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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)

The Auditor's Responsibilities Relating to Other Information



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HONG KONG STANDARD ON AUDITING 720 (REVISED)
THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION
 (Effective for audits of financial statements for periods ending on or after 15 December 2016)

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Introduction

Scope of this HKSA

1. This Hong Kong Standard on Auditing (HKSA) deals with the auditor's responsibilities relating to other information, whether financial or non-financial information (other than financial statements and the auditor's report thereon), included in an entity's annual report. An entity's annual report may be a single document or a combination of documents that serve the same purpose.
2. This HKSA is written in the context of an audit of financial statements by an independent auditor. Accordingly, the objectives of the auditor in this HKSA are to be understood in the context of the overall objectives of the auditor as stated in paragraph 11 of HKSA 200¹ The requirements in the HKSAs are designed to enable the auditor to achieve the objectives specified in the HKSAs, and thereby the overall objectives of the auditor. The auditor's opinion on the financial statements does not cover the other information, nor does this HKSA require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements.
3. This HKSA requires the auditor to read and consider the other information because other information that is materially inconsistent with the financial statements or the auditor's knowledge obtained in the audit may indicate that there is a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor's report thereon. Such material misstatements may also inappropriately influence the economic decisions of the users for whom the auditor's report is prepared.
4. This HKSA may also assist the auditor in complying with relevant ethical requirements² that require the auditor to avoid being knowingly associated with information that the auditor believes contains a materially false or misleading statement, statements or information provided recklessly, or omits or obscures required information where such omission or obscurity would be misleading.
5. Other information may include amounts or other items that are intended to be the same as, to summarize, or to provide greater detail, about amounts or other items in the financial statements, and other amounts or other items about which the auditor has obtained knowledge in the audit. Other information may also include other matters.
6. The auditor's responsibilities relating to other information (other than applicable reporting responsibilities) apply regardless of whether the other information is obtained by the auditor prior to, or after, the date of the auditor's report.
7. This HKSA does not apply to:
 - (a) Preliminary announcements of financial information; or
 - (b) Securities offering documents, including prospectuses.

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

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

8. The auditor's responsibilities under this HKSA do not constitute an assurance engagement on other information or impose an obligation on the auditor to obtain assurance about the other information.
9. Law or regulation may impose additional obligations on the auditor in relation to other information that are beyond the scope of this HKSA.^{2a}

Effective Date

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

Objectives

11. The objectives of the auditor, having read the other information, are:
 - (a) To consider whether there is a material inconsistency between the other information and the financial statements;
 - (b) To consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit;
 - (c) To respond appropriately when the auditor identifies that such material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be materially misstated; and
 - (d) To report in accordance with this HKSA.

Definitions

12. For purposes of the HKSAs, the following terms have the meanings attributed below:
 - (a) Annual report – A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters. (Ref: Para. A1–A5)
 - (b) Misstatement of the other information – A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information). (Ref: Para. A6–A7)
 - (c) Other information – Financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report. (Ref: Para. A8–A10)

^{2a} Additional local guidance is provided in Appendix 3, paragraph 1.

Requirements

Obtaining the Other Information

13. The auditor shall: (Ref: Para. A11–A22)
- (a) Determine, through discussion with management, which document(s) comprises the annual report, and the entity's planned manner and timing of the issuance of such document(s);
 - (b) Make appropriate arrangements with management to obtain in a timely manner and, if possible, prior to the date of the auditor's report, the final version of the document(s) comprising the annual report; and
 - (c) When some or all of the document(s) determined in (a) will not be available until after the date of the auditor's report, request management to provide a written representation that the final version of the document(s) will be provided to the auditor when available, and prior to its issuance by the entity, such that the auditor can complete the procedures required by this HKSA. (Ref: Para. A22)

Reading and Considering the Other Information

14. The auditor shall read the other information and, in doing so shall: (Ref: Para. A23–A24)
- (a) Consider whether there is a material inconsistency between the other information and the financial statements. As the basis for this consideration, the auditor shall, to evaluate their consistency, compare selected amounts or other items in the other information (that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements) with such amounts or other items in the financial statements; and (Ref: Para. A25–A29)
 - (b) Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit. (Ref: Para. A30–A36)
15. While reading the other information in accordance with paragraph 14, the auditor shall remain alert for indications that the other information not related to the financial statements or the auditor's knowledge obtained in the audit appears to be materially misstated. (Ref: Para. A24, A37–A38)

Responding When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated

16. If the auditor identifies that a material inconsistency appears to exist (or becomes aware that the other information appears to be materially misstated), the auditor shall discuss the matter with management and, if necessary, perform other procedures to conclude whether: (Ref: Para. A39–A43)
- (a) A material misstatement of the other information exists;
 - (b) A material misstatement of the financial statements exists; or
 - (c) The auditor's understanding of the entity and its environment needs to be updated.

Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists

17. If the auditor concludes that a material misstatement of the other information exists, the auditor shall request management to correct the other information. If management:
- (a) Agrees to make the correction, the auditor shall determine that the correction has been made; or
 - (b) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made.
18. If the auditor concludes that a material misstatement exists in other information obtained prior to the date of the auditor's report, and the other information is not corrected after communicating with those charged with governance, the auditor shall take appropriate action,^{2b} including: (Ref: Para. A44)
- (a) Considering the implications for the auditor's report and communicating with those charged with governance about how the auditor plans to address the material misstatement in the auditor's report (see paragraph 22(e)(ii)); or (Ref: Para. A45)
 - (b) Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation. (Ref: Para. A46–A47)
19. If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, the auditor shall:
- (a) If the other information is corrected, perform the procedures necessary in the circumstances; or (Ref: Para. A48)
 - (b) If the other information is not corrected after communicating with those charged with governance, take appropriate action considering the auditor's legal rights and obligations, to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared. (Ref: Para. A49–A50)

Responding When a Material Misstatement in the Financial Statements Exists or the Auditor's Understanding of the Entity and Its Environment Needs to Be Updated

20. If, as a result of performing the procedures in paragraphs 14–15, the auditor concludes that a material misstatement in the financial statements exists or the auditor's understanding of the entity and its environment needs to be updated, the auditor shall respond appropriately in accordance with the other HKSA's. (Ref: Para. A51)

Reporting

21. The auditor's report shall include a separate section with a heading "Other Information", or other appropriate heading, when, at the date of the auditor's report:
- (a) For an audit of financial statements of a listed entity, the auditor has obtained, or expects to obtain, the other information; or
 - (b) For an audit of financial statements of an entity other than a listed entity, the auditor has obtained some or all of the other information. (Ref: Para. A52)

^{2b} Additional local guidance is provided in Appendix 3, paragraph 3.

22. When the auditor's report is required to include an Other Information section in accordance with paragraph 21, this section shall include: (Ref: Para. A53)
- (a) A statement that management is responsible for the other information;
 - (b) An identification of:
 - (i) Other information, if any, obtained by the auditor prior to the date of the auditor's report; and
 - (ii) For an audit of financial statements of a listed entity, other information, if any, expected to be obtained after the date of the auditor's report;
 - (c) A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon;
 - (d) A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by this HKSA; and
 - (e) When other information has been obtained prior to the date of the auditor's report, either:
 - (i) A statement that the auditor has nothing to report; or
 - (ii) If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.
23. When the auditor expresses a qualified or adverse opinion in accordance with HKSA 705 (Revised),³ the auditor shall consider the implications of the matter giving rise to the modification of opinion for the statement required in paragraph 22(e). (Ref: Para. A54–A58)

Reporting Prescribed by Law or Regulation^{3a}

24. If the auditor is required by law or regulation of a specific jurisdiction to refer to the other information in the auditor's report using a specific layout or wording, the auditor's report shall refer to Hong Kong Standards on Auditing only if the auditor's report includes, at a minimum: (Ref: Para. A59)
- (a) Identification of the other information obtained by the auditor prior to the date of the auditor's report;
 - (b) A description of the auditor's responsibilities with respect to the other information; and
 - (c) An explicit statement addressing the outcome of the auditor's work for this purpose.

Documentation

25. In addressing the requirements of HKSA 230⁴ as it applies to this HKSA, the auditor shall include in the audit documentation:
- (a) Documentation of the procedures performed under this HKSA; and
 - (b) The final version of the other information on which the auditor has performed the work required under this HKSA.

³ HKSA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

^{3a} Additional local guidance is provided in Appendix 3, paragraphs 1 and 2.

