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

*Hong Kong Standard on Auditing 510*

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# **Initial Audit Engagements —Opening Balances**



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

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**HONG KONG STANDARD ON AUDITING 510**  
**INITIAL AUDIT ENGAGEMENTS—OPENING BALANCES**

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

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Hong Kong Standard on Auditing (HKSA) 510, *Initial Audit Engagements—Opening Balances*, 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 opening balances in an initial audit engagement. In addition to financial statement amounts, opening balances include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments. When the financial statements include comparative financial information, the requirements and guidance in HKSA 710<sup>1</sup> also apply. HKSA 300<sup>2</sup> includes additional requirements and guidance regarding activities prior to starting an initial audit.

### Effective Date

2. This HKSA is effective for audits of financial statements for periods beginning on or after 15 December 2009.

### Objective

3. In conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether:
  - (a) Opening balances contain misstatements that materially affect the current period's financial statements; and
  - (b) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

### Definitions

4. For the purposes of the HKSAs, the following terms have the meanings attributed below:
  - (a) Initial audit engagement – An engagement in which either:
    - (i) The financial statements for the prior period were not audited; or
    - (ii) The financial statements for the prior period were audited by a predecessor auditor.
  - (b) Opening balances – Those account balances that exist at the beginning of the period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period. Opening balances also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.
  - (c) Predecessor auditor – The auditor from a different audit firm, who audited the financial statements of an entity in the prior period and who has been replaced by the current auditor.

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<sup>1</sup> HKSA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements*

<sup>2</sup> HKSA 300, *Planning an Audit of Financial Statements*

## Requirements

### Audit Procedures

#### *Opening Balances*

5. The auditor shall read the most recent financial statements, if any, and the predecessor auditor's report thereon, if any, for information relevant to opening balances, including disclosures.
6. The auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements by: (Ref: Para. A1–A2)
  - (a) Determining whether the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated;
  - (b) Determining whether the opening balances reflect the application of appropriate accounting policies; and
  - (c) Performing one or more of the following: (Ref: Para. A3–A7)
    - (i) Where the prior year financial statements were audited, reviewing the predecessor auditor's working papers to obtain evidence regarding the opening balances;
    - (ii) Evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balances; or
    - (iii) Performing specific audit procedures to obtain evidence regarding the opening balances.
7. If the auditor obtains audit evidence that the opening balances contain misstatements that could materially affect the current period's financial statements, the auditor shall perform such additional audit procedures as are appropriate in the circumstances to determine the effect on the current period's financial statements. If the auditor concludes that such misstatements exist in the current period's financial statements, the auditor shall communicate the misstatements with the appropriate level of management and those charged with governance in accordance with HKSA 450.<sup>3</sup>

#### *Consistency of Accounting Policies*

8. The auditor shall obtain sufficient appropriate audit evidence about whether the accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, and whether changes in the accounting policies have been appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

#### *Relevant Information in the Predecessor Auditor's Report*

9. If the prior period's financial statements were audited by a predecessor auditor and there was a modification to the opinion, the auditor shall evaluate the effect of the matter giving rise to the modification in assessing the risks of material misstatement in the current period's financial statements in accordance with HKSA 315 (Revised 2019).<sup>4</sup>

<sup>3</sup> HKSA 450, *Evaluation of Misstatements Identified during the Audit*, paragraphs 8 and 12

<sup>4</sup> HKSA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

## Audit Conclusions and Reporting

### *Opening Balances*

10. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements, as appropriate, in accordance with HKSA 705 (Revised).<sup>5</sup> (Ref: Para. A8)
11. If the auditor concludes that the opening balances contain a misstatement that materially affects the current period's financial statements, and the effect of the misstatement is not appropriately accounted for or not adequately presented or disclosed, the auditor shall express a qualified opinion or an adverse opinion, as appropriate, in accordance with HKSA 705 (Revised).

### *Consistency of Accounting Policies*

12. If the auditor concludes that:
  - (a) the current period's accounting policies are not consistently applied in relation to opening balances in accordance with the applicable financial reporting framework; or
  - (b) a change in accounting policies is not appropriately accounted for or not adequately presented or disclosed in accordance with the applicable financial reporting framework,
 the auditor shall express a qualified opinion or an adverse opinion as appropriate in accordance with HKSA 705 (Revised).

