of such information, to make it clear that a company would not be absolved from informing the auditor directly of a material matter.*

# applicable where the company prepares an annual report which contain other information in addition to the directors' report.

HKSA 580  
Issued July 2009; revised July 2010, June 2014\*, August 2015\*\*,  
January 2016\*\*\*, August 2016\*\*

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

*Hong Kong Standard on Auditing 580*

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# Written Representations

\*\*\* Conforming amendments have been made to this HKSA as a result of the changes to the other HKSAs for "Addressing Disclosures in the Audit of Financial Statements". These amendments will become effective at the same time as the changes to the other HKSAs, which is for audits of financial statements for periods ending on or after 15 December 2016. The amendments are marked up and shaded for easy reference.

\*\* Conforming amendments have been made to this HKSA as a result of the new and revised HKSAs issued in Update 172, and will become effective for audits of financial statements for periods ending on or after 15 December 2016. The conforming amendments are underlined for easy reference.

\* Amendments have been made to this HKSA as a result of the Hong Kong Companies Ordinance (Cap. 622) which became effective on 3 March 2014. The amendments apply to the first financial year of companies that begins on or after the commencement date of the new Companies Ordinance and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015).



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WRITTEN REPRESENTATIONS

- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. (HKSA 550)
- [Any other matters that the auditor may consider necessary (see paragraph A11 of this HKSA).]<sup>3a</sup>

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Management

Management

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<sup>3a</sup> If the auditor has included management's responsibilities for other information in the audit engagement letter in accordance with HKSA 210, consideration may be given to include these in the written representations from management or those charged with governance:

Other Information

- In addition to the (consolidated)\* financial statements, we are responsible for the preparation of other information included in the annual report. We have informed you of all the documents that we expect to issue that may comprise other information.
  - We confirm that the other information comprises [X documents - input specific description of the other information] which we provided to you prior to or as of [input the date of your auditor's report], [and the [Y documents - input specific description of the other information not obtained as of auditor's report date] which is/are expected to be made available to you by [input the expected timing of issuance].]
  - We confirm that the (consolidated)\* financial statements and any other information provided to you are consistent with one another, and the other information does not contain any material misstatements.
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HKSA 700 (Revised)  
Issued August 2015; revised January 2016\*, August 2016\*\*

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

*Hong Kong Standard on Auditing 700 (Revised)*

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# Forming an Opinion and Reporting on Financial Statements

\*\* Conforming amendments have been made to this HKSA as a result of HKSA 800 (Revised) and HKSA 805 (Revised) issued in Update 188, and will become effective for audits of financial statements for periods ending on or after 15 December 2016. The conforming amendments are marked up and shaded for easy reference.

\* Changes have been made to this HKSA as a result of the Disclosures project (Addressing Disclosures in the Audit of Financial Statements) developed by the International Auditing and Assurance Standards Board. These changes will become effective for audits of financial statements for periods ending on or after 15 December 2016. The changes are marked up for easy reference.



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## Introduction

### Scope of this HKSA

1. This Hong Kong Standard on Auditing (HKSA) deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements.
2. HKSA 701<sup>1</sup> deals with the auditor's responsibility to communicate key audit matters in the auditor's report. HKSA 705<sup>2</sup> (Revised) and HKSA 706<sup>3</sup> (Revised) deal with how the form and content of the auditor's report are affected when the auditor expresses a modified opinion or includes an Emphasis of Matter paragraph or an Other Matter paragraph in the auditor's report. Other HKSAs also contain reporting requirements that are applicable when issuing an auditor's report.
3. This HKSA applies to an audit of a complete set of general purpose financial statements and is written in that context. HKSA 800 (Revised)<sup>4</sup> deals with special considerations when financial statements are prepared in accordance with a special purpose framework. HKSA 805 (Revised)<sup>5</sup> deals with special considerations relevant to an audit of a single financial statement or of a specific element, account or item of a financial statement. This HKSA also applies to audits for which HKSA 800 (Revised) or HKSA 805 (Revised) apply.
4. The requirements of this HKSA are aimed at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally and the need to increase the value of auditor reporting by making the information provided in the auditor's report more relevant to users. This HKSA promotes consistency in the auditor's report, but recognizes the need for flexibility to accommodate particular circumstances of individual jurisdictions. Consistency in the auditor's report, when the audit has been conducted in accordance with HKSAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. It also helps to promote the user's understanding and to identify unusual circumstances when they occur.

### Effective Date

5. This HKSA is effective for audits of financial statements for periods ending on or after 15 December 2016.

### Objectives

6. The objectives of the auditor are:
  - (a) To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and

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<sup>1</sup> HKSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>2</sup> HKSA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

<sup>3</sup> HKSA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

<sup>4</sup> HKSA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

<sup>5</sup> HKSA 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

## Name of the Engagement Partner

46. The name of the engagement partner shall be included in the auditor's report ~~for audits of complete sets of general purpose on~~ financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat. In the rare circumstances that the auditor intends not to include the name of the engagement partner in the auditor's report, the auditor shall discuss this intention with those charged with governance to inform the auditor's assessment of the likelihood and severity of a significant personal security threat. (Ref: Para. A56–A58)

## Signature of the Auditor

47. The auditor's report shall be signed. (Ref: Para. A59–A60)

## Auditor's Address

48. The auditor's report shall name the location in the jurisdiction where the auditor practices.

## Date of the Auditor's Report

49. The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that: (Ref: Para. A61–A64)
- (a) All the statements and disclosures that comprise the financial statements, ~~including the related notes~~, have been prepared; and
  - (b) Those with the recognized authority have asserted that they have taken responsibility for those financial statements.

*Auditor's Report Prescribed by Law or Regulation*

50. If the auditor is required by law or regulation of a specific jurisdiction to use a specific layout, or wording of the auditor's report, the auditor's report shall refer to Hong Kong Standards on Auditing only if the auditor's report includes, at a minimum, each of the following elements: (Ref: Para. A65–A66)
- (a) A title.
  - (b) An addressee, as required by the circumstances of the engagement.
  - (c) An Opinion section containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the jurisdiction of origin of the financial reporting framework that is not Hong Kong Financial Reporting Standards, see paragraph 26).
  - (d) An identification of the entity's financial statements that have been audited.
  - (e) A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the Code.
  - (f) Where applicable, a section that addresses, and is not inconsistent with, the reporting requirements in paragraph 22 of HKSA 570 (Revised).

guidance on the auditor's responsibilities with respect to specific additional reporting responsibilities in that jurisdiction.

- A54. In some cases, the relevant law or regulation may require or permit the auditor to report on these other responsibilities as part of their auditor's report on the financial statements. In other cases, the auditor may be required or permitted to report on them in a separate report.
- A55. Paragraphs 43–45 of this HKSA permit combined presentation of other reporting responsibilities and the auditor's responsibilities under the HKSA's only when they address the same topics and the wording of the auditor's report clearly differentiates the other reporting responsibilities from those under the HKSA's. Such clear differentiation may make it necessary for the auditor's report to refer to the source of the other reporting responsibilities and to state that such responsibilities are beyond those required under the HKSA's. Otherwise, other reporting responsibilities are required to be addressed in a separate section in the auditor's report with a heading "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section. In such cases, paragraph 45 requires the auditor to include reporting responsibilities under the HKSA's under a heading titled "Report on the Audit of the Financial Statements."

Name of the Engagement Partner (Ref: Para. 46)

- A56. HKSQC 1<sup>36</sup> requires that the firm establish policies and procedures to provide reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements. Notwithstanding these HKSQC 1 requirements, naming the engagement partner in the auditor's report is intended to provide further transparency to the users of the auditor's report ~~of a complete set of general purpose~~ financial statements of a listed entity.
- A57. Law, regulation or HKSA's may require that the auditor's report include the name of the engagement partner responsible for audits other than those of ~~complete sets of general purpose~~ financial statements of listed entities. The auditor may also be required by law, regulation or HKSA's, or may decide to include additional information beyond the engagement partner's name in the auditor's report to further identify the engagement partner, for example, the engagement partner's professional license number that is relevant to the jurisdiction where the auditor practices.
- A58. In rare circumstances, the auditor may identify information or be subject to experiences that indicate the likelihood of a personal security threat that, if the identity of the engagement partner is made public, may result in physical harm to the engagement partner, other engagement team members or other closely related individuals. However, such a threat does not include, for example, threats of legal liability or legal, regulatory or professional sanctions. Discussions with those charged with governance about circumstances that may result in physical harm may provide additional information about the likelihood or severity of the significant personal security threat. Law, regulation or HKSA's may establish further requirements that are relevant to determining whether the disclosure of the name of the engagement partner may be omitted.

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<sup>36</sup> HKSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, paragraph 32

HKSA 705 (Revised)  
Issued August 2015; revised January 2016\*, August 2016

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

*Hong Kong Standard on Auditing 705 (Revised)*

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# Modifications to the Opinion in the Independent Auditor's Report

\* Conforming amendments have been made to this HKSA as a result of the changes to the other HKSAs for "Addressing Disclosures in the Audit of Financial Statements". These amendments will become effective at the same time as the changes to the other HKSAs, which is for audits of financial statements for periods ending on or after 15 December 2016. The amendments are marked up for easy reference.



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*Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement*

11. If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor shall request that management remove the limitation.
12. If management refuses to remove the limitation referred to in paragraph 11 of this HKSA, the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity,<sup>2</sup> and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
13. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:
  - (a) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or
  - (b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:
    - (i) Withdraw from the audit, where practicable and possible under applicable law or regulation; or (Ref: Para. A13)
    - (ii) If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements. (Ref: Para. A14)
14. If the auditor withdraws as contemplated by paragraph 13(b)(i), before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion. (Ref: Para. A15)

*Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion*

15. When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements as a whole, the auditor's report shall not also include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts or items of a financial statement. To include such an unmodified opinion in the same report<sup>3</sup> in these circumstances would contradict the auditor's adverse opinion or disclaimer of opinion on the financial statements as a whole. (Ref: Para. A16)

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<sup>2</sup> HKSA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 13

<sup>3</sup> HKSA 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, deals with circumstances where the auditor is engaged to express a separate opinion on one or more specific elements, accounts or items of a financial statement.



HKSA 706 (Revised)  
Issued August 2015; revised August 2016

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

*Hong Kong Standard on Auditing 706 (Revised)*

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# **Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report**



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#### Reporting on more than one set of financial statements

A13. An entity may prepare one set of financial statements in accordance with a general purpose framework (e.g., Hong Kong Financial Reporting Standards) and another set of financial statements in accordance with another general purpose framework (e.g., International Financial Reporting Standards), and engage the auditor to report on both sets of financial statements. If the auditor has determined that the frameworks are acceptable in the respective circumstances, the auditor may include an Other Matter paragraph in the auditor's report, referring to the fact that another set of financial statements has been prepared by the same entity in accordance with another general purpose framework and that the auditor has issued a report on those financial statements.

#### Restriction on distribution or use of the auditor's report

A14. Financial statements prepared for a specific purpose may be prepared in accordance with a general purpose framework because the intended users have determined that such general purpose financial statements meet their financial information needs. Since the auditor's report is intended for specific users, the auditor may consider it necessary in the circumstances to include an Other Matter paragraph, stating that the auditor's report is intended solely for the intended users, and should not be distributed to or used by other parties.

#### *Including an Other Matter Paragraph in the Auditor's Report*

A15. The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the financial statements. An Other Matter paragraph does not include information that the auditor is prohibited from providing by law, regulation or other professional standards, for example, ethical standards relating to confidentiality of information. An Other Matter paragraph also does not include information that is required to be provided by management.

#### **Placement of Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Auditor's Report** (Ref: Para. 9, 11)

A16. The placement of an Emphasis of Matter paragraph or Other Matter paragraph in the auditor's report depends on the nature of the information to be communicated, and the auditor's judgment as to the relative significance of such information to intended users compared to other elements required to be reported in accordance with HKSA 700 (Revised). For example:

##### *Emphasis of Matter Paragraphs*

- When the Emphasis of Matter paragraph relates to the applicable financial reporting framework, including circumstances where the auditor determines that the financial reporting framework prescribed by law or regulation would otherwise be unacceptable,<sup>12</sup> the auditor may consider it necessary to place the paragraph immediately following the Basis of Opinion section to provide appropriate context to the auditor's opinion.
- When a Key Audit Matters section is presented in the auditor's report, an Emphasis of Matter paragraph may be presented either directly before or after the Key Audit Matters section, based on the auditor's judgment as to the relative significance of the information

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<sup>12</sup> For example, as required by HKSA 210, *Agreeing the Terms of Audit Engagements*, paragraph 19 and HKSA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, paragraph 14

## Appendix 1

(Ref: Para. 4, A4)

### List of HKSAs Containing Requirements for Emphasis of Matter Paragraphs

This appendix identifies paragraphs in other HKSAs that require the auditor to include an Emphasis of Matter paragraph in the auditor's report in certain circumstances. The list is not a substitute for considering the requirements and related application and other explanatory material in HKSAs.

- HKSA 210, *Agreeing the Terms of Audit Engagements* – paragraph 19(b)
- HKSA 560, *Subsequent Events* – paragraphs 12(b) and 16
- HKSA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks* – paragraph 14

## Appendix 2

(Ref: Para. 4)

### List of HKSAs Containing Requirements for Other Matter Paragraphs

This appendix identifies paragraphs in other HKSAs that require the auditor to include an Other Matter paragraph in the auditor's report in certain circumstances. The list is not a substitute for considering the requirements and related application and other explanatory material in HKSAs.

- HKSA 560, *Subsequent Events* – paragraphs 12(b) and 16
- HKSA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements* – paragraphs 13–14, 16–17 and 19

HKSA 720 (Revised)  
Issued August 2015; revised August 2016

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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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changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 20X1, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

### **Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

The directors<sup>42</sup> are responsible for the other information. The other information comprises the [information included in the X report,<sup>43</sup> but does not include the financial statements and our auditor's report thereon.]

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described below, we have concluded that such a material misstatement of the other information exists.

*[Description of material misstatement of the other information]*

### **[Key Audit Matters<sup>44</sup>**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*[Description of each key audit matter in accordance with HKSA 701.]*

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<sup>42</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

<sup>43</sup> A more specific description of the other information, such as "the directors' report and chairman's statement," may be used to identify the other information.

<sup>44</sup> The Key Audit Matters section is required for listed entities only.

HKSA 800 (Revised)  
Issued August 2016

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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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## HONG KONG STANDARD ON AUDITING 800 (REVISED)

### SPECIAL CONSIDERATIONS—AUDITS OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH SPECIAL PURPOSE FRAMEWORKS

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

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Appendix: Illustrations of Independent Auditor's Reports on Special Purpose Financial Statements	

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<p>Hong Kong Standard on Auditing (HKSA) 800 (Revised), <i>Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks</i> should be read in conjunction with HKSA 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing</i>.</p>
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## Introduction

### Scope of this HKSA

1. The Hong Kong Standards on Auditing (HKSA) in the 100-700 series apply to an audit of financial statements. This HKSA deals with special considerations in the application of those HKSA to an audit of financial statements prepared in accordance with a special purpose framework.
2. This HKSA is written in the context of a complete set of financial statements prepared in accordance with a special purpose framework. HKSA 805 (Revised)<sup>1</sup> deals with special considerations relevant to an audit of a single financial statement or of a specific element, account or item of a financial statement.
3. This HKSA does not override the requirements of the other HKSA; nor does it purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

### Effective Date

4. This HKSA is effective for audits of financial statements for periods ending on or after 15 December 2016.

### Objective

5. The objective of the auditor, when applying HKSA in an audit of financial statements prepared in accordance with a special purpose framework, is to address appropriately the special considerations that are relevant to:
  - (a) The acceptance of the engagement;
  - (b) The planning and performance of that engagement; and
  - (c) Forming an opinion and reporting on the financial statements.

### Definitions

6. For purposes of the HKSA, the following terms have the meanings attributed below:
  - (a) Special purpose financial statements – Financial statements prepared in accordance with a special purpose framework.<sup>1a</sup> (Ref: Para. A4)
  - (b) 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>2</sup> (Ref: Para. A1-A4)

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<sup>1</sup> HKSA 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.

<sup>1a</sup> Special purpose financial statements are prepared in accordance with a framework other than a general purpose framework.

<sup>2</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(a).

7. Reference to "financial statements" in this HKSA means "a complete set of special purpose financial statements." The requirements of the applicable financial reporting framework determine the presentation, structure, and content of the financial statements, and what constitutes a complete set of financial statements. Reference to "special purpose financial statements" includes the related disclosures.

## Requirements

### Considerations When Accepting the Engagement

#### *Acceptability of the Financial Reporting Framework*

8. HKSA 210 requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements.<sup>3</sup> In an audit of special purpose financial statements, the auditor shall obtain an understanding of: (Ref: Para. A5-A8)
- (a) The purpose for which the financial statements are prepared;
  - (b) The intended users; and
  - (c) The steps taken by management to determine that the applicable financial reporting framework is acceptable in the circumstances.

### Considerations When Planning and Performing the Audit

9. HKSA 200 requires the auditor to comply with all HKSAs relevant to the audit.<sup>4</sup> In planning and performing an audit of special purpose financial statements, the auditor shall determine whether application of the HKSAs requires special consideration in the circumstances of the engagement. (Ref: Para. A9-A12)
10. HKSA 315 (Revised) requires the auditor to obtain an understanding of the entity's selection and application of accounting policies.<sup>5</sup> In the case of financial statements prepared in accordance with the provisions of a contract, the auditor shall obtain an understanding of any significant interpretations of the contract that management made in the preparation of those financial statements. An interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in the information presented in the financial statements.

### Forming an Opinion and Reporting Considerations

11. When forming an opinion and reporting on special purpose financial statements, the auditor shall apply the requirements in HKSA 700 (Revised).<sup>6</sup> (Ref: Para. A13–A19)

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<sup>3</sup> HKSA 210, *Agreeing the Terms of Audit Engagements*, paragraph 6(a).

<sup>4</sup> HKSA 200, paragraph 18.

<sup>5</sup> HKSA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 11(c).

<sup>6</sup> HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*.

### *Description of the Applicable Financial Reporting Framework*

12. HKSA 700 (Revised) requires the auditor to evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework.<sup>7</sup> In the case of financial statements prepared in accordance with the provisions of a contract, the auditor shall evaluate whether the financial statements adequately describe any significant interpretations of the contract on which the financial statements are based.
13. HKSA 700 (Revised) deals with the form and content of the auditor's report, including the specific ordering for certain elements. In the case of an auditor's report on special purpose financial statements:
  - (a) The auditor's report shall also describe the purpose for which the financial statements are prepared and, if necessary, the intended users, or refer to a note in the special purpose financial statements that contains that information; and
  - (b) If management has a choice of financial reporting frameworks in the preparation of such financial statements, the explanation of management's<sup>8</sup> responsibility for the financial statements shall also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.

### *Alerting Readers that the Financial Statements Are Prepared in Accordance with a Special Purpose Framework*

14. The auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose. (Ref: Para. A20-A21)

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

15. As of August 2016 (date of issue), this HKSA conforms with International Standard on Auditing (ISA) 800 (Revised) *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*. Compliance with the requirements of this HKSA ensures compliance with ISA 800 (Revised).
16. Additional local explanations and guidance are provided in footnote 1a and Appendix.

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## **Application and Other Explanatory Material**

### **Definition of Special Purpose Framework** (Ref: Para. 6)

- A1. Examples of special purpose frameworks are:
  - A tax basis of accounting for a set of financial statements that accompany an entity's tax return;
  - The cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for creditors;

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<sup>7</sup> HKSA 700 (Revised), paragraph 15.

<sup>8</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

- The financial reporting provisions established by a regulator to meet the requirements of that regulator; or
  - The financial reporting provisions of a contract, such as a bond indenture, a loan agreement, or a project grant.
- A2. There may be circumstances where a special purpose framework is based on a financial reporting framework established by an authorized or recognized standards setting organization or by law or regulation, but does not comply with all the requirements of that framework. An example is a contract that requires financial statements to be prepared in accordance with most, but not all, of the Financial Reporting Standards of Jurisdiction X. When this is acceptable in the circumstances of the engagement, it is inappropriate for the description of the applicable financial reporting framework in the special purpose financial statements to imply full compliance with the financial reporting framework established by the authorized or recognized standards setting organization or by law or regulation. In the above example of the contract, the description of the applicable financial reporting framework may refer to the financial reporting provisions of the contract, rather than make any reference to the Financial Reporting Standards of Jurisdiction X.
- A3. In the circumstances described in paragraph A2, the special purpose framework may not be a fair presentation framework even if the financial reporting framework on which it is based is a fair presentation framework. This is because the special purpose framework may not comply with all the requirements of the financial reporting framework established by the authorized or recognized standards setting organization or by law or regulation that are necessary to achieve fair presentation of the financial statements.
- A4. Financial statements prepared in accordance with a special purpose framework may be the only financial statements an entity prepares. In such circumstances, those financial statements may be used by users other than those for whom the financial reporting framework is designed. Despite the broad distribution of the financial statements in those circumstances, the financial statements are still considered to be special purpose financial statements for purposes of the HKSAs. The requirements in paragraphs 13-14 are designed to avoid misunderstandings about the purpose for which the financial statements are prepared. Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework,<sup>9</sup> on the face of financial statements, or in the notes, or incorporated therein by cross-reference.

## Considerations When Accepting the Engagement

### *Acceptability of the Financial Reporting Framework* (Ref: Para. 8)

- A5. In the case of special purpose financial statements, the financial information needs of the intended users are a key factor in determining the acceptability of the financial reporting framework applied in the preparation of the financial statements.
- A6. The applicable financial reporting framework may encompass the financial reporting standards established by an organization that is authorized or recognized to promulgate standards for special purpose financial statements. In that case, those standards will be presumed acceptable for that purpose if the organization follows an established and transparent process involving deliberation and consideration of the views of relevant

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<sup>9</sup> HKSA 200, paragraph 13(f)

stakeholders. In some jurisdictions, law or regulation may prescribe the financial reporting framework to be used by management in the preparation of special purpose financial statements for a certain type of entity. For example, a regulator may establish financial reporting provisions to meet the requirements of that regulator. In the absence of indications to the contrary, such a financial reporting framework is presumed acceptable for special purpose financial statements prepared by such entity.

- A7. Where the financial reporting standards referred to in paragraph A6 are supplemented by legislative or regulatory requirements, HKSA 210 requires the auditor to determine whether any conflicts between the financial reporting standards and the additional requirements exist, and prescribes actions to be taken by the auditor if such conflicts exist.<sup>10</sup>
- A8. The applicable financial reporting framework may encompass the financial reporting provisions of a contract, or sources other than those described in paragraphs A6 and A7. In that case, the acceptability of the financial reporting framework in the circumstances of the engagement is determined by considering whether the framework exhibits attributes normally exhibited by acceptable financial reporting frameworks as described in Appendix 2 of HKSA 210. In the case of a special purpose framework, the relative importance to a particular engagement of each of the attributes normally exhibited by acceptable financial reporting frameworks is a matter of professional judgment. For example, for purposes of establishing the value of net assets of an entity at the date of its sale, the vendor and the purchaser may have agreed that very prudent estimates of allowances for uncollectible accounts receivable are appropriate for their needs, even though such financial information is not neutral when compared with financial information prepared in accordance with a general purpose framework.

#### **Considerations When Planning and Performing the Audit (Ref: Para. 9)**

- A9. HKSA 200 requires the auditor to comply with (a) relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements, and (b) all HKSAs relevant to the audit. It also requires the auditor to comply with each requirement of an HKSA unless, in the circumstances of the audit, the entire HKSA is not relevant or the requirement is not relevant because it is conditional and the condition does not exist. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an HKSA by performing alternative audit procedures to achieve the aim of that requirement.<sup>11</sup>
- A10. Application of some of the requirements of the HKSAs in an audit of special purpose financial statements may require special consideration by the auditor. For example, in HKSA 320, judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group.<sup>12</sup> In the case of an audit of special purpose financial statements, however, those judgments are based on a consideration of the financial information needs of the intended users.
- A11. In the case of special purpose financial statements, such as those prepared in accordance with the requirements of a contract, management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold does not relieve the auditor from the requirement to determine materiality in accordance with HKSA 320 for purposes of planning and performing the audit of the special purpose financial statements.

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<sup>10</sup> HKSA 210, paragraph 18.

<sup>11</sup> HKSA 200, paragraphs 14, 18, and 22-23.

<sup>12</sup> HKSA 320, *Materiality in Planning and Performing an Audit*, paragraph 2.

- A12. HKSA 260 (Revised) requires the auditor to determine the appropriate person(s) within the entity's governance structure with whom to communicate.<sup>13</sup> HKSA 260 (Revised) notes that, in some cases, all of those charged with governance are involved in managing the entity, and the application of the communication requirements is modified to recognize this position.<sup>14</sup> When a complete set of general purpose financial statements is also prepared by the entity, those person(s) responsible for the oversight of the preparation of the special purpose financial statements may not be the same as those charged with governance responsible for the oversight of the preparation of those general purpose financial statements.

#### **Forming an Opinion and Reporting Considerations (Ref: Para. 11)**

- A13. The Appendix to this HKSA contains illustrations of independent auditor's reports on special purpose financial statements. Other illustrations of auditor's reports may be relevant to reporting on special purpose financial statements (see for example, the Appendices to HKSA 700 (Revised), HKSA 705 (Revised),<sup>15</sup> HKSA 570 (Revised),<sup>16</sup> HKSA 720 (Revised), and HKSA 706 (Revised)).<sup>17</sup>

#### *Application of HKSA 700 (Revised) When Reporting on Special Purpose Financial Statements*

- A14. Paragraph 11 of this HKSA explains that the auditor is required to apply HKSA 700 (Revised) when forming an opinion and reporting on special purpose financial statements. In doing so, the auditor is also required to apply the reporting requirements in other HKSAs and may find the special considerations addressed in paragraphs A15–A19 below helpful.

#### **Going Concern**

- A15. Special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant (e.g., the going concern basis of accounting is not relevant for some financial statements prepared on a tax basis in particular jurisdictions).<sup>18</sup> Depending on the applicable financial reporting framework used in the preparation of the special purpose financial statements, the description in the auditor's report of management's responsibilities<sup>19</sup> relating to going concern may need to be adapted as necessary. The description in the auditor's report of the auditor's responsibilities<sup>20</sup> may also need to be adapted as necessary depending on how HKSA 570 (Revised) applies in the circumstances of the engagement.

#### **Key Audit Matters**

- A16. HKSA 700 (Revised) requires the auditor to communicate key audit matters in accordance with HKSA 701<sup>21</sup> for audits of complete sets of general purpose financial statements of listed entities. For audits of special purpose financial statements, HKSA 701 only applies when communication of key audit matters in the auditor's report on the special purpose financial

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<sup>13</sup> HKSA 260 (Revised), *Communication with Those Charged with Governance*.

<sup>14</sup> HKSA 260 (Revised), paragraph A8

<sup>15</sup> HKSA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

<sup>16</sup> HKSA 570 (Revised), *Going Concern*

<sup>17</sup> HKSA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

<sup>18</sup> HKSA 570 (Revised), *Going Concern*, paragraph 2

<sup>19</sup> See HKSA 700 (Revised), paragraphs 34(b) and A43.

<sup>20</sup> See HKSA 700 (Revised), paragraph 39(b)(iv).

<sup>21</sup> HKSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*



statements is required by law or regulation or the auditor otherwise decides to communicate key audit matters. When key audit matters are communicated in the auditor's report on special purpose financial statements, HKSA 701 applies in its entirety.<sup>22</sup>

#### Other Information

A17. HKSA 720 (Revised)<sup>23</sup> deals with the auditor's responsibilities relating to other information. In the context of this HKSA, reports containing or accompanying the special purpose financial statements—the purpose of which is to provide owners (or similar stakeholders) with information on matters presented in the special purpose financial statements—are considered to be annual reports for the purpose of HKSA 720 (Revised). In the case of financial statements prepared using a special purpose framework, the term "similar stakeholders" includes the specific users whose financial information needs are met by the design of the special purpose framework used to prepare the special purpose financial statements. When the auditor determines that the entity plans to issue such a report, the requirements in HKSA 720 (Revised) apply to the audit of the special purpose financial statements.

#### Name of the Engagement Partner

A18. The requirement in HKSA 700 (Revised) for the auditor to include the name of the engagement partner in the auditor's report also applies to audits of special purpose financial statements of listed entities.<sup>24</sup> The auditor may be required by law or regulation to include the name of the engagement partner in the auditor's report or may otherwise decide to do so when reporting on special purpose financial statements of entities other than listed entities.

#### *Inclusion of a Reference to the Auditor's Report on the Complete Set of General Purpose Financial Statements*

A19. The auditor may deem it appropriate to refer, in an Other Matter paragraph in the auditor's report on the special purpose financial statements, to the auditor's report on the complete set of general purpose financial statements or to matter(s) reported therein (see HKSA 706 (Revised)).<sup>25</sup> For example, the auditor may consider it appropriate to refer in the auditor's report on the special purpose financial statements to a Material Uncertainty Related to Going Concern section included in the auditor's report on the complete set of general purpose financial statements.

#### *Alerting Readers that the Financial Statements Are Prepared in Accordance with a Special Purpose Framework* (Ref: Para. 14)

A20. The special purpose financial statements may be used for purposes other than those for which they were intended. For example, a regulator may require certain entities to place the special purpose financial statements on public record. To avoid misunderstandings, the auditor alerts users of the auditor's report by including an Emphasis of Matter paragraph explaining that the financial statements are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose. HKSA 706 (Revised) requires this paragraph to be included within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter".<sup>26</sup>

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<sup>22</sup> HKSA 700 (Revised), paragraph 31

<sup>23</sup> HKSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

<sup>24</sup> See HKSA 700 (Revised), paragraphs 46 and A56–A58

<sup>25</sup> See HKSA 706 (Revised), paragraphs 10–11.

<sup>26</sup> See paragraph 9(a) of HKSA 706 (Revised)

*Restriction on Distribution or Use* (Ref: Para. 14)

- A21. In addition to the alert required by paragraph 14, the auditor may consider it appropriate to indicate that the auditor's report is intended solely for the specific users. Depending on the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the auditor's report. In these circumstances, the paragraph referred to in paragraph 14 may be expanded to include these other matters, and the heading modified accordingly (see illustrations in the Appendix to this HKSA).

## Appendix

(Ref: Para. A14)

### Illustrations of Independent Auditor's Reports on Special Purpose Financial Statements

- Illustration 1: An auditor's report on a complete set of financial statements of an entity other than a listed entity prepared in accordance with the financial reporting provisions of a contract (for purposes of this illustration, a compliance framework).
- Illustration 2: An auditor's report on a complete set of financial statements of an entity other than a listed entity prepared in accordance with the tax basis of accounting in Jurisdiction X (for purposes of this illustration, a compliance framework).
- Illustration 3: An auditor's report on a complete set of financial statements of a listed entity prepared in accordance with the financial reporting provisions established by a regulator (for purposes of this illustration, a fair presentation framework).

Illustration 1: An auditor's report on a complete set of financial statements of an entity other than a listed entity prepared in accordance with the financial reporting provisions of a contract (for purposes of this illustration, a compliance framework).

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- The financial statements have been prepared by management of the entity in accordance with the financial reporting provisions of a contract (that is, a special purpose framework). Management does not have a choice of financial reporting frameworks.
- The applicable financial reporting framework is a compliance framework.
- An auditor's report on the complete set of general purpose financial statements was not issued.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in HKSA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with HKSA 570 (Revised).
- Distribution and use of the auditor's report are restricted.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701.
- The auditor has determined that there is no other information (i.e., the requirements of HKSA 720 (Revised) do not apply).
- Those responsible for oversight of the financial reporting process differ from those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law or regulation.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

### Opinion

We have audited the financial statements of ABC Company ("the Company") set out on pages ..... to ....., which comprise the [balance sheet][statement of financial position]<sup>1a</sup> as at 31 December 20X1, and the [income statement][statement of comprehensive income]<sup>1a</sup>, statement of changes in equity and [cash flow statement][statement of cash flows]<sup>1a</sup> for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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<sup>1a</sup> Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

In our opinion, the financial statements of the Company for the year ended 31 December 20X1 are prepared, in all material respects, in accordance with the financial reporting provisions of Section Z of the contract dated 1 January 20X1 between the Company and DEF Company ("the contract").

### **Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use**

We draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Company in complying with the financial reporting provisions of the contract referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Company and DEF Company and should not be distributed to or used by parties other than the Company or DEF Company.<sup>1b</sup> Our opinion is not modified in respect of this matter.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements<sup>1</sup>**

Management is responsible for the preparation of the financial statements in accordance with the financial reporting provisions of Section Z of the contract and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA 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.

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<sup>1b</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 "Auditor's Duty of Care To Third Parties and The Audit Report".

<sup>1</sup> Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

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 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>2</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.

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.

XYZ & Co.

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

[Auditor address]

[Date]

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<sup>2</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.

Illustration 2: An auditor's report on a complete set of financial statements of an entity other than a listed entity prepared in accordance with the tax basis of accounting in Jurisdiction X (for purposes of this illustration, a compliance framework).