⁴ HKSA 230, *Audit Documentation*, paragraphs 8–11

Conformity and Compliance with International Standards on Auditing

26. As of September 2019, this HKSA conforms with International Standard on Auditing (ISA) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* except that references to IESBA's Code of Ethics for Professional Accountants are replaced by HKICPA's Code of Ethics for Professional Accountants. With the exception of the foregoing difference, compliance with the requirements of this HKSA ensures compliance with ISA 720 (Revised).
27. Additional local guidance is provided in footnote 2a, 2b, 3a and 4a, Appendices 2 and 3.

Application and Other Explanatory Material

Definitions

Annual Report (Ref: Para. 12(a))

- A1. Law, regulation or custom may define the content of an annual report, and the name by which it is to be referred, for entities in a particular jurisdiction; however, the content and the name may vary within a jurisdiction and from one jurisdiction to another.
- A2. An annual report is typically prepared on an annual basis. However, when the financial statements being audited are prepared for a period less than or more than a year, an annual report may also be prepared that covers the same period as the financial statements.
- A3. In some cases, an entity's annual report may be a single document and referred to by the title "annual report" or by some other title. In other cases, law, regulation or custom may require the entity to report to owners (or similar stakeholders) information on the entity's operations and the entity's financial results and financial position as set out in the financial statements (i.e., an annual report) by way of a single document, or by way of two or more separate documents that in combination serve the same purpose. For example, depending on law, regulation or custom in a particular jurisdiction, one or more of the following documents may form part of the annual report:
- Management report, management commentary, or operating and financial review or similar reports by those charged with governance (for example, a directors' report^{4a}).
 - Chairman's statement.
 - Corporate governance statement.
 - Internal control and risk assessment reports.
- A4. An annual report may be made available to users in printed form, or electronically, including on the entity's website. A document (or combination of documents) may meet the definition of an annual report, irrespective of the manner in which it is made available to users.
- A5. An annual report is different in nature, purpose and content from other reports, such as a report prepared to meet the information needs of a specific stakeholder group or a report prepared to comply with a specific regulatory reporting objective (even when such a report is required to be publicly available). Examples of reports that, when issued as standalone documents, are not typically part of the combination of documents that comprise an annual report (subject to law,

^{4a} According to Schedule 5 of the Companies Ordinance, a director's report of a company incorporated in Hong Kong must contain a business review unless it satisfies the conditions as set out in section 388(3).

regulation or custom), and that, therefore, are not other information within the scope of this HKSA, include:

- Separate industry or regulatory reports (for example, capital adequacy reports), such as may be prepared in the banking, insurance, and pension industries.
- Corporate social responsibility reports.
- Sustainability reports.
- Diversity and equal opportunity reports.
- Product responsibility reports.
- Labor practices and working conditions reports.
- Human rights reports.

Misstatement of the Other Information (Ref: Para. 12(b))

- A6. When a particular matter is disclosed in the other information, the other information may omit or obscure information that is necessary for a proper understanding of that matter. For example, if the other information purports to address the key performance indicators used by management, then omission of a key performance indicator used by management could indicate that the other information is misleading.
- A7. The concept of materiality may be discussed in a framework applicable to the other information and, if so, such a framework may provide a frame of reference for the auditor in making judgments about materiality under this HKSA. In many cases, however, there may be no applicable framework that includes a discussion of the concept of materiality as it applies to the other information. In such circumstances, the following characteristics provide the auditor with a frame of reference in determining if a misstatement of the other information is material:
- Materiality is considered in the context of the common information needs of users as a group. The users of the other information are expected to be the same as the users of the financial statements as such users may be expected to read the other information to provide context to the financial statements.
 - Judgments about materiality take into account the specific circumstances of the misstatement, considering whether users would be influenced by the effect of the uncorrected misstatement. Not all misstatements will influence the economic decisions of users.
 - Judgments about materiality involve both qualitative and quantitative considerations. Accordingly, such judgments may take into account the nature or magnitude of the items that the other information addresses in the context of the entity's annual report.

Other Information (Ref: Para. 12(c))

- A8. Appendix 1 contains examples of amounts or other items that may be included in the other information.
- A9. In some cases, the applicable financial reporting framework may require specific disclosures but permit them to be located outside of the financial statements.⁵ As such disclosures are

⁵ For example, Hong Kong Financial Reporting Standards (HKFRS) 7, *Financial Instruments: Disclosures*, permits certain disclosures required by the HKFRSs to either be given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time.

required by the applicable financial reporting framework, they form part of the financial statements. Accordingly, they do not constitute other information for the purpose of this HKSA.