### *Modification to the Opinion in the Predecessor Auditor's Report*

13. If the predecessor auditor's opinion regarding the prior period's financial statements included a modification to the auditor's opinion that remains relevant and material to the current period's financial statements, the auditor shall modify the auditor's opinion on the current period's financial statements in accordance with HKSA 705 (Revised) and HKSA 710. (Ref: Para. A9)

## Conformity and Compliance with International Standards on Auditing

14. As of January 2024, this HKSA conforms with International Standard on Auditing (ISA) 510, *Initial Audit Engagements—Opening Balances*. Compliance with the requirements of this HKSA ensures compliance with ISA 510.
15. Additional local explanation and guidance is provided in footnote 5a and Appendix.

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## Application and Other Explanatory Material

### Audit Procedures

#### *Considerations Specific to Public Sector Entities* (Ref: Para. 6)

- A1. In the public sector, there may be legal or regulatory limitations on the information that the current auditor can obtain from a predecessor auditor. For example, if a public sector entity that has previously been audited by a statutorily appointed auditor (for example, an Auditor

<sup>5</sup> HKSA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

General, or other suitably qualified person appointed on behalf of the Auditor General) is privatized, the amount of access to working papers or other information that the statutorily appointed auditor can provide a newly-appointed auditor that is in the private sector may be constrained by privacy or secrecy laws or regulations. In situations where such communications are constrained, audit evidence may need to be obtained through other means and, if sufficient appropriate audit evidence cannot be obtained, consideration given to the effect on the auditor's opinion.

- A2. If the statutorily appointed auditor outsources an audit of a public sector entity to a private sector audit firm, and the statutorily appointed auditor appoints an audit firm other than the firm that audited the financial statements of the public sector entity in the prior period, this is not usually regarded as a change in auditors for the statutorily appointed auditor. Depending on the nature of the outsourcing arrangement, however, the audit engagement may be considered an initial audit engagement from the perspective of the private sector auditor in fulfilling the auditor's responsibilities, and therefore this HKSA applies.

*Opening Balances* (Ref: Para. 6(c))

- A3. The nature and extent of audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances depend on such matters as:
- The accounting policies followed by the entity.
  - The nature of the account balances, classes of transactions and disclosures and the risks of material misstatement in the current period's financial statements.
  - The significance of the opening balances relative to the current period's financial statements.
  - Whether the prior period's financial statements were audited and, if so, whether the predecessor auditor's opinion was modified.
- A4. If the prior period's financial statements were audited by a predecessor auditor, the auditor may be able to obtain sufficient appropriate audit evidence regarding the opening balances by reviewing the predecessor auditor's working papers. Whether such a review provides sufficient appropriate audit evidence is influenced by the professional competence and independence of the predecessor auditor.
- A5. Relevant ethical and professional requirements guide the current auditor's communications with the predecessor auditor.
- A6. For current assets and liabilities, some audit evidence about opening balances may be obtained as part of the current period's audit procedures. For example, the collection (payment) of opening accounts receivable (accounts payable) during the current period will provide some audit evidence of their existence, rights and obligations, completeness and valuation at the beginning of the period. In the case of inventories, however, the current period's audit procedures on the closing inventory balance provide little audit evidence regarding inventory on hand at the beginning of the period. Therefore, additional audit procedures may be necessary, and one or more of the following may provide sufficient appropriate audit evidence:
- Observing a current physical inventory count and reconciling it to the opening inventory quantities.
  - Performing audit procedures on the valuation of the opening inventory items.
  - Performing audit procedures on gross profit and cutoff.

- A7. For non-current assets and liabilities, such as property, plant and equipment, investments and long-term debt, some audit evidence may be obtained by examining the accounting records and other information underlying the opening balances. In certain cases, the auditor may be able to obtain some audit evidence regarding opening balances through confirmation with third parties, for example, for long-term debt and investments. In other cases, the auditor may need to carry out additional audit procedures.