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements that have been prepared by management of a partnership in accordance with the tax basis of accounting in Jurisdiction X (that is, a special purpose framework) to assist the partners in preparing their individual income tax returns. Management does not have a choice of financial reporting frameworks.
- The applicable financial reporting framework is a compliance framework.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in HKSA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with HKSA 570 (Revised).
- Distribution of the auditor's report is restricted.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701.
- The auditor has determined that there is no other information (i.e., the requirements of HKSA 720 (Revised) do not apply).
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law or regulation.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

### Opinion

We have audited the financial statements of ABC Partnership ("the Partnership") set out on pages ..... to ....., which comprise the [balance sheet][statement of financial position]<sup>2a</sup> as at 31 December 20X1 and the [income statement][statement of comprehensive income]<sup>2a</sup> for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

In our opinion, the financial statements of the Partnership for the year ended 31 December 20X1 are prepared, in all material respects, in accordance with [describe the applicable income tax law] of Jurisdiction X.

### **Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Partnership in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter - Basis of Accounting and Restriction on Distribution**

We draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the partners of the Partnership in preparing their individual income tax returns. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Partnership and its partners and should not be distributed to parties other than the Partnership or its partners.<sup>2b</sup> Our opinion is not modified in respect of this matter.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements<sup>3</sup>**

Management is responsible for the preparation of the financial statements in accordance with the tax basis of accounting in Jurisdiction X and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Partnership's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Partnership or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Partnership's financial reporting process.

### **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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA 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.

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<sup>2b</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 "Auditor's Duty of Care To Third Parties and The Audit Report".

<sup>3</sup> Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction.



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 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.<sup>4</sup>
- 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 Partnership's internal control.
- 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 Partnership'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 Partnership 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.

XYZ & Co.

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

[Auditor address]

[Date]

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<sup>4</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.

Illustration 3: An auditor's report on a complete set of financial statements of a listed entity prepared in accordance with the financial reporting provisions established by a regulator (for purposes of this illustration, a fair presentation framework).

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- Audit of a complete set of financial statements of a listed entity that have been prepared by management of the entity in accordance with the financial reporting provisions established by a regulator (that is, a special purpose framework) to meet the requirements of that regulator. Management does not have a choice of financial reporting frameworks.
- The applicable financial reporting framework is a fair presentation framework.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in HKSA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that 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 in accordance with HKSA 570 (Revised). The disclosure of the material uncertainty in the financial statements is adequate.
- Distribution or use of the auditor's report is not restricted.
- The auditor is required by the regulator to communicate key audit matters in accordance with HKSA 701.
- The auditor has determined that there is no other information (i.e., the requirements of HKSA 720 (Revised)) do not apply).
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law or regulation.

## INDEPENDENT AUDITOR'S REPORT

[To the Shareholders of ABC Company or Appropriate Addressee]

### Opinion

We have audited the financial statements of ABC Company ("the Company") set out on pages ..... to ....., which comprise the [balance sheet][statement of financial position]<sup>4a</sup> as at 31 December 20X1, and the [income statement][statement of comprehensive income]<sup>4a</sup>, statement of changes in equity and [cash flow statement][statement of cash flows]<sup>4a</sup> for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. In our opinion, the

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<sup>4a</sup> Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at 31 December 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with the financial reporting provisions of Section Y of Regulation Z.

### **Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter - Basis of Accounting**

We draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Company to meet the requirements of Regulator DEF. As a result, the financial statements may not be suitable for another purpose.<sup>4b</sup> Our opinion is not modified in respect of this matter.

### **Material Uncertainty Related to Going Concern**

We draw attention to Note 6 in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended 31 December 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note 6, these events or conditions, along with other matters as set forth in Note 6, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section above, we have determined the matters described below to be key audit matters to be communicated in our report.

*[Description of each key audit matter in accordance with HKSA 701 as applied to this audit.]*

### **Other Matter**

The Company has prepared a separate set of financial statements for the year ended 31 December 20X1 in accordance with Hong Kong Financial Reporting Standards on which we issued a separate auditor's report to the shareholders of the Company dated 31 March 20X2.

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<sup>4b</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 "Auditor's Duty of Care To Third Parties and The Audit Report".

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**<sup>5</sup>

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting provisions of Section Y of Regulation Z<sup>6</sup> and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **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. 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 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 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 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.

<sup>5</sup> Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction.

<sup>6</sup> Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting provisions of section Y of Regulation Z, and for such ..."

<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.

- 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, related safeguards.

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]

HKSA 805 (Revised)  
Issued August 2016

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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**



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

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## HONG KONG STANDARD ON AUDITING 805 (REVISED)

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

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

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Hong Kong Standard on Auditing (HKSA) 805 (Revised), <i>Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i> should be read in conjunction with HKSA 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing</i> .
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## Introduction

### Scope of this HKSA

1. The Hong Kong Standards on Auditing (HKSA) in the 100-700 series apply to an audit of financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. This HKSA deals with special considerations in the application of those HKSA to an audit of a single financial statement or of a specific element, account or item of a financial statement. The single financial statement or the specific element, account or item of a financial statement may be prepared in accordance with a general or special purpose framework. If prepared in accordance with a special purpose framework, HKSA 800 (Revised)<sup>1</sup> also applies to the audit. (Ref: Para. A1-A4)
2. This HKSA does not apply to the report of a component auditor, issued as a result of work performed on the financial information of a component at the request of a group engagement team for purposes of an audit of group financial statements (see HKSA 600<sup>2</sup>).
3. This HKSA does not override the requirements of the other HKSA; nor does it purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

### Effective Date

4. This HKSA is effective for audits of single financial statements or of specific elements, accounts or items for periods ending on or after 15 December 2016. In the case of audits of single financial statements or of specific elements, accounts or items of a financial statement as at a specific date, this HKSA is effective for audits of such information as at a date on or after 15 December 2016.

## Objective

5. The objective of the auditor, when applying HKSA in an audit of a single financial statement or of a specific element, account or item of a financial statement, is to address appropriately the special considerations that are relevant to:
  - (a) The acceptance of the engagement;
  - (b) The planning and performance of that engagement; and
  - (c) Forming an opinion and reporting on the single financial statement or on the specific element, account or item of a financial statement.

## Definitions

6. For purposes of this HKSA, reference to:
  - (a) "Element of a financial statement" or "element" means an "element, account or item of a financial statement;"

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<sup>1</sup> HKSA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

<sup>2</sup> HKSA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

- (b) "Hong Kong Financial Reporting Standards" means the Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants; and
- (c) A single financial statement or to a specific element of a financial statement includes the related disclosures. (Ref: Para. A2)

## Requirements

### Considerations When Accepting the Engagement

#### *Application of HKSAs*

7. HKSA 200 requires the auditor to comply with all HKSAs relevant to the audit.<sup>3</sup> In the case of an audit of a single financial statement or of a specific element of a financial statement, this requirement applies irrespective of whether the auditor is also engaged to audit the entity's complete set of financial statements. If the auditor is not also engaged to audit the entity's complete set of financial statements, the auditor shall determine whether the audit of a single financial statement or of a specific element of those financial statements in accordance with HKSAs is practicable. (Ref: Para. A5-A6)

#### *Acceptability of the Financial Reporting Framework*

8. HKSA 210 requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements.<sup>4</sup> In the case of an audit of a single financial statement or of a specific element of a financial statement, this shall include whether application of the financial reporting framework will result in a presentation that provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the element, and the effect of material transactions and events on the information conveyed in the financial statement or the element. (Ref: Para. A7)

#### *Form of Opinion*

9. HKSA 210 requires that the agreed terms of the audit engagement include the expected form of any reports to be issued by the auditor.<sup>5</sup> In the case of an audit of a single financial statement or of a specific element of a financial statement, the auditor shall consider whether the expected form of opinion is appropriate in the circumstances. (Ref: Para. A8-A9)

### Considerations When Planning and Performing the Audit

10. HKSA 200 states that HKSAs are written in the context of an audit of financial statements; they are to be adapted as necessary in the circumstances when applied to audits of other historical financial information.<sup>6, 7</sup> In planning and performing the audit of a single financial statement or of a specific element of a financial statement, the auditor shall adapt all HKSAs relevant to the audit as necessary in the circumstances of the engagement. (Ref: Para. A10-A15)

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<sup>3</sup> HKSA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*, paragraph 18

<sup>4</sup> HKSA 210, *Agreeing the Terms of Audit Engagements*, paragraph 6(a)

<sup>5</sup> HKSA 210, paragraph 10(e)

<sup>6</sup> HKSA 200, paragraph 2

<sup>7</sup> HKSA 200, paragraph 13(f), explains that the term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework.

## Forming an Opinion and Reporting Considerations

11. When forming an opinion and reporting on a single financial statement or on a specific element of a financial statement, the auditor shall apply the requirements in HKSA 700 (Revised),<sup>8</sup> and, when applicable, HKSA 800 (Revised) adapted as necessary in the circumstances of the engagement. (Ref: Para. A16-A22)

### *Reporting on the Entity's Complete Set of Financial Statements and on a Single Financial Statement or on a Specific Element of Those Financial Statements*

12. If the auditor undertakes an engagement to report on a single financial statement or on a specific element of a financial statement in conjunction with an engagement to audit the entity's complete set of financial statements, the auditor shall express a separate opinion for each engagement.
13. The audited single financial statement or the audited specific element of a financial statement may be published together with the entity's audited complete set of financial statements. If the auditor concludes that the presentation of the single financial statement or of the specific element of a financial statement does not differentiate it sufficiently from the complete set of financial statements, the auditor shall ask management to rectify the situation. Subject to paragraphs 15 and 16, the auditor shall also differentiate the opinion on the single financial statement or on the specific element of a financial statement from the opinion on the complete set of financial statements. The auditor shall not issue the auditor's report containing the opinion on the single financial statement or on the specific element of a financial statement until satisfied with the differentiation.

### Considering the Implications of Certain Matters Included in the Auditor's Report on the Entity's Complete Set of Financial Statements for the Audit of the Single Financial Statement or the Specific Element of a Financial Statement and for the Auditor's Report Thereon

14. If the auditor's report on an entity's complete set of financial statements includes:
- (a) A modified opinion in accordance with HKSA 705 (Revised);<sup>9</sup>
  - (b) An Emphasis of Matter paragraph or an Other Matter paragraph in accordance with HKSA 706 (Revised);<sup>10</sup>
  - (c) A Material Uncertainty Related to Going Concern section in accordance with HKSA 570 (Revised);<sup>11</sup>
  - (d) Communication of key audit matters in accordance with HKSA 701;<sup>12</sup> or

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<sup>8</sup> HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

<sup>9</sup> HKSA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

<sup>10</sup> HKSA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

<sup>11</sup> HKSA 570 (Revised), *Going Concern*, paragraph 22

<sup>12</sup> HKSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, paragraph 13

- (e) A statement that describes an uncorrected material misstatement of the other information in accordance with HKSA 720 (Revised),<sup>13</sup>

the auditor shall consider the implications, if any, that these matters have for the audit of the single financial statement or of the specific element of a financial statement and for the auditor's report thereon. (Ref: Para. A23-A27)

#### Adverse Opinion or Disclaimer of Opinion in the Auditor's Report on the Entity's Complete Set of Financial Statements

15. If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole, HKSA 705 (Revised) does not permit the auditor to include in the same auditor's report an unmodified opinion on a single financial statement that forms part of those financial statements or on a specific element of those financial statements.<sup>14</sup> This is because such an unmodified opinion would contradict the adverse opinion or disclaimer of opinion on the entity's complete set of financial statements as a whole. (Ref: Para. A28)
16. If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole but, in the context of a separate audit of a specific element of those financial statements, the auditor nevertheless considers it appropriate to express an unmodified opinion on that element, the auditor shall only do so if:
- (a) The auditor is not prohibited by law or regulation from doing so;
  - (b) That opinion is expressed in an auditor's report that is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion; and
  - (c) The element does not constitute a major portion of the entity's complete set of financial statements.
17. The auditor shall not express an unmodified opinion on a single financial statement of a complete set of financial statements if the auditor has expressed an adverse opinion or disclaimed an opinion on the complete set of financial statements as a whole. This is the case even if the auditor's report on the single financial statement is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion. This is because a single financial statement is deemed to constitute a major portion of those financial statements.

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

18. As of August 2016 (date of issue), this HKSA conforms with International Standard on Auditing (ISA) 805 (Revised) *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*. Compliance with the requirements of this HKSA ensures compliance with ISA 805 (Revised).
19. Additional local guidance is provided in Appendix 2.

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<sup>13</sup> HKSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraph 22(e)(ii)

<sup>14</sup> HKSA 705 (Revised), paragraph 15

## Application and Other Explanatory Material

### Scope of this HKSA (Ref: Para. 1, 6(c))

- A1. HKSA 200 defines the term "historical financial information" as 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.<sup>15</sup>
- A2. HKSA 200 defines the term "financial statements" as 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>16</sup> As noted in paragraph 6(c), reference to a single financial statement or specific element of a financial statement includes the related disclosures.
- A3. HKSAs are written in the context of an audit of financial statements;<sup>17</sup> they are to be adapted as necessary in the circumstances when applied to an audit of other historical financial information, such as a single financial statement or a specific element of a financial statement. This HKSA assists in this regard. (Appendix 1 lists examples of such other historical financial information.)
- A4. A reasonable assurance engagement other than an audit of historical financial information is performed in accordance with Hong Kong Standard on Assurance Engagements (HKSAE) 3000 (Revised).<sup>18</sup>

### Considerations When Accepting the Engagement

#### *Application of HKSAs* (Ref: Para. 7)

- A5. HKSA 200 requires the auditor to comply with (a) relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements, and (b) all HKSAs relevant to the audit. It also requires the auditor to comply with each requirement of an HKSA unless, in the circumstances of the audit, the entire HKSA is not relevant or the requirement is not relevant because it is conditional and the condition does not exist. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an HKSA by performing alternative audit procedures to achieve the aim of that requirement.<sup>19</sup>

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<sup>15</sup> HKSA 200, paragraph 13(g)

<sup>16</sup> HKSA 200, paragraph 13(f)

<sup>17</sup> HKSA 200, paragraph 2

<sup>18</sup> HKSAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

<sup>19</sup> HKSA 200, paragraphs 14, 18, and 22-23

- A6. Compliance with the requirements of HKSAs relevant to the audit of a single financial statement or of a specific element of a financial statement may not be practicable when the auditor is not also engaged to audit the entity's complete set of financial statements. In such cases, the auditor often does not have the same understanding of the entity and its environment, including its internal control, as an auditor who also audits the entity's complete set of financial statements. The auditor also does not have the audit evidence about the general quality of the accounting records or other accounting information that would be acquired in an audit of the entity's complete set of financial statements. Accordingly, the auditor may need further evidence to corroborate audit evidence acquired from the accounting records. In the case of an audit of a specific element of a financial statement, certain HKSAs require audit work that may be disproportionate to the element being audited. For example, although the requirements of HKSA 570 (Revised) are likely to be relevant in the circumstances of an audit of a schedule of accounts receivable, complying with those requirements may not be practicable because of the audit effort required. If the auditor concludes that an audit of a single financial statement or of a specific element of a financial statement in accordance with HKSAs may not be practicable, the auditor may discuss with management whether another type of engagement might be more practicable.

*Acceptability of the Financial Reporting Framework* (Ref: Para. 8)

- A7. A single financial statement or a specific element of a financial statement may be prepared in accordance with an applicable financial reporting framework that is based on a financial reporting framework established by an authorized or recognized standards setting organization for the preparation of a complete set of financial statements (for example, HKFRSs). If this is the case, determination of the acceptability of the applicable framework may involve considering whether that framework includes all the requirements of the framework on which it is based that are relevant to the presentation of a single financial statement or of a specific element of a financial statement that provides adequate disclosures.

*Form of Opinion* (Ref: Para. 9)

- A8. The form of opinion to be expressed by the auditor depends on the applicable financial reporting framework and any applicable laws or regulations.<sup>20</sup> In accordance with HKSA 700 (Revised):<sup>21</sup>
- (a) When expressing an unmodified opinion on a complete set of financial statements prepared in accordance with a fair presentation framework, the auditor's opinion, unless otherwise required by law or regulation, uses one of the following phrases:
    - (i) the financial statements present fairly, in all material respects, in accordance with [the applicable financial reporting framework]; or
    - (ii) the financial statements give a true and fair view in accordance with [the applicable financial reporting framework]; and
  - (b) When expressing an unmodified opinion on a complete set of financial statements prepared in accordance with a compliance framework, the auditor's opinion states that the financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework].

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<sup>20</sup> HKSA 200, paragraph 8

<sup>21</sup> HKSA 700 (Revised), paragraphs 25-26

- A9. In the case of a single financial statement or of a specific element of a financial statement, the applicable financial reporting framework may not explicitly address the presentation of the financial statement or of the specific element of the financial statement. This may be the case when the applicable financial reporting framework is based on a financial reporting framework established by an authorized or recognized standards setting organization for the preparation of a complete set of financial statements (for example, HKFRSs). The auditor therefore considers whether the expected form of opinion is appropriate in the light of the applicable financial reporting framework. Factors that may affect the auditor's consideration as to whether to use the phrases "presents fairly, in all material respects," or "gives a true and fair view" in the auditor's opinion include:
- Whether the applicable financial reporting framework is explicitly or implicitly restricted to the preparation of a complete set of financial statements.
  - Whether the single financial statement or the specific element of a financial statement will:
    - Comply fully with each of those requirements of the framework relevant to the particular financial statement or the particular element, and the presentation of the financial statement or the specific element of a financial statement include the related disclosures.
    - If necessary to achieve fair presentation, provide disclosures beyond those specifically required by the framework or, in exceptional circumstances, depart from a requirement of the framework.

The auditor's decision as to the expected form of opinion is a matter of professional judgment. It may be affected by whether use of the phrases "presents fairly, in all material respects," or "gives a true and fair view" in the auditor's opinion on a single financial statement or on a specific element of a financial statement prepared in accordance with a fair presentation framework is generally accepted in the particular jurisdiction.

#### **Considerations When Planning and Performing the Audit** (Ref: Para. 10)

- A10. The relevance of each of the HKSAs requires careful consideration. Even when only a specific element of a financial statement is the subject of the audit, HKSAs such as HKSA 240,<sup>22</sup> HKSA 550<sup>23</sup> and HKSA 570 (Revised) are, in principle, relevant. This is because the element could be misstated as a result of fraud, the effect of related party transactions, or the incorrect application of the going concern basis of accounting under the applicable financial reporting framework.
- A11. HKSA 260 (Revised) requires the auditor to determine the appropriate person(s) within the entity's governance structure with whom to communicate.<sup>24</sup> HKSA 260 (Revised) notes that, in some cases, all of those charged with governance are involved in managing the entity, and the application of communication requirements is modified to recognize this position.<sup>25</sup> When a complete set of financial statements is also prepared by the entity, those person(s) responsible for the oversight of the preparation of the single financial statement or the element may not be the same as those charged with governance responsible for the oversight of the preparation of the complete set of financial statements.

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<sup>22</sup> HKSA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

<sup>23</sup> HKSA 550, *Related Parties*

<sup>24</sup> HKSA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 11

<sup>25</sup> HKSA 260 (Revised), paragraph 10(b), 13, A1 (third bullet), A2 and A8

- A12. Furthermore, HKSAAs are written in the context of an audit of financial statements; they are to be adapted as necessary in the circumstances when applied to the audit of a single financial statement<sup>26</sup> or of a specific element of a financial statement. For example, written representations from management about the complete set of financial statements would be replaced by written representations about the presentation of the financial statement or the element in accordance with the applicable financial reporting framework.
- A13. Matters included in the auditor's report on the complete set of financial statements may have implications for the audit of a single financial statement or of an element of a financial statement (see paragraph 14). When planning and performing an audit of a single financial statement or a specific element of a financial statement in conjunction with the audit of the entity's complete set of financial statements, the auditor may be able to use audit evidence obtained as part of the audit of the entity's complete set of financial statements in the audit of the financial statement or the element. HKSAAs, however, require the auditor to plan and perform the audit of the financial statement or element to obtain sufficient appropriate audit evidence on which to base the opinion on the financial statement or on the element.
- A14. The individual financial statements that comprise a complete set of financial statements, and many of the specific elements of those financial statements, including their related disclosures, are interrelated. Accordingly, when auditing a single financial statement or a specific element of a financial statement, the auditor may not be able to consider the financial statement or the element in isolation. Consequently, the auditor may need to perform procedures in relation to the interrelated items to meet the objective of the audit.
- A15. Furthermore, the materiality determined for a single financial statement or for a specific element of a financial statement may be lower than the materiality determined for the entity's complete set of financial statements; this will affect the nature, timing and extent of the audit procedures and the evaluation of uncorrected misstatements.

**Forming an Opinion and Reporting Considerations** (Ref: Para. 11)

- A16. HKSA 700 (Revised) requires the auditor, in forming an opinion, to evaluate whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements.<sup>27</sup> In the case of a single financial statement or of a specific element of a financial statement, it is important that the financial statement or the element, in view of the requirements of the applicable financial reporting framework, provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the element, and the effect of material transactions and events on the information conveyed in the financial statement or the element.
- A17. Appendix 2 contains illustrations of independent auditor's reports on a single financial statement and on a specific element of a financial statement. Other illustrations of auditor's reports may be relevant to reporting on a single financial statement or on a specific element of a financial statement (see, for example, the Appendices to HKSA 700 (Revised), HKSA 705 (Revised), HKSA 570 (Revised), HKSA 720 (Revised), and HKSA 706 (Revised)).

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<sup>26</sup> HKSA 200, paragraph 2

<sup>27</sup> HKSA 700 (Revised), paragraph 13(e)



*Application of HKSA 700 (Revised) When Reporting on a Single Financial Statement or on a Specific Element of a Financial Statement*

A18. Paragraph 11 of this HKSA explains that the auditor is required to apply the requirements in HKSA 700 (Revised), adapted as necessary in the circumstances of the engagement, when forming an opinion and reporting on a single financial statement or on a specific element of a financial statement. In doing so, the auditor is also required to apply the reporting requirements in other HKSAs adapted as necessary in the circumstances of the engagement, and may find the considerations addressed in paragraphs A19–A21 below helpful.

Going Concern

A19. Depending on the applicable financial reporting framework used in the preparation of the single financial statement or the specific element of a financial statement, the description in the auditor's report of management's responsibilities<sup>28</sup> relating to going concern may need to be adapted as necessary. The description in the auditor's report of the auditor's responsibilities<sup>29</sup> may also need to be adapted as necessary depending on how HKSA 570 (Revised) applies in the circumstances of the engagement.

Key Audit Matters

A20. HKSA 700 (Revised) requires the auditor to communicate key audit matters in accordance with HKSA 701 for audits of complete sets of general purpose financial statements of listed entities.<sup>30</sup> For audits of a single financial statement or a specific element of a financial statement, HKSA 701 only applies when communication of key audit matters in the auditor's report on such financial statements or elements is required by law or regulation, or the auditor otherwise decides to communicate key audit matters. When key audit matters are communicated in the auditor's report on a single financial statement or a specific element of a financial statement, HKSA 701 applies in its entirety.<sup>31</sup>

Other Information

A21. HKSA 720 (Revised) deals with the auditor's responsibilities relating to other information. In the context of this HKSA, reports containing or accompanying the single financial statement or specific element of a financial statement—the purpose of which is to provide owners (or similar stakeholders) with information on matters presented in the single financial statement or the specific element of a financial statement—are considered to be annual reports for purposes of HKSA 720 (Revised). When the auditor determines that the entity plans to issue such a report, the requirements in HKSA 720 (Revised) apply to the audit of the single financial statement or the element.

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<sup>28</sup> See HKSA 700 (Revised), paragraphs 34(b) and A43.

<sup>29</sup> See HKSA 700 (Revised), paragraphs 39(b)(iv).

<sup>30</sup> HKSA 700 (Revised), paragraph 30

<sup>31</sup> HKSA 700 (Revised), paragraph 31

Name of the Engagement Partner

A22. The requirement in HKSA 700 (Revised) for the auditor to include the name of the engagement partner in the auditor's report also applies to audits of single financial statements of listed entities or specific elements of financial statements of listed entities.<sup>32</sup> The auditor may be required by law or regulation to include the name of the engagement partner in the auditor's report or may otherwise decide to do so when reporting on a single financial statement or on an element of a financial statement of entities other than listed entities.

*Reporting on the Entity's Complete Set of Financial Statements and on a Single Financial Statement or on a Specific Element of a Financial Statement (Ref: Para. 14)*

Considering the Implications of Certain Matters Included in the Auditor's Report on the Entity's Complete Set of Financial Statements for the Audit of the Single Financial Statement or the Specific Element of a Financial Statement and for the Auditor's Report Thereon

A23. Paragraph 14 requires the auditor to consider the implications, if any, of certain matters included in the auditor's report on the complete set of financial statements for the audit of the single financial statement or the specific element of a financial statement and for the auditor's report thereon. Considering whether a matter included in the auditor's report on the complete set of financial statements is relevant in the context of an engagement to report on a single financial statement or a specific element of a financial statement involves professional judgment.

A24. Factors that may be relevant in considering those implications include:

- The nature of the matter(s) being described in the auditor's report on the complete set of financial statements and the extent to which it relates to what is included in the single financial statement or a specific element of a financial statement.
- The pervasiveness of the matter(s) described in the auditor's report on the complete set of financial statements.
- The nature and extent of the differences between the applicable financial reporting frameworks.
- The extent of the difference between the period(s) covered by the complete set of the financial statements compared to the period(s) or dates of the single financial statement or the element of a financial statement.
- The time elapsed since the date of the auditor's report on the complete set of the financial statements.

A25. For example, in the case when there is a qualification of the auditor's opinion in relation to accounts receivable in the auditor's report on the complete set of financial statements, and the single financial statement includes accounts receivable, or the specific element of a financial statement relates to accounts receivable, it is likely that there would be implications for the audit. On the other hand, if the qualification of the auditor's opinion on the complete set of financial statements relates to classification of long-term debt, then it is less likely that there would be implications for an audit of the single financial statement that is the income statement, or if the specific element of the financial statement relates to accounts receivable.

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<sup>32</sup> See HKSA 700 (Revised), paragraphs 46 and A56–A58.

- A26. Key audit matters that are communicated in the auditor's report on the complete set of financial statements may have implications for an audit of a single financial statement or the specific element of the financial statement. The information included in the Key Audit Matters section about how the matter was addressed in the audit of the complete set of financial statements may be useful to the auditor's determination of how to address the matter when it is relevant to the audit of the single financial statement or the specific element of the financial statement.

Inclusion of a reference to the auditor's report on the complete set of financial statements

- A27. Even when certain matters included in the auditor's report on the complete set of financial statements do not have implications for the audit of, or for the auditor's report on, the single financial statement or the specific element of a financial statement, the auditor may deem it appropriate to refer to the matter(s) in an Other Matter paragraph in an auditor's report on the single financial statement or on the specific element of a financial statement (see HKSA 706 (Revised)).<sup>33</sup> For example, the auditor may consider it appropriate to refer in the auditor's report on the single financial statement or a specific element of the financial statement to a Material Uncertainty Related to Going Concern section included in the auditor's report on the complete set of financial statements.

Adverse Opinion or Disclaimer of Opinion in the Auditor's Report on the Entity's Complete Set of Financial Statements (Ref: Para. 15)

- A28. In the auditor's report on an entity's complete set of financial statements, the expression of a disclaimer of opinion regarding the results of operations and cash flows, where relevant, and an unmodified opinion regarding the financial position is permitted since the disclaimer of opinion is being issued in respect of the results of operations and cash flows only and not in respect of the financial statements as a whole.<sup>34</sup>

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<sup>33</sup> HKSA 706 (Revised), paragraphs 10-11.

<sup>34</sup> HKSA 510, *Initial Audit Engagements—Opening Balances*, paragraph A8, and HKSA 705 (Revised), paragraph A16

## **Appendix 1**

(Ref: Para. A3)

### **Examples of Specific Elements, Accounts or Items of a Financial Statement**

- Accounts receivable, allowance for doubtful accounts receivable, inventory, the liability for accrued benefits of a private pension plan, the recorded value of identified intangible assets, or the liability for "incurred but not reported" claims in an insurance portfolio, including related notes.
- A schedule of externally managed assets and income of a private pension plan, including related notes.
- A schedule of net tangible assets, including related notes.
- A schedule of disbursements in relation to a lease property, including explanatory notes.
- A schedule of profit participation or employee bonuses, including explanatory notes.

## **Appendix 2**

(Ref: Para. A17)

### **Illustrations of Independent Auditor's Reports on a Single Financial Statement and on a Specific Element of a Financial Statement**

- Illustration 1: An auditor's report on a single financial statement of an entity other than a listed entity prepared in accordance with a general purpose framework (for purposes of this illustration, a fair presentation framework).
- Illustration 2: An auditor's report on a single financial statement of an entity other than a listed entity prepared in accordance with a special purpose framework (for purposes of this illustration, a fair presentation framework).
- Illustration 3: An auditor's report on a specific element of a financial statement of a listed entity prepared in accordance with a special purpose framework (for purposes of this illustration, a compliance framework).

Illustration 1: An auditor's report on a single financial statement of an entity other than a listed entity prepared in accordance with a general purpose framework (for purposes of this illustration, a fair presentation framework).

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a balance sheet (that is, a single financial statement) of an entity other than a listed entity.
- The balance sheet has been prepared by management of the entity in accordance with the requirements of the Financial Reporting Framework in Jurisdiction X relevant to preparing a balance sheet.
- The applicable financial reporting framework is a fair presentation framework designed to meet the common financial information needs of a wide range of users.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in HKSA 210.
- The auditor has determined that it is appropriate to use the phrase "presents fairly, in all material respects," in the auditor's opinion.
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that 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 in accordance with HKSA 570 (Revised). The disclosure of the material uncertainty in the single financial statement is adequate.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701 in the context of the audit of the balance sheet.
- The auditor has determined that there is no other information (i.e., the requirements of HKSA 720 (Revised) do not apply).
- Those responsible for oversight of the financial statement differ from those responsible for the preparation of the financial statement.
- The auditor has no other reporting responsibilities required under local law or regulation.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

### Opinion

We have audited the [balance sheet][statement of financial position]<sup>1a</sup> of ABC Company ("the Company") as at 31 December 20X1 and notes to the financial statement, including a summary of significant accounting policies (together "the financial statement").

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<sup>1a</sup> Delete as appropriate, different term may be used as long as it is consistent with the title of the corresponding statement.

In our opinion, the accompanying financial statement presents fairly, in all material respects, the financial position of the Company as at 31 December 20X1 in accordance with those requirements of the Financial Reporting Framework in Jurisdiction X relevant to preparing such a financial statement.

### **Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statement* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Material Uncertainty Related to Going Concern**

We draw attention to Note 6 in the financial statement, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note 6, these events or conditions, along with other matters as set forth in Note 6, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statement<sup>1</sup>**

Management is responsible for the preparation and fair presentation of the financial statement in accordance with those requirements of the Financial Reporting Framework in Jurisdiction X relevant to preparing such a financial statement, and for such internal control as management determines is necessary to enable the preparation of a financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the financial statement, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statement**

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.<sup>1b</sup> Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA 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

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<sup>1</sup> Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

<sup>1b</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 "Auditor's Duty of Care To Third Parties and The Audit Report".

aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this 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 financial statement, 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>2</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 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 statement, including the disclosures, and whether the financial statement represents 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.

XYZ & Co.

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

[Auditor address]

[Date]

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<sup>2</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 statement.



Illustration 2: An auditor's report on a single financial statement of an entity other than a listed entity prepared in accordance with a special purpose framework (for purposes of this illustration, a fair presentation framework).

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a statement of cash receipts and disbursements (that is, a single financial statement) of an entity other than a listed entity.
- An auditor's report on the complete set of financial statements was not issued.
- The financial statement has been prepared by management of the entity in accordance with the cash receipts and disbursements basis of accounting to respond to a request for cash flow information received from a creditor. Management has a choice of financial reporting frameworks.
- The applicable financial reporting framework is a fair presentation framework designed to meet the financial information needs of specific users.<sup>3</sup>
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The auditor has determined that it is appropriate to use the phrase "presents fairly, in all material respects," in the auditor's opinion.
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants*.
- Distribution or use of the auditor's report is not restricted.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with HKSA 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701 in the context of the audit of the statement of cash receipts and disbursements.
- The auditor has determined that there is no other information (i.e., the requirements of HKSA 720 (Revised) do not apply).
- Management is responsible for the preparation of the financial statement and oversight of the financial reporting process to prepare this financial statement.
- The auditor has no other reporting responsibilities required under local law or regulation.

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<sup>3</sup> HKSA 800 (Revised) contains requirements and guidance on the form and content of financial statements prepared in accordance with a special purpose framework.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

### Opinion

We have audited the statement of cash receipts and disbursements of ABC Company ("the Company") for the year ended 31 December 20X1 and notes to the statement of cash receipts and disbursements, including a summary of significant accounting policies (together "the financial statement").

In our opinion, the accompanying financial statement presents fairly, in all material respects, the cash receipts and disbursements of the Company for the year ended 31 December 20X1 in accordance with the cash receipts and disbursements basis of accounting described in Note X.

### Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statement* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of Matter - Basis of Accounting

We draw attention to Note X to the financial statement, which describes the basis of accounting. The financial statement is prepared to provide information to XYZ Creditor. As a result, the statement may not be suitable for another purpose<sup>3a</sup>. Our opinion is not modified in respect of this matter.

### Responsibilities of Management and Those Charged with Governance for the Financial Statement<sup>4</sup>

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash receipts and disbursements basis of accounting described in Note X; this includes determining that the cash receipts and disbursements basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances, and for such internal control as management determines is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the financial statement, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA will always detect a material misstatement when it exists.

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<sup>3a</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 "Auditor's Duty of Care To Third Parties and The Audit Report".

<sup>4</sup> Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction.