- A10. eXtensible Business Reporting Language (XBRL) tags do not represent other information as defined in this HKSA.

Obtaining the Other Information (Ref: Para. 13)

- A11. Determining the document(s) that is or comprises the annual report is often clear based on law, regulation or custom. In many cases, management or those charged with governance may have customarily issued a package of documents that together comprise the annual report, or may have committed to do so. In some cases, however, it may not be clear which document(s) is or comprises the annual report. In such cases, the timing and purpose of the documents (and for whom they are intended) are matters that may be relevant to the auditor's determination of which document(s) is or comprises the annual report.
- A12. When the annual report is translated into other languages pursuant to law or regulation (such as may occur when a jurisdiction has more than one official language), or when multiple "annual reports" are prepared under different legislation (for example, when an entity is listed in more than one jurisdiction), consideration may need to be given as to whether one, or more than one of the "annual reports" form part of the other information. Local law or regulation may provide further guidance in this respect.
- A13. Management, or those charged with governance, is responsible for preparing the annual report. The auditor may communicate with management or those charged with governance:
- The auditor's expectations in relation to obtaining the final version of the annual report (including a combination of documents that together comprise the annual report) in a timely manner prior to the date of the auditor's report such that the auditor can complete the procedures required by this HKSA before the date of the auditor's report, or if that is not possible, as soon as practicable and in any case prior to the entity's issuance of such information.
 - The possible implications when the other information is obtained after the date of the auditor's report.
- A14. The communications referred to in paragraph A13 may be particularly appropriate for example:
- In an initial audit engagement.
 - When there has been a change in management or those charged with governance.
 - When other information is expected to be obtained after the date of the auditor's report.
- A15. Where those charged with governance are to approve the other information prior to its issuance by the entity, the final version of such other information is the one that has been approved by those charged with governance for issuance.
- A16. In some cases, the entity's annual report may be a single document to be released, in accordance with law or regulation or the entity's reporting practice, shortly after the entity's financial reporting period such that it is available to the auditor prior to the date of the auditor's report. In other cases, such a document may not be required to be released until a later time, or at a time of the entity's choosing. There may also be circumstances when the entity's annual report is a combination of documents, each subject to different requirements or reporting practice by the entity with respect to the timing of their release.
- A17. There may be circumstances when, at the date of the auditor's report, the entity is considering the development of a document that may be part of the entity's annual report (for example, a

voluntary report to stakeholders) but management is unable to confirm to the auditor the purpose or timing of such a document. If the auditor is unable to ascertain the purpose or timing of such a document, the document is not considered other information for purposes of this HKSA.

- A18. Obtaining the other information in a timely manner prior to the date of the auditor's report enables any revisions that are found to be necessary to be made to the financial statements, the auditor's report, or the other information prior to their issuance. The audit engagement letter⁶ may make reference to an agreement with management to make available to the auditor the other information in a timely manner, and if possible prior to the date of the auditor's report.
- A19. When other information is only made available to users via the entity's website, the version of the other information obtained from the entity, rather than directly from the entity's website, is the relevant document on which the auditor would perform procedures in accordance with this HKSA. The auditor has no responsibility under this HKSA to search for other information, including other information that may be on the entity's website, nor to perform any procedures to confirm that other information is appropriately displayed on the entity's website or otherwise has been appropriately transmitted or displayed electronically.
- A20. The auditor is not precluded from dating or issuing the auditor's report if the auditor has not obtained some or all of the other information.
- A21. When the other information is obtained after the date of the auditor's report, the auditor is not required to update the procedures performed in accordance with paragraphs 6 and 7 of HKSA 560.⁷
- A22. HKSA 580⁸ establishes requirements and provides guidance on the use of written representations. The written representation required to be requested by paragraph 13(c) regarding other information that will be available only after the date of the auditor's report is intended to support the auditor's ability to complete the procedures required by this HKSA with respect to such information. In addition, the auditor may find it useful to request other written representations, for example, that:
- Management has informed the auditor of all the documents that it expects to issue that may comprise other information;
 - The financial statements and any other information obtained by the auditor prior to the date of the auditor's report are consistent with one another, and the other information does not contain any material misstatements; and
 - With regard to other information that has not been obtained by the auditor prior to the date of the auditor's report, that management intends to prepare and issue such other information and the expected timing of such issuance.