### **Audit Conclusions and Reporting**

#### *Opening Balances* (Ref: Para. 10)

- A8. HKSA 705 (Revised) establishes requirements and provides guidance on circumstances that may result in a modification to the auditor's opinion on the financial statements, the type of opinion appropriate in the circumstances, and the content of the auditor's report when the auditor's opinion is modified. The inability of the auditor to obtain sufficient appropriate audit evidence regarding opening balances may result in one of the following modifications to the opinion in the auditor's report:
- A qualified opinion or a disclaimer of opinion, as is appropriate in the circumstances; or
  - Unless prohibited by law or regulation, an opinion which is qualified or disclaimed, as appropriate, regarding the results of operations, and cash flows, where relevant, and unmodified regarding financial position.<sup>5a</sup>

The Appendix includes illustrative auditors' reports.

#### *Modification to the Opinion in the Predecessor Auditor's Report* (Ref: Para. 13)

- A9. In some situations, a modification to the predecessor auditor's opinion may not be relevant and material to the opinion on the current period's financial statements. This may be the case where, for example, there was a scope limitation in the prior period, but the matter giving rise to the scope limitation has been resolved in the current period.

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<sup>5a</sup> This form of opinion is permitted in Hong Kong.



### Illustrations of Independent Auditors' Reports with Modified Opinions

**Illustration 1:**

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 Hong Kong Financial Reporting Standards (HKFRSs). The audit is not a group audit (i.e., HKSA 600<sup>1</sup> does not apply).
- The financial statements are prepared by management of the entity in accordance with HKFRSs (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in HKSA 210.<sup>2</sup>
- The auditor did not observe the counting of the physical inventory at the beginning of the current period and was unable to obtain sufficient appropriate audit evidence regarding the opening balances of inventory.
- The possible effects of the inability to obtain sufficient appropriate audit evidence regarding opening balances of inventory are deemed to be material but not pervasive to the entity's financial performance and cash flows.<sup>3</sup>
- The financial position at year end is fairly presented.
- In this particular jurisdiction, law and regulation prohibit the auditor from giving an opinion which is qualified regarding the financial performance and cash flows and unmodified regarding financial position.<sup>3a</sup>
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- 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>4</sup>
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701.<sup>5</sup>
- 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.
- Corresponding figures are presented, and the prior period's financial statements were audited by a predecessor auditor. The auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and has decided to do so.
- 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.

<sup>1</sup> HKSA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>2</sup> HKSA 210, *Agreeing the Terms of Audit Engagements*

<sup>3</sup> If the possible effects, in the auditor's judgment, are considered to be material and pervasive to the entity's financial performance and cash flows, the auditor would disclaim an opinion on the financial performance and cash flows.

<sup>3a</sup> This form of opinion is permitted in Hong Kong.

<sup>4</sup> HKSA 570 (Revised), *Going Concern*

<sup>5</sup> HKSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

## INDEPENDENT AUDITOR’S REPORT

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

### Report on the Audit of the Financial Statements<sup>6</sup>

#### Qualified Opinion

We have audited the financial statements of ABC Company (“the Company”) set out on pages ..... to ....., which comprise the statement of financial position as at 31 December 20X1, and [the statement of profit or loss and]<sup>6a</sup> the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, 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”).

#### Basis for Qualified Opinion

We were appointed as auditors of the Company on 30 June 20X1 and thus did not observe the counting of the physical inventories at the beginning of the year. We were unable to satisfy ourselves by alternative means concerning inventory quantities held at 31 December 20X0. Since opening inventories enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the financial performance for the year reported in the [statement of profit or loss and other comprehensive income][statement of profit or loss and statement of profit or loss and other comprehensive income]<sup>6a</sup> and the net cash flows from operating activities reported in the statement of cash flows.

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 Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

#### Other Matter

The financial statements of the Company for the year ended 31 December 20X0 were audited by another auditor who expressed an unmodified opinion on those statements on 31 March 20X1.

<sup>6</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>6a</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”). Different terms may be used as long as they are consistent with the titles of the corresponding statements.