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 this 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 financial statement, 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>5</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 financial statement 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 statement, including the disclosures, and whether the financial statement represents 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.

XYZ & Co.

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

[Auditor address]

[Date]

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<sup>5</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 statement.

Illustration 3: An auditor's report on a specific element of a financial statement of a listed entity prepared in accordance with a special purpose framework (for purposes of this illustration, a compliance framework).

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of an accounts receivable schedule (that is, element, account or item of a financial statement).
- The financial information has been prepared by management of the entity in accordance with the financial reporting provisions established by a regulator to meet the requirements of that regulator. Management does not have a choice of financial reporting frameworks.
- The applicable financial reporting framework is a compliance framework designed to meet the financial information needs of specific users.<sup>6</sup>
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in HKSA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants*.
- Distribution of the auditor's report is restricted.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with HKSA 570 (Revised).
- The auditor is not required, and has otherwise not decided to communicate key audit matters in accordance with HKSA 701 in the context of the audit of the accounts receivable schedule.
- The auditor has determined that there is no other information (i.e., the requirements of HKSA 720 (Revised) do not apply).
- Those responsible for oversight of the financial statement differ from those responsible for the preparation of the financial statement.
- The auditor has no other reporting responsibilities required under local law or regulation.

## INDEPENDENT AUDITOR'S REPORT

[To the Shareholders of ABC Company or Other Appropriate Addressee]

### Opinion

We have audited the accounts receivable schedule of ABC Company ("the Company") as at 31 December 20X1 ("the schedule").

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<sup>6</sup> HKSA 800 (Revised) contains requirements and guidance on the form and content of financial statements prepared in accordance with a special purpose framework.

In our opinion, the financial information in the schedule of the Company as at 31 December 20X1 is prepared, in all material respects, in accordance with [describe the financial reporting provisions established by the regulator].

### **Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Schedule* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter - Basis of Accounting and Restriction on Distribution**

We draw attention to Note X to the schedule, which describes the basis of accounting. The schedule is prepared to assist the Company to meet the requirements of Regulator DEF. As a result, the schedule may not be suitable for another purpose. Our report is intended solely for the Company and Regulator DEF and should not be distributed to parties other than the Company or Regulator DEF<sup>6a</sup>. Our opinion is not modified in respect of this matter.

### **Responsibilities of Management and Those Charged with Governance for the Schedule<sup>7</sup>**

Management is responsible for the preparation of the schedule in accordance with [describe the financial reporting provisions established by the regulator], and for such internal control as management determines is necessary to enable the preparation of the schedule that is free from material misstatement, whether due to fraud or error.

In preparing the schedule, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Schedule**

Our objectives are to obtain reasonable assurance about whether the schedule is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA 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 this schedule.

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<sup>6a</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 "Auditor's Duty of Care To Third Parties and The Audit Report".

<sup>7</sup> Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction.

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, related safeguards.

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

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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**



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

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**HONG KONG STANDARD ON AUDITING 810 (REVISED)**  
**ENGAGEMENTS TO REPORT ON SUMMARY FINANCIAL STATEMENTS**

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

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Hong Kong Standard on Auditing (HKSA) 810 (Revised), *Engagements to Report on Summary Financial Statements* should be read in conjunction with HKSA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*.

## Introduction

### Scope of this HKSA

1. This Hong Kong Standard on Auditing (HKSA) deals with the auditor's responsibilities relating to an engagement to report on summary financial statements derived from financial statements audited in accordance with HKSAs by that same auditor.

### Effective Date

2. This HKSA is effective for engagements to report on summary financial statements for periods ending on or after 15 December 2016.

### Objectives

3. The objectives of the auditor are:
  - (a) To determine whether it is appropriate to accept the engagement to report on summary financial statements; and
  - (b) If engaged to report on summary financial statements:
    - (i) To form an opinion on the summary financial statements based on an evaluation of the conclusions drawn from the evidence obtained; and
    - (ii) To express clearly that opinion through a written report that also describes the basis for that opinion.

### Definitions

4. For purposes of this HKSA, the following terms have the meanings attributed below:
  - (a) Applied criteria – The criteria applied by management in the preparation of the summary financial statements.
  - (b) Audited financial statements – Financial statements<sup>1</sup> audited by the auditor in accordance with HKSAs, and from which the summary financial statements are derived.
  - (c) Summary financial statements – Historical financial information that is derived from financial statements but that contains less detail than the financial 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>2</sup> Different jurisdictions may use different terminology to describe such historical financial information.<sup>2a</sup>

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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*, paragraph 13(f), defines the term "financial statements."

<sup>2</sup> HKSA 200, paragraph 13(f).

<sup>2a</sup> In Hong Kong, the Companies Ordinance permits a company incorporated in Hong Kong (other than those falling within the reporting exemption under Division 2 of Part 9) to send to every member of the company a summary financial report in place of the reporting documents, including a full set of the annual financial statements, under section 441 of the Companies Ordinance. The form and contents of a summary financial report are set out in sections 3 to 6 of the Companies (Summary Financial Reports) Regulation (Cap. 622E). Refer to Appendix 2 for details.

## Requirements

### Engagement Acceptance

5. The auditor shall accept an engagement to report on summary financial statements in accordance with this HKSA only when the auditor has been engaged to conduct an audit in accordance with HKSAs of the financial statements from which the summary financial statements are derived.<sup>2b</sup> (Ref: Para. A1)
6. Before accepting an engagement to report on summary financial statements, the auditor shall: (Ref: Para. A2)
  - (a) Determine whether the applied criteria are acceptable; (Ref: Para. A3-A7)
  - (b) Obtain the agreement of management that it acknowledges and understands its responsibility:
    - (i) For the preparation of the summary financial statements in accordance with the applied criteria;
    - (ii) To make the audited financial statements available to the intended users of the summary financial statements without undue difficulty<sup>2c</sup> (or, if law or regulation provides that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements, to describe that law or regulation in the summary financial statements); and
    - (iii) To include the auditor's report on the summary financial statements in any document that contains the summary financial statements and that indicates that the auditor has reported on them.
  - (c) Agree with management the form of opinion to be expressed on the summary financial statements (see paragraphs 9-11).
7. If the auditor concludes that the applied criteria are unacceptable or is unable to obtain the agreement of management set out in paragraph 6(b), the auditor shall not accept the engagement to report on the summary financial statements, unless required by law or regulation to do so. An engagement conducted in accordance with such law or regulation does not comply with this HKSA. Accordingly, the auditor's report on the summary financial statements shall not indicate that the engagement was conducted in accordance with this HKSA. The auditor shall include appropriate reference to this fact in the terms of the engagement. The auditor shall also determine the effect that this may have on the engagement to audit the financial statements from which the summary financial statements are derived.

### Nature of Procedures

8. The auditor shall perform the following procedures, and any other procedures that the auditor may consider necessary, as the basis for the auditor's opinion on the summary financial statements:
  - (a) Evaluate whether the summary financial statements adequately disclose their summarized nature and identify the audited financial statements.
  - (b) When summary financial statements are not accompanied by the audited financial statements, evaluate whether they describe clearly:
    - (i) From whom or where the audited financial statements are available; or

<sup>2b</sup> For reporting under footnote 2a, when planning the audit of the annual financial statements of a company, the auditor ascertains whether a summary financial report will be prepared and whether the other information will be issued to accompany the summary financial report. For definitions of "annual financial statements" and "other information", refer to paragraph 10 in Appendix 2.

<sup>2c</sup> For reporting under footnote 2a, section 5(5) of the Companies (Summary Financial Reports) Regulation as set out in Appendix 3 is also applicable.

- (ii) The law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements.
- (c) Evaluate whether the summary financial statements adequately disclose the applied criteria.
- (d) Compare the summary financial statements with the related information in the audited financial statements to determine whether the summary financial statements agree with or can be recalculated from the related information in the audited financial statements.
- (e) Evaluate whether the summary financial statements are prepared in accordance with the applied criteria.
- (f) Evaluate, in view of the purpose of the summary financial statements, whether the summary financial statements contain the information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.
- (g) Evaluate whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty, unless law or regulation provides that they need not be made available and establishes the criteria for the preparation of the summary financial statements. (Ref: Para. A8)

### Form of Opinion

9. When the auditor has concluded that an unmodified opinion on the summary financial statements is appropriate, the auditor's opinion shall, unless otherwise required by law or regulation<sup>2d</sup>, use one of the following phrases: (Ref: Para. A9)
  - (a) The accompanying summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with [the applied criteria];  
or
  - (b) The accompanying summary financial statements are a fair summary of the audited financial statements, in accordance with [the applied criteria].
10. If law or regulation prescribes the wording of the opinion on summary financial statements in terms that are different from those described in paragraph 9, the auditor shall:
  - (a) Apply the procedures described in paragraph 8 and any further procedures necessary to enable the auditor to express the prescribed opinion; and
  - (b) Evaluate whether users of the summary financial statements might misunderstand the auditor's opinion on the summary financial statements and, if so, whether additional explanation in the auditor's report on the summary financial statements can mitigate possible misunderstanding.
11. If, in the case of paragraph 10(b), the auditor concludes that additional explanation in the auditor's report on the summary financial statements cannot mitigate possible misunderstanding, the auditor shall not accept the engagement, unless required by law or regulation to do so. An engagement conducted in accordance with such law or regulation does not comply with this HKSA. Accordingly, the auditor's report on the summary financial statements shall not indicate that the engagement was conducted in accordance with this HKSA.

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<sup>2d</sup> For reporting under footnote 2a, refer to paragraph 11 in Appendix 2.

### Timing of Work <sup>2e</sup> and Events Subsequent to the Date of the Auditor's Report on the Audited Financial Statements

12. The auditor's report on the summary financial statements may be dated later than the date of the auditor's report on the audited financial statements. In such cases, the auditor's report on the summary financial statements shall state that the summary financial statements and audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements. (Ref: Para. A10)
13. The auditor may become aware of facts that existed at the date of the auditor's report on the audited financial statements, but of which the auditor previously was unaware. In such cases, the auditor shall not issue the auditor's report on the summary financial statements until the auditor's consideration of such facts in relation to the audited financial statements in accordance with HKSA 560 <sup>3</sup> has been completed.

### Information in Documents Containing Summary Financial Statements

14. The auditor shall read the information included in a document containing the summary financial statements and the auditor's report thereon and consider whether there is a material inconsistency between that information and the summary financial statements.
15. If the auditor identifies a material inconsistency, the auditor shall discuss the matter with management and determine whether the summary financial statements or the information included in the document containing the summary financial statements and the auditor's report thereon needs to be revised. If the auditor determines that the information needs to be revised and management refuses to revise the information as necessary, the auditor shall take appropriate action in the circumstances, including considering the implications for the auditor's report on the summary financial statements. (Ref: Para. A11-A16)

### Auditor's Report on Summary Financial Statements

#### *Elements of the Auditor's Report*

16. The auditor's report on summary financial statements shall include the following elements:<sup>4</sup> (Ref: Para. A23)
  - (a) A title clearly indicating it as the report of an independent auditor. (Ref: Para. A17).
  - (b) An addressee. (Ref: Para. A18).
  - (c) Identification of the summary financial statements on which the auditor is reporting, including the title of each statement included in the summary financial statements. (Ref: Para. A19).
  - (d) Identification of the audited financial statements.
  - (e) Subject to paragraph 20, a clear expression of an opinion (see paragraphs 9-11).
  - (f) A statement indicating that the summary financial statements do not contain all the disclosures required by the financial reporting framework applied in the preparation of the audited financial statements, and that reading the summary financial statements and the auditor's report thereon is not a substitute for reading the audited financial statements and the auditor's report thereon.
  - (g) Where applicable, the statement required by paragraph 12.

<sup>2e</sup> For reporting under footnote 2a, the auditor normally carries out his/ her work on the summary financial report at the same time as completing the annual audit rather than after its completion, so that the auditor's report on the summary report and the auditor's report on the annual financial statements can be issued at the same time. The auditor therefore encourages the directors to take this into account when they are planning the timetable for the preparation of the annual financial statements.

<sup>3</sup> HKSA 560, *Subsequent Events*

<sup>4</sup> Paragraphs 19-20, which deal with circumstances where the auditor's report on the audited financial statements has been modified, require additional elements to those listed in this paragraph.

- (h) Reference to the auditor's report on the audited financial statements, the date of that report, and, subject to paragraphs 19-20, the fact that an unmodified opinion is expressed on the audited financial statements.
  - (i) A description of management's<sup>5</sup> responsibility for the summary financial statements, explaining that management<sup>6</sup> is responsible for the preparation of the summary financial statements in accordance with the applied criteria.
  - (j) A statement that the auditor is responsible for expressing an opinion, based on the auditor's procedures conducted in accordance with this HKSA, on whether the summary financial statements are consistent, in all material respects, with [or *are a fair summary of*] the audited financial statements.
  - (k) The auditor's signature.
  - (l) The auditor's address.
  - (m) The date of the auditor's report. (Ref: Para. A20)
17. If the addressee of the summary financial statements is not the same as the addressee of the auditor's report on the audited financial statements, the auditor shall evaluate the appropriateness of using a different addressee. (Ref: Para. A18)
18. The auditor shall date the auditor's report on the summary financial statements no earlier than: (Ref: Para. A20)
- (a) The date on which the auditor has obtained sufficient appropriate evidence on which to base the opinion, including evidence that the summary financial statements have been prepared and those with the recognized authority have asserted that they have taken responsibility for them;<sup>6a</sup> and
  - (b) The date of the auditor's report on the audited financial statements.

*Reference to the Auditor's Report on the Audited Financial Statements* (Ref: Para. A23)<sup>6b</sup>

19. When the auditor's report on the audited financial statements includes:
- (a) A qualified opinion in accordance with HKSA 705 (Revised);<sup>7</sup>
  - (b) An Emphasis of Matter paragraph or an Other Matter paragraph in accordance with HKSA 706 (Revised);
  - (c) A *Material Uncertainty Related to Going Concern* section in accordance with HKSA 570 (Revised);
  - (d) Communication of key audit matters in accordance with HKSA 701;<sup>10</sup> or
  - (e) A statement that describes an uncorrected material misstatement of the other information in accordance with HKSA 720 (Revised);

<sup>5</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

<sup>6</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

<sup>6a</sup> For reporting under footnote 2a, since the auditor's responsibility is to report on the summary financial report as prepared by the directors, the auditor would not date the auditor's report on the summary financial report earlier than the date on which the summary financial report is approved by the directors.

<sup>6b</sup> Section 4(1) of the Companies (Summary Financial Reports) Regulation requires that a summary financial report of a company must contain a statement from the company's auditor as to whether the auditor's report for that financial year is qualified or otherwise modified, or includes a reference to any matter to which the auditor drew attention by way of emphasis without qualifying the report; and if the auditor's report is qualified or otherwise modified, set out the full auditor's report and any further material necessary for the understanding of the qualification or other modification. Sections 4(2) – (4) further set out different situations of modified auditor's report. Refer to Illustration 6 in Appendix 1, paragraphs 15 and 16 in Appendix 2, and section 4 in Appendix 3 for details.

<sup>7</sup> HKSA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

<sup>8</sup> HKSA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

<sup>9</sup> HKSA 570 (Revised), *Going Concern*, paragraph 22

<sup>10</sup> HKSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>11</sup> HKSA 720 (Revised), *The Auditor's Responsibilities Related to Other Information*

and the auditor is satisfied that the summary financial statements are consistent, in all material respects, with or are a fair summary of the audited financial statements, in accordance with the applied criteria, the auditor's report on the summary financial statements shall, in addition to the elements in paragraph 16:

- (i) State that the auditor's report on the audited financial statements includes qualified opinion, an Emphasis of Matter paragraph, an Other Matter paragraph, a *Material Uncertainty Related to Going Concern* section, communication of key audit matters, or a statement that describes an uncorrected material misstatement of the other information; and (Ref: Para. A21)
  - (ii) Describe: (Ref: Para. A22)
    - a. The basis for the qualified opinion on the audited financial statements and the effect thereof, if any, on the summary financial statements;
    - b. The matter referred to in the Emphasis of Matter paragraph, the Other Matter paragraph, or the *Material Uncertainty Related to Going Concern* section in the auditor's report on the audited financial statements and the effect(s) thereof, if any, on the summary financial statements; or
    - c. The uncorrected material misstatement of the other information and the effect(s) thereof, if any, on the information included in a document containing the summary financial statements and the auditor's report thereon. (Ref: Para. A15)
20. When the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, the auditor's report on the summary financial statements shall, in addition to the elements in paragraph 16:
- (a) State that the auditor's report on the audited financial statements contains an adverse opinion or disclaimer of opinion;
  - (b) Describe the basis for that adverse opinion or disclaimer of opinion; and
  - (c) State that, as a result of the adverse opinion or disclaimer of opinion on the audited financial statements, it is inappropriate to express an opinion on the summary financial statements. (Ref: Para. A23)

*Modified Opinion on the Summary Financial Statements*<sup>11a</sup>

21. If the summary financial statements are not consistent, in all material respects, with or are not a fair summary of the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, the auditor shall express an adverse opinion on the summary financial statements. (Ref: Para. A23)

**Restriction on Distribution or Use or Alerting Readers to the Basis of Accounting**

22. When distribution or use of the auditor's report on the audited financial statements is restricted, or the auditor's report on the audited financial statements alerts readers that the audited financial statements are prepared in accordance with a special purpose framework, the auditor shall include a similar restriction or alert in the auditor's report on the summary financial statements.

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<sup>11a</sup> For reporting under footnote 2a, refer to paragraphs 11,13 and 16 in Appendix 2.



**Comparatives**

23. If the audited financial statements contain comparatives, but the summary financial statements do not, the auditor shall determine whether such omission is reasonable in the circumstances of the engagement. The auditor shall determine the effect of an unreasonable omission on the auditor's report on the summary financial statements. (Ref: Para. A24)
24. If the summary financial statements contain comparatives that were reported on by another auditor, the auditor's report on the summary financial statements shall also contain the matters that HKSA 710 requires the auditor to include in the auditor's report on the audited financial statements.<sup>12</sup> (Ref: Para. A25)

**Unaudited Supplementary Information Presented with Summary Financial Statements**

25. The auditor shall evaluate whether any unaudited supplementary information presented with the summary financial statements is clearly differentiated from the summary financial statements. If the auditor concludes that the entity's presentation of the unaudited supplementary information is not clearly differentiated from the summary financial statements, the auditor shall ask management to change the presentation of the unaudited supplementary information. If management refuses to do so, the auditor shall explain in the auditor's report on the summary financial statements that such information is not covered by that report. (Ref: Para. A26)

**Auditor Association**

26. If the auditor becomes aware that the entity plans to state that the auditor has reported on summary financial statements in a document containing the summary financial statements, but does not plan to include the related auditor's report, the auditor shall request management to include the auditor's report in the document. If management does not do so, the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately associating the auditor with the summary financial statements in that document. (Ref: Para. A27)
27. The auditor may be engaged to report on the financial statements of an entity, while not engaged to report on the summary financial statements. If, in this case, the auditor becomes aware that the entity plans to make a statement in a document that refers to the auditor and the fact that summary financial statements are derived from the financial statements audited by the auditor, the auditor shall be satisfied that:
  - (a) The reference to the auditor is made in the context of the auditor's report on the audited financial statements; and
  - (b) The statement does not give the impression that the auditor has reported on the summary financial statements.

If (a) or (b) are not met, the auditor shall request management to change the statement to meet them, or not to refer to the auditor in the document. Alternatively, the entity may engage the auditor to report on the summary financial statements and include the related auditor's report in the document. If management does not change the statement, delete the reference to the auditor, or include an auditor's report on the summary financial statements in the document containing the summary financial statements, the auditor shall advise management that the auditor disagrees with the reference to the auditor, and the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately referring to the auditor. (Ref: Para. A27)

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<sup>12</sup> HKSA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements*.

## Conformity and Compliance with International Standards on Auditing

28. As of August 2016 (date of issue), this HKSA conforms with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*. Compliance with the requirements of this HKSA ensures compliance with ISA 810 (Revised).
29. Additional local explanations and guidance are provided in footnotes 2a, 2b, 2c, 2d, 2e, 6a, 6b, 11a and the Appendices 1, 2 and 3.

\*\*\*

## Application and Other Explanatory Material

### Engagement Acceptance (Ref: Para. 5-6)

- A1. The audit of the financial statements from which the summary financial statements are derived provides the auditor with the necessary knowledge to discharge the auditor's responsibilities in relation to the summary financial statements in accordance with this HKSA. Application of this HKSA will not provide sufficient appropriate evidence on which to base the opinion on the summary financial statements if the auditor has not also audited the financial statements from which the summary financial statements are derived.
- A2. Management's agreement with the matters described in paragraph 6 may be evidenced by its written acceptance of the terms of the engagement.

### Criteria (Ref: Para. 6(a))

- A3. The preparation of summary financial statements requires management to determine the information that needs to be reflected in the summary financial statements so that they are consistent, in all material respects, with or represent a fair summary of the audited financial statements. Because summary financial statements by their nature contain aggregated information and limited disclosure, there is an increased risk that they may not contain the information necessary so as not to be misleading in the circumstances. This risk increases when established criteria for the preparation of summary financial statements do not exist.
- A4. Factors that may affect the auditor's determination of the acceptability of the applied criteria include:
  - The nature of the entity;
  - The purpose of the summary financial statements;
  - The information needs of the intended users of the summary financial statements; and
  - Whether the applied criteria will result in summary financial statements that are not misleading in the circumstances.
- A5. The criteria for the preparation of summary financial statements may be established by an authorized or recognized standards setting organization or by law or regulation. Similar to the case of financial statements, as explained in HKSA 210,<sup>13</sup> in many such cases, the auditor may presume that such criteria are acceptable.
- A6. Where established criteria for the preparation of summary financial statements do not exist, criteria may be developed by management, for example, based on practice in a particular industry. Criteria that are acceptable in the circumstances will result in summary financial statements that:
  - (a) Adequately disclose their summarized nature and identify the audited financial statements;

<sup>13</sup> HKSA 210, *Agreeing the Terms of Audit Engagements*, paragraphs A3 and A8-A9.

- (b) Clearly describe from whom or where the audited financial statements are available or, if law or regulation provides that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements, that law or regulation;
- (c) Adequately disclose the applied criteria;
- (d) Agree with or can be recalculated from the related information in the audited financial statements; and
- (e) In view of the purpose of the summary financial statements, contain the information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.

A7. Adequate disclosure of the summarized nature of the summary financial statements and the identity of the audited financial statements, as referred to in paragraph A6(a), may, for example, be provided by a title such as "Summary Financial Statements Prepared from the Audited Financial Statements for the Year Ended 31 December 20X1."

**Evaluating the Availability of the Audited Financial Statements** (Ref: Para. 8(g))

- A8. The auditor's evaluation whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty is affected by factors such as whether:
- The summary financial statements describe clearly from whom or where the audited financial statements are available;
  - The audited financial statements are on public record; or
  - Management has established a process by which the intended users of the summary financial statements can obtain ready access to the audited financial statements.

**Form of Opinion** (Ref: Para. 9)

A9. A conclusion, based on an evaluation of the evidence obtained by performing the procedures in paragraph 8, that an unmodified opinion on the summary financial statements is appropriate enables the auditor to express an opinion containing one of the phrases in paragraph 9. The auditor's decision as to which of the phrases to use may be affected by generally accepted practice in the particular jurisdiction.

**Timing of Work and Events Subsequent to the Date of the Auditor's Report on the Audited Financial Statements** (Ref: Para. 12)

A10. The procedures described in paragraph 8 are often performed during or immediately after the audit of the financial statements. When the auditor reports on the summary financial statements after the completion of the audit of the financial statements, the auditor is not required to obtain additional audit evidence on the audited financial statements, or report on the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements since the summary financial statements are derived from the audited financial statements and do not update them.

**Information in Documents Containing Summary Financial Statements** (Ref: Para. 14-15)

A11. HKSA 720 (Revised) deals with the auditor's responsibilities relating to other information in an audit of financial statements. In the context of HKSA 720 (Revised), other information is financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report. An annual report contains or accompanies the financial statements and the auditor's report thereon.

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 furnished recklessly, or omits or obscures information required to be included 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), paragraph 110.2

Identification of the Summary Financial Statements (Ref: Para. 16(c))

- A19. When the auditor is aware that the summary financial statements will be included in a document that contains information other than the summary financial statements and the auditor's report thereon, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the summary financial statements are presented. This helps readers to identify the summary financial statements to which the auditor's report relates.

Date of the Auditor's Report (Ref: Para. 164(m), 18)

- A20. The person or persons with recognized authority to conclude that the summary financial statements have been prepared and take responsibility for them depend on the terms of the engagement, the nature of the entity, and the purpose of the summary financial statements.

Reference to the Auditor's Report on the Audited Financial Statements (Ref: Para. 19)

- A21. Paragraph 19(i) of this HKSA requires the auditor to include a statement in the auditor's report on the summary financial statements when the auditor's report on the audited financial statements includes communication of one or more key audit matters described in accordance with HKSA 701.<sup>15</sup> However, the auditor is not required to describe the individual key audit matters in the auditor's report on the summary financial statements.
- A22. The statement(s) and description(s) required by paragraph 19 are intended to draw attention to those matters and are not a substitute for reading the auditor's report on the audited financial statements. The required descriptions are intended to convey the nature of the matter(s), and need not repeat the corresponding text in the auditor's report on the audited financial statements in its entirety.

Illustrations (Ref: Para.16,19-21)

- A23. The Appendix to this HKSA contains illustrations of auditors' reports on summary financial statements that variously:
- (a) Contain unmodified opinions;
  - (b) Are derived from audited financial statements on which the auditor issued modified opinions;
  - (c) Contain a modified opinion;
  - (d) Are derived from audited financial statements where the auditor's report thereon includes a statement describing an uncorrected material misstatement of the other information in accordance with HKSA 720 (Revised); and
  - (e) Are derived from audited financial statements where the auditor's report thereon includes a *Material Uncertainty Related to Going Concern* section and communication of other key audit matters.

**Comparatives** (Ref: Para. 23-24)

- A24. If the audited financial statements contain comparatives, there is a presumption that the summary financial statements also would contain comparatives. Comparatives in the audited financial statements may be regarded as corresponding figures or as comparative financial information. HKSA 710 describes how this difference affects the auditor's report on the financial statements, including, in particular, reference to other auditors who audited the financial statements for the prior period.
- A25. Circumstances that may affect the auditor's determination whether an omission of comparatives is reasonable include the nature and objective of the summary financial statements, the applied criteria, and the information needs of the intended users of the summary financial statements.

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<sup>15</sup> HKSA 701, paragraph 13

**Unaudited Supplementary Information Presented with Summary Financial Statements** (Ref: Para. 25)

A26. HKSA 700 (Revised)<sup>16</sup> contains requirements and guidance to be applied when unaudited supplementary information is presented with audited financial statements that, adapted as necessary in the circumstances, may be helpful in applying the requirement in paragraph 25.

**Auditor Association** (Ref: Para. 26-27)

A27. Other appropriate actions the auditor may take when management does not take the requested action may include informing the intended users and other known third-party users of the inappropriate reference to the auditor. The auditor's course of action depends on the auditor's legal rights and obligations. Consequently, the auditor may consider it appropriate to seek legal advice.

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<sup>16</sup> HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 53-54.

**Appendix 1**

(Ref: Para. A23)

**Illustrations of Independent Auditor's Reports on Summary Financial Statements**

- Illustration 1: An auditor's report on summary financial statements prepared in accordance with established criteria. An unmodified opinion is expressed on the audited financial statements. The auditor's report on the summary financial statements is dated later than the date of the auditor's report on the financial statements from which summary financial statements are derived. The auditor's report on the audited financial statements includes a *Material Uncertainty Related to Going Concern* section and communication of other key audit matters.
- Illustration 2: An auditor's report on summary financial statements prepared in accordance with criteria developed by management and adequately disclosed in the summary financial statements. The auditor has determined that the applied criteria are acceptable in the circumstances. An unmodified opinion is expressed on the audited financial statements. The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived. The auditor's report on the audited financial statements includes a statement that describes an uncorrected material misstatement of the other information. The other information to which this uncorrected material misstatement relates is also information included in a document containing the summary financial statements and the auditor's report thereon.
- Illustration 3: An auditor's report on summary financial statements prepared in accordance with criteria developed by management and adequately disclosed in the summary financial statements. The auditor has determined that the applied criteria are acceptable in the circumstances. A qualified opinion is expressed on the audited financial statements. The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.
- Illustration 4: An auditor's report on summary financial statements prepared in accordance with criteria developed by management and adequately disclosed in the summary financial statements. The auditor has determined that the applied criteria are acceptable in the circumstances. An adverse opinion is expressed on the audited financial statements. The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.
- Illustration 5: An auditor's report on summary financial statements prepared in accordance with established criteria. An unmodified opinion is expressed on the audited financial statements. The auditor concludes that it is not possible to express an unmodified opinion on the summary financial statements. The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.
- Illustration 6: An auditor's report on summary financial report prepared in accordance with section 439 of the Hong Kong Companies Ordinance and complies with the requirements of Part 2 of the Hong Kong Companies (Summary Financial Reports) Regulation. An unmodified opinion is expressed on the audited financial statements. The auditor's report on the summary financial report is dated the same as the date of the auditor's report on the financial statements from which summary financial statements are derived.

## ENGAGEMENTS TO REPORT ON SUMMARY FINANCIAL STATEMENTS

- Illustration 7: An auditor's report on summary financial report prepared in accordance with section 439 of the Hong Kong Companies Ordinance and complies with the requirements of Part 2 of the Hong Kong Companies (Summary Financial Reports) Regulation. An unmodified opinion is expressed on the audited financial statements. The auditor concludes that it is not possible to express an unmodified opinion on the summary financial report. The auditor's report on the summary financial report is dated the same as the date of the auditor's report on the financial statements from which summary financial statements are derived.
- Illustration 8: An auditor's report on summary financial report prepared in accordance with section 439 of the Hong Kong Companies Ordinance and complies with the requirements of Part 2 of the Hong Kong Companies (Summary Financial Reports) Regulation. A qualified opinion is expressed on the audited financial statements. The auditor's report on the summary financial report is dated the same as the date of the auditor's report on the financial statements from which summary financial statements are derived.



**Illustration 1:**

Circumstances include the following:

- An unmodified opinion is expressed on the audited financial statements of a listed entity.
- Established criteria for the preparation of summary financial statements exist.
- The auditor's report on the summary financial statements is dated later than the date of the auditor's report on the financial statements from which the summary financial statements are derived.
- The auditor's report on the audited financial statements includes a *Material Uncertainty Related to Going Concern* section.
- The auditor's report on the audited financial statements includes communication of other key audit matters.<sup>1</sup>
- The auditor has no other reporting responsibilities required under the Hong Kong Companies Ordinance.

## REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

To the Members of ABC Company [or Other Appropriate Addressee]

(incorporated in [country or place] with limited liability)<sup>1a</sup>

### Opinion

The summary financial statements of ABC Company ("the Company") set out on pages ... to ..., which comprise the summary statement of financial position as at 31 December 20X1, the summary statement of comprehensive income, summary statement of changes in equity and summary statement of cash flows for the year then ended, and related notes, are derived from the audited financial statements of the Company for the year ended 31 December 20X1.

In our opinion, the summary financial statements are consistent, in all material respects, with (or a *fair summary of*) the audited financial statements, in accordance with [describe established criteria].

### Summary Financial Statements

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in the preparation of the audited financial statements of ABC Company for example, the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants]. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon. The summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements.

### The Audited Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated 15 February 20X2. That report also includes:

- A *Material Uncertainty Related to Going Concern* section that draws attention to Note 6 in the audited financial statements. Note 6 of the audited financial statements indicates that ABC Company incurred a net loss of ZZZ during the year ended 31 December 20X1 and, as of that date, ABC Company's current liabilities exceeded its total assets by YYY. These events or conditions, along with other matters as set forth in Note 6 of the audited financial statements, indicate that a

<sup>1</sup>

As explained in paragraph 15 of HKSA 701, a material uncertainty related to going concern is, by its nature, a key audit matter but is required to be reported in a separate section of the auditor's report in accordance with paragraph 22 of HKSA 570 (Revised).

<sup>1a</sup>

In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

material uncertainty exists that may cast significant doubt on ABC Company's ability to continue as a going concern. These matters are addressed in Note 5 of the summary financial statements.

- The communication of other<sup>2</sup> key audit matters. [Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period.]

#### **Management's<sup>4</sup> Responsibility for the Summary Financial Statements**

Management is responsible for the preparation of the summary financial statements in accordance with [describe established criteria].

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with (or *are a fair summary of*) the audited financial statements based on our procedures, which were conducted in accordance with Hong Kong Standard on Auditing 810 (Revised), *Engagements to Report on Summary Financial Statements* issued by the Hong Kong Institute of Certified Public Accountants.

XYZ & Co.

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

[Auditor's address]

[Date of the auditor's report]

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<sup>2</sup> In the circumstances where there is no material uncertainty related to going concern, inclusion of the word "other" in the statement for the communication of key audit matters would not be necessary.

<sup>3</sup> The auditor may include additional explanation about key audit matters considered helpful to users of the auditor's report on the summary financial statements.