Reading and Considering the Other Information (Ref: Para. 14–15)

- A23. The auditor is required by HKSA 200⁹ to plan and perform the audit with professional skepticism. Maintaining professional skepticism when reading and considering the other information includes, for example, recognizing that management may be overly optimistic about the success of its plans, and being alert to information that may be inconsistent with:

⁶ HKSA 210, *Agreeing the Terms of Audit Engagements*, paragraph A24

⁷ HKSA 560, *Subsequent Events*

⁸ HKSA 580, *Written Representations*

⁹ HKSA 200, paragraph 15

- (a) The financial statements; or
- (b) The auditor's knowledge obtained in the audit.

A24. In accordance with HKSA 220,¹⁰ the engagement partner is required to take responsibility for the direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements. In the context of this HKSA, factors that may be taken into account when determining the appropriate engagement team members to address the requirements of paragraphs 14–15, include:

- The relative experience of engagement team members.
- Whether the engagement team members to be assigned the tasks have the relevant knowledge obtained in the audit to identify inconsistencies between the other information and that knowledge.
- The degree of judgment involved in addressing the requirements of paragraphs 14–15. For example, performing procedures to evaluate the consistency of amounts in the other information that are intended to be the same as amounts in the financial statements may be carried out by less experienced engagement team members.
- Whether, in the case of a group audit, it is necessary to make inquiries of a component auditor in addressing the other information related to that component.

Considering Whether There Is a Material Inconsistency between the Other Information and the Financial Statements (Ref: Para. 14(a))

A25. Other information may include amounts or other items that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements. Examples of such amounts or other items may include:

- Tables, charts or graphs containing extracts of the financial statements.
- A disclosure providing greater detail about a balance or account shown in the financial statements, such as "Revenue for 20X1 comprised XXX million from product X and YYY million from product Y."
- Descriptions of the financial results, such as "Total research and development expense was XXX in 20X1."

A26. In evaluating the consistency of selected amounts or other items in the other information with the financial statements, the auditor is not required to compare all amounts or other items in the other information that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements, with such amounts or other items in the financial statements.

A27. Selecting the amounts or other items to compare is a matter of professional judgment. Factors relevant to this judgment include:

- The significance of the amount or other item in the context in which it is presented, which may affect the importance that users would attach to the amount or other item (for example, a key ratio or amount).
- If quantitative, the relative size of the amount compared with accounts or items in the financial statements or the other information to which they relate.

¹⁰ HKSA 220, *Quality Control for an Audit of Financial Statements*, paragraph 15(a)

- The sensitivity of the particular amount or other item in the other information, for example, share based payments for senior management.
- A28. Determining the nature and extent of procedures to address the requirement in paragraph 14(a) is a matter of professional judgment, recognizing that the auditor's responsibilities under this HKSA do not constitute an assurance engagement on the other information or impose an obligation to obtain assurance about the other information. Examples of such procedures include:
- For information that is intended to be the same as information in the financial statements, comparing the information to the financial statements.
 - For information intended to convey the same meaning as disclosures in the financial statements, comparing the words used and considering the significance of differences in wording used and whether such differences imply different meanings.
 - Obtaining a reconciliation between an amount within the other information and the financial statements from management and:
 - Comparing items in the reconciliation to the financial statements and the other information; and
 - Checking whether the calculations within the reconciliation are arithmetically accurate.
- A29. Evaluating the consistency of selected amounts or other items in the other information with the financial statements includes, when relevant given the nature of the other information, the manner of their presentation compared to the financial statements.

Considering Whether There Is a Material Inconsistency between the Other Information and the Auditor's Knowledge Obtained in the Audit (Ref: Para. 14(b))

- A30. Other information may include amounts or items that are related to the auditor's knowledge obtained in the audit (other than those in paragraph 14(a)). Examples of such amounts or items may include:
- A disclosure of the units produced, or a table summarizing such production by geographical region.
 - A statement that "The company introduced product X and product Y during the year."
 - A summary of the locations of the entity's major operations, such as "the entity's major center of operation is in country X, and there are also operations in countries Y and Z."
- A31. The auditor's knowledge obtained in the audit includes the auditor's understanding of the entity and its environment, including the entity's internal control, obtained in accordance with HKSA 315 (Revised).¹¹ HKSA 315 (Revised) sets out the auditor's required understanding, which includes such matters as obtaining an understanding of:
- (a) The relevant industry, regulatory, and other external factors;
 - (b) The nature of the entity;
 - (c) The entity's selection and application of accounting policies;
 - (d) The entity's objectives and strategies;
 - (e) The measurement and review of the entity's financial performance; and

¹¹ HKSA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraphs 11–12

(f) The entity's internal control.