**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 Management and Those Charged with Governance for the Financial Statements<sup>7</sup>**

*[Reporting in accordance with HKSA 700 (Revised)<sup>8</sup> – see Illustration 3 in HKSA 700 (Revised).]*

**Auditor’s Responsibilities for the Audit of the Financial Statements**

*[Reporting in accordance with HKSA 700 (Revised) – see Illustration 3 in HKSA 700 (Revised).]*

**Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with HKSA 700 (Revised) – see Illustration 3 in HKSA 700 (Revised).]*

XYZ & Co.

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

*[Auditor’s Address]*

*[Date]*

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<sup>7</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>8</sup> HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

Illustration 2:

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 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.
- The auditor did not observe the counting of the physical inventory at the beginning of the current period and was unable to obtain sufficient appropriate audit evidence regarding the opening balances of inventory.
- The possible effects of the inability to obtain sufficient appropriate audit evidence regarding opening balances of inventory are deemed to be material but not pervasive to the entity's financial performance and cash flows.<sup>9</sup>
- The financial position at year end is fairly presented.
- An opinion that is qualified regarding the financial performance and cash flows and unmodified regarding financial position is considered appropriate in the circumstances.
- 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.
- Corresponding figures are presented, and the prior period's financial statements were audited by a predecessor auditor. The auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and has decided to do so.
- 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 Companies Ordinance.

<sup>9</sup> If the possible effects, in the auditor's judgment, are considered to be material and pervasive to the entity's financial performance and cash flows, the auditor would disclaim the opinion on the financial performance and cash flows.

## INDEPENDENT AUDITOR’S REPORT

To the Members of ABC Company

(incorporated in Hong Kong with limited liability)<sup>9a</sup>

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of ABC Company (“the Company”) set out on pages ..... to ....., which comprise the statement of financial position as at 31 December 20X1, and [the statement of profit or loss and] <sup>10a</sup> the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

#### *Qualified Opinion on the Financial Performance and Cash Flows*

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the [statement of profit or loss and other comprehensive income][statement of profit or loss and statement of profit or loss and other comprehensive income]<sup>10a</sup> and statement of cash flows give a true and fair view of the financial performance and cash flows of the Company for the year ended 31 December 20X1 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 Companies Ordinance.

#### *Opinion on the Financial Position*

In our opinion, the statement of financial position gives a true and fair view of the financial position of the Company as at 31 December 20X1 in accordance with HKFRSs and have been properly prepared in compliance with the Companies Ordinance.

#### **Basis for Opinions, Including Basis for Qualified Opinion on the Financial Performance and Cash Flows**

We were appointed as auditors of the Company on 30 June 20X1 and thus did not observe the counting of the physical inventories at the beginning of the year. We were unable to satisfy ourselves by alternative means concerning inventory quantities held at 31 December 20X0. Since opening inventories enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the financial performance for the year reported in the [statement of profit or loss and other comprehensive income][statement of profit or loss and statement of profit or loss and other comprehensive income]<sup>10a</sup> and the net cash flows from operating activities reported in the statement of cash flows.

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 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

<sup>9a</sup> In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>10</sup> Not used.

<sup>10a</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”). Different terms may be used as long as they are consistent with the titles of the corresponding statements.

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 unmodified opinion on the financial position and our qualified opinion on the financial performance and cash flows.

**Other Matter**

The financial statements of the Company for the year ended 31 December 20X0 were audited by another auditor who expressed an unmodified opinion on those statements on 31 March 20X1.

**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>11</sup>

*[Reporting in accordance with HKSA 700 (Revised)– see Illustration 3 in HKSA 700 (Revised).]*

**Auditor’s Responsibilities for the Audit of the Financial Statements**

*[Reporting in accordance with HKSA 700 (Revised)– see Illustration 3 in HKSA 700 (Revised).]*

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<sup>11</sup> Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction.

## Report on Other Matters under sections 407(2)<sup>12</sup> and 407(3)<sup>12</sup> of the Companies Ordinance<sup>13</sup>

In respect alone of the inability to obtain sufficient appropriate audit evidence regarding opening balances of inventory 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 and 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's Address]

[Date]

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<sup>12</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>13</sup> For the requirements under the Companies Ordinance, reference may be made to PN 600.1 (Revised), *Reports by the Auditor under the Companies Ordinance (Cap. 622)*.