<sup>4</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

**Illustration 2:****Circumstances include the following:**

- **An unmodified opinion is expressed on the audited financial statements.**
- **Criteria are developed by management and adequately disclosed in Note X. The auditor has determined that the criteria are acceptable in the circumstances.**
- **The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.**
- **The auditor's report on the audited financial statements includes a statement that describes an uncorrected material misstatement of the other information. The other information to which this uncorrected material misstatement relates is also information included in a document containing the summary financial statements and the auditor's report thereon.**
- **The auditor has no other reporting responsibilities required under the Hong Kong Companies Ordinance.**

**REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS**

To the Members of ABC Company [or Other Appropriate Addressee]

(incorporated in [country or place] with limited liability)<sup>4a</sup>

**Opinion**

The summary financial statements of ABC Company ("the Company") set out on pages ... to ..., which comprise the summary statement of financial position as at 31 December 20X1, the summary statement of comprehensive income, summary statement of changes in equity and summary statement of cash flows for the year then ended, and related notes, are derived from the audited financial statements of the Company for the year ended 31 December 20X1.

In our opinion, the summary financial statements are consistent, in all material respects, with (or *a fair summary of*) the audited financial statements, on the basis described in Note X.

**Summary Financial Statements**

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in the preparation of the audited financial statements of ABC Company for example, the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.] Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon.

**The Audited Financial Statements and Our Report Thereon**

We expressed an unmodified audit opinion on the audited financial statements in our report dated 15 February 20X2. [The audited financial statements are included in the 20X1 Annual Report. The auditor's report on the audited financial statements includes a statement that describes an uncorrected material misstatement of other information within Management's Discussion and Analysis of the 20X1 Annual Report. Management's Discussion and Analysis, and the uncorrected material misstatement of the other information therein, are also contained in the 20X1 Summary Annual Report.] [*Describe the uncorrected material misstatement of the other information*].

<sup>4a</sup> In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

**Management's<sup>5</sup> Responsibility for the Summary Financial Statements**

Management is responsible for the preparation of the summary financial statements on the basis described in Note X.

**Auditor's Responsibility**

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with (*or are a fair summary of*) the audited financial statements based on our procedures, which were conducted in accordance with Hong Kong Standard on Auditing 810 (Revised), *Engagements to Report on Summary Financial Statements* issued by the Hong Kong Institute of Certified Public Accountants.

XYZ & Co.

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

[*Auditor's address*]

[Date of the auditor's report]

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<sup>5</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

**Illustration 3:****Circumstances include the following:**

- **A qualified opinion is expressed on the audited financial statements.**
- **Criteria are developed by management and adequately disclosed in Note X. The auditor has determined that the criteria are acceptable in the circumstances.**
- **The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.**
- **The auditor has no other reporting responsibilities required under the Hong Kong Companies Ordinance.**

**REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS**

To the Members of ABC Company [or Other Appropriate Addressee]

(incorporated in [country or place] with limited liability)<sup>5a</sup>

**Opinion**

The summary financial statements of ABC Company ("the Company") set out on pages ... to ..., which comprise the summary statement of financial position as at 31 December 20X1, the summary statement of comprehensive income, summary statement of changes in equity and summary statement of cash flows for the year then ended, and related notes, are derived from the audited financial statements of the Company for the year ended 31 December 20X1. We expressed a qualified audit opinion on those financial statements in our report dated 15 February 20X2.

In our opinion, the summary financial statements are consistent, in all material respects, with (or *a fair summary of*) the audited financial statements, on the basis described in Note X. However, the summary financial statements are misstated to the equivalent extent as the audited financial statements of the Company for the year ended 31 December 20X1.

**Summary Financial Statements**

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in the preparation of the audited financial statements of ABC Company for example, the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.] Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon.

**The Audited Financial Statements and Our Report Thereon**

We expressed a qualified audit opinion on the audited financial statements in our report dated 15 February 20X2. The basis for our qualified audit opinion was [that management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants]. The Company's records indicate that had management stated the inventories at the lower of cost and net realizable value, an amount of xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by xxx, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

<sup>5a</sup>

In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>6</sup>

The positioning of this reference to the qualified opinion in the auditor's report on the audited financial statements in the Opinion paragraph on the summary financial statements assists users in understanding that although the auditor has expressed an unmodified opinion on the summary financial statements, the summary financial statements reflect audited financial statements that are materially misstated.

**Management's <sup>7</sup> Responsibility for the Summary Financial Statements**

Management is responsible for the preparation of the summary financial statements on the basis described in Note X.

**Auditor's Responsibility**

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with (or *are a fair summary of*) the audited financial statements based on our procedures, which were conducted in accordance with Hong Kong Standard on Auditing 810 (Revised), *Engagements to Report on Summary Financial Statements* issued by the Hong Kong Institute of Certified Public Accountants.

XYZ & Co.

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

[Auditor's address]

[Date of the auditor's report]

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<sup>7</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

**Illustration 4:**

Circumstances include the following:

- An adverse opinion is expressed on the audited financial statements.
- Criteria are developed by management and adequately disclosed in Note X. The auditor has determined that the criteria are acceptable in the circumstances.
- The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.
- The auditor has no other reporting responsibilities required under the Hong Kong Companies Ordinance.

**REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS**

To the Members of ABC Company [or Other Appropriate Addressee]

(incorporated in [country or place] with limited liability)<sup>7a</sup>

**Denial of Opinion**

The summary financial statements of ABC Company ("the Company") set out on pages ... to ..., which comprise the summary statement of financial position as at 31 December 20X1, the summary statement of comprehensive income, summary statement of changes in equity and summary statement of cash flows for the year then ended, and related notes, are derived from the audited financial statements of the Company for the year ended 31 December 20X1.

As a result of the adverse opinion on the audited financial statements discussed in *The Audited Financial Statements and our Report Thereon* section of our report, it is inappropriate to express an opinion on the summary financial statements.

**Summary Financial Statements**

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in the preparation of the audited financial statements of ABC Company for example, the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.] Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon.

**The Audited Financial Statements and Our Report Thereon**

In our report dated 15 February 20X2, we expressed an adverse opinion on the audited financial statements of the Company for the year ended 31 December 20X1. The basis for our adverse opinion was [describe basis for adverse audit opinion].

**Management's<sup>8</sup> Responsibility for the Summary Financial Statements**

Management is responsible for the preparation of the summary financial statements on the basis described in Note X.

<sup>7a</sup> In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>8</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

**Auditor's Responsibility**

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with (or *are a fair summary of*) the audited financial statements based on our procedures, which were conducted in accordance with Hong Kong Standard on Auditing 810 (Revised), *Engagements to Report on Summary Financial Statements* issued by the Hong Kong Institute of Certified Public Accountants.

XYZ & Co.

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

[Auditor's address]

[Date of the auditor's report]



**Illustration 5:****Circumstances include the following:**

- **An unmodified opinion is expressed on the audited financial statements.**
- **Established criteria for the preparation of summary financial statements exist.**
- **The auditor concludes that it is not possible to express an unmodified opinion on the summary financial statements.**
- **The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.**
- **The auditor has no other reporting responsibilities required under the Hong Kong Companies Ordinance.**

**REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS**

To the Members of ABC Company [or Other Appropriate Addressee]

(incorporated in [country or place] with limited liability)<sup>8a</sup>

**Adverse Opinion**

The summary financial statements of ABC Company ("the Company") set out on pages ... to ..., which comprise the summary statement of financial position as at 31 December 20X1, the summary statement of comprehensive income, summary statement of changes in equity and summary statement of cash flows for the year then ended, and related notes, are derived from the audited financial statements of the Company for the year ended 31 December 20X1.

In our opinion, because of the significance of the matter described in the *Basis for Adverse Opinion* section, the summary financial statements are not consistent with (or a *fair summary of*) the audited financial statements of the Company for the year ended 31 December 20X1, in accordance with [describe established criteria].

**Basis for Adverse Opinion**

[Describe matter that caused the summary financial statements not to be consistent, in all material respects, with (or a *fair summary of*) the audited financial statements, in accordance with the applied criteria.]

**Summary Financial Statements**

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in the preparation of the audited financial statements of ABC Company for example, the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.] Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon.

**The Audited Financial Statements and Our Report Thereon**

We expressed an unmodified audit opinion on the audited financial statements in our report dated 15 February 20X2.

**Management's<sup>9</sup> Responsibility for the Summary Financial Statements**

Management is responsible for the preparation of the summary financial statements in accordance with [describe established criteria].

<sup>8a</sup>

In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>9</sup>

Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

**Auditor's Responsibility**

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with (or *are a fair summary of*) the audited financial statements based on our procedures, which were conducted in accordance with Hong Kong Standard on Auditing 810 (Revised), *Engagements to Report on Summary Financial Statements* issued by the Hong Kong Institute of Certified Public Accountants.

XYZ & Co.

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

[Auditor's address]

[Date of the auditor's report]

**Illustration 6:****Circumstances include the following:**

- **An unmodified opinion is expressed on the audited financial statements of a Hong Kong incorporated entity, whether listed or other than listed, except for companies falling within the reporting exemption under Division 2 of Part 9 of the Hong Kong Companies Ordinance.**
- **The summary financial report is prepared in accordance with section 439 of the Hong Kong Companies Ordinance and complies with the requirements of Part 2 of the Hong Kong Companies (Summary Financial Reports) Regulation.**
- **The auditor's report on the summary financial report is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.**
- **The auditor's report on the audited financial statements includes communication of key audit matters.**

**REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL REPORT**

To the Members of ABC Company

(incorporated in Hong Kong with limited liability)<sup>10</sup>

**Opinion**

The summary financial report of ABC Company ("the Company") set out on pages ... to ..., includes the [summary financial statements] of the Company for the year ended 31 December 20X1. The [summary financial statements] of the Company set out on pages ... to ... which comprise the summary statement of financial position<sup>11</sup> as at 31 December 20X1, the summary statement of comprehensive income [,][and summary income statement]<sup>12</sup> [, summary statement of changes in equity and summary statement of cash flows] for the year then ended, and related notes, are derived from the audited financial statements of the Company for the year ended 31 December 20X1. In our opinion, the summary financial report:

- a. is consistent with the annual financial statements and the auditor's report thereon and the directors' report of the Company for the year ended 31 December 20X1 from which it is derived; and
- b. complies with the requirements of Part 2 of the Hong Kong Companies (Summary Financial Reports) Regulation.

**Summary Financial Statements**

The summary financial statements included in the summary financial report do not contain all the disclosures required by Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. Reading the summary financial statements and the auditor's report on the summary financial report, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon.

<sup>10</sup> In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>11</sup> Sections 3(3)(a) and (b) of the Hong Kong Companies (Summary Financial Reports) Regulation states that a summary financial report of a company must contain all the information and particulars included in the company's statement of financial position and statement of comprehensive income; or the company's consolidated statement of financial position and consolidated statement of comprehensive income if the company is a holding company.

<sup>12</sup> Sections 3(3)(c) and (d) of the Hong Kong Companies (Summary Financial Reports) Regulation states that if the company's reporting documents for the financial year include a separate income statement in addition to the company's statement of comprehensive income, the summary financial report must contain all the information and particulars included in the income statement; or if the company is a holding company and its reporting documents for the financial year include a separate consolidated income statement in addition to the company's consolidated statement of comprehensive income, the summary financial report must contain all the information and particulars included in the consolidated income statement.

**The Audited Financial Statements and Our Report Thereon**

We expressed an unmodified audit opinion on the audited financial statements in our report dated 15 February 20X2. That report also includes the communication of key audit matters<sup>13</sup>. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period.<sup>13,14</sup>

**Directors'<sup>15</sup> Responsibility for the Summary Financial Report**

Under the Hong Kong Companies Ordinance, the directors are responsible for the preparation of the summary financial report in accordance with [section 439 of the Hong Kong Companies Ordinance and] the Hong Kong Companies (Summary Financial Reports) Regulation. In preparing the summary financial report, sections 3(1) and (2) of the Hong Kong Companies (Summary Financial Reports) Regulation requires that the summary financial report must contain the information derived from the annual financial statements and the auditor's report thereon and the directors' report for the year ended 31 December 20X1 and contain such information and particulars set out in sections 3(3), 5 and 6 of the Hong Kong Companies (Summary Financial Reports) Regulation, and be approved by the board of directors.

**Auditor's Responsibility**

Our responsibility is to express an opinion on whether the summary financial report is consistent with the annual financial statements and the auditor's report thereon and the directors' report; and complies with the requirements of Part 2 of the Hong Kong Companies (Summary Financial Reports) Regulation, based on our procedures, which were conducted in accordance with Hong Kong Standard on Auditing 810 (Revised), *Engagements to Report on Summary Financial Statements* issued by the Hong Kong Institute of Certified Public Accountants. We are also required to state whether the auditor's report on the annual financial statements for the year ended 31 December 20X1 is qualified or otherwise modified.

XYZ & Co.

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

[Auditor's address]

[Date of the auditor's report]

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<sup>13</sup> This statement is deleted when there is no communication of key audit matters.

<sup>14</sup> The auditor may include additional explanation about key audit matters considered helpful to users of the auditor's report on the summary financial statements.

<sup>15</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

**Illustration 7:**

Circumstances include the following:

- An unmodified opinion is expressed on the audited financial statements of a Hong Kong incorporated entity, whether listed or other than listed, except for companies falling within the reporting exemption under Division 2 of Part 9 of the Hong Kong Companies Ordinance.
- The summary financial report is prepared in accordance with section 439 of the Hong Kong Companies Ordinance and complies with the requirements of Part 2 of the Hong Kong Companies (Summary Financial Reports) Regulation.
- The auditor concludes that it is not possible to express an unmodified opinion on the summary financial statements.
- The auditor's report on the summary financial report is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.
- The auditor's report on the audited financial statements includes communication of key audit matters.

**REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL REPORT**

To the Members of ABC Company

(incorporated in Hong Kong with limited liability)<sup>16</sup>

**Adverse Opinion**

The summary financial report of ABC Company ("the Company") set out on pages ... to ..., includes the [summary financial statements] of the Company for the year ended 31 December 20X1. The [summary financial statements]<sup>17</sup> of the Company set out on pages ... to ... which comprise the summary statement of financial position<sup>18</sup> as at 31 December 20X1, the summary statement of comprehensive income<sup>17</sup> [,][and summary income statement] [, summary statement of changes in equity and summary statement of cash flows] for the year then ended, and related notes, are derived from the audited financial statements of the Company for the year ended 31 December 20X1.

In our opinion, because of the significance of the matter described in the *Basis for Adverse Opinion* section, the summary financial report:

- a. is not consistent with the annual financial statements and the auditor's report thereon and the directors' report of the Company for the year ended 31 December 20X1 from which it is derived; and
- b. does not comply with the requirements of Part 2 of the Hong Kong Companies (Summary Financial Reports) Regulation.

<sup>16</sup> In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>17</sup> Sections 3(3)(a) and (b) of the Hong Kong Companies (Summary Financial Reports) Regulation states that a summary financial report of a company must contain all the information and particulars included in the company's statement of financial position and statement of comprehensive income; or the company's consolidated statement of financial position and consolidated statement of comprehensive income if the company is a holding company.

<sup>18</sup> Sections 3(3)(c) and (d) of the Hong Kong Companies (Summary Financial Reports) Regulation states that if the company's reporting documents for the financial year include a separate income statement in addition to the company's statement of comprehensive income, the summary financial report must contain all the information and particulars included in the income statement; or if the company is a holding company and its reporting documents for the financial year include a separate consolidated income statement in addition to the company's consolidated statement of comprehensive income, the summary financial report must contain all the information and particulars included in the consolidated income statement.

**Basis for Adverse Opinion**

[Describe matter that caused the summary financial report not to be consistent, in all material respects, with (or a *fair summary of*) the audited financial statements, in accordance with section 439 of the Hong Kong Companies Ordinance and Part 2 of the Hong Kong Companies (Summary Financial Reports) Regulation.]

**Summary Financial Statements**

The summary financial statements included in the summary financial report do not contain all the disclosures required by the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. Reading the summary financial statements and the auditor's report on the summary financial report, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon.

**The Audited Financial Statements and Our Report Thereon**

We expressed an unmodified audit opinion on the audited financial statements in our report dated 15 February 20X2. That report also includes the communication of key audit matters<sup>19</sup>. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period.<sup>19, 20.</sup>

**Directors'<sup>21</sup> Responsibility for the Summary Financial Report**

Under the Hong Kong Companies Ordinance, the directors are responsible for the preparation of the summary financial report in accordance with section 439 of the Hong Kong Companies Ordinance and the Hong Kong Companies (Summary Financial Reports) Regulation. In preparing the summary financial report, section 3(1) and (2) of the Hong Kong Companies (Summary Financial Reports) Regulation requires that the summary financial report must contain the information derived from the annual financial statements and the auditor's report thereon and the Directors' report for the year ended 31 December 20X1, and contain such information and particulars set out in sections 3(3), 5 and 6 of the Hong Kong Companies (Summary Financial Reports) Regulation, and be approved by the board of directors.

**Auditor's Responsibility**

Our responsibility is to express an opinion on whether the summary financial report is consistent with the annual financial statements and the auditor's report thereon and the directors' report; and complies with the requirements of Part 2 of the Hong Kong Companies (Summary Financial Reports) Regulation, based on our procedures, which were conducted in accordance with Hong Kong Standard on Auditing 810 (Revised), *Engagements to Report on Summary Financial Statements* issued by the Hong Kong Institute of Certified Public Accountants. We are also required to state whether the auditor's report on the annual financial statements for the year ended 31 December 20X1 is qualified or otherwise modified.

XYZ & Co.

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

[Auditor's address]

[Date of the auditor's report]

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<sup>19</sup> This statement is deleted when there is no communication of key audit matters.

<sup>20</sup> The auditor may include additional explanation about key audit matters considered helpful to users of the auditor's report on the summary financial statements.

<sup>21</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

**Illustration 8:**

**Circumstances include the following:**

- **A qualified opinion is expressed on the audited financial statements of a Hong Kong incorporated entity, whether listed or other than listed, except for companies falling within the reporting exemption under Division 2 of Part 9 of the Hong Kong Companies Ordinance.**
- **The summary financial report is prepared in accordance with section 439 of the Hong Kong Companies Ordinance and complies with the requirements of Part 2 of the Hong Kong Companies (Summary Financial Reports) Regulation.**
- **The auditor's report on the summary financial report is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.**
- **The auditor's report on the audited financial statements includes communication of key audit matters.**

**REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL REPORT**

To the Members of ABC Company

(incorporated in Hong Kong} with limited liability)<sup>22</sup>

**Opinion**

The summary financial report of ABC Company ("the Company") set out on pages ... to ..., includes the [summary financial statements] of the Company for the year ended 31 December 20X1. The [summary financial statements] of the Company set out on pages ... to ... which comprise the summary statement of financial position<sup>23</sup> as at 31 December 20X1, the summary statement of comprehensive income<sup>23</sup>, [and summary income statement<sup>24</sup>] [, summary statement of changes in equity and summary statement of cash flows] for the year then ended, and related notes, are derived from the audited financial statements of the Company for the year ended 31 December 20X1. We expressed a qualified audit opinion on those financial statements in our report dated 15 February 20X2. A copy of the qualified auditor's report [and the further material necessary for the understanding of the qualification]<sup>25</sup> [has/ have] been set out on pages ... to ... of the summary financial report. In our opinion, the summary financial report:

- a. is consistent with the annual financial statements and the auditor's report thereon and the directors' report of the Company for the year ended 31 December 20X1 from which it is derived; and
- b. complies with the requirements of Part 2 of the Hong Kong Companies (Summary Financial Reports) Regulation.

<sup>22</sup> In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>23</sup> Sections 3(3)(a) and (b) of the Hong Kong Companies (Summary Financial Reports) Regulation states that a summary financial report of a company must contain all the information and particulars included in the company's statement of financial position and statement of comprehensive income; or the company's consolidated statement of financial position and consolidated statement of comprehensive income if the company is a holding company.

<sup>24</sup> Sections 3(3)(c) and (d) of the Hong Kong Companies (Summary Financial Reports) Regulation states that if the company's reporting documents for the financial year include a separate income statement in addition to the company's statement of comprehensive income, the summary financial report must contain all the information and particulars included in the income statement; or if the company is a holding company and its reporting documents for the financial year include a separate consolidated income statement in addition to the company's consolidated statement of comprehensive income, the summary financial report must contain all the information and particulars included in the consolidated income statement.

<sup>25</sup> Section 4(1) of the Hong Kong Companies (Summary Financial Reports) Regulation states that a summary financial report of a company must contain a statement from the company's auditors as to whether the auditors' report for that financial year is qualified or otherwise modified, or includes a reference to any matter to which the auditor drew attention by way of emphasis without qualifying the report; and if the auditors' report is qualified or otherwise modified, set out the full auditors' report and any further material necessary for the understanding of the qualification or other modification.

However, we were unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate as stated in the audited financial statements of the Company for the year ended 31 December 20X1.

**Summary Financial Statements**

The summary financial statements included in the summary financial report do not contain all the disclosures required by the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. Reading the summary financial statements and the auditor's report on the summary financial report, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon.

**The Audited Financial Statements and Our Report Thereon**

We expressed a qualified audit opinion on the audited financial statements in our report dated 15 February 20X2. The basis for our qualified opinion was that the Company's investment in DEF Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at xxx on the statement of financial position as at 31 December 20X1, and the Company's share of DEF Company's net income of xxx is included in the Company's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of the Company's investment in DEF Company as at 31 December 20X1 and the Company's share of DEF Company's net income for the year because we were denied access to the financial information, management, and the auditors of DEF Company. Consequently, we were unable to determine whether any adjustments to these amounts were necessary. Our qualified audit opinion states that, except for the effects of the described matter, those financial statements give a true and fair view of the financial position of the Company as at 31 December 20X1, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.<sup>26</sup>

That report also includes the communication of other key audit matters.<sup>27</sup> Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period.<sup>27, 28</sup>

[In addition, the information given in the directors' report for the year ended 31 December 20X1 is not consistent with the [summary financial statements] of the Company for the year ended 31 December 20X1 to the equivalent extent as the financial statements of the Company for the year ended 31 December 20X1. The inconsistencies are described in our report dated 15 February 20X2. [*State the details of the inconsistencies.*]<sup>29</sup>]

In respect alone the inability to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate as described above:

- we were unable to determine whether adequate accounting records had been kept; and

<sup>26</sup> Section 4(2) of the Hong Kong Companies (Summary Financial Reports) Regulation states that if the auditor's report of a company contains a statement that, in the auditor's opinion, the financial statements for a financial year of the company have not been properly prepared in compliance with the Ordinance, and in particular –

- (a) a true and fair view of the financial position and financial performance of the company has not been given; or
- (b) for a company that is required to prepare annual consolidated financial statements, a true and fair view of the financial position and financial performance of the company, and all the subsidiary undertakings, as a whole has not been given,

a summary financial report for that financial year must contain that statement.

<sup>27</sup> This statement is deleted when there is no communication of key audit matters.

<sup>28</sup> The auditor may include additional explanation about key audit matters considered helpful to users of the auditor's report on the summary financial statements.

<sup>29</sup> Section 4(3) of the Hong Kong Companies (Summary Financial Reports) Regulation states that if the auditor's report of a company contains a statement that, in the auditor's opinion, the information in a director's report for a financial year is not consistent with the financial statements for the financial year, a summary financial report for that financial year must contain that statement.



- we have not obtained all the information and explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.<sup>30</sup>

### Directors'<sup>31</sup> Responsibility for the Summary Financial Report

Under the Hong Kong Companies Ordinance, the directors are responsible for the preparation of the summary financial report in accordance with section 439 of the Hong Kong Companies Ordinance and the Hong Kong Companies (Summary Financial Reports) Regulation. In preparing the summary financial report, section 3(1) and (2) of the Hong Kong Companies (Summary Financial Reports) Regulation requires that the summary financial report must contain the information derived from the annual financial statements and the auditor's report thereon and the directors' report for the year ended 31 December 20X1, and contain such information and particulars set out in sections 3(3), 5 and 6 of the Hong Kong Companies (Summary Financial Reports) Regulation, and be approved by the board of directors.

### Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary financial report is consistent with the annual financial statements and the auditor's report thereon and the directors' report; and complies with the requirements of Part 2 of the Hong Kong Companies (Summary Financial Reports) Regulation, based on our procedures, which were conducted in accordance with Hong Kong Standard on Auditing 810 (Revised) *Engagements to Report on Summary Financial Statements* issued by the Hong Kong Institute of Certified Public Accountants. We are also required to state whether the auditor's report on the annual financial statements for the year ended 31 December 20X1 is qualified or otherwise modified.

XYZ & Co.

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

[Auditor's address]

[Date of the auditor's report]

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<sup>30</sup> Section 4(4) of the Hong Kong Companies (Summary Financial Reports) Regulation states that if the auditor's report for a financial year of a company contains—

- (a) a statement that, in the auditor's opinion—
    - (i) adequate accounting records have not been kept by the company; or
    - (ii) the company's financial statements are not in agreement with its accounting records in any material respect;
  - (b) a statement that the auditor has failed to obtain all the information or explanations that, to the best of the auditor's knowledge and belief, are necessary and material for the purpose of the audit; and
  - (c) a statement giving the particulars that are required to be, but have not been, contained in the financial statements, as required by section 407(4) of the Ordinance,
- a summary financial report for that financial year must contain those statements.

<sup>31</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

**Appendix 2**

(Ref: Para. 4(c))

**Additional Local Guidance for Auditors to Report on Summary Financial Report****Hong Kong Companies Ordinance**

1. The Hong Kong Companies Ordinance (Cap. 622) (CO) was enacted on 12 July 2013 and commenced operation on 3 March 2014. Under section 439 of the CO, the directors of a company may prepare for a financial year a financial report, in summary form, derived from the reporting documents for the financial year (a copy of which is required to be sent to every member of the company under section 430). Under section 441, the summary financial report may be sent to member instead of the reporting documents under section 430. Companies (Summary Financial Reports of Listed Companies) Regulation was also replaced by the Companies (Summary Financial Reports) Regulation with effect from 3 March 2014. An extract of the relevant provisions of the law on the form and contents of the summary financial report is set out in Appendix 3.

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

2. Main Board Listing Rule 13.46 states that the issuer may send a copy of its summary financial report to a member and a holder of its listed securities in place of a copy of its annual report and accounts, provided that it complies with the relevant provisions set out in sections 437 to 446 of the CO and in the Companies (Summary Financial Reports) Regulation or, in the case of an overseas issuer or a PRC issuer, with provisions no less onerous than the aforementioned provisions for listed issuers incorporated in Hong Kong.
3. The Listing Rules (Chapter 1) define a summary financial report as one which complies with sections 437 to 446 of the CO.

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

4. The GEM Listing Rules (Chapters 18 and 31) state that a listed issuer may send a copy of its summary financial report to a member and a holder of its listed securities in place of a copy of its annual report and accounts, provided that it complies with the relevant provisions set out in sections 437 to 446 of the CO and in the Companies (Summary Financial Reports) Regulation or, in the case of overseas issuers, with provisions no less onerous than the aforementioned provisions for listed issuers incorporated in Hong Kong.
5. The GEM Listing Rules (Chapter 1) define a summary financial report as one which complies with sections 437 to 446 of the CO.

**Definitions**

6. For the purpose of this appendix, the following definitions apply:
  - (a) annual financial statements - a complete set of financial statements for a financial year, the components of which are:
    - (i) statement of financial position;
    - (ii) income statement / statement of profit or loss / statement of profit or loss and other comprehensive income;
    - (iii) statement of changes in equity;
    - (iv) statement of cash flows; and
    - (v) a summary of significant accounting policies and other explanatory information; and

- (b) other information - financial and non-financial information, in addition to that legally required to be included in the summary financial report under Part 2 of the Companies (Summary Financial Reports) Regulation, which is issued by the directors to accompany the summary financial report.

### **Form of Opinion**

- 7. Section 4(5) of the Companies (Summary Financial Reports) Regulation requires that the auditor forms an opinion as to whether the summary financial report is consistent with the reporting documents (defined by section 357(2) of the CO as the annual financial statements for the year, directors' report for the year and the auditor's report) from which it is derived and whether it complies with the requirements of Part 2 (i.e. sections 3 to 6) of the Companies (Summary Financial Reports) Regulation.

### **Consistency with the Annual Financial Statements, Directors' Report and Auditor's Report**

- 8. The auditor states whether in his/ her opinion the summary financial report is consistent with the annual financial statements, directors' report and auditor's report. The auditor is not required to form an opinion on whether the summary financial report gives a true and fair view. It is in any event most unlikely that the summary financial report could give a true and fair view in any practical situation, as much of the detailed information from which it has been extracted is not presented. Members and other users do not, therefore, have the same expectations of the summary financial report as they do of the annual financial statements.
- 9. Matters which may give rise to an inconsistency include:
  - (a) information which has been inaccurately extracted from the annual financial statements, directors' report and auditor's report; and
  - (b) information which, in the auditor's opinion, has been summarised in a manner which is not consistent with the annual financial statements, directors' report and auditor's report.

### **Compliance with Part 2 of the Companies (Summary Financial Reports) Regulation**

- 10. In order to give the opinion required by section 4(5) of the Companies (Summary Financial Reports) Regulation (paragraph 7 above), the auditor gives consideration to the specific and detailed requirements of Part 2 of the Companies (Summary Financial Reports) Regulation. The auditor includes within the scope of his/ her examination all matters required to be included in the summary financial report by Part 2 of the Companies (Summary Financial Reports) Regulation.
- 11. Under section 4(1) of the Companies (Summary Financial Reports) Regulation, the summary financial report must contain a statement from the auditor as to whether the auditor's report for that financial year is qualified or otherwise modified (including situations set out in sections 4(2) – (4) of the Companies (Summary Financial Reports) Regulation), or includes a reference to any matter to which the auditor drew attention by way of emphasis without qualifying the report; and if the auditor's report is qualified or otherwise modified, set out in the summary financial report the full auditor's report and any further material necessary for the understanding of the qualification or other modification. Therefore, where such a qualification or other modification includes a reference to a note to the annual financial statements but does not reproduce the relevant information contained in that note, that information is also reproduced in the summary financial report to accompany the auditor's report on the annual financial statements.
- 12. An inconsistency between the summary financial report and the annual financial statements, directors' report and auditor's report also means that the summary financial report is not properly derived from them and does not comply with the Companies (Summary Financial Reports) Regulation, it therefore leads to a qualification of the auditor's report on the summary financial report on the grounds of non-compliance with the requirements of Part 2 of the Companies (Summary Financial Reports) Regulation as well as on the grounds of the inconsistency.

**Appendix 3**

**Extracts of the Relevant Sections of the Companies Ordinance and the Companies (Summary Financial Reports) Regulation on the Form and Contents of Summary Financial Report**

**Companies Ordinance -**

**439. Directors may prepare financial report in summary form**

- (1) The directors of a company may prepare for a financial year a financial report, in summary form, derived from the reporting documents for the financial year, a copy of which is required to be sent to every member of the company under section 430.
- (2) A financial report prepared under subsection (1)—
  - (a) must contain the information prescribed by the Regulation; and
  - (b) must comply with other requirements prescribed by the Regulation.
- (3) If subsection (2) is contravened—
  - (a) a director who failed to take all reasonable steps to secure compliance with that subsection commits an offence and is liable to a fine of \$300,000; and
  - (b) a director who wilfully failed to take all reasonable steps to secure compliance with that subsection commits an offence and is liable to a fine of \$300,000 and to imprisonment for 12 months.
- (4) If a person is charged with an offence under subsection (3)(a), it is a defence to establish that the person had reasonable grounds to believe, and did believe, that a competent and reliable person—
  - (a) was charged with the duty of ensuring that subsection (2) was complied with; and
  - (b) was in a position to discharge that duty.

**440. Summary financial report to be approved and signed**

- (1) A summary financial report—
  - (a) must be approved by the directors; and
  - (b) must be signed on the directors' behalf by a director.
- (2) Every copy of a summary financial report sent to a member under this Division or otherwise circulated, published or issued by the company must state the name of the director who signed the report on the directors' behalf.
- (3) If, as respect any summary financial report a copy of which is circulated, published or issued by the company, subsection (1) is contravened, the company, and every responsible person of the company, commit an offence, and each is liable to a fine at level 4.
- (4) If subsection (2) is contravened, the company, and every responsible person of the company, commit an offence, and each is liable to a fine at level 4.

**441. Company may send copy of summary financial report to member**

- (1) If a company is required to send a copy of the reporting documents for a financial year to a member under section 430, the company may send a copy of the summary financial report for the financial year (if any) to the member instead.
- (2) If a company sends a copy of the summary financial report for a financial year to a member under subsection (1), the copy must be sent during the period within which a copy of the reporting documents for the financial year would be required to be sent to the member by the company under section 430.

**Companies (Summary Financial Reports) Regulation**

***Part 2 Summary Financial Report***

**3. Form and contents of summary financial report: general**

- (1) A summary financial report for a financial year of a company must contain the information derived from the reporting documents for the financial year of the company.
- (2) A summary financial report for a financial year of a company must contain the information and particulars set out in subsection (3).
- (3) The information and particulars referred to in subsection (2) are—
  - (a) all the information and particulars included in the following statements of the company relating to the financial year—
    - (i) statement of financial position; and
    - (ii) statement of comprehensive income;
  - (b) if the company is a holding company, all the information and particulars included in the following statements of the company relating to the financial year—
    - (i) consolidated statement of financial position; and
    - (ii) consolidated statement of comprehensive income;
  - (c) if the company's reporting documents for the financial year include a separate income statement in addition to the company's statement of comprehensive income, all the information and particulars included in the income statement;
  - (d) if the company is a holding company and its reporting documents for the financial year include a separate consolidated income statement in addition to the company's consolidated statement of comprehensive income, all the information and particulars included in the consolidated income statement; and
  - (e) all the information and particulars—
    - (i) included in the directors' report of the company for the financial year as required under—
      - (A) sections 388 and 390 of the Ordinance; and
      - (B) the Companies (Directors' Report) Regulation; and
    - (ii) contained in the notes to the financial statements for the financial year as prescribed by the Disclosure Regulation.