- A32. The auditor's knowledge obtained in the audit may also include matters that are prospective in nature. Such matters may include, for example, business prospects and future cash flows that the auditor considered when evaluating the assumptions used by management in performing impairment tests on intangible assets such as goodwill, or when evaluating management's assessment of the entity's ability to continue as a going concern.
- A33. In considering whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, the auditor may focus on those matters in the other information that are of sufficient importance that a misstatement of the other information in relation to that matter could be material.
- A34. In relation to many matters in the other information, the auditor's recollection of the audit evidence obtained and conclusions reached in the audit may be sufficient to enable the auditor to consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit. The more experienced and the more familiar with the key aspects of the audit the auditor is, the more likely it is that the auditor's recollection of relevant matters will be sufficient. For example, the auditor may be able to consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit in light of the auditor's recollection of discussions held with management or those charged with governance or findings from procedures carried out during the audit such as the reading of board minutes, without the need to take further action.
- A35. The auditor may determine that referring to relevant audit documentation or making inquiries of relevant members of the engagement team or relevant component auditors is appropriate as a basis for the auditor's consideration of whether a material inconsistency exists. For example:
- When the other information describes the planned cessation of a major product line and, although the auditor is aware of the planned cessation, the auditor may make inquiries of the relevant engagement team member who performed the audit procedures in this area to support the auditor's consideration of whether the description is materially inconsistent with the auditor's knowledge obtained during the audit.
 - When the other information describes important details of a lawsuit addressed in the audit, but the auditor cannot recall them adequately, it may be necessary to refer to the audit documentation where such details are summarized to support the auditor's recollection.
- A36. Whether, and if so the extent to which, the auditor refers to relevant audit documentation, or makes inquiries of relevant members of the engagement team or relevant component auditors is a matter of professional judgment. However, it may not be necessary for the auditor to refer to relevant audit documentation, or to make inquiries of relevant members of the engagement team or relevant component auditors about any matter included in the other information.

Remaining Alert for Other Indications that the Other Information Appears to Be Materially Misstated
(Ref: Para. 15)

- A37. Other information may include discussion of matters that are not related to the financial statements and may also extend beyond the auditor's knowledge obtained in the audit. For example, the other information may include statements about the entity's greenhouse gas emissions.
- A38. Remaining alert for other indications that the other information not related to the financial statements or the auditor's knowledge obtained in the audit appears to be materially misstated assists the auditor in complying with relevant ethical requirements that require the auditor to avoid being knowingly associated with other information that the auditor believes contains a

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

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

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

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

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

¹² The Code, Chapter A, Part 1, paragraph R111.2

- Considering the implications for the auditor's report for example, whether to describe the circumstances when there is a limitation imposed by management; or
- Withdrawing from the audit, where withdrawal is possible under applicable law or regulation.

Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists

Responding When the Auditor Concludes That a Material Misstatement Exists in Other Information Obtained prior to the Date of the Auditor's Report (Ref: Para. 18)

A44. The actions the auditor takes if the other information is not corrected after communicating with those charged with governance are a matter of the auditor's professional judgment. The auditor may take into account whether the rationale given by management and those charged with governance for not making the correction raises doubt about the integrity or honesty of management or those charged with governance, such as when the auditor suspects an intention to mislead. The auditor may also consider it appropriate to seek legal advice. In some cases, the auditor may be required by law, regulation or other professional standards to communicate the matter to a regulator or relevant professional body.

Reporting Implications (Ref: Para. 18(a))

A45. In rare circumstances, a disclaimer of opinion on the financial statements may be appropriate when the refusal to correct the material misstatement of the other information casts such doubt on the integrity of management and those charged with governance as to call into question the reliability of audit evidence in general.