**4. Form and contents of summary financial report: auditor's report and opinion**

- (1) A summary financial report for a financial year of a company must—
  - (a) contain a statement from the company's auditor as to whether the auditor's report for that financial year is qualified or otherwise modified, or includes a reference to any matter to which the auditor drew attention by way of emphasis without qualifying the report; and

- (b) if the auditor's report is qualified or otherwise modified, set out the full auditor's report and any further material necessary for the understanding of the qualification or other modification.
- (2) If the auditor's report of a company contains a statement that, in the auditor's opinion, the financial statements for a financial year of the company have not been properly prepared in compliance with the Ordinance, and in particular—
  - (a) a true and fair view of the financial position and financial performance of the company has not been given; or
  - (b) for a company that is required to prepare annual consolidated financial statements, a true and fair view of the financial position and financial performance of the company, and all the subsidiary undertakings, as a whole has not been given,

a summary financial report for that financial year must contain that statement.

- (3) If the auditor's report of a company contains a statement that, in the auditor's opinion, the information in a director's report for a financial year is not consistent with the financial statements for the financial year, a summary financial report for that financial year must contain that statement.
- (4) If the auditor's report for a financial year of a company contains—
  - (a) a statement that, in the auditor's opinion—
    - (i) adequate accounting records have not been kept by the company; or
    - (ii) the company's financial statements are not in agreement with its accounting records in any material respect;
  - (b) a statement that the auditor has failed to obtain all the information or explanations that, to the best of the auditor's knowledge and belief, are necessary and material for the purpose of the audit; and
  - (c) a statement giving the particulars that are required to be, but have not been, contained in the financial statements, as required by section 407(4) of the Ordinance,

a summary financial report for that financial year must contain those statements.

- (5) A summary financial report of a company must contain an opinion from the company's auditor as to whether—
  - (a) the report is consistent with the reporting documents from which the report is derived; and
  - (b) the report complies with the requirements of this Part.

**5. Form and contents of summary financial report: other matters**

- (1) - (2) (Repealed L.N. 48 of 2013)
- (3) If a company is not required to prepare annual consolidated financial statements, a summary financial report of the company must contain, in a prominent position (but not necessarily on the front cover) of the report, a statement to the effect that—
  - (a) the report only gives a summary of the information and particulars contained in the reporting documents of the company from which the report is derived; and
  - (b) a member of the company may obtain from the company free of charge a copy of the reporting documents if a request is made on or before the specified date.
- (4) If a company is required to prepare annual consolidated financial statements, a summary financial report of the company must contain, in a prominent position (but not necessarily on the front cover) of the report, a statement to the effect that—

- (a) the report only gives a summary of the information and particulars contained in the reporting documents of the company, and its subsidiary undertakings, from which the report is derived; and
  - (b) a member of the company may obtain from the company free of charge a copy of the reporting documents if a request is made on or before the specified date.
- (5) A summary financial report for a financial year of a company must contain, in a prominent position (but not necessarily on the front cover) of the report, a statement about how a member of the company may obtain from the company free of charge a copy of the reporting documents from which the report is derived.
- (6) This section does not prohibit a company from including in its summary financial report for a financial year any other information or particulars which
- (a) the company considers appropriate; and
  - (b) is not inconsistent with the reporting documents of the company for the financial year from which the report is derived.
- (7) In this section—
- specified date** (指明日期)—
- (a) if a company is required to hold an annual general meeting in accordance with section 610 of the Ordinance in respect of a financial year, means the day immediately before the expiry of a period of 6 months after the date of the annual general meeting on which a copy of the reporting documents is to be laid;
  - (b) if a copy of the reporting documents is laid at a general meeting subsequent to an annual general meeting, means the day immediately before the expiry of a period of 6 months after the date of the subsequent meeting; or
  - (c) if, by virtue of section 612(2) of the Ordinance, a company is not required to hold an annual general meeting in accordance with section 610 of the Ordinance in respect of a financial year, means the day immediately before the expiry of a period of 6 months after the date on which a copy of the reporting documents for the financial year is sent under section 430(3) of the Ordinance.

**6. Other requirements in relation to form of summary financial report**

Subject to this Regulation, a company may specify any other requirements in relation to the form of its summary financial report that the company considers appropriate.

PN 600.1 (Revised)  
Issued June 2014; revised December 2015; August 2016

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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)**



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



**PRACTICE NOTE 600.1 (REVISED)**  
**REPORTS BY THE AUDITOR UNDER**  
**THE HONG KONG COMPANIES ORDINANCE (CAP. 622)**

*(Issued June 2014; Revised December 2015; August 2016  
Effective for audits of financial statements for periods ending on or after 15 December 2016)*

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Practice Note (PN) 600.1 (Revised), *Reports by the Auditor under the Hong Kong Companies Ordinance (Cap. 622)* should be read in the context of the *Amended Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* which sets out the application and authority of PNs.

**PRACTICE NOTE  
600.1 (REVISED)  
REPORTS BY THE AUDITOR UNDER  
THE HONG KONG COMPANIES ORDINANCE (CAP. 622)**

*The purpose of Practice Notes issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) is to assist the auditor in applying Hong Kong Engagement Standards of general application to particular circumstances and industries.*

*Practice Notes are persuasive rather than prescriptive. However they are indicative of good practice and have similar status to the explanatory material in Hong Kong Engagement Standards. This Practice Note provides guidance to assist the auditor to fulfill the objectives of the engagement. The auditor should be prepared to explain departures when called upon to do so.*

## **Introduction**

1. In this Practice Note all the sections mentioned below are in respect of the new Hong Kong Companies Ordinance (Cap. 622) ("CO") which became effective on 3 March 2014, unless otherwise stated. The new requirements apply to the first financial year<sup>1</sup> of companies that begins on or after the commencement date of the new CO and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015).
2. This Practice Note gives guidance on the application of Hong Kong Engagement Standards on reports by an auditor issued under the CO. It is applicable to all such reports, irrespective of whether the reporting entity has taken advantage of the reporting exemption available under the CO for companies which are eligible for those exemptions in accordance with section 359.<sup>2</sup>

## **Auditor's report**

3. According to section 405 of the CO, a company's auditor must prepare a report for the members of the company on any financial statements prepared by the directors, a copy of which is laid before the company in general meeting under section 429, or sent to a member under section 430 or otherwise circulated, published or issued by the company, during the auditor's term of office.

## **Auditor's opinion on financial statements**

4. Section 406(1) requires the auditor to state in the auditor's report, the auditor's opinion:
  - a. whether the financial statements have been properly prepared in compliance with the CO; and

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<sup>1</sup> Section 367(1) of the CO states that a company's first financial year after the coming into operation of this section begins on the first day of its first accounting reference period and ends on the last day of that period.

<sup>2</sup> The new CO permits certain companies to take advantage of certain "reporting exemptions" if they meet the qualifying criteria set out in section 359 relating to small or larger eligible private companies (or groups), or small companies limited by guarantee (or groups).

The reporting exemptions available affect the content of the annual report. For example, these reporting entities are exempt from preparing a business review for the directors' report and may prepare their financial statements in accordance with the revised Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME-FRF and SME-FRS) which are effective for periods beginning on or after 3 March 2014.

However, in general, the reporting exemptions do not alter the duties of the auditor under the CO to make certain reports in certain circumstances. Therefore, unless otherwise stated, the guidance in this Practice Note applies to all such reports by the auditor, irrespective of whether the reporting entity has taken advantage of the reporting exemptions, in addition to the guidance in Practice Note 900 (Revised), *Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard*, which specifically relates to reporting on the financial statements under section 406 of the CO.

- b. in particular, whether the financial statements -
- i. in the case of annual financial statements of a company that does not fall within the reporting exemption<sup>3</sup> for the financial year, give a true and fair view of the financial position and financial performance of the company as required by section 380; or
  - ii. in the case of annual consolidated financial statements of a company that does not fall within the reporting exemption for the financial year, give a true and fair view of the financial position and financial performance of the company and all the subsidiary undertakings as required by section 380.
5. In considering whether the financial statements give a true and fair view, it will be necessary for the auditor to take into account, inter alia, of the financial reporting framework adopted. Reference should be made to paragraph A13 of Hong Kong Standard on Auditing (HKSA) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*, in respect of compliance with relevant requirements.
6. As explained in paragraph A13 of HKSA 200 where the financial reporting framework is a fair presentation framework, as is the case for statutory financial statements prepared by companies incorporated in Hong Kong which are not eligible for the reporting exemption, the opinion required by the HKSA is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view. Where the financial reporting framework is a compliance framework, as is the case for statutory financial statements prepared by companies incorporated in Hong Kong which are eligible for the reporting exemption, the opinion required is on whether the financial statements are prepared, in all material respects, in accordance with the framework<sup>4</sup>.
7. 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.
8. Normally, a company incorporated in Hong Kong prepares their financial statements in accordance with Hong Kong Financial Reporting Standards (HKFRSs) or Hong Kong Financial Reporting Standard for Private Entities (HKFRS for Private Entities) unless eligible for the reporting exemption. HKFRSs or HKFRS for Private Entities describe methods of accounting approved by the Council of the HKICPA for application to financial statements intended to give a true and fair view. If the company is eligible for the reporting exemption then it may prepare its financial statements in accordance with the Small and Medium-sized Entity Financial Reporting

<sup>3</sup> As explained in footnote 2 above, if the reporting entity is eligible for the reporting exemption then it may prepare its financial statements in accordance with the SME-FRF and SME-FRS. Paragraph 1.2 of the SME-FRS requires those financial statements to properly present the financial position and financial performance of the reporting entity in accordance with the SME-FRS. This is consistent with the reporting exemption granted in section 380(7) of the CO. Consequently, the requirement under section 406(1)(b) for the auditors to report on whether the financial statements give a true and fair view does not apply when the auditor is reporting on financial statements prepared in accordance with the SME-FRF and SME-FRS. Further guidance on the auditor's report on financial statements prepared under the SME-FRF and SME-FRS is contained in Practice Note 900 (Revised).

<sup>4</sup> Refer to Practice Note 900 (Revised) for further guidance on reporting on statutory financial statements prepared by reporting entities eligible for the reporting exemption.

Framework and Financial Reporting Standard (SME-FRF and SME-FRS), which is a compliance framework.

9. The auditor is also required to state whether, in the auditor's opinion, the financial statements have been properly prepared in compliance with the CO. In this context, the expression "properly prepared" includes compliance with the following requirements as set out in section 380 of the CO, in addition to an overriding requirement that the financial statements should give a true and fair view (if applicable):
  - a. The financial statements must comply with the requirements of accounting disclosures as set out in Schedule 4 of the CO.
  - b. The financial statements must also comply with -
    - i. any other requirements of the CO in relation to the financial statements; and
    - ii. the accounting standards applicable to the financial statements.
  - c. If, in relation to any financial statements that do not fall within the reporting exemption, compliance with a. and b. above would be insufficient to give a true and fair view, the financial statements must contain all additional information necessary for that purpose.
  - d. If, in relation to any financial statements that do not fall within the reporting exemption, compliance with a. or b. above would be inconsistent with a requirement to give a true and fair view, the financial statements must -
    - i. depart from a. or b. (as the case may be) to the extent necessary for it to give a true and fair view; and
    - ii. contain the reasons for, and the particulars and effect of, the departure.
  
10. An example of unmodified auditor's report for a company incorporated in Hong Kong and not falling within the reporting exemption is included in Appendix – Illustration 1 of HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*. A suggested Chinese translation of an unmodified auditor's report based on HKSA 700 (Revised) is provided on the HKICPA's website for reference. Examples of modified auditor's reports are included in the Appendix to HKSA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*. Examples of unmodified and modified auditor's reports for a company incorporated in Hong Kong which falls within the reporting exemption are included in the Appendices to Practice Note 900 (Revised), *Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard*.

**Auditor's opinion on directors' report**

11. Section 406(2) states that if a company's auditor is of the opinion that the information in a directors' report for a financial year is not consistent with the financial statements for the financial year, the auditor -
  - a. must state that opinion in the auditor's report; and
  - b. may bring that opinion to the members' attention at a general meeting.
  
12. Section 406(2)(a) is silent on whether the provisions apply only to material inconsistencies. The auditor should refer to HKSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* for further guidance in this regard.

**Auditor's opinion on other matters**

13. In addition to the auditor's opinion on financial statements and director's report, an auditor is required to opine on other matters as set out in section 407 of the CO. These requirements include:
- a. In preparing an auditor's report, the auditor must carry out an investigation that will enable the auditor to form an opinion as to –
    - i. whether adequate accounting records have been kept by the company; and
    - ii. whether the financial statements are in agreement with the accounting records.
  - b. A company's auditor must state the auditor's opinion in the auditor's report if the auditor is of the opinion that –
    - i. adequate accounting records have not been kept by the company; or
    - ii. the financial statements are not in agreement with the accounting records in any material respect.
  - c. If a company's auditor fails to obtain all the information or explanations that, to the best of the auditor's knowledge and belief, are necessary and material for the purpose of the audit, the auditor must state that fact in the auditor's report.
  - d. If the financial statements do not comply with section 383(1), the auditor must include in the auditor's report, so far as the auditor is reasonably able to do so, a statement giving the particulars that are required to be, but have not been, contained in the financial statements.

The absence of any comment in the auditor's report in respect of these matters is equivalent to a positive affirmation by the auditor that he/ she is satisfied with each of them. If the auditor is not so satisfied, he/ she must state the fact in the auditor's report. The auditor should also refer to the guidance in paragraph 37 of AATB 4 "Guidance on section 408 of the Companies Ordinance".

14. In relation to paragraph 13.d. above, section 383(1) of the CO requires that the financial statements for a financial year must contain, in the notes to the statements, the information prescribed by the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) ("Regulation") about the following:
- a. the directors' emoluments;
  - b. the directors' retirement benefits;
  - c. payments made or benefit provided in respect of the termination of the services of directors, whether in the capacity of directors or in any other capacity while directors;
  - d. loans, quasi-loans and other dealings in favour of –
    - i. directors of the company and of a holding company of the company;
    - ii. bodies corporate controlled by such directors<sup>5</sup>; and
    - iii. entities connected with such directors;
  - e. material interests of directors in transactions, arrangements or contracts entered into by

<sup>5</sup> The auditor should read the Regulation when reporting on the above matters. According to section 13(5) of the Regulation, a reference is made to "a body corporate controlled by a director" within the meaning of section 492 of the CO.

the company or another company in the same group of companies;

- f. consideration provided to or receivable by third parties for making available the services of a person as director or in any other capacity while director.

### **Dating and signing of the auditor's report**

15. Section 387(1) of the CO requires that a statement of financial position that forms part of any financial statements must be approved by the directors and signed by two directors on the directors' behalf or in the case of a company having only one director, by the director. The auditor should not sign or date the auditor's report earlier than the date on which the complete financial statements were approved by the director(s). The auditor shall sign and date the auditor's report on financial statements in accordance with paragraphs 47 and 49 of HKSA 700 (Revised).

### **Auditor's reports on consolidated financial statements**

16. Under section 379(2) of the CO, if the company is a holding company at the end of the financial year, the directors must prepare for the financial year consolidated statements that comply with sections 380, 381 and 383. Sections 380 and 383 provide the general requirements for financial statements and notes to financial statements to contain information on directors' emoluments and section 381 deals with subsidiary undertakings to be excluded from the annual consolidated financial statements.
17. As stated in paragraph 4 above, the auditor is required to state in the auditor's report, the auditor's opinion:
  - a. whether the annual consolidated financial statements have been properly prepared in compliance with the CO; and
  - b. whether the annual consolidated financial statements of a company that does not fall within the reporting exemption for the financial year, give a true and fair view of the financial position and financial performance of the company and all the subsidiary undertakings as required by section 380.

As set out in paragraph 2, Part 1 of Schedule 4 of the CO, the annual consolidated financial statements must contain, in notes to the statements, the holding company's statement of financial position and must include a note disclosing the movement in the holding company's reserves. The holding company's statement of financial position must be in the format in which that statement would have been prepared if the holding company had not been required to prepare any annual consolidated financial statements. The holding company's statement of financial position to be contained in the notes to the annual consolidated financial statements is not required to contain any notes.

18. Examples of auditor's reports for companies incorporated in Hong Kong submitting consolidated financial statements are included in Appendix – Illustrations 2, 4 and 8 of HKSA 700 (Revised).
19. Normally, the auditor of a holding company incorporated in Hong Kong is required to report that the consolidated financial statements have been audited in accordance with HKSAs. HKSAs are approved by the Council of the HKICPA for application in the audit of historical financial information. It is stated in paragraph 36 of the Amended Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements ("the Amended Preface") that where the financial statements of an overseas enterprise are to be incorporated into Hong Kong financial statements, the audit of the overseas enterprise should conform to HKSAs in so far as this is necessary to ensure that the audit of the Hong Kong financial statements as a whole is in accordance with HKSAs. It is also stated in paragraph 38 of the Amended Preface that where the financial statements of an overseas/ People's Republic of China incorporated enterprise which is listed on The Stock Exchange of Hong Kong Limited, the relevant Listing Rules allow the audit to conform to International Standards on Auditing.

20. Relevant guidance for audit of consolidated financial statements is included in HKSA 600 *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.

21. The following additional guidance is given in respect of modifications on consolidated financial statements:

a. *subsidiary company modification affecting consolidated financial statements*

Where the financial statements of a subsidiary contain a modification which is not eliminated on consolidation and is material to the consolidated financial statements, it will be necessary to consider whether it affects the consolidated financial position and the consolidated financial performance.

The auditor's report on the consolidated financial statements must be worded to include whatever reference is appropriate to the items which have been the subject of modification. However, it may not be adequate just to repeat the audit modification of the subsidiary's financial statements.

b. *modification of consolidated financial statements only*

Even though the auditor's reports of individual group companies may be unmodified, if the auditor concludes that a modification to the auditor's opinion on the consolidated financial statements is necessary, it may be necessary to modify the auditor's report on the consolidated financial statements.

Example modified auditors' reports on financial statements can be found in the Appendix to HKSA 705 (Revised) and in the Appendices to Practice Note 900 (Revised), as applicable.

### **Subsidiaries' and associates' financial statements audited by other auditors**

22. The group auditor is fully responsible for the auditor's opinion on the consolidated financial statements. Section 412 of the CO<sup>6</sup> empowers an auditor to require information and explanation for the performance of the duties as auditor from the following persons:

- a. an officer of the company;
- b. the subsidiary undertaking;
- c. a person who—
  - i. is an officer or auditor of the subsidiary undertaking; or
  - ii. was an officer or auditor of the subsidiary undertaking at the time to which the information or explanation relates; and
- d. a person who—
  - i. holds or is accountable for any of the subsidiary undertaking's accounting records; or
  - ii. held or was accountable for the subsidiary undertaking's accounting records at the time to which the information or explanation relates.

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<sup>6</sup> For further information, please refer to Companies Registry *Frequently Asked Questions* on Enhancement of Auditor's rights.

23. If a subsidiary undertaking of a company is not a company incorporated in Hong Kong, an auditor of the company may require the company to obtain from any of the persons specified in b. to d. above any information or explanation that the auditor reasonably requires for the performance of the duties as auditor of the company. In accordance with paragraph 11 of HKSA 600, the auditor's report on the consolidated financial statements shall not refer to the fact that the financial statements of some subsidiaries or associates have been audited by other auditors.
24. However, the directors of the holding company may consider it is useful to disclose the information that the financial statements of some of the entities in the group have been audited by other auditors and the materiality of those entities to the group. A common way to disclose this information is to include in the schedule of principal subsidiaries and associates, which of those entities have been audited by the other auditors. It may be useful to indicate thereon the significance to the group of the entities that have been so audited by reference to the amount of their assets, turnover or profits or losses before taxation.

### **Dates of financial statements of subsidiaries**

25. In accordance with paragraph 37 of HKSA 600, if the consolidated financial statements include the financial statements of a component with a financial reporting period-end that differs from that of the group, the auditor of the holding company shall evaluate whether appropriate adjustments have been made to those financial statements in accordance with the applicable financial reporting framework.
26. In accordance with paragraph B92 of Hong Kong Financial Reporting Standard 10 "Consolidated Financial Statements", when the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial information as of the same date as the financial statements of the parent to enable the parent to consolidate the financial information of the subsidiary, unless it is impracticable to do so. Paragraph B93 provides further guidance if it is impracticable for the subsidiary to prepare the financial information as required in paragraph B92. Similar guidance is set out in paragraph 9.16 of the HKFRS for Private Entities and paragraphs 19.8-19.9 of the SME-FRS, if applicable.

### **Identification of financial statements audited**

27. Frequently one or more of the following accompany the financial statements in the company's annual report:
- a. directors' report;
  - b. chairman's statement; and
  - c. information supplementary to the financial statements.
28. In the absence of any separate reporting requirement (e.g. auditor's opinion on directors' report under section 406(2)), generally, the auditor is not responsible for the additional information referred to in paragraph 27 above. However, there could be a belief on the part of the reader that the auditor has in fact been satisfied that the information is accurate or at least not misleading. If the additional information is materially inconsistent or misleading, the auditor should determine whether the audited financial statements or the additional information needs to be revised before signing the auditor's report (see paragraphs 11-12 above and HKSA 720 (Revised)). Under HKSA 720 (Revised), the requirement is that if, on reading the other information, the auditor identifies a material inconsistency (or becomes aware that the other information appears to be materially misstated), the auditor shall determine whether the audited financial statements or the other information needs to be revised.
29. Generally, it is usual for the auditor to be specific as to the actual financial statements on which the auditor is opining on by identifying the page numbers containing the financial statements as follows (see A18 of HKSA 700 (Revised)):

"We have audited the financial statements of ABC Limited set out on pages ..... to .....".



## Other reports required by the Hong Kong Companies Ordinance

30. The CO also requires the auditor to give other reports on distributions and initial financial statements. The report arising under section 304(5) in relation to distributions is discussed in paragraphs 31 to 35 below. Guidance on the determination of distributable profits under sections 79A to 79P<sup>7</sup> is set out in Accounting Bulletin 4 "Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Hong Kong Companies Ordinance" issued by the HKICPA and paragraphs 46 to 52 of the SME-FRF, if applicable. The report arising under section 306(5) in relation to initial financial statements is discussed in paragraphs 36 to 38 below.

### Distributions (section 304(5))

31. The CO prohibits all companies from making a distribution otherwise than out of profits available for the purpose. Where the auditor has not given an unqualified opinion on the last annual financial statements, the company's ability to make a distribution, by reference to those financial statements, could be in doubt, and the company may not proceed to do so unless the auditor has made a statement under section 304(5) concerning the company's ability to make the distribution.
32. According to section 304(5) of the CO, the auditor must have given a written statement as to whether, in the auditor's opinion, the matter in respect of which the report is qualified<sup>8</sup> is material for determining, by reference to the financial items as stated in the financial statements, whether the distribution would be made in contravention of section 297, 298 or 299 or a prohibition or restriction in that section as modified under section 300 of the CO. Therefore, in planning and performing this work, the auditor should refer to the principles in the Hong Kong Standard on Assurance Engagements (HKSAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* applicable to assurance engagements. The terms of this engagement should be agreed in writing with the company.
33. Although section 304(6)(a) allows the written statement to be made either at the time of the auditor's report or subsequently, in view of the two different standards involved (that is HKSAs in the auditor's report on annual financial statements and HKSAE 3000 (Revised) in the report under section 304(5)), a separate statement should be made for reporting under section 304(5) rather than reflecting in the auditor's report.
34. The auditor's statement under section 304(5) will incorporate the following elements:
- a. *Title* - The auditor's statement should have a title that clearly indicates that the report is an independent assurance report.
  - b. *Addressee* - the statement should be addressed to the members.
  - c. *Introductory Paragraph* - the auditor refers to the audit which will have been carried out in accordance with HKSAs issued by the HKICPA and state the date on which the auditor's opinion was expressed and that the auditor's opinion was modified. The auditor is required under section 304(5) to give a written statement as to whether, in the auditor's opinion, the matter in respect of which the auditor's opinion is modified is material for determining, by reference to the financial items as stated in the financial statements, whether the distribution would be made in contravention of section 297, 298 or 299, or a prohibition or restriction in that section as modified under section 300.

<sup>7</sup> The guidance in AB 4 is still applicable for the CO. Sections 79A to 79P are replaced by sections 290 to 306 and Schedule 11, Part 6, section 49.

<sup>8</sup> The meaning of "qualified" in the new CO is equivalent to the meaning of "modified" in the context of clarified HKSAs. In order to avoid confusion, the word "modified" is used in the rest of this Practice Note. Guidance on types of modified opinions is set out in HKSA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*.

- d. *Directors' Responsibility* - this section describes and summarises the directors' responsibility with respect to the financial statements referred to in the introductory paragraph. The description should include an explanation that directors are also responsible for considering whether the company, subsequent to the reporting period, has sufficient distributable profits to make a distribution at the time the distribution is made.
- e. *Auditor's Responsibility* - the auditor should state that the auditor's responsibility is to report whether, in the auditor's opinion, the matter in respect of which the auditor's opinion is modified is material for determining, by reference to the financial items as stated in the financial statements, whether the distribution would be made in contravention of section 297, 298 or 299, or a prohibition or restriction in that section as modified under section 300. The auditor should state that the engagement was performed in accordance with HKSAE 3000 (Revised) and with reference to this Practice Note. The auditor should also include a summary of work performed to help the intended users understand the nature of the assurance conveyed by the assurance report.
- f. Independence and Quality Control – the auditor should state compliance with the independence and other ethical requirements of the Code of Ethics for Professional Accountants and the application of Hong Kong Standard on Quality Control 1, *Quality Control for Firms that perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*.
- g. *Opinion* - the auditor must state whether in the auditor's opinion the matter in respect of which the auditor's opinion is modified is material for the purpose of determining, by reference to the financial items as stated in the financial statements, whether the distribution proposed by the company would contravene the relevant section(s) of the CO. A modification is not material for this purpose if the financial effect of the matters giving rise to modification could not be such as to reduce the distributable profits below the levels required for the purpose of such distributions. The level of the proposed or potential distribution should always be quantified in the opinion. Where the maximum effect of a modification is unquantifiable, it would normally be material for distribution purposes unless the auditor can conclude that the effect of the modification on the distributable profits could only be favourable. A disclaimer of opinion on the financial statements as a whole would be material as the auditor would be unable to form an opinion on the amount at which the company's distributable profits are stated.
- h. *Signature of the Auditor* - the auditor's statement should be signed in the name of the firm or the practitioner and a specific location, which ordinarily is the city where the practitioner maintains the office that has responsibility for the engagement.
- i. *Date of the independent assurance report* - the date used should be that on which the statement is signed. In any case the statement must be available to be laid before the company in general meeting before the distribution in question is made, and so the statement will have to be signed by that date.

An example of the independent assurance report under section 304(5) is set out as Example 1 in the Appendix.

- 35. The report under section 304(5) can only be made by the auditor who reported on the last annual financial statements.

**Distributions by listed companies: the use of initial financial statements (section 306(5))**

36. Paragraphs 31 to 35 of this Practice Note describe the statement required where a company wishes to make a distribution and a modified auditor's report has been given on the annual financial statements, section 304(5) applies to all types of companies (including private and listed companies). A company may wish to make a distribution during its first accounting reference period or after the end of that period but before the financial statements for that period have been laid before a general meeting. "Initial financial statements" must be prepared for this purpose which, in the case of a listed company, are required to satisfy section 306(2). The initial financial statements must be approved by and signed on behalf of the directors in the same manner as annual financial statements, and must be delivered to the Registrar of Companies.
37. Section 306(2) states that subject to subsection (3), the initial financial statements must:
- a. have been properly prepared in accordance with Subdivision 3 of Division 4 of Part 9 of the CO; or
  - b. have been properly prepared in accordance with Subdivision 3 of Division 4 of Part 9 of the CO, except only in relation to the matters which are not material for the purpose specified in subsection (8) (i.e. the purpose of determining, by reference to financial items as stated in the financial statements, whether the distribution would be made in contravention of section 297, 298 or 299, or a prohibition or restriction in that section as modified under section 300).

Subsection (3) states that the requirements under subsection (2) for the financial statements to be properly prepared has effect subject to any modifications that are necessary for applying that requirement to any financial statements prepared otherwise than for a financial year.

38. The reference to Subdivision 3 of Division 4 of Part 9 of the CO in sections 306(2) and 306(3) indicates that the initial financial statements should be properly prepared so as to give a true and fair view of the company's financial position and performance and to comply with Schedule 4, subject to any modifications that are necessary for applying that requirement to any financial statements prepared otherwise than for a financial year. However, it should also be noted that the alternative offered in section 306(2)(b) allows a company to prepare initial financial statements which do not meet all of these requirements, provided that the information omitted is not material for the purpose of determining the legality of the proposed distribution. For example, if a listed company applies section 306(2)(b), the initial financial statements may omit some of the disclosure requirements of HKFRSs. In the case of a listed company, the auditor is required to make a report on the initial financial statements. The report will incorporate the following elements:
- a. *Title* - The auditor's report should have a title that clearly indicates that it is the report of an independent auditor.
  - b. *Addressee* - the report should be addressed to the members.
  - c. *Auditor's Opinion* - the auditor must state whether, in the auditor's opinion, the financial statements satisfy section 306(2)(a). This therefore means that the auditor must report on whether in the auditor's opinion the financial statements give a true and fair view of the financial position of the company as at the end of the reporting period and of the financial performance of the company for the reporting period, and on whether the financial statements comply with Schedule 4 subject to any modifications that are necessary for applying that requirement to any financial statements prepared otherwise than for a financial year. An example of an unqualified auditor's report prepared in accordance with section 306(2)(a) is set out as Example 2 in the Appendix.

If the opinion is modified (for example, if the company has chosen to prepare financial statements which comply with section 306(2)(b) rather than section 306(2)(a)), then section 306(6) requires the auditor to state whether the matter giving rise to the modification is material for determining whether the distribution is permitted. In addition, a separate statement (see Example 1 in the Appendix) should be made for reporting under section 306(6) rather than reflecting in the auditor's report. Guidance on elements of the auditor's report in paragraph 34 above is also applicable to such an auditor's statement to be given under section 306(6).

This section should also state that the report is concerned with the initial financial statements. The period covered by the initial financial statements and the accounting principles adopted should be identified.

- d. *Basis for Opinion* - the same principles apply for initial financial statements as for annual financial statements (see HKSA 700 (Revised)).
- e. *Key Audit Matters* - for audits of the initial financial statements, the auditor should communicate key audit matters in the auditor's report in accordance with HKSA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.
- f. *Other information* - where applicable, the auditor should report in accordance with HKSA 720 (Revised).
- g. *Responsibilities of Directors and Those Charged with Governance for the Initial Financial Statements*- the directors are responsible for the preparation of initial financial statements under section 306. This section should also identify those responsible for the oversight of the financial reporting process, details should refer to HKSA 700 (Revised).
- h. *Auditor's Responsibilities for the Audit of the Initial Financial Statements* - the auditor is responsible for expressing an opinion on whether the initial financial statements satisfy section 306(2)(a). The audit of the initial financial statements should be carried out in accordance with HKSAs. The auditor shall explain the auditor's responsibilities as described in paragraphs 37 to 40 of HKSA 700 (Revised).
- i. *Name of the Engagement Partner* – this should be included in the auditor's report for audits of complete sets of general purpose financial statements of listed entities.
- j. *Signature of the Auditor* - the auditor's report should be signed (see footnote 36a of HKSA 700 (Revised)).
- k. *Date of the Auditor's Report* - the same principles apply for initial financial statements as for annual financial statements (see HKSA 700 (Revised)).

**APPENDIX**  
**Example reports in relation to sections 304(5) and 306(5) of  
the Hong Kong Companies Ordinance**

The purpose of this Appendix is to provide examples of reports and is for illustration.

- 1 Independent auditor's assurance report on a company's ability to make a distribution where auditor's opinion was modified - based on HKSAE 3000 (Revised)
- 2 Independent auditor's report on initial financial statements prepared in accordance with section 306(2)(a) when a listed company wishes to make a distribution - based on HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

**Example 1 – Independent auditor's assurance report on a company's ability to make a distribution where auditor's opinion was modified, based on HKSAE 3000 (Revised)**

**INDEPENDENT AUDITOR'S ASSURANCE REPORT UNDER SECTION 304(5)<sup>1</sup> OF THE HONG KONG COMPANIES ORDINANCE**

To the Members of XYZ Limited

We have audited the financial statements of XYZ Limited ("the Company") for the year ended 31 December 20X1 in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have expressed a modified opinion thereon in our independent auditor's report dated [date]. Under section 304(5) of the Hong Kong Companies Ordinance ("the Ordinance"), we have been requested to give this written statement as to whether, in our opinion, the matter in respect of which our opinion is modified is material for the purpose of determining, by reference to the financial items as stated in the financial statements, whether the distribution would be in contravention of the [section 297, 298 or 299, or a prohibition or restriction in that section as modified under section 300]<sup>2</sup> of the Ordinance.

*Directors' Responsibility*

The directors are responsible for the preparation of the aforesaid financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. They are also responsible for considering whether the Company, subsequent to the year ended 31 December 20X1, has sufficient distributable profits to make a distribution at the time the distribution is made.

*Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1<sup>3</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

*Auditor's Responsibility*

Our responsibility is to report whether, in our opinion, the matter of our modification of our auditor's report on the financial statements for the year ended 31 December 20X1 is material for the purpose of determining, by reference to the financial items as stated in the financial statements, whether the distribution proposed by the Company would contravene [section 297, 298 or 299, or a prohibition or restriction in that section as modified under section 300]<sup>2</sup> of the Ordinance.<sup>4</sup> However, we are not required to form an opinion on whether the Company has sufficient distributable reserves to make the distribution proposed at the time it is made.

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<sup>1</sup> Section 304(5) applies where the last annual financial statements are used. Where initial financial statements are used a similar report is prepared based on the report in Example 2 of this Appendix.

<sup>2</sup> Amend where appropriate.

<sup>3</sup> HKSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

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

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 600.1 (Revised), *Reports by Auditor under the Hong Kong Companies Ordinance* issued by the HKICPA. We have planned and performed our work to obtain reasonable assurance for giving our opinion below.

We have planned and performed such procedures as we considered necessary to evaluate the effect of the modified opinion for the determination of profits available for distribution. [*Insert a summary of work performed.*]

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Opinion*

Based on the foregoing, in our opinion, the matter of the modification is not material for determining, by reference to the financial items as stated in the financial statements, whether the [distribution of HK\$.....][interim/ final dividend for the year ended 31 December 20X1 of HK\$ .....] proposed by the Company would contravene [section 297, 298 or 299, or a prohibition or restriction in that section as modified under section 300]<sup>2</sup> of the Ordinance.

*Intended Users and Purpose*

This report is intended solely for the purpose of assisting the Company to satisfy the requirements of the Ordinance as set out in the introductory paragraph. It is not intended to be, and should not be, used by anyone for any other purpose.

ABC & Co.

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

[*Auditor's Address*]

Date

Notes:

1. As an alternative the auditor's statement might be expressed in terms of the company's ability to make potential distributions up to a specific level. This may be particularly appropriate where the directors have only determined the maximum level of distributions. In such circumstances the opinion paragraph would be worded as follows:

"Based on the foregoing, in our opinion, the matter of the modification is not material for determining, by reference to the financial items as stated in the financial statements, whether a distribution of not more than HK\$ ..... by the Company would contravene [section 297, 298 or 299, or a prohibition or restriction in that section as modified under section 300]<sup>2</sup> of the Ordinance."

2. As a further alternative the auditor's statement might be expressed in terms of the company's ability to make "any distribution". In such circumstances the opinion paragraph would be worded as follows:

"Based on the foregoing, in our opinion, the matter of the modification is not material for determining by reference to the financial items as stated in the financial statements, whether any distribution proposed by the Company would contravene [section 297, 298 or 299, or a prohibition or restriction in that section as modified under section 300]<sup>2</sup> of the Ordinance."

3. Where the auditor concludes that the matter of the modification is material to either a specific distribution which is proposed or to any distribution, then an adverse opinion is given. In such circumstances the opinion paragraph would be worded as follows:

"Adverse opinion

Based on the foregoing, in our opinion, the matter of the modification is material for determining, by reference to the financial items as stated in the financial statements, whether the [distribution of HK\$.....][interim/ final dividend for the year ended 31 December 20X1 of HK\$ .....][any distribution] proposed by the Company would contravene [section 297, 298 or 299, or a prohibition or restriction in that section as modified under section 300]<sup>2</sup> of the Ordinance."



**Example 2 – Independent auditor's report on initial financial statements prepared in accordance with section 306(2)(a) when a listed company wishes to make a distribution - based on HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements***

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a listed entity using Hong Kong Financial Reporting Standards (HKFRSs). The audit is not a group audit (i.e., HKSA 600 does not apply).
- The financial statements are prepared by the directors of the entity in accordance with HKFRSs (a general purpose framework).
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial statements in HKSA 210.<sup>1</sup>
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with HKSA 570 (Revised)<sup>2</sup>.
- Key audit matters have been communicated in accordance with HKSA 701.
- 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.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has no other reporting responsibilities required under local law except for the Hong Kong Companies Ordinance.

**INDEPENDENT AUDITOR'S REPORT  
UNDER SECTION 306(5) OF THE HONG KONG COMPANIES ORDINANCE**

To the Members of XYZ Limited

**Opinion**

We have audited the initial financial statements of XYZ Limited ("the Company") set out on pages ..... to ....., which comprise the statement of financial position as at [Date], and [the statement of profit or loss and] <sup>3</sup> the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the period from [Date] to [Date], and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the initial financial statements give a true and fair view of the financial position of the Company as at [Date], and of its financial performance and its cash flows for the period from [Date] to [Date] in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

<sup>1</sup> HKSA 210, *Agreeing the Terms of Audit Engagements*

<sup>2</sup> HKSA 570 (Revised), *Going Concern*

<sup>3</sup> HKAS 1 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").

## **Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Initial Financial Statements* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the initial financial statements. These matters were addressed in the context of our audit of the initial financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*[Description of each key audit matter in accordance with HKSA 701.]*

## **Other Information [or another title if appropriate such as "Information Other than the Initial Financial Statements and Auditor's Report Thereon"]**

*[Reporting in accordance with the reporting requirements in HKSA 720 (Revised) – see Illustration 1 in Appendix 2 of HKSA 720 (Revised).]*

## **Responsibilities of Directors and Those Charged with Governance for the Initial Financial Statements<sup>4</sup>**

The directors are responsible for the preparation of initial financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of initial financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the initial financial statements, the directors are responsible for assessing the Company'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 Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the initial 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 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 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 HKSA 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

<sup>4</sup> Throughout the illustrative auditor's reports, the terms directors and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

<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 "Auditor's Duty of Care To Third Parties and The Audit Report".

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 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, related safeguards.

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*]

Effective from 1 July 2016

*Practice Note 840 (Revised)*

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# **Reporting on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules**



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

**PRACTICE NOTE 840 (REVISED)**

**REPORTING ON SOLICITORS' ACCOUNTS UNDER  
THE SOLICITORS' ACCOUNTS RULES AND  
THE ACCOUNTANT'S REPORT RULES**

*(Issued August 2016)*

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## PRACTICE NOTE 840 (REVISED)

### REPORTING ON SOLICITORS' ACCOUNTS UNDER THE SOLICITORS' ACCOUNTS RULES AND THE ACCOUNTANT'S REPORT RULES

*The purpose of Practice Notes issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) is to assist the practitioner in applying Hong Kong Engagement Standards of general application to particular circumstances and industries.*

*Practice Notes are persuasive rather than prescriptive. However they are indicative of good practice and have similar status to the explanatory material in Hong Kong Engagement Standards. This Practice Note provides guidance to assist the practitioner to fulfill the objectives of the engagement. The practitioner should be prepared to explain departures when called upon to do so.*

#### Introduction

1. Practice Note 840 has been revised for The Solicitors' Accounts (Amendment) Rules 2012 and The Accountant's Report (Amendment) Rules 2012 (collectively, the Amendment Rules) which were passed by the Legislative Council on 5 December 2012. The President of The Law Society of Hong Kong (the "Law Society") has appointed 1 July 2016 as the commencement date of the Amendment Rules. This Practice Note is effective for engagement with reporting date ending on or after 1 July 2016.
2. In this Practice Note:
  - a. "accountant" means a qualified person to give an accountant's report on behalf of a firm, if
    - (a) he is a certified public accountant (practising) as defined in the Professional Accountants Ordinance;
    - (b) he has neither been at any time during the accounting period, nor subsequently, before giving the report, become a partner, clerk or servant of such firm or of any partner of such firm; and
    - (c) he is not subject to notice of disqualification under paragraph (2) of the Accountant's Report Rules;
  - b. "client" means any person on whose account a solicitor holds or receives client's money;
  - c. "client account" means, subject to Rule 15 of the Solicitors' Accounts Rules, a current or deposit account at a bank located and licensed in Hong Kong in the name of the solicitor in the title of which the word "client" appears;
  - d. "client ledger" means the accounting document that draws together all transaction types i.e. receipts, payments and journals relating to one matter in order to provide the history relative to that matter and the matter balance. The client ledger comprises of clients' individual client ledger accounts with credit balances;
  - e. "client's money" means money held or received by a solicitor on account of a person for whom he is acting in relation to the holding or receipt of such money either as a

REPORTING ON SOLICITORS' ACCOUNTS  
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solicitor or, in connection with his practice as a solicitor, as agent, bailee, stakeholder, solicitor-trustee or in any other capacity, but not money to which the only person entitled is the solicitor himself or, in the case of a firm of solicitors, one or more of the partners in the firm;

- f. "disbursements" means any sum spent or to be spent by a solicitor on behalf of the client or trust;
  - g. "firm" means a sole practitioner or a partnership of 2 or more solicitors, carrying on the business of practising as a solicitor;
  - h. "office money" means money held or received by a solicitor which is not client's money, and to which the only person entitled is the solicitor himself or herself or, in the case of a firm of solicitors, one or more of the partners in the firm;
  - i. "practice year" means a period of 12 months ending on 31 October each year;
  - j. "principal" means a sole practitioner or partner of a firm;
  - k. "solicitor" includes a solicitor of the Court, a firm of solicitors, a solicitor corporation, a foreign lawyer and a foreign firm;
  - l. "solicitor-trustee" means a solicitor who is a sole trustee or who is co-trustee only with a partner, clerk or servant of his or with more than one of such persons;
  - m. "trust money" means money held or received by a solicitor or a firm which is not client's money and which is subject to a trust of which the solicitor or his firm is a trustee, whether or not he is solicitor-trustee of such trust; and
  - n. "working day" means any day other than
    - (a) a general holiday; or
    - (b) a gale warning day or black rainstorm warning day as defined in section 71(2) of the Interpretation and General Clauses Ordinance (Cap.1).
3. The purpose of this Practice Note is to give guidance to accountants on the reporting of firms' accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules. This Practice Note takes account of the law as at 1 July 2016.
4. This Practice Note deals exclusively with those aspects of the Solicitors' Accounts Rules and the Accountant's Report Rules which are concerned with client's money held by firms. The Solicitors' Accounts Rules and the Accountant's Report Rules, which are given statutory force by the Legal Practitioners Ordinance (the "Ordinance"), are designed to prevent a firm from improperly handling client's money entrusted to it. Broadly speaking, this is achieved by requiring such money to be kept separate from the firm's own money. In addition, transactions are required to be arranged in such a way that money belonging to one client may not be used for the benefit of another.
5. It is emphasised therefore that this Practice Note does not cover an audit of firms' financial statements.

## Terms of Engagement

6. The procedures required to conduct an engagement should be determined by the accountant having regard to the guidance of this Practice Note and the Solicitors' Accounts Rules and the Accountant's Report Rules.

The accountant should exercise professional judgment in accepting and planning the engagement as to whether the information provided is sufficient for the accountant to complete the engagement under the particular circumstances.

The accountant and solicitor should agree on the terms of the engagement to avoid misunderstandings. The agreed terms would be recorded in an engagement letter and the content of an engagement letter may vary based on different circumstances. Appendix 4 sets out an illustrative example of an engagement letter.

## Engagement Performance

7. A summary of the major points of the Solicitors' Accounts Rules (paragraphs 8 to 30) and the Accountant's Report Rules (paragraphs 31 to 39) is given below. Key revisions as a result of the Amendment Rules are shaded for easy reference. Full details of the Solicitors' Accounts Rules and the Accountant's Report Rules may be obtained from the Ordinance, which should be consulted before commencing any work on firms' accounts.

### *The Solicitors' Accounts Rules*

8. A list of key questions based on the Solicitors' Accounts Rules is attached as Appendix 1. Additional questions as a result of the Amendment Rules are shaded for easy reference. The additional questions are only applicable for the period from 1 July 2016. Any "NO" answers to these key questions would normally suggest that the Solicitors' Accounts Rules have not been complied with. An accountant would make any further investigation as may be necessary to enable him to sign the accountant's report. The accountant would issue a qualified opinion (paragraph 10(1)(b)) in the accountant's report where the accountant has come across any breaches of the Solicitors' Accounts Rules during the course of the engagement.
9. Rule 3 provides that all client's money and trust money, on receipt, must be paid without delay into a client account, except in the cases specified in Rule 9 (see paragraph 22 below). More than one client account may be maintained and the bank accounts of individual trusts are counted for this purpose as client account (but do not require to be included in the scope of the accountant's report). There is no provision in this Rule allowing for client's money to be withdrawn from a client account and to be retained as petty cash. Cash disbursements must be made from an office account, for subsequent reimbursement (in bulk) by cheque on the appropriate client account.
10. Rule 4 stipulates that the only other money which may be paid into a client account are:
  - a. trust money - (Rule 4(a));
  - b. those which may be necessary to open or maintain the account in being - (Rule 4(b));
  - c. those required to make good any accidental withdrawal in contravention of Rule 8(2) -



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UNDER THE SOLICITORS' ACCOUNTS RULES AND THE ACCOUNTANT'S REPORT RULES

(Rule 4(c)); and

- d. a cheque, of which only part is client's money - under Rule 5 the firm is entitled, where practicable, to split such a cheque but may elect to pay it all into the client account - (Rule 4(d)).

In particular, deposit interest which the firm retains must be credited to a separate office account.

Law Society Circular 04-4 (SG) suspends the operation of Practice Direction J "Interest on Clients' Account" prior to 1 July 2016 and Law Society Circular 16-443 (SD) suspends the operation of Rule 6A with effect from 1 July 2016 until further notice.

11. Under Rule 5, where a solicitor holds or receives a cheque or draft which includes client's money or trust money of one or more trusts-
  - a. he may where practicable split such cheque or draft and, if he does so, he shall deal with each part thereof as if he had received a separate cheque or draft in respect of that part; or
  - b. if he does not split the cheque or draft, he shall, if any part thereof consists of client's money, and may, in any other case, pay the cheque or draft into a client account provided that he must transfer all office money out of the client account within 14 days of receipt.
12. Under Rule 6A(1) and subject to Rule 6A(2), when a solicitor holds or receives money in respect of a particular matter, the solicitor must without delay deposit the money in a designated interest bearing client account and must account to the client for any interest earned on the account, failing which the solicitor must pay to the client a sum equivalent to the interest which would have accrued for the benefit of the client if the money had been deposited in a Hong Kong dollar savings account of The Hongkong and Shanghai Banking Corporation Limited.
13. Rule 6A(2) states that a solicitor is only required to account to a client of the solicitor for any interest earned in accordance with Rule 6A(1) above where the solicitor holds a sum of money in the amount specified in column 1 of the Schedule in the Solicitors' Accounts Rules for a period which equals to or exceeds the period specified in column 2 of the Schedule in the Solicitors' Accounts Rules and the amount of interest accrued exceeds \$500.
14. Rule 6A(3) states that without prejudice to any other remedy available to a client who feels aggrieved that interest, or an equivalent sum, has not been paid to the client under these rules, the client is entitled to require the solicitor to obtain from the Council of the Law Society a certificate as to whether or not interest ought to have been earned for the client, and if so, the amount of such interest. On receipt of the client's request for a certificate, the Council of the Law Society must cause the matter to be investigated and, if it determines that interest should have been earned for the client, issue a certificate to that effect setting out the amount of interest which should have been earned in accordance with these Solicitors' Accounts Rules. On the issue of the certificate, the sum certified on that certificate to be due is payable by the solicitor to the client.
15. Subject to Rule 6A(5), nothing in these Solicitors' Accounts Rules is to:
  - a. affect any agreement in writing whenever made between a solicitor and a client of the solicitor as to the application of the client's money or interest on the money;

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- b. apply to money received by a solicitor, being money subject to a trust of which the solicitor is a trustee; or
- c. affect any agreement in writing for payment of interest on money held by the solicitor as a stakeholder.

16. Rule 6A(5) states that any arrangement made to the effect that no interest is payable in respect of money deposited with a solicitor is void.

17. Rule 6A(6) states that a solicitor who deposits client's money in accordance with Rule 6A(1) is entitled to charge and be paid a sum that is fair and reasonable by way of an administration charge in respect of the work undertaken in the deposit and withdrawal of money and accounting to the client for the interest earned on the money.

18. Rule 6A(7) states that the Council of the Law Society may, on prior written application, suspend or waive the operation of Rule 6A taking into consideration the prevailing interest rate and the costs associated with the administration of this rule.

In Law Society Circular 16-443 (SD), the Law Society has suspended the operation of Rule 6A with effect from 1 July 2016 until further notice.

19. Under Rule 7 withdrawals are only permitted as follows:

- a. for a payment to or on behalf of a client, or made on the client's authority - (Rules 7(a)(i) and (iii));
- b. to reimburse the firm for expenditure on the client's behalf or in payment of a debt properly due by the client to the firm - (Rule 7(a)(ii));
- c. in settlement of a bill of costs which has been rendered to the client, with a notification in writing that it will be settled from client's money held - (Rule 7(a)(iv));
- d. trust money may be expended in any way proper for the trust, or may be transferred to a separate bank account for the particular trust - (Rule 7(b)); and
- e. to withdraw office money which has found its way into the client account, either as a result of the provisions of Rule 4(b) or (d) (see paragraph 10 above) or by mistake or accident - (Rules 7(c) and (d)).

No client can be paid out of the client account more than it contains to its credit.

20. Rule 7A lays down the authority required for drawing money from a client account.

21. Rule 8(1) states that when a firm withdraws money from a client account for its own use under Rule 7(a)(ii) or (iv) or 7(c) or 7(d) (see paragraphs 19(b), 19(c) and 19(e) above) it may do so only by cheques drawn in favour of itself or by transfers to its office bank account; i.e. a firm cannot reimburse itself in cash from a client account.

22. Rule 9 states that a solicitor shall not be under an obligation to pay client's money into a client account when:

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- a. such money (which can include cash) is immediately paid over to or on behalf of the client (and a cheque must be endorsed over to comply with this requirement); or
  - b. it is paid into a bank account opened in the name of the client or his nominee, who has been designated in writing.
23. Rule 9 further states that client's money must not be paid into a client account when the client for his own convenience requests a firm not to do so. For example, a client gives a cheque for the deposit on the purchase of property and the transaction is then held up, with the result that to save interest charges the client asks for the cheque not to be presented for his own convenience.
24. Finally Rule 9 forbids the payment of client's money into a client account when the money is really the firm's (i.e. it is paid in settlement of or on account of a debt due to it). When the debt is for costs, however, a bill must have been delivered or an "agreed fee" settled.
25. Rule 9(2A) states on receipt of any payment which includes disbursements as well as client's money of the nature described in Rule 9(2), a solicitor must -
  - a. determine the composition of the payment without delay;
  - b. for any part of the payment that is for disbursements anticipated but not yet incurred, pay that part of the payment into the client account; and
  - c. for any part of the payment that is for disbursements incurred but not yet paid, either
    - i. pay that part of the payment into the client account; or
    - ii. pay it into the office account and settle the disbursements in any event not later than the 4<sup>th</sup> working day following the receipt from the client, failing which the payment should be paid into the client account not later than the 5<sup>th</sup> working day following the receipt.
26. Rule 9(3) states that where a cheque or draft includes mixed money, such as for the payment of costs (that is office money - see Rule 9(2)(c)(i) & (ii)) as well as client's money then the firm may deposit the same into client account under Rule 5.
27. Rule 9(4) states that the Council of the Law Society may upon an application made to them by a firm specifically authorise it in writing to withhold any client's money from a client account.
28. Rule 9A imposes a duty on the principals of a firm to remedy any breach of the Solicitors' Accounts Rules promptly upon discovery.
29. Rule 10A requires a solicitor to prepare monthly reconciliation statements on balances of client accounts.
30. Rule 10 provides for the keeping of proper books of account spelling out in some detail what records must be kept and the timing of entries in them. Such records must be kept in Hong Kong (Rule 10(6A)) and retained for six years (Rule 10(6)). Rule 10 (5A) states that if books, ledgers or records are kept by a computerised accounting system, every solicitor must ensure that (a) the computer system has enough capacity and back-up capability to record

the information required to be kept under these rules; and (b) the computer system is backed up at least once a month. Rule 10(8) provides that notwithstanding Rule 10(6A), the Council of the Law Society may specifically exempt a foreign lawyer from that Rule upon such conditions as it thinks fit. Rule 11 gives the Council of the Law Society power to call for their production.

### *The Accountant's Report Rules*

31. To ensure that the Solicitors' Accounts Rules are complied with, every firm is required to produce annually an accountant's report, in accordance with the Accountant's Report Rules. The prescribed format of an accountant's report is attached as Appendix 3.
32. When an accountant signs an accountant's report, the accountant has to sign in the accountant's own name and not in the practising firm's or corporate practice's name under the Accountant's Report Rules.
33. Rule 4 lays down the duties of an accountant:
  - a. Rule 4(1) lays down what is expected of an accountant's examination and, inter alia, requires an examination of the bookkeeping system to verify that it complies with the Solicitors' Accounts Rules and is so designed that:
    - i. an appropriate ledger account is kept for each client;
    - ii. such ledger accounts show separately from other information particulars of all client's money received, held or paid on account of each client; and
    - iii. transactions relating to client's money and any other money dealt with through a client account are recorded in the firm's books so as to distinguish such transactions from transactions relating to any other money received, held or paid by the firm.
  - b. Rule 4(2) requires that if in the performance of the duties required in Rule 4(1) it appears to the accountant that there is evidence that the Solicitors' Accounts Rules have not been complied with or the accountant becomes aware of any matter which appears to affect adversely any client account or any trust money held by the firm to a material extent, the accountant shall include in the accountant's report signed by the accountant such details of the contravention or matter.

Under Rule 6A of the Solicitors' Accounts Rules, a firm is required to pay interest on client account.

In Law Society Circular 16-443 (SD), the Law Society has suspended the operation of Rule 6A with effect from 1 July 2016 until further notice.

34. In order to meet the requirement of Rule 4, specific tests in the Engagement Programme in Appendix 2 would be followed. Please note that the tests performed should cover all branches of the firm. The Engagement Programme is an indication of what is required by the Accountant's Report Rules; the extent of work to be done will be decided in the light of the systems examinations, any weaknesses revealed and any other available evidence. If anything is discovered which indicates that the Solicitors' Accounts Rules are not being complied with, a more detailed examination will be necessary. It should be borne in mind when carrying out the tests that omissions from the books may be just as important as items included in them.

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35. Under Rule 5 all accountant's reports delivered by a firm under the Accountant's Report Rules shall be in accordance with Form 1 in the Schedule to the Accountant's Report Rules, which is reproduced in Appendix 3.
36. Rule 6 states that the Council of the Law Society will be satisfied that the delivery by a solicitor of an accountant's report for a practice year is unnecessary if the solicitor has not practised as a principal during the practice year.
37. Rule 8 states the following with regard to accounting periods:
- Rule 8 (1) "A firm shall once in each practice year deliver to the Council of the Law Society an accountant's report containing the information prescribed by rules made by the Council of the Law Society under section 73(1)(b) of the Ordinance."
- Rule 8 (2) "The firm shall deliver the accountant's report to the Council of the Law Society not more than 6 months (or the period prescribed by rules made under section 73(1)(b) of the Ordinance) after the accounting period specified in the report."
- Rule 8 (3) "An accountant's report for a firm is taken to be delivered on behalf of all principals of the firm."
- Rule 8 (4) "A firm is not required to deliver an accountant's report in the practice year in which it commenced business if it would result in a report being delivered for less than 1 month of practice."
- Rule 8 (5) "Subject to paragraphs (6) and (7), a firm shall:
- (a) deliver an accountant's report for the accounting period adopted by it and notified to the Law Society in accordance with the Solicitors' Practice Rules;
  - (b) not adopt an accounting period which corresponds to the practice year; and
  - (c) not change an accounting period without the permission of the Council of the Law Society whose permission shall only be given in exceptional circumstances."

Rule 8 (6) "Where a firm commences business, the first accounting period for the firm:

    - (a) shall begin on the date on which it commenced business and shall end at the end of the accounting period adopted by the firm and notified to the Law Society in accordance with the Solicitors' Practice Rules;
    - (b) may cover a period of less than 12 months; and
    - (c) shall in all other respects comply with the requirements of section 8(2) of the Ordinance."

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- Rule 8 (7) "Where a firm ceases business, the final accounting period for the firm:
- (a) shall begin at the end of the accounting period specified in the preceding accountant's report or, where the firm commenced business in the same practice year in which it ceases business, on the day on which it commenced business, and shall end at the date on which the firm ceased business;
  - (b) may cover a period of less than 12 months; and
  - (c) shall in all other respects comply with the requirements of section 8(2) of the Ordinance."
38. In February 2016, the Law Society issued Circular 16-126 (PA), Law Society Guidelines on Cessation of Practice by Hong Kong Firms which states that when the firm ceases to practice, a firm of solicitors practicing with at least 2 partners must be appointed to be the firm's agent to deal with all consequential matters pursuant to Law Society Direction D7 as amended in June 2012.
39. Rule 9 states the following with regard to change in composition of firm:
- Rule 9 (1) "Where a solicitor ceases to be a principal in a firm but the remaining partners continue the firm's practice, the accountant's report delivered by the firm shall state the date on which the solicitor ceased to be a principal."
- Rule 9 (2) "Where a solicitor commences to be a principal in an existing firm, the accountant's report delivered by the firm shall state the date on which the solicitor commenced to be a principal."
- Rule 9 (3) "Where a solicitor is a principal in two or more firms -
- (a) the firms shall each deliver an accountant's report;
  - (b) the accounting periods for the accountant's reports may overlap; and
  - (c) the accountant's reports shall in all other respects comply with section 8(2) of the Ordinance and these Rules."

### *Circularisation*

40. The accountant should refer to HKSA 505, *External Confirmations* for further guidance on the circularisation of client ledger accounts and client account(s). Under Rule 4 (1)(d) of the Accountant's Report Rules, there is only a requirement to obtain bank confirmations at two different dates for the client account(s). There is no explicit requirement to have client ledger accounts balances circularised at two different dates.
41. If no response is received from the client ledger accounts circularisation, the accountant should perform alternative procedures as guided in HKSA 505. In substance, the alternative procedures should be able to provide evidence about the assertions that the confirmation request was intended to provide.

42. Examples of alternative procedures include but are not limited to the examination of subsequent cash receipts and disbursements or review of documentation and correspondence from clients and third parties, etc.

### *Engagement Documentation*

43. The accountant should prepare on a timely basis engagement documentation that provides a record of the basis for the accountant's report that is sufficient and appropriate to enable an experienced practitioner, having no previous connection with the engagement, to understand:
- a. The nature, timing and extent of the procedures performed to comply with the Accountant's Report Rules;
  - b. The results of the procedures performed, and the evidence obtained; and
  - c. Significant matters arising during the engagement, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions.
44. The accountant should assemble the engagement documentation in an engagement file and complete the administrative process of assembling the final engagement file on a timely basis after the date of the accountant's report.
45. After the assembly of the final engagement file has been completed, the accountant should not delete or discard engagement documentation of any nature before the end of its retention period.
46. If the accountant finds it necessary to amend existing engagement documentation or add new engagement documentation after the assembly of the final engagement file has been completed the accountant should, regardless of the nature of the amendments or additions, document:
- a. The specific reasons for making the amendments or additions; and
  - b. When, and by whom, they were made and reviewed.

## Appendix 1

### KEY QUESTIONS BASED ON THE SOLICITORS' ACCOUNTS RULES

	ANSWER (YES, NO or N/A)	COMMENT (Where answer is NO)
<p>1. Is a separate client account(s) in the name of the firm maintained at a bank located and licensed in Hong Kong, unless exempted by Rule 15, in the title of which the word "client" appears? (Rule 2)</p>		
<p>2. Where the firm holds or receives client's money, is such money paid into a client account without delay (except under 5 below)? (Rule 3)</p>		
<p>3. Is the only other money which is paid into the client account within the following categories:</p> <p style="margin-left: 40px;">a. trust money</p> <p style="margin-left: 40px;">b. money which is necessary to maintain the account in being</p> <p style="margin-left: 40px;">c. money required to make good any accidental withdrawal in contravention of Rule 8(2)</p> <p style="margin-left: 40px;">d. a cheque of which only part is client's money? (Rule 4)</p>		
<p>4. Is interest on client account(s) correctly accounted for in accordance with Rule 6A?  (Rule 6A)</p> <p>In Law Society Circular 16-443 (SD), the Law Society has suspended the operation of Rule 6A with effect from 1 July 2016 until further notice.</p>		
<p>5. Does the client's money which is not paid into a client account consist only of:</p> <p style="margin-left: 40px;">a. money which is immediately paid over to or on behalf of the client (but note that details should still be recorded in the books of account as a transaction conducted on behalf of the client)</p> <p style="margin-left: 40px;">b. money which is paid into a bank account opened in the name of the client or his nominee</p>		



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<p>c. money which the client for his own convenience requests not to be banked</p> <p>d. money which really belongs to the firm (i.e. paid in settlement of or on account of a debt due to it)?</p> <p>(Rule 9)</p>		
<p>6. Is all money withdrawn from a client account within the following categories:</p> <p>a. a payment to or on behalf of a client or made on the client's authority</p> <p>b. to reimburse the firm for expenditure on the client's behalf or in payment of a debt properly due by the client to the firm</p> <p>c. in settlement of a bill of costs which has been rendered to the client with a notification in writing that it will be settled in this manner</p> <p>d. in the case of a trust fund a payment which is proper for the trust, or a transfer to a separate bank account for the particular trust</p> <p>e. money which in fact belongs to the firm and has found its way into the client account, whether by mistake or accident or as a result of 3(b) or 3(d) above?</p> <p>(Rule 7)</p>		
<p>7. Are all withdrawals from a client account authorised in writing by:</p> <p>a. the solicitor in whose name the client account is kept or, where the client account is kept in the name of a firm, any solicitor, partner, consultant or foreign lawyer in the firm;</p> <p>b. a certified public accountant (practising) as defined in the Professional Accountants Ordinance (Cap.50) and countersigned by a person referred to in (a); or</p> <p>c. a person approved by the Council of the Law Society, which approval shall only be given in exceptional circumstances, upon an application in writing made to it by the solicitor or firm and subject to such conditions as the Council of the Law Society may think fit, if any and countersigned by a person referred to in (a)?</p> <p>(Rule 7A)</p>		

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<p>8. Are all withdrawals from a client account for the firm's own use (as per 6(b), (c) and (e) above) by cheque drawn in favour of itself or by transfers to its office bank account? (Rule 8)</p>		
<p>9. Are all breaches of the Solicitors' Accounts Rules remedied promptly upon discovery? (Rule 9A)</p>		
<p>10. On receipt of any payment which includes disbursements as well as client's money of the nature described in Rule 9(2), has the solicitor:</p> <ul style="list-style-type: none"> <li>a. determined the composition of the payment without delay;</li> <li>b. for any part of the payment that is for disbursements anticipated but not yet incurred, paid that part of the payment into the client account; and</li> <li>c. for any part of the payment that is for disbursements incurred but not yet paid, either <ul style="list-style-type: none"> <li>i. paid that part of the payment into the client account; or</li> <li>ii. paid it into the office account and settle the disbursements in any event not later than the 4<sup>th</sup> working day following the receipt from the client, failing which the payment should be paid into the client account not later than the 5<sup>th</sup> working day following the receipt?</li> </ul> </li> </ul> <p>(Rule 9(2A))</p>		
<p>11. Are records kept properly written up to record separately:</p> <ul style="list-style-type: none"> <li>a. client's money received, held or paid</li> <li>b. any other money dealt with through a client account</li> <li>c. a ledger account for each client detailing all transactions</li> <li>d. transfers between accounts in the client ledger?</li> </ul> <p>(Rule 10)</p>		
<p>12. Are a cash book and ledger maintained for dealings of the practice other than with clients? (Rule 10)</p>		

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<p>13. Is a record kept of all bills of costs (distinguishing between profit costs and disbursements)? (Rule 10)</p>		
<p>14. If books, ledgers or records are kept by a computerised accounting system,</p> <p>a. does the computer system have enough capacity and back-up capability to record the information required to be kept under the rules? and</p> <p>b. is the computer system backed up at least once a month?</p> <p>(Rule 10(5A))</p>		
<p>15. Are monthly reconciliation statements on balances of client accounts prepared? (Rule 10A)</p>		
<p>16. Have any transfers between individual clients in the records been made other than under the rules relating to lodgement and withdrawal?</p>		
<p>17. Whether receipts are split between several banks or retained whole, is at all times the location of client's money ascertainable from the books?</p>		

## Appendix 2

### ENGAGEMENT PROGRAMME UNDER RULE 4 OF THE ACCOUNTANT'S REPORT RULES

In order to meet the requirement of Rule 4, specific tests in the Engagement Programme set out below would be followed. Please note that the tests performed should cover all branches of the firm. The Engagement Programme is an indication of what is required by the Accountant's Report Rules; the extent of work to be done will be decided in the light of the systems examinations, any weaknesses revealed and any other available evidence. If anything is discovered which indicates that the Solicitors' Accounts Rules are not being complied with, a more detailed examination will be necessary. It should be borne in mind when carrying out the tests that omissions from the books may be just as important as items included in them.

	Extent of Test
<p>1. Test check that all recorded cheques, cash, etc. received are entered in the cash book and banked (or otherwise accounted for) without delay. This objective will normally embrace the following steps, each of which should be signed for separately:</p> <p style="margin-left: 40px;">a. Test check record of cash received and/or cashbook with bank stamped paying-in slips, noting individual items as well as totals, and enquiring into any delays in banking.</p> <p style="margin-left: 40px;">b. Test check cash book with record of cash received.</p> <p style="margin-left: 40px;">c. Test check receipts in cash book with bank statements.</p> <p>Watch for any evidence of teeming and lading, and consider obtaining original paying-in slips from bank where stamped copies are not available or where there are doubts as to adequacy of the internal control.</p>	
<p>2. Test check that receipts of client's money are correctly posted to personal accounts in client ledger and to nominal accounts.</p>	
<p>3. Test vouch payments in cash book with bank statements.</p>	
<p>4. Test vouch all cheque payments from client account to ensure that they have been made to or to the instructions of the clients, or that if they have been paid to the firm, the provisions of the Solicitors' Accounts Rules have been complied with.</p>	
<p>5. Test check that payments of client's money are correctly posted to personal accounts in client ledger and to nominal accounts.</p>	
<p>6. Ensure that monthly reconciliation statements on balances of client accounts are prepared.</p>	

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7. Extract or check extractions of all balances on client ledger accounts.	Not less than two dates during year*
8. Compare such balances with cash book balance on client account and with control account in nominal ledger.	Not less than two dates during year*
9. Scrutinise client ledger accounts to ensure that no accounts have gone into debit, and that no incorrect items have been included.	Not less than two dates during year*
10. Obtain bank certificate(s) for client account(s).	Not less than two dates during year*
11. Prepare or check bank reconciliation and note subsequent date of clearance of outstanding items, enquiring into reasons for undue delay.	Not less than two dates during year*
12. Test check additions in client ledger accounts and client cash book.	
13. Circularise client ledger account(s) on a test basis in accordance with HKSA 505, <i>External Confirmations</i> .	
14. Test check that interest on client account(s) has been correctly accounted for in accordance with Rule 6A of the Solicitors' Accounts Rules.  In Law Society Circular 16-443 (SD), the Law Society has suspended the operation of Rule 6A with effect from 1 July 2016 until further notice.	
15. Obtain written confirmation from the managing partner/designated partner of the firm that the computerised accounting system complies with Rule 10(5A) of the Solicitors' Accounts Rules.	

\* Note - these dates must be random; it is not sufficient to select month-ends regularly.

### Appendix 3

The following is the accountant's report which must be delivered by a firm under the Accountant's Report Rules and is reproduced from Form 1 in the Schedule to the Accountant's Report Rules.

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## ACCOUNTANT'S REPORT RULES ACCOUNTANT'S REPORT

To: The Council  
The Law Society of Hong Kong  
3/F., Wing On House  
71 Des Voeux Road Central  
Hong Kong

1. Name of firm: \_\_\_\_\_
2. The firm does/does not\* operate a branch office or offices.
3. Address of main office: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
4. Address(es) of branch office(s), if any: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
5. The firm is a sole proprietorship/a partnership\*.
6. The period covered by this report:  
Commences: \_\_\_\_\_ Ends: \_\_\_\_\_
7. Full name(s) of sole proprietor or all partners: (attach additional sheet(s) if the space is not adequate)  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
8. If any of the partners commenced or ceased to be partners in the firm during the period covered by this report, complete the following:  
Name: \_\_\_\_\_  
Date of commencing to be a partner: \_\_\_\_\_  
Name: \_\_\_\_\_  
Date of ceasing to be a partner: \_\_\_\_\_
9. If this is the first or final accountant's report for the firm, complete the following:

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For a first accountant's report:

\_\_\_\_\_ (date of firm commencing business)

For a final accountant's report:

\_\_\_\_\_ (date of firm ceasing business)

10. Accountant's statement:

In compliance with section 8 of the Legal Practitioners Ordinance and the Accountant's Report Rules, I have examined the books, accounts and documents of the firm produced to me and I certify that from my examination and from the explanations and information given to me:

(1)(a) I am satisfied that during the accounting period the firm has complied with the provisions of the Solicitors' Accounts Rules.

OR \*

(b) I am satisfied that during the accounting period the firm has complied with the provisions of the Solicitors' Accounts Rules, except for:

- (i) trivial breaches due to clerical errors or mistakes in book-keeping, all of which were rectified on discovery and which I am satisfied did not result in any loss to any client;
- (ii) the matters set out in Schedule 1. \*

(2)(a) I am not aware of any matter which appears to affect adversely any client account or any trust money held by the firm to a material extent.

OR \*

(b) I am not aware of any matter which appears to affect adversely any client account or any trust money held by the firm to a material extent, except for those matters the details of which are set out in Schedule 2.

(3) This is the final accountant's report for the firm which ceased to hold client's money on the \_\_\_\_\_ day of \_\_\_\_\_ 19\_\_\_\_\_.\*

11. Details of accountant:

Accountant's full name: \_\_\_\_\_

Firm name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

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12. Accountant's signature: \_\_\_\_\_

13. Date: \_\_\_\_\_

\_\_\_\_\_

\* Delete whichever is not applicable



## Appendix 4

*The following example letter highlights only the aspects relating to the scope and responsibilities of the accountant for the purpose of reporting under the Solicitors' Accounts Rules and the Accountant's Report Rules. This example is for reference only and requires the inclusion of other relevant terms of the engagement which will vary according to the requirements and circumstances of the individual accountant and client. The accountant may consider it appropriate to include a limitation of liability clause in the engagement letter in accordance with the accountant's risk management policies.*

[Managing Partner or appropriate representative of management]  
[ABC & Co., Solicitors]  
[Address]

[Date]

Dear Sirs,

### Objective of services

- 1.1 You have requested that we act as an accountant for [ABC & Co., Solicitors] (the "Firm") and issue an accountant's report in accordance with the Accountant's Report Rules for the year ended [date]. We are pleased to confirm our acceptance and our understanding of this reporting engagement by means of this letter.

### Responsibilities of the Partners

- 2.1 Our engagement will be conducted on the basis that you acknowledge and understand that you have responsibility:
- a. To keep accounting records as required under the Solicitors' Accounts Rules;
  - b. To ensure that accounting records show and explain all transactions with regard to client's money under the Solicitors' Accounts Rules;
  - c. To provide us with:
    - (i) Access to all information of which you are aware that is relevant such as Firm's accounting records and all other relevant records and documentation with regard to client's money;
    - (ii) Additional information that we may request from you for the purpose of the engagement; and
    - (iii) Unrestricted access to persons related to the Firm from whom we determine it necessary to obtain evidence;
  - d. For such internal control as you determine is necessary to enable the keeping of accounting records that are free from material misstatement, whether due to fraud or error; and
  - e. To ensure compliance with all other aspects of the Solicitors' Accounts Rules.

### Responsibilities of the accountant

- 3.1 We have a responsibility to issue an accountant's report to the Council of The Law Society of Hong Kong under section 8 of the Legal Practitioners Ordinance and the Accountant's Report Rules.

### **Scope of engagement**

- 4.1 We will conduct our engagement in accordance with section 8 of the Legal Practitioners Ordinance and the Accountant's Report Rules with reference to PN 840 (Revised), *Reporting on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules* issued by the Hong Kong Institute of Certified Public Accountants.
- 4.2 We will perform procedures to obtain evidence about the transactions in regard to client's money. In order to issue an accountant's report, we will need to review and examine your accounting records and documentation of client's money. We will also need to have an understanding of internal control relevant to the engagement in order to design engagement procedures that are appropriate in the circumstance, but not for the purpose of expressing any opinion on the effectiveness of the Firm's internal control.
- 4.3 The responsibility for safeguarding the assets of the Firm and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with you. However, we will inform you of any such matters which come to our attention.
- 4.4 We shall not be treated as having notice, for the purposes of our responsibilities, of information provided to members of our firm other than those engaged on the engagement (for example information provided in connection with audit, accounting, taxation and other services).

### **Reporting**

- 5.1 The format of the accountant's report is set out in the Accountant's Report Rules and is reproduced in Appendix 3 of PN 840 (Revised).
- 5.2 You are responsible for submitting the accountant's report to the Law Society of Hong Kong within six months of the end of the accounting period.
- 5.3 The accountant's report will be addressed to the Council of the Law Society of Hong Kong, in accordance with Section 8 of the Legal Practitioners Ordinance and the Accountant's Report Rules and for no other purpose. We do not assume responsibility to any other party as concerns the accountant's report.

### **Fees**

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

### **Agreement of terms**

- 7.1 Once it has been agreed, this letter will remain effective, from one reporting engagement appointment to another, until it is replaced. Please sign and return the enclosed copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for reporting engagement under the Solicitors' Accounts Rules and the Accountant's Report Rules including our respective responsibilities.

Yours faithfully,

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

REPORTING ON SOLICITORS' ACCOUNTS  
UNDER THE SOLICITORS' ACCOUNTS RULES AND THE ACCOUNTANT'S REPORT RULES

We agree to the terms of this letter.

(Signed)

..... [Title], for and on behalf of [ABC & Co., Solicitors]  
Date

PN 900 (Revised)  
Issued September 2014; revised August 2016

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Effective for a Qualifying Entity's financial statements  
which cover a period ending on or after 15 December 2016

*Practice Note 900 (Revised)*

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# **Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard**



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

## PRACTICE NOTE 900 (REVISED)

### AUDIT OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE SMALL AND MEDIUM-SIZED ENTITY FINANCIAL REPORTING STANDARD

(Issued September 2014; revised August 2016  
Effective for a Qualifying Entity's financial statements which cover a period ending on or after 15  
December 2016.)

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Practice Note (PN) 900 (Revised), <i>Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard</i> should be read in the context of the <i>Amended Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements</i> which sets out the application and authority of PNs.
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**PRACTICE NOTE  
900 (REVISED)  
AUDIT OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE  
WITH THE SMALL AND MEDIUM-SIZED ENTITY  
FINANCIAL REPORTING STANDARD**

*The purpose of Practice Notes issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) is to assist the auditor in applying Hong Kong Engagement Standards of general application to particular circumstances and industries.*

*Practice Notes are persuasive rather than prescriptive. However they are indicative of good practice and have similar status to the explanatory material in Hong Kong Engagement Standards. This Practice Note provides guidance to assist the auditor to fulfill the objectives of the engagement. The auditor should be prepared to explain departures when called upon to do so.*

## **Introduction**

1. In this Practice Note all the sections mentioned below are in respect of the new Hong Kong Companies Ordinance (Cap. 622) ("new CO") which became effective on 3 March 2014, unless otherwise stated. The new requirements apply to the first financial year<sup>1</sup> of companies that begins on or after the commencement date of the new CO and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015).
2. The new CO contains an optional reporting exemption<sup>2</sup> for certain private companies and companies limited by guarantee which satisfy the conditions set out in section 359 of the new CO. The Small and Medium-sized Entity Financial Reporting Framework ("revised SME-FRF") and Financial Reporting Standard ("revised SME-FRS") ("revised SME-FRF & SME-FRS") which are effective for annual periods beginning on or after 3 March 2014 are the accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are to be followed in accordance with section 380(4) by those Hong Kong incorporated companies which are entitled to, and decide to, take advantage of this reporting exemption in the new CO.
3. This Practice Note gives guidance on the applicability of Hong Kong Standards on Auditing (HKSAAs) to the audit of financial statements prepared in accordance with the revised SME-FRS.

## **Qualifying Entities**

4. In accordance with the revised SME-FRF:

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<sup>1</sup> Section 367(1) of the new CO states that a company's first financial year after the coming into operation of this section begins on the first day of its first accounting reference period and ends on the last day of that period.

<sup>2</sup> The reporting exemption is optional for those companies which are eligible. If a non-dormant private company or company limited by guarantee is not eligible, or decides not to take advantage of the reporting exemption, then it should prepare financial statements which comply with all the relevant requirements of the new CO, including subsections (1), (2), 3(b), (4), (5) and (6) of section 380. Subsections (1), (2), (5) and (6) of section 380 relate to the requirement for the financial statements to give a true and fair view of the financial position of the company (or the company and all its subsidiary undertakings, as the case may be) as at the end of the financial year and the financial performance of the company (or the company and all its subsidiary undertakings, as the case may be) for the financial year. Subsection (4) of section 380 requires compliance with the accounting standards applicable to the financial statements. In the case of a company not taking advantage of the reporting exemption, this would be Hong Kong Financial Reporting Standards (HKFRSs) or Hong Kong Financial Reporting Standard for Private Entities (HKFRSs for Private Entities) as issued by the HKICPA.

- a. a company incorporated under the new CO or predecessor CO (Cap. 32) qualifies for reporting under the revised SME-FRF<sup>3</sup> if it satisfies the criteria set out in section 359 of the new CO and the sections and Schedules to which that section refers. Specifically:
    - i. Section 359(1)(b) brings forward the qualifying criteria that were previously found in section 141D of the predecessor CO, relating to private companies which do not have subsidiaries and are not a subsidiary of another company. These companies (unless they fall within the types of companies listed in section 359(4) are eligible for the reporting exemption provided that each year they obtain 100% approval in writing from their members.
    - ii. The remainder of section 359 introduces 3 additional categories of entities (or groups) that fall within the reporting exemption if they meet certain criteria relating to the type of entity, the size of the entity and in certain cases the need for member approval. Further details on these criteria are set out in paragraphs 24 to 43 of the revised SME-FRF.
  - b. an entity which is not a company incorporated under either the new CO or the predecessor CO, subject to any specific requirements imposed by the law of the entity's place of incorporation and subject to its constitution, qualifies for reporting under the revised SME-FRF when the entity meets the same requirements that a Hong Kong incorporated entity is required to meet under section 359 of the new CO.
5. The types of companies that can qualify for the reporting exemption under the new CO are set out in paragraphs 22 to 43 of the revised SME-FRF.

## Reporting Exemption

6. As introduced above in paragraph 4, the new CO permits private companies and companies limited by guarantee to take advantage of a "reporting exemption" if they meet certain qualifying criteria set out in section 359. The reporting exemption takes the form of exemption from certain of the requirements for the contents of the directors' report and financial statements that would apply if the entities did not qualify for the exemption. The exemptions are explicitly stated in the new CO: if a section, Schedule or Regulation of the new CO does not explicitly refer to the reporting exemption, then companies are required to follow that requirement irrespective of their size and status.
7. Of these exemptions, the most significant one for the purposes of the revised SME-FRF & SME-FRS is the exemption from the requirement for the financial statements to give a true and fair view as set out in section 380(7) of the new CO. Instead of preparing financial statements under the fair presentation framework, financial statements prepared by entities taking advantage of the reporting exemption are required to be properly prepared in accordance with the revised SME-FRF & SME-FRS as these are the applicable accounting standards for such companies for the purposes of complying with section 380(4)(b). With reference to paragraph 13(a) of HKSA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*, revised SME-FRF is considered to be a compliance framework. 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 (i) acknowledge 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 (ii) 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.

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<sup>3</sup> As stated in footnote 2, taking advantage of the reporting exemption is optional even if the company qualifies. If a company which is eligible does not take advantage of the reporting exemption then its financial statements should be prepared in accordance with HKFRSs or HKFRSs for Private Entities as issued by the HKICPA instead of the revised SME-FRS. Further details are stated in footnote 2.

8. Regardless of whether a company falls or does not fall within the reporting exemption, the auditor of the company is required under section 406 of the new CO to opine in the auditor's report on whether the financial statements have been properly prepared in compliance with the new CO. In accordance with the Hong Kong Framework for Assurance Engagements, this is a form of "reasonable assurance" as the auditor is required to express a positive form of conclusion.

## **Applicability of Hong Kong Standards on Auditing**

9. Paragraph 18 of HKSA 200 states that the auditor shall comply with all HKSAs relevant to the audit. This requirement applies to all audits regardless of the financial reporting framework adopted. It follows that all HKSAs are applicable to the audit of financial statements prepared in accordance with the revised SME-FRS.

## **Audit Procedures**

### **General**

10. It is management's responsibility to ensure that the entity qualifies for reporting under the revised SME-FRF & SME-FRS and to ensure that the financial statements are prepared in accordance with the requirements of the SME-FRF & SME-FRF and the new CO.
11. For a company which applies section 359 of the new CO, the auditor should perform audit procedures to obtain sufficient appropriate audit evidence as to whether:
- a. the company is entitled to take advantage of the reporting exemptions permitted under section 359 of the new CO, taking account of the following:
    - i. only certain types of companies can qualify for the reporting exemption;
    - ii. there are size tests set out in Schedule 3 of the new CO for the purposes of the reporting exemption; and
    - iii. there are requirements for member approval for certain types of companies which take advantage of the reporting exemption.

Auditors should refer to section 359 of the new CO and Schedule 3 to the new CO for the details of requirements.

- b. the financial statements comply with revised SME-FRS, Part 1 of Schedule 4 of the new CO and any other requirements of the new CO in relation to the financial statements of a company that falls within reporting exemption.

### **Consolidated financial statements**

12. In accordance with section 379 of the new CO, an entity which is a parent at the end of the financial year is required to present consolidated financial statements in accordance with the SME-FRS except when:
- a. it is a wholly-owned subsidiary of another entity; or
  - b. it meets all of the following conditions:
    - i. it is a partially-owned subsidiary of another entity;
    - ii. at least 6 months before the end of the financial year, the directors notify the members in writing of the directors' intention not to prepare consolidated



financial statements for the financial year, and the notification does not relate to any other financial year; and

- iii. as at a date falling 3 months before the end of the financial year, no member has responded to the notification by giving the directors a written request for the preparation of consolidated financial statements for the financial year; or

If a parent is exempt from preparing consolidated financial statements and does not prepare such financial statements, it should prepare company-level financial statements. Company-level financial statements are those in which investments in subsidiaries, associates and joint ventures are accounted for using the cost model set out in Section 6 of the revised SME-FRF & SME-FRS.

13. Consistent with section 381, paragraph 19.2 of the revised SME-FRS states that if consolidated financial statements are presented, they should include all subsidiaries of the parent, except that one or more subsidiaries may be excluded from consolidation when:
  - a. their exclusion measured on an aggregate basis is not material to the group as a whole; or
  - b. their inclusion would involve expense and delay out of proportion to the value to members of the company.
14. Paragraph 19.3 of the revised SME-FRS states that a parent may not exclude a subsidiary from consolidation on the grounds of expense and delay out of proportion to the value to members of the company unless the members of the company have been informed in writing about, and do not object to, this exclusion. In order to satisfy this condition:
  - a. the notification to the members of the company must:
    - i. state which financial year that the notification relates to (and the notification must not relate to more than one financial year);
    - ii. specify the subsidiary or subsidiaries proposed to be excluded; and
    - iii. state the directors' reasons for believing that the inclusion of the subsidiary or subsidiaries in the consolidated financial statements may involve expense and delay out of proportion to the value to the shareholders;
  - b. in the case of an entity which needs to obtain shareholder approval in accordance with section 359 of the new CO in order to qualify for the reporting exemption, the notification to the members of the company proposing to exclude one or more subsidiaries from consolidation must be included as part of the notice to obtain the necessary shareholder approvals required to qualify for the reporting exemption and must be subject to the same approval and objection processes as apply to that approval;
  - c. in all other cases the notification must be sent to the members before the date of approval of the financial statements and must allow the members of the company a period of no less than one month to raise objections, unless all the members of the company confirm that such a period is not necessary; and
  - d. within the time frame allowed in accordance with subparagraph (b) or (c) of this paragraph no member has indicated to the company that they disagree with the directors' assertion that the inclusion of the subsidiary or subsidiaries would involve expense and delay out of proportion to the value to members of the company.

15. If an entity excludes a subsidiary or subsidiaries from consolidation on the grounds of expense and delay out of proportion to the value to members of company, having satisfied the conditions set out in paragraph 19.3 of the SME-FRS, then paragraph 19.16(g) of the SME-FRS requires the entity to disclose in its consolidated financial statements particulars of each subsidiary that has been excluded from consolidation in accordance with paragraph 19.2(b) of the revised SME-FRS including:
- a. the name of the subsidiary;
  - b. the principal place of operation and place of incorporation and an indication of the nature of business, the proportion of ownership interest and, if different, proportion of voting power held;
  - c. any amounts recognised in the entity's income statement in respect of:
    - i. dividends received or receivable from the excluded subsidiary;
    - ii. impairment losses relating to the investment in the excluded subsidiary; and
    - iii. other transactions with the excluded subsidiary;
  - d. amounts recognised in the entity's statement of financial position in respect of:
    - i. investment in the excluded subsidiary; and
    - ii. any balances due to or from the excluded subsidiary;
  - e. whether the excluded subsidiary prepares audited financial statements;
  - f. summarised financial information in respect of the excluded subsidiary, including the excluded subsidiary's:
    - i. revenue;
    - ii. profit before tax;
    - iii. income tax expense;
    - iv. profit after tax;
    - v. total assets; and
    - vi. total liabilities.
  - g. the basis of preparation of the summarised financial information disclosed in respect of the excluded subsidiary, including:
    - i. the period covered by the information;
    - ii. the accounting framework adopted in its preparation; and
    - iii. whether the information has been extracted from audited financial statements and if not, why not.

16. In relation to the disclosures stated in paragraph 15 above, the auditor of the company would normally evaluate whether the disclosures are in compliance with the requirements set out in the revised SME-FRS. This evaluation is a matter of professional judgment and takes into account matters such as the facts and circumstances of the entity and its subsidiaries based on the auditor's knowledge of the entity and its subsidiaries and the audit evidence obtained during the audit relating to the accuracy and completeness of the disclosures. However, as these subsidiaries are excluded from the scope of the consolidated financial statements, the auditor is not required to comply with the additional requirements of HKSA 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* so far as these subsidiaries are concerned.
17. An example engagement letter in connection with the audit of financial statements prepared in accordance with the revised SME-FRS and an example representation letter are set out in Appendices 4 and 5, respectively.

## Auditor's Report

18. Regardless whether a company falls or does not fall within the reporting exemption, the auditor of the company is required under section 406 to opine in the auditor's report on whether the financial statements have been properly prepared in compliance with the new CO. This is a form of "reasonable assurance" as the auditor is required to express a positive form of conclusion. Therefore, HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* applies to the audit of the financial statements prepared in accordance with the revised SME-FRS. An auditor should also refer to HKSA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report* and HKSA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* if necessary.
19. As explained in paragraph 7 of this Practice Note, the revised SME-FRS is a compliance framework i.e. a financial reporting framework that is not a fair presentation framework. In accordance with paragraph A13 of HKSA 200, where the financial reporting framework is a compliance framework, the opinion required is on whether the financial statements are prepared, in all material respects, in accordance with the framework. Therefore, in an auditor's report on the financial statements prepared in accordance with the revised SME-FRS, the auditor expresses an opinion as to whether the financial statements are prepared, in all material respects, in accordance with the revised SME-FRS.
20. In addition, regardless whether a company falls or does not fall within the reporting exemption, the auditor of the company is required under sections 406 and 407 to opine in the auditor's report (i) if, in the opinion of the auditor, the information in a directors' report is not consistent with the financial statements; and (ii) on certain other matters, as and when necessary. Guidance on these reporting requirements is provided in Practice Note 600.1 (Revised), *Reports by the Auditor under the Hong Kong Companies Ordinance (Cap. 622)*.
21. Appendix 1 contains examples of unmodified auditor's reports on the financial statements and consolidated financial statements prepared in accordance with the revised SME-FRS based on HKSA 700 (Revised).
22. Where the auditor is unable to give an unmodified opinion, the requirements relating to modified auditor's reports in HKSA 705 (Revised) should be complied with. Appendix 2 contains examples of modified auditor's reports on the financial statements prepared in accordance with the revised SME-FRS based on HKSA 705 (Revised).
23. Where the auditor considers additional communication in the auditor's report is necessary, the requirements in HKSA 706 (Revised) should be complied with. Appendix 3 contains an example of an auditor's report that includes an Emphasis of Matter on the financial statements prepared in accordance with the revised SME-FRS based on HKSA 706 (Revised).

## APPENDIX 1

### **Example Unmodified Auditor's Reports on Financial Statements Prepared in Accordance with the revised SME-FRS based on HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements***

Illustration 1 – Auditor's Report for an Entity Other than a Listed Entity Incorporated in Hong Kong and where the Financial Statements are Prepared in Accordance with the revised Hong Kong Small and Medium-Sized Entity Financial Reporting Standard.

Illustration 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 revised Hong Kong Small and Medium-Sized Entity Financial Reporting Standard.

**Illustration 1 - Auditor's Report for an Entity Other than a Listed Entity Incorporated in Hong Kong and where the Financial Statements are Prepared in Accordance with the revised Hong Kong Small and Medium-Sized Entity Financial Reporting Standard**

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a listed entity using the revised Hong Kong Small and Medium-Sized Entity Financial Reporting Standard (SME-FRS). The audit is not a group audit (i.e., HKSA 600 does not apply).
- The financial statements are prepared by the directors of the entity in accordance with the revised SME-FRS (that is, a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).
- The terms of the audit engagement reflect the description of directors' responsibility for the financial statements in HKSA 210.<sup>4</sup>
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with HKSA 570 (Revised)<sup>5</sup>.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701.
- 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.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law in addition to the Hong Kong Companies Ordinance.

## **INDEPENDENT AUDITOR'S REPORT**

To the Members of SME Limited

(incorporated in Hong Kong with limited liability)<sup>6</sup>

### **Report on the Audit of the Financial Statements<sup>7</sup>**

#### **Opinion**

We have audited the financial statements of SME Limited ("the Company") set out on pages ..... to ..... , which comprise the statement of financial position as at 31 December 20X1, and the income

<sup>4</sup> HKSA 210 *Agreeing the Terms of Audit Engagements*.

<sup>5</sup> HKSA 570 (Revised), *Going Concern*

<sup>6</sup> In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>7</sup> The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

statement [and cash flow statement]<sup>8</sup> for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements of the Company are prepared, in all material respects, in accordance with the Hong Kong Small and Medium-sized Entity Financial Reporting Standard ("SME-FRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

### **Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") and with reference to Practice Note 900 (Revised), *Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard* issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

[Reporting in accordance with the reporting requirements in HKSA 720 (Revised) – see Illustration 1 in Appendix 2 of HKSA 720 (Revised).]

### **Responsibilities of Directors and Those Charged with Governance for the Financial Statements<sup>9</sup>**

The directors are responsible for the preparation of the financial statements in accordance with the SME-FRS issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company'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 Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **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>10</sup> Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material

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<sup>8</sup> An entity which prepares and presents its financial statements in accordance with the revised SME-FRS is not required to include a cash flow statement in those financial statements. However, an entity may voluntarily include a cash flow statement in those financial statements.

<sup>9</sup> Throughout the illustrative auditor's reports, the terms directors and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

<sup>10</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".

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 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 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.

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.

## 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>11</sup>*

XYZ & Co.

Certified Public Accountants (Practising) or Certified Public Accountants

[Auditor Address]

[Date]

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<sup>11</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.



Illustration 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 revised Hong Kong Small and Medium-Sized Entity Financial Reporting Standard

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of an entity other than a listed entity using the revised Hong Kong Small and Medium-Sized Entity Financial Reporting Standard (SME-FRS). The audit is a group audit of an entity with subsidiaries (i.e., HKSA 600 applies).
- The consolidated financial statements are prepared by the directors of the entity in accordance with the revised SME-FRS (that is, a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).
- The terms of the group audit engagement reflect the description of directors' responsibility for the consolidated financial statements in HKSA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with HKSA 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701.
- 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.
- Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law in addition to the Hong Kong Companies Ordinance.

## INDEPENDENT AUDITOR'S REPORT

To the Members of SME Limited

(incorporated in Hong Kong with limited liability)<sup>12</sup>

### Report on the Audit of the Consolidated Financial Statements<sup>13</sup>

#### Opinion

We have audited the consolidated financial statements of SME Limited ("the Company") and its subsidiaries ("the Group") set out on pages ..... to ..... , which comprise the consolidated statement of financial position as at 31 December 20X1, and the consolidated income statement [and

<sup>12</sup> In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>13</sup> The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

consolidated cash flow statement]<sup>14</sup> for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements of the Group are prepared, in all material respects, in accordance with the Hong Kong Small and Medium-sized Entity Financial Reporting Standard ("SME-FRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

### **Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") and with reference to Practice Note 900 (Revised), *Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard* issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

[Reporting in accordance with the reporting requirements in HKSA 720 (Revised) – see Illustration 1 in Appendix 2 of HKSA 720 (Revised).]

### **Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements<sup>15</sup>**

The directors are responsible for the preparation of the consolidated financial statements in accordance with the SME-FRS issued by the HKICPA and the Hong Kong 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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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>16</sup> Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are

<sup>14</sup> An entity which prepares and presents its financial statements in accordance with the revised SME-FRS is not required to include a cash flow statement in those financial statements. However, an entity may voluntarily include a cash flow statement in those financial statements.

<sup>15</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

<sup>16</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".

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 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 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.
- 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.
- 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.

## 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>17</sup>

XYZ & Co.

Certified Public Accountants (Practising) or Certified Public Accountants

[Auditor Address]

[Date]

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<sup>17</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.

## APPENDIX 2

### **Example Modified Auditor's Reports on Financial Statements Prepared in Accordance with the revised SME-FRS based on HKSA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report***

- Illustration 1 – An auditor's report containing a qualified opinion due to a material misstatement of the financial statements.
- Illustration 2 – An auditor's report containing a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence regarding cash sales.
- Illustration 3 – An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements.
- Illustration 4 – An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements.
- Illustration 5 – An auditor's report containing an adverse opinion due to a material misstatement of the consolidated financial statements.

### Illustration 1 - Qualified Opinion due to a Material Misstatement of the Financial Statements

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a listed entity using the revised Hong Kong Small and Medium-Sized Entity Financial Reporting Standard (SME-FRS). The audit is not a group audit (i.e., HKSA 600 does not apply).
- The financial statements are prepared by the directors of the entity in accordance with the revised SME-FRS (that is, a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).
- The terms of the audit engagement reflect the description of directors' responsibility for the financial statements in HKSA 210.
- Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial statements (i.e., a qualified opinion is appropriate).
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with HKSA 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the financial statements also affects the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law in addition to the Hong Kong Companies Ordinance.

## **INDEPENDENT AUDITOR'S REPORT**

To the Members of SME Limited

(incorporated in Hong Kong with limited liability)<sup>18</sup>

### **Report on the Audit of the Financial Statements<sup>19</sup>**

#### **Qualified Opinion**

We have audited the financial statements of SME Limited (the "Company") set out on pages ..... to ....., which comprise the statement of financial position as at 31 December 20X1, and the income statement [and cash flow statement]<sup>20</sup> for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the financial statements of the Company are prepared, in all material respects, in

<sup>18</sup> In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>19</sup> The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>20</sup> An entity which prepares and presents its financial statements in accordance with the revised SME-FRS is not required to include a cash flow statement in those financial statements. However, an entity may voluntarily include a cash flow statement in those financial statements.

accordance with the Hong Kong Small and Medium-sized Entity Financial Reporting Standard ("SME-FRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

### **Basis for Qualified Opinion**

The Company's inventories are carried in the statement of financial position at xxx. The directors have not stated the inventories at the lower of cost and net realizable value but have stated them solely at cost, which constitutes a departure from the SME-FRS. The Company's records indicate that, had the directors stated the inventories at the lower of cost and net realizable value, an amount of xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by xxx, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") and with reference to Practice Note 900 (Revised), *Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard* issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### **Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

*[Reporting in accordance with the reporting requirements in HKSA 720 (Revised) – see Illustration 6 in Appendix 2 of HKSA 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.]*

### **Responsibilities of Directors and Those Charged with Governance for the Financial Statements<sup>21</sup>**

*[See illustration 1 in Appendix 1 to this practice note.]*

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

*[See illustration 1 in Appendix 1 to this practice note.]*

### **Report on Other Legal and Regulatory Requirements**

*[See illustration 1 in Appendix 1 to this practice note.]*

XYZ & Co.

Certified Public Accountants (Practising) or Certified Public Accountants

*[Auditor Address]*

*[Date]*

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<sup>21</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

**Illustration 2 - Qualified Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence Regarding Cash Sales**

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a listed entity using the revised Hong Kong Small and Medium-Sized Entity Financial Reporting Standard (SME-FRS). The audit is not a group audit (i.e., HKSA 600 does not apply).
- The financial statements are prepared by the directors of the entity in accordance with the revised SME-FRS (that is, a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).
- The terms of the audit engagement reflect the description of directors' responsibility for the financial statements in HKSA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence regarding cash sales. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the financial statements (i.e., a qualified opinion is appropriate).
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with HKSA 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the financial statements also affects the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has no other reporting responsibilities required under local law except for the Hong Kong Companies Ordinance.
- The information in the directors' report is not consistent with the financial statements.

## INDEPENDENT AUDITOR'S REPORT

To the Members of SME Limited

(incorporated in Hong Kong with limited liability)<sup>22</sup>

### Report on the Audit of the Financial Statements

#### Qualified Opinion

We have audited the financial statements of SME Limited (the "Company") set out on pages ..... to....., which comprise the statement of financial position as at 31 December 20X1, and the income statement [and cash flow statement]<sup>23</sup> for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

<sup>22</sup> In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>23</sup> An entity which prepares and presents its financial statements in accordance with the revised SME-FRS is not required to include a cash flow statement in those financial statements. However, an entity may voluntarily include a cash flow statement in those financial statements.