Withdrawal from the Engagement (Ref: Para. 18(b))

A46. Withdrawal from the engagement, where withdrawal is possible under applicable law or regulation, may be appropriate when the circumstances surrounding the refusal to correct the material misstatement of the other information cast such doubt on the integrity of management and those charged with governance as to call into question the reliability of representations obtained from them during the audit.

Considerations specific to public sector entities (Ref: Para. 18(b))

A47. In the public sector, withdrawal from the engagement may not be possible. In such cases, the auditor may issue a report to the legislature providing details of the matter or may take other appropriate actions.

Responding When the Auditor Concludes That a Material Misstatement Exists in Other Information Obtained after the Date of the Auditor's Report (Ref: Para. 19)

A48. If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, and such a material misstatement has been corrected, the auditor's procedures necessary in the circumstances include determining that the correction has been made (in accordance with paragraph 17(a)) and may include reviewing the steps taken by management to communicate with those in receipt of the other information, if previously issued, to inform them of the revision.

A49. If those charged with governance do not agree to revise the other information, taking appropriate action to seek to have the uncorrected misstatement appropriately brought to the attention of users for whom the auditor's report is prepared requires the exercise of professional judgment, and may be affected by relevant law or regulation in the jurisdiction. Accordingly, the

auditor may consider it appropriate to seek legal advice about the auditor's legal rights and obligations.

A50. When a material misstatement of the other information remains uncorrected, appropriate actions that the auditor may take to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared, when permitted by law or regulation, include, for example:

- Providing a new or amended auditor's report to management including a modified section in accordance with paragraph 22, and requesting management to provide this new or amended auditor's report to users for whom the auditor's report is prepared. In doing so, the auditor may need to consider the effect, if any, on the date of the new or amended auditor's report, in view of the requirements of the HKSA's or applicable law or regulation. The auditor may also review the steps taken by management to provide the new or amended auditor's report to such users;
- Bringing the material misstatement of the other information to the attention of the users for whom the auditor's report is prepared (for example, by addressing the matter in a general meeting of shareholders);
- Communicating with a regulator or relevant professional body about the uncorrected material misstatement; or
- Considering the implications for engagement continuance (see also paragraph A46).

Responding When a Material Misstatement in the Financial Statements Exists or the Auditor's Understanding of the Entity and Its Environment Needs to Be Updated (Ref: Para. 20)

A51. In reading the other information, the auditor may become aware of new information that has implications for:

- The auditor's understanding of the entity and its environment and, accordingly, may indicate the need to revise the auditor's risk assessment.¹³
- The auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.¹⁴
- The auditor's responsibilities relating to subsequent events.¹⁵

Reporting (Ref: Para. 21–24)

A52. For an audit of financial statements of an entity other than a listed entity, the auditor may consider that the identification in the auditor's report of other information that the auditor expects to obtain after the date of the auditor's report would be appropriate in order to provide additional transparency about the other information that is subject to the auditor's responsibilities under this HKSA. The auditor may consider it appropriate to do so, for example, when management is able to represent to the auditor that such other information will be issued after the date of the auditor's report.

¹³ HKSA 315 (Revised), paragraphs 11, 31, and A1

¹⁴ HKSA 450, *Evaluation of Misstatements Identified during the Audit*

¹⁵ HKSA 560, paragraphs 10 and 14

Illustrative Statements (Ref: Para. 21–22)

A53. Illustrative examples of the "Other Information" section of the auditor's report are included in Appendix 2.

Reporting Implications When the Auditor's Opinion on the Financial Statements Is Qualified or Adverse (Ref: Para. 23)

A54. A qualified or adverse auditor's opinion on the financial statements may not have an impact on the statement required by paragraph 22(e) if the matter in respect of which the auditor's opinion has been modified is not included or otherwise addressed in the other information and the matter does not affect any part of the other information. For example, a qualified opinion on the financial statements because of non-disclosure of directors' remuneration as required by the applicable financial reporting framework may have no implications for the reporting required under this HKSA. In other circumstances, there may be implications for such reporting as described in paragraphs A55–A58.

Qualified Opinion Due to a Material Misstatement in the Financial Statements

A55. In circumstances when the auditor's opinion is qualified, consideration may be given as to whether the other information is also materially misstated for the same matter as, or a related matter to, the matter giving rise to the qualified opinion on the financial statements.