In our opinion, except for the possible effects of matter described in the *Basis for Qualified Opinion* section of our report, the financial statements of the Company are prepared, in all material respects, in accordance with the Hong Kong Small and Medium-sized Entity Financial Reporting Standard ("SME-FRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

### **Basis for Qualified Opinion**

\$X of the Company's recorded turnover comprises cash sales, over which there was no system of internal control on which we could rely for the purpose of our audit. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves that the recorded turnover was free from material misstatements.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") and with reference to Practice Note 900 (Revised), *Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard* issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### **Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

*[Reporting in accordance with the reporting requirements in HKSA 720 (Revised) – see Illustrations 6 and 8 in Appendix 2 of HKSA 720 (Revised). The last paragraph of the other information section would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.]*

### **Responsibilities of Directors and Those Charged with Governance for the Financial Statements<sup>24</sup>**

*[See illustration 1 in Appendix 1 to this practice note.]*

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

*[See illustration 1 in Appendix 1 to this practice note.]*

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<sup>24</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

## Report on [Directors' Report under section 406(2) and]<sup>25</sup> Other Matters under sections 407(2)<sup>26</sup> and 407(3)<sup>26</sup> of the Hong Kong Companies Ordinance<sup>27</sup>

### [Directors' and Auditor's Respective Responsibility for the Directors' Report]<sup>25</sup>

In addition to the respective responsibilities of the directors and auditor stated in above section "Report on the Audit of the Financial Statements", the directors are also responsible for the preparation of the directors' report as set out on pages ... to ... in compliance with the Hong Kong Companies Ordinance.

It is our responsibility under section 406(2) of the Hong Kong Companies Ordinance to state in our auditor's report if we are of the opinion that the information in the directors' report is not consistent with the financial statements. However, we have not audited or reviewed the directors' report and accordingly do not express an audit opinion or a review conclusion or any assurance conclusion on the directors' report as a whole.]

### Matters on Which We are Required to Report by Exception

In accordance with the Hong Kong Companies Ordinance, we have the following matters to report. In our opinion:

- [the information given in [insert relevant paragraph/ section] in the directors' report for the year ended 31 December 20X1 is not consistent with the financial statements for the year ended 31 December 20X1. [State the details of the inconsistencies<sup>25</sup>.]]
- in respect alone of the inability to obtain sufficient appropriate audit evidence regarding cash sales as described in the *Basis for Qualified Opinion* section of our report above:
  - we were unable to determine whether adequate accounting records had been kept; and
  - we have not obtained all the information or explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

XYZ & Co.

Certified Public Accountants (Practising) or Certified Public Accountants

[Auditor Address]

[Date]

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<sup>25</sup> Section 406(2) of the Hong Kong Companies Ordinance (CO) requires the auditor to opine on the directors' report:

- (2) If a company's auditor is of the opinion that the information in a directors' report for a financial year is not consistent with the financial statements for the financial year, the auditor-
- (a) must state that opinion in the auditor's report; and
  - (b) may bring that opinion to the members' attention at a general meeting.

<sup>26</sup> Section 407 of the CO requires the auditor to opine on other matters:

- (1) In preparing an auditor's report, the auditor must carry out an investigation that will enable the auditor to form an opinion as to—
- (a) whether adequate accounting records have been kept by the company; and
  - (b) whether the financial statements are in agreement with the accounting records.
- (2) A company's auditor must state the auditor's opinion in the auditor's report if the auditor is of the opinion that—
- (a) adequate accounting records have not been kept by the company; or
  - (b) the financial statements are not in agreement with the accounting records in any material respect.
- (3) If a company's auditor fails to obtain all the information or explanations that, to the best of the auditor's knowledge and belief, are necessary and material for the purpose of the audit, the auditor must state that fact in the auditor's report.
- (4) If the financial statements do not comply with section 383(1), the auditor must include in the auditor's report, so far as the auditor is reasonably able to do so, a statement giving the particulars that are required to be, but have not been, contained in the financial statements.

Where the opinion on the financial statements has been modified, the auditor needs to evaluate what the consequences of this modification are on the reporting requirement under the CO, and further modify the report if necessary.

<sup>27</sup> For the requirements under the Hong Kong Companies Ordinance, reference may be made to Practice Note 600.1 (Revised), *Reports by auditors under the Hong Kong Companies Ordinance (Cap. 622)*.

Illustration 3: Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about a Single Element of the Consolidated Financial Statements

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of an entity other than a listed entity using the revised Hong Kong Small and Medium-Sized Entity Financial Reporting Standard (SME-FRS). The audit is a group audit of an entity with subsidiaries (i.e., HKSA 600 applies).
- The consolidated financial statements are prepared by the directors of the entity in accordance with the revised SME-FRS (that is, a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).
- The terms of the audit engagement reflect the description of directors' responsibility for the consolidated financial statements in HKSA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements. That is, the auditor was also unable to obtain audit evidence about the financial information of a joint venture investment that represents over 90% of the entity's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the consolidated financial statements (i.e., a disclaimer of opinion is appropriate).
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants*.
- The auditor has obtained all of the other information prior to the date of the auditor's report.
- Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.
- A more limited description of the auditor's responsibilities section is required.
- In addition to the audit of the consolidated financial statements, the auditor has no other reporting responsibilities required under local law except for the Hong Kong Companies Ordinance.
- The information in the directors' report is not consistent with the consolidated financial statements.

## INDEPENDENT AUDITOR'S REPORT

To the Members of SME Limited

(incorporated in Hong Kong with limited liability)<sup>28</sup>

### Report on the Audit of the Consolidated Financial Statements

#### Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of SME Limited and its subsidiaries ("the Group") set out on pages ..... to....., which comprise the consolidated statement of financial position as at 31 December 20X1, and the consolidated income statement [and consolidated cash flow statement]<sup>29</sup> for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

<sup>28</sup> In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>29</sup> An entity which prepares and presents its financial statements in accordance with the revised SME-FRS is not required to include a cash flow statement in those financial statements. However, an entity may voluntarily include a cash flow statement in those financial statements.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the Hong Kong Companies Ordinance.

### **Basis for Disclaimer of Opinion**

The Group's investment in its joint venture DEF Limited is carried at xxx on the Group's consolidated statement of financial position, which represents over 90% of the Group's net assets as at 31 December 20X1. We were not allowed access to the management and the auditors of DEF, including DEF's auditor's audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of the Group's share of the profits/losses and the net assets/liabilities of DEF.

### **Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements<sup>30</sup>**

[See illustration 2 in Appendix 1 to this practice note.]

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

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing ("HKSA") and with reference to Practice Note 900 (Revised), *Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and to issue an auditor's report.<sup>31</sup> However, because of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

### **Report on [Directors' Report under section 406(2) and]<sup>32</sup> Other Matters under sections 407(2)<sup>33</sup> and 407(3)<sup>33</sup> of the Hong Kong Companies Ordinance<sup>34</sup>**

<sup>30</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

<sup>31</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>32</sup> Section 406(2) of the Hong Kong Companies Ordinance (CO) requires the auditor to opine on the directors' report:

- (2) If a company's auditor is of the opinion that the information in a directors' report for a financial year is not consistent with the financial statements for the financial year, the auditor-
  - (a) must state that opinion in the auditor's report; and
  - (b) may bring that opinion to the members' attention at a general meeting.

<sup>33</sup> Section 407 of the CO requires the auditor to opine on other matters:

- (1) In preparing an auditor's report, the auditor must carry out an investigation that will enable the auditor to form an opinion as to—
  - (a) whether adequate accounting records have been kept by the company; and
  - (b) whether the financial statements are in agreement with the accounting records.
- (2) A company's auditor must state the auditor's opinion in the auditor's report if the auditor is of the opinion that—
  - (a) adequate accounting records have not been kept by the company; or
  - (b) the financial statements are not in agreement with the accounting records in any material respect.
- (3) If a company's auditor fails to obtain all the information or explanations that, to the best of the auditor's knowledge and belief, are necessary and material for the purpose of the audit, the auditor must state that fact in the auditor's report.
- (4) If the financial statements do not comply with section 383(1), the auditor must include in the auditor's report, so far as the auditor is reasonably able to do so, a statement giving the particulars that are required to be, but have not been, contained in the financial statements.

Where the opinion on the financial statements has been modified, the auditor needs to evaluate what the consequences of this modification are on the reporting requirement under the CO, and further modify the report if necessary.

<sup>34</sup> For the requirements under the Hong Kong Companies Ordinance, reference may be made to Practice Note 600.1 (Revised), *Reports by auditors under the Hong Kong Companies Ordinance (Cap. 622)*.

[Directors' and Auditor's Respective Responsibility for the Directors' Report<sup>32</sup>

In addition to the respective responsibilities of the directors and auditor stated in above section "Report on the Audit of the Consolidated Financial Statements", the directors are also responsible for the preparation of the directors' report as set out on pages ... to ... in compliance with the Hong Kong Companies Ordinance.

It is our responsibility under section 406(2) of the Hong Kong Companies Ordinance to state in our auditor's report if we are of the opinion that the information in the directors' report is not consistent with the consolidated financial statements. However, we have not audited or reviewed the directors' report and accordingly do not express an audit opinion or a review conclusion or any assurance conclusion on the directors' report as a whole.]

**Matters on Which We are Required to Report by Exception**

In accordance with the Hong Kong Companies Ordinance, we have the following matters to report. In our opinion:

- [the information given in [*insert relevant paragraph/ section*] in the directors' report for the year ended 31 December 20X1 is not consistent with the financial statements for the year ended 31 December 20X1. [*State the details of the inconsistencies*<sup>32</sup>.]]
- in respect alone of the inability to obtain sufficient appropriate audit evidence regarding an investment in a joint venture as described in the *Basis for Disclaimer of Opinion* section of our report above:
  - we were unable to determine whether adequate accounting records had been kept; and
  - we have not obtained all the information or explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

XYZ & Co.

Certified Public Accountants (Practising) or Certified Public Accountants

[*Auditor Address*]

[*Date*]

Illustration 4: Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about Multiple Elements of the Financial Statements

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a listed entity using the revised Hong Kong Small and Medium-Sized Entity Financial Reporting Standard (SME-FRS). The audit is not a group audit (i.e., HKSA 600 does not apply).
- The financial statements are prepared by the directors of the entity in accordance with the revised SME-FRS (that is, a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).
- The terms of the audit engagement reflect the description of directors' responsibility for the financial statements in HKSA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial statements, that is, the auditor was also unable to obtain audit evidence about the entity's inventories and accounts receivable. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements.
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants*.
- The auditor has obtained all of the other information prior to the date of the auditor's report.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- A more limited description of the auditor's responsibilities section is required.
- In addition to the audit of the financial statements, the auditor has no other reporting responsibilities required under local law except for the Hong Kong Companies Ordinance.
- The information in the directors' report is not consistent with the financial statements.

## INDEPENDENT AUDITOR'S REPORT

To the Members of SME Limited

(incorporated in Hong Kong with limited liability)<sup>35</sup>

### Report on the Audit of the Financial Statements

**Disclaimer of Opinion**We were engaged to audit the financial statements of SME Limited (the "Company") set out on pages ..... to....., which comprise the statement of financial position as at 31 December 20X1, and the income statement [and cash flow statement]<sup>36</sup> for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the financial statements of the Company. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements. In all other respects, in our opinion the financial statements have been properly prepared in compliance with the Hong Kong Companies Ordinance.

<sup>35</sup> In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>36</sup> An entity which prepares and presents its financial statements in accordance with the revised SME-FRS is not required to include a cash flow statement in those financial statements. However, an entity may voluntarily include a cash flow statement in those financial statements.

## Basis for Disclaimer of Opinion

We were not appointed as auditors of the Company until after 31 December 20X1 and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at 31 December 20X0 and 20X1, which are stated in the statement of financial position at xxx and xxx, respectively. In addition, the introduction of a new computerized accounts receivable system in September 20X1 resulted in numerous errors in accounts receivable. As of the date of our audit report, the directors were still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the statement of financial position at a total amount of xxx as at 31 December 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the income statement.

## Responsibilities of Directors and Those Charged with Governance for the Financial Statements<sup>37</sup>

[See illustration 1 in Appendix 1 to this practice note.]

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

Our responsibility is to conduct an audit of the Company's financial statements in accordance with Hong Kong Standards on Auditing ("HKSA") and with reference to Practice Note 900 (Revised), *Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard* issued by the Hong Kong Institute of Certified Public Accountants and to issue an auditor's report.<sup>38</sup> However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

## Report on [Directors' Report under section 406(2) and]<sup>39</sup> Other Matters under sections 407(2)<sup>40</sup> and 407(3)<sup>40</sup> of the Hong Kong Companies Ordinance<sup>41</sup>

<sup>37</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

<sup>38</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>39</sup> Section 406(2) of the Hong Kong Companies Ordinance (CO) requires the auditor to opine on the directors' report:

- (2) If a company's auditor is of the opinion that the information in a directors' report for a financial year is not consistent with the financial statements for the financial year, the auditor-
  - (a) must state that opinion in the auditor's report; and
  - (b) may bring that opinion to the members' attention at a general meeting.

<sup>40</sup> Section 407 of the CO requires the auditor to opine on other matters:

- (1) In preparing an auditor's report, the auditor must carry out an investigation that will enable the auditor to form an opinion as to—
  - (a) whether adequate accounting records have been kept by the company; and
  - (b) whether the financial statements are in agreement with the accounting records.
- (2) A company's auditor must state the auditor's opinion in the auditor's report if the auditor is of the opinion that—
  - (a) adequate accounting records have not been kept by the company; or
  - (b) the financial statements are not in agreement with the accounting records in any material respect.
- (3) If a company's auditor fails to obtain all the information or explanations that, to the best of the auditor's knowledge and belief, are necessary and material for the purpose of the audit, the auditor must state that fact in the auditor's report.
- (4) If the financial statements do not comply with section 383(1), the auditor must include in the auditor's report, so far as the auditor is reasonably able to do so, a statement giving the particulars that are required to be, but have not been, contained in the financial statements.

Where the opinion on the financial statements has been modified, the auditor needs to evaluate what the consequences of this modification are on the reporting requirement under the CO, and further modify the report if necessary.

<sup>41</sup> For the requirements under the Hong Kong Companies Ordinance, reference may be made to Practice Note 600.1 (Revised), *Reports by auditors under the Hong Kong Companies Ordinance (Cap. 622)*.

[Directors' and Auditor's Respective Responsibility for the Directors' Report<sup>39</sup>

In addition to the respective responsibilities of the directors and auditor stated in above section "Report on the Audit of the Financial Statements", the directors are also responsible for the preparation of the directors' report as set out on pages ... to ... in compliance with the Hong Kong Companies Ordinance.

It is our responsibility under section 406(2) of the Hong Kong Companies Ordinance to state in our auditor's report if we are of the opinion that the information in the directors' report is not consistent with the financial statements. However, we have not audited or reviewed the directors' report and accordingly do not express an audit opinion or a review conclusion or any assurance conclusion on the directors' report as a whole.]

**Matters on Which We are Required to Report by Exception**

In accordance with the Hong Kong Companies Ordinance, we have the following matters to report. In our opinion:

- [the information given in [*insert relevant paragraph/ section*] in the directors' report for the year ended 31 December 20X1 is not consistent with the financial statements for the year ended 31 December 20X1. [*State the details of the inconsistencies*<sup>39</sup>.]]
- in respect alone of the inability to obtain sufficient appropriate audit evidence about the inventories and accounts receivable as described in the *Basis for Disclaimer of Opinion* section of our report above:
  - we were unable to determine whether adequate accounting records had been kept; and
  - we have not obtained all the information or explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

XYZ & Co.

Certified Public Accountants (Practising) or Certified Public Accountants

[*Auditor Address*]

[*Date*]



Illustration 5: Adverse Opinion due to a Material Misstatement of the Consolidated Financial Statements

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of an entity other than a listed entity using the revised Hong Kong Small and Medium-Sized Entity Financial Reporting Standard (SME-FRS). The audit is a group audit of an entity with subsidiaries (i.e., HKSA 600 applies).
- The consolidated financial statements are prepared by the directors of the entity in accordance with the revised SME-FRS (that is, a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).
- The terms of the audit engagement reflect the description of directors' responsibility for the consolidated financial statements in HKSA 210.
- The consolidated financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the consolidated financial statements. The effects of the misstatement on the consolidated financial statements have not been determined because it was not practicable to do so (i.e., an adverse opinion is appropriate).
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with HKSA 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the adverse opinion on the consolidated financial statements also affects the other information.
- Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law in addition to the Hong Kong Companies Ordinance. Assume compliance with the Hong Kong Companies Ordinance on non-consolidation of a subsidiary.

## INDEPENDENT AUDITOR'S REPORT

To the Members of SME Limited

(incorporated in Hong Kong with limited liability)<sup>42</sup>

### Report on the Audit of the Consolidated Financial Statements<sup>43</sup>

#### Adverse Opinion

We have audited the consolidated financial statements of SME Limited and its subsidiaries (the "Group") set out on pages ..... to....., which comprise the consolidated statement of financial position as at 31 December 20X1, and the consolidated income statement [and consolidated cash

<sup>42</sup> In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>43</sup> The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

flow statement]<sup>44</sup> for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the consolidated financial statements of the Group are not prepared, in all material respects, in accordance with the Hong Kong Small and Medium-sized Entity Financial Reporting Standard ("SME-FRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the Hong Kong Companies Ordinance.<sup>45</sup>

### **Basis for Adverse Opinion**

As explained in Note X, the Group has not consolidated subsidiary DEF Company that the Group acquired during 20X1 because it has not yet been able to determine the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under SME-FRS, the Company should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had DEF Company been consolidated, many elements in the consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") and with reference to Practice Note 900 (Revised), *Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard* issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

### **Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

[Reporting in accordance with the reporting requirements in HKSA 720 (Revised) – see Illustration 7 in Appendix 2 of HKSA 720 (Revised). The last paragraph of the other information section in illustration 7 would be customized to describe the specific matter giving rise to the adverse opinion that also affects the other information.]

### **Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements<sup>46</sup>**

[See illustration 2 in Appendix 1 to this practice note.]

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

[See illustration 2 in Appendix 1 to this practice note.]

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<sup>44</sup> An entity which prepares and presents its financial statements in accordance with the revised SME-FRS is not required to include a cash flow statement in those financial statements. However, an entity may voluntarily include a cash flow statement in those financial statements.

<sup>45</sup> Assume the consolidated financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance in all other aspects.

<sup>46</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

## **Report on Other Legal and Regulatory Requirements**

*[See illustration 2 in Appendix 1 to this practice note.]*

XYZ & Co.

Certified Public Accountants (Practising) or Certified Public Accountants

*[Auditor Address]*

*[Date]*

## APPENDIX 3

### **Example Auditor's Report on Financial Statements Prepared in Accordance with the revised SME-FRS based on HKSA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report***

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a listed entity using the revised Hong Kong Small and Medium-Sized Entity Financial Reporting Standard (SME-FRS). The audit is not a group audit (i.e., HKSA 600 does not apply).
- The financial statements are prepared by the directors of the entity in accordance with the revised SME-FRS (that is, a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).
- The terms of the audit engagement reflect the description of directors' responsibility for the financial statements in HKSA 210.
- A departure from the applicable financial reporting framework resulted in a qualified opinion.
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with HKSA 570 (Revised).
- There is uncertainty relating to a pending exceptional litigation matter.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the financial statements also affects the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law in addition to the Hong Kong Companies Ordinance.

## **INDEPENDENT AUDITOR'S REPORT**

To the Members of SME Limited

(incorporated in Hong Kong with limited liability)<sup>47</sup>

### **Report on the Audit of the Financial Statements<sup>48</sup>**

#### **Qualified Opinion**

We have audited the financial statements of SME Limited (the "Company") set out on pages ..... to ....., which comprise the statement of financial position as at 31 December 20X1, and the income

<sup>47</sup> In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>48</sup> The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

statement [and cash flow statement]<sup>49</sup> for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the financial statements of the Company are prepared, in all material respects, in accordance with the Hong Kong Small and Medium-sized Entity Financial Reporting Standard ("SME-FRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

### **Basis for Qualified Opinion**

The Company's inventories are carried in the statement of financial position at xxx. The directors have not stated the inventories at the lower of cost and net realizable value but have stated them solely at cost, which constitutes a departure from the SME-FRS. The Company's records indicate that had the directors stated the inventories at the lower of cost and net realizable value, an amount of xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by xxx, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") and with reference to Practice Note 900 (Revised), *Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard* issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### **Emphasis of Matter – Uncertainty Related to a Lawsuit**

We draw attention to Note X to the financial statements which describes the uncertainty<sup>50</sup> related to the outcome of the lawsuit filed against the Company by DEF Company. Our opinion is not qualified in respect of this matter.

### **Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

*[Reporting in accordance with the reporting requirements in HKSA 720 (Revised) – see Illustration 6 in Appendix 2 of HKSA 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.]*

### **Responsibilities of Directors and Those Charged with Governance for the Financial Statements<sup>51</sup>**

*[See illustration 1 in Appendix 1 to this practice note.]*

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

*[See illustration 1 in Appendix 1 to this practice note.]*

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<sup>49</sup> An entity which prepares and presents its financial statements in accordance with the revised SME-FRS is not required to include a cash flow statement in those financial statements. However, an entity may voluntarily include a cash flow statement in those financial statements.

<sup>50</sup> In highlighting the uncertainty, the auditor uses the same terminology that is used in the note to the financial statements.

<sup>51</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

## **Report on Other Legal and Regulatory Requirements**

*[See illustration 1 in Appendix 1 to this practice note.]*

XYZ & Co.

Certified Public Accountants (Practising) or Certified Public Accountants

*[Auditor Address]*

*[Date]*

## APPENDIX 4

### Example of an Audit Engagement Letter

*The following is an example of an audit engagement letter for an audit of general purpose financial statements of a company which is incorporated in Hong Kong under the Companies Ordinance and which has decided to take advantage of the reporting exemption in the Companies Ordinance. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in HKSA 210 Agreeing the Terms of Audit Engagements. It will need to be varied according to individual requirements and circumstances, for example to the special reporting requirements of regulated entities. It may be appropriate to seek legal advice that any proposed letter is suitable.*

To the directors of [SME Limited]:

#### Objective of services

- 1.1 You have requested that we audit the (consolidated)\* financial statements of SME Limited ("the Company") (and its subsidiaries)\*. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.
- 1.2 The objectives of our audit are to obtain reasonable assurance about whether the (consolidated)\* 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Hong Kong Standards on Auditing ("HKSA") 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.

#### Responsibilities of directors

- 2.1 Our audit will be conducted on the basis that you acknowledge and understand that you have responsibility:
  - a. To ensure that the company satisfies the relevant requirements under section 359 of the Companies Ordinance ("CO") such that the company is eligible to take advantage of the reporting exemption;
  - b. To prepare (consolidated)\* financial statements of the Company (and its subsidiaries)\* for the financial year in accordance with the Small and Medium-sized Entity Financial Reporting Standard (SME-FRS) and the CO;
  - c. (To ensure the subsidiary, if any, of the Company keeps accounting records that are sufficient for the Company to prepare (consolidated)\* financial statements that comply with b. above.)\*
  - d. To take all reasonable steps to ensure the Company keeps sufficient accounting records which show and explain the transactions of the Company (and its subsidiaries)\*, and disclose with reasonable accuracy, at any time, the financial position and financial performance of the Company (and its subsidiaries)\*;
  - e. To ensure that the (consolidated)\* financial statements comply with section 383 (Notes to Financial Statements to Contain Information on Directors' Emoluments etc) of the CO which must contain in the notes to the financial statements, the information prescribed by the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G);

- f. For such internal control as you determine is necessary to enable the preparation of (consolidated)\* financial statements that are free from material misstatement, whether due to fraud or error;
  - g. To provide us with:
    - (i) Access to all information of which you are aware that is relevant to the preparation of the (consolidated)\* financial statements such as Company's accounting records and all other relevant records and documentation, including minutes of all management and shareholders' meetings and other matters;
    - (ii) Additional information that we may request from you for the purpose of the audit; and
    - (iii) Unrestricted access to persons related to the Company (and its subsidiaries)\* from whom we determine it necessary to obtain audit evidence;
  - h. To provide us with (i) any proposed written resolution and (ii) any other document relating to the resolution that is required to be sent to a member of the Company, on or before the circulation of written resolution to a member of the Company; and
  - i. To notify us any passed written resolution within 15 days after resolution is passed.
- 2.2 You are also responsible for the preparation and approval of the directors' report in accordance with the CO.

### **Responsibilities of the auditor**

- 3.1 We have a statutory responsibility to prepare a report to the members to state whether in our opinion the (consolidated)\* financial statements of the Company (and its subsidiaries)\* for the financial year are prepared, in all material respects, in accordance with the SME-FRS and whether they have been properly prepared in compliance with the CO. We shall also state our opinion in the auditor's report if we are of the opinion that:
- a. adequate accounting records have not been kept by the Company (and its subsidiaries)\*; or
  - b. the (consolidated)\* financial statements are not in agreement with the accounting records in any material respect; and

We shall also state the fact in the auditor's report if we have failed to obtain all the information and explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

In addition, where the (consolidated)\* financial statements do not contain information relating to directors' remuneration or loans to officers under section 383(1) of the CO, the CO requires us to include in our report, as far as we are reasonably able to do so, a statement giving the particulars that are required to be, but have not been, contained in the (consolidated)\* financial statements.

- 3.2 We have a professional responsibility to report if the (consolidated)\* financial statements do not comply in any material respect with SME-FRS, unless in our opinion the non-compliance is justified in the circumstances. In determining whether or not the departure is justified, we consider:
- a. whether the departure is required in order for the (consolidated)\* financial statements to properly present the financial position and financial performance of the Company (and its subsidiaries)\*; and
  - b. whether adequate disclosure has been made concerning the departure.



- 3.3 We are required to read the information in the directors' report for the financial year to identify and report inconsistencies with the (consolidated)\* financial statements. As required by the CO, if we are of the opinion that the information in the directors' report for a financial year is not consistent with the (consolidated)\* financial statements for the financial year, we shall state that opinion in our auditor's report; and we may bring that opinion to the members' attention at a general meeting. However, we are not required to audit or review the directors' report and accordingly we will not express an opinion or review conclusion or any assurance on it.

### Scope of audit

- 4.1 Our audit will be conducted in accordance with HKSA's and with reference to Practice Note 900 (Revised) *Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard* issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements. As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
- a. 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.
  - b. 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 entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the (consolidated)\* financial statements that we have identified during the audit. Any such report may not be provided to third parties without our prior written consent. Such consent will be granted only on the basis that such reports are not prepared with the interests of anyone other than the Company in mind and that we accept no duty or responsibility to any other party as concerns the reports.
  - c. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by you.
  - d. Conclude on the appropriateness of your 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.
- 4.2 Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with HKSA's.
- (4.3 In connection with the audit of the consolidated financial statements, we draw your attention to section 412 of the CO which gives the rights to the auditor of the holding company to require a person that is a related entity of the company to provide any information or explanation that the auditor reasonably requires for the performance of the duties as auditor of the holding company. As defined in section 412 of the CO, a related entity includes an auditor of a subsidiary undertaking.

- 4.4 In order to express an opinion on the consolidated financial statements which consolidate the financial information of subsidiaries of which we are not the auditor, it will be necessary for us to communicate directly with the other auditor(s) concerned to satisfy ourselves that:
- a. so far as is practicable, there is uniformity within the Company and its subsidiaries in the application of accounting policies;
  - b. the consolidated financial statements contain the information required by the CO, applicable accounting standards and any other legislation or non-statutory requirements affecting the presentation of financial statements; and
  - c. all material aspects of the consolidated financial statements have been subjected to an audit, the nature and extent of which is adequate and reasonable, in our view, for the purpose of forming an opinion on the consolidated financial statements.)\*
- 4.5 As part of our audit procedures, we will request you to provide written confirmation concerning representations which we have received from you during the course of the audit in connection with the audit. In connection with representations and the supply of information to us generally, we draw your attention to section 412 of the CO which sets out the rights of the auditor in relation to obtaining information from a person that is a related entity as defined in this section of the CO. You are also referred to section 413 of the CO which sets out the offences relating to section 412 of the CO.
- 4.6 In order to assist us with the audit of your (consolidated)\* financial statements, we shall request sight of all documents or statements, including the directors' report, which are due to be issued with the (consolidated)\* financial statements. We are also entitled to attend all general meetings of the Company and to receive notice of all such meetings.
- 4.7 The responsibility for safeguarding the assets of the Company (and its subsidiaries)\* and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with you. However, we shall endeavour to plan our audit so that we have a reasonable expectation of detecting material misstatements in the (consolidated)\* financial statements or books of account (including those resulting from fraud, error or non-compliance with law or regulations), but our audit should not be relied upon to disclose all such material misstatements or frauds, errors or instances of non-compliance as may exist.
- 4.8 (Where appropriate - Note) We shall not be treated as having notice, for the purposes of our audit responsibilities, of information provided to members of our firm other than those engaged on the audit (for example information provided in connection with accounting, taxation and other services).
- 4.9 Once we have issued our report we have no further direct responsibility in relation to the (consolidated)\* financial statements for that period. However, you agree that you will inform us of any material event occurring between the date of our report and that of the Annual General Meeting which may affect the (consolidated)\* financial statements.

### **Reporting**

- 5.1 *[Insert appropriate reference to the expected form and content of the auditor's report including, if applicable, the reporting on other information in accordance with HKSA 720 (Revised).]*
- 5.2 The form and content of our report may need to be amended in the light of our audit findings.

### **(Other services**

6. You have requested that we provide other services in respect of ..... The terms under which we provide these other services are dealt with in a separate letter.)\*

### **Fees**

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

**Agreement of terms**

- 8.1 Once it has been agreed, this letter will remain effective, from one audit appointment to another, until it is replaced. Please sign and return the enclosed copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the (consolidated)\* financial statements including our respective responsibilities.
- (8.2 Since the terms of our engagement as auditors of the subsidiaries listed in the attached appendix are the same, we will not send separate letters to the board of directors of each subsidiary. We would therefore be grateful if you would forward copies of this letter to the boards of directors of each such subsidiary and confirm that these boards have also agreed and confirmed their acceptance of this letter.)\*

Yours faithfully,

ABC & Co.

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

Date

We agree to the terms of this letter.

(Signed)

.....  
Director, for and on behalf of the board of

Date

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\* Delete where not applicable.

**Note**

*When accounting, taxation or other services are undertaken on behalf of an audit client, information may be provided to members of the audit firm other than those engaged on the audit. In such cases, it may be appropriate for the audit engagement letter to include this or a similar paragraph to indicate that the auditor is not to be treated as having notice, for the purposes of the auditor's responsibilities, of such information, to make it clear that a company would not be absolved from informing the auditor directly of a material matter.*

## APPENDIX 5

### Example of a Representation Letter

The following illustrative letter includes written representations that are required by HKSA 580 *Written Representations* and other HKSAs. It is assumed in this illustration that a company is incorporated in Hong Kong under the Companies Ordinance and which has decided to take advantage of the reporting exemption in the Companies Ordinance; the applicable financial reporting framework is the Small and Medium-sized Entity Financial Reporting Standard; the requirement of HKSA 570 (Revised), *Going Concern* to obtain a written representation is not relevant; and that there are no exceptions to the requested written representations. If there were exceptions, the representations would need to be modified to reflect the exceptions.

(Entity Letterhead)

(To Auditor)

(Date)

This representation letter is provided in connection with your audit of the financial statements of SME Limited for the year ended 31 December 20XX<sup>52</sup> for the purpose of expressing an opinion as to whether the financial statements are prepared, in all material respects, in accordance with the Small and Medium-sized Entity Financial Reporting Standard.

We confirm that (*, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves*):

#### *Financial Statements*

- We consider the company falls within the reporting exemption set out in section 359.
- We acknowledge that section 379 of the Companies Ordinance requires us to prepare financial statements that comply with sections 380 and 383.
- We are responsible for taking all reasonable steps to ensure the company keeps proper accounting records which are sufficient to show and explain the company's transactions, disclose with reasonable accuracy at any time the company's financial position and financial performance and enable us to ensure that the financial statements comply with the Companies Ordinance.
- The financial statements comply with section 383 (Notes to Financial Statements to Contain Information on Directors' Emoluments etc) of the Companies Ordinance which must contain in the notes to the financial statements, the information prescribed by the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G).
- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated [insert date], for the preparation of the financial statements in accordance with the Small and Medium-sized Entity Financial Reporting Standard; in particular the financial statements are prepared, in all material respects, in accordance therewith.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. (HKSA 540)
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Small and Medium-sized Entity Financial Reporting Standard. (HKSA 550)
- All events subsequent to the date of the financial statements and for which the Small and Medium-sized Entity Financial Reporting Standard require adjustment or disclosure have been adjusted or disclosed. (HKSA 560)

<sup>52</sup> Where the auditor reports on more than one period, the auditor adjusts the date so that the letter pertains to all periods covered by the auditor's report.

- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter. (HKSA 450)
- [Any other matters that the auditor may consider appropriate (see paragraph A10 of HKSA 580).]

#### *Directors' Report*

- We are responsible for the preparation of the director's report that:
  - complies with sections 390 (Contents of Directors' Report: General) and 543(2) (Disclosure of Management Contract) of the Companies Ordinance;
  - contains the information prescribed by the regulations made under section 452(3) (Financial Secretary May Make Other Regulations) of the Companies Ordinance; and
  - complies with other requirements prescribed by the regulations made under section 452(3) of the Companies Ordinance.

#### *Information Provided*

- We have provided you with:<sup>53</sup>
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. (HKSA 240)
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements. (HKSA 240)
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others. (HKSA 240)
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements. (HKSA 250)
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. (HKSA 550)
- [Any other matters that the auditor may consider necessary (see paragraph A11 of HKSA 580).]

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Management

Management

<sup>53</sup> If the auditor has included other matters relating to management's responsibilities in the audit engagement letter in accordance with HKSA 210, *Agreeing the Terms of Audit Engagements*, consideration may be given to including these matters in the written representations from management or those charged with governance.