Qualified Opinion Due to Limitation of Scope

A56. When there is a limitation of scope with respect to a material item in the financial statements, the auditor will not have obtained sufficient appropriate audit evidence about that matter. In these circumstances, the auditor may be unable to conclude whether or not the amounts or other items in the other information related to this matter result in a material misstatement of the other information. Accordingly, the auditor may need to modify the statement required by paragraph 22(e) to refer to the auditor's inability to consider management's description of the matter in the other information in respect of which the auditor's opinion on the financial statements has been qualified as explained in the Basis for Qualified Opinion paragraph. The auditor is nevertheless required to report any other uncorrected material misstatements of the other information that have been identified.

Adverse Opinion

A57. An adverse opinion on the financial statements relating to a specific matter(s) described in the Basis for Adverse Opinion paragraph does not justify the omission of reporting of material misstatements of the other information that the auditor has identified in the auditor's report in accordance with paragraph 22(e)(ii). When an adverse opinion has been expressed on the financial statements, the auditor may need to appropriately modify the statement required by paragraph 22(e) for example, to indicate that amounts or items in the other information is materially misstated for the same matter as, or a related matter to, the matter giving rise to the adverse opinion on the financial statements.

Disclaimer of Opinion

A58. When the auditor disclaims an opinion on the financial statements, providing further details about the audit, including a section to address other information may overshadow the disclaimer of opinion on the financial statements as a whole. Accordingly, in those circumstances, as required by HKSA 705 (Revised), the auditor's report does not include a section addressing the reporting requirements under this HKSA.

Reporting Prescribed by Law or Regulation (Ref: Para. 24)

A59. HKSA 200¹⁶ explains that the auditor may be required to comply with legal or regulatory requirements in addition to the HKSAs. Where this is the case, the auditor may be obliged to use a specific layout or wording in the auditor's report that differs from that described in this HKSA. 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. When the differences between the legal or regulatory requirements to report with respect to the other information and this HKSA relate only to the layout and wording in the auditor's report and, at a minimum, each of the elements identified in paragraph 24 is included in the auditor's report, the auditor's report may refer to Hong Kong Standards on Auditing. Accordingly, in such circumstances the auditor is considered to have complied with the requirements of this HKSA, even when the layout and wording used in the auditor's report are specified by legal or regulatory reporting requirements.

¹⁶ HKSA 200, paragraph A57

Examples of Amounts or Other Items that May Be Included in the Other Information

The following are examples of amounts and other items that may be included in other information. This list is not intended to be exhaustive.

Amounts

- Items in a summary of key financial results, such as net income, earnings per share, dividends, sales and other operating revenues, and purchases and operating expenses.
- Selected operating data, such as income from continuing operations by major operating area, or sales by geographical segment or product line.
- Special items, such as asset dispositions, litigation provisions, asset impairments, tax adjustments, environmental remediation provisions, and restructuring and reorganization expenses.
- Liquidity and capital resource information, such as cash, cash equivalents and marketable securities; dividends; and debt, capital lease and minority interest obligations.
- Capital expenditures by segment or division.
- Amounts involved in, and related financial effects of, off-balance sheet arrangements.
- Amounts involved in guarantees, contractual obligations, legal or environmental claims, and other contingencies.
- Financial measures or ratios, such as gross margin, return on average capital employed, return on average shareholders' equity, current ratio, interest coverage ratio and debt ratio. Some of these may be directly reconcilable to the financial statements.

Other Items

- Explanations of critical accounting estimates and related assumptions.
- Identification of related parties and descriptions of transactions with them.
- Articulation of the entity's policies or approach to manage commodity, foreign exchange or interest rate risks, such as through the use of forward contracts, interest rate swaps, or other financial instruments.
- Descriptions of the nature of off-balance sheet arrangements.
- Descriptions of guarantees, indemnifications, contractual obligations, litigation or environmental liability cases, and other contingencies, including management's qualitative assessments of the entity's related exposures.
- Descriptions of changes in legal or regulatory requirements, such as new tax or environmental regulations, that have materially impacted the entity's operations or fiscal position, or will have a material impact on the entity's future financial prospects.

THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION

- Management's qualitative assessments of the impacts of new financial reporting standards that have come into effect during the period, or will come into effect in the following period, on the entity's financial results, financial position and cash flows.
- General descriptions of the business environment and outlook.
- Overview of strategy.
- Descriptions of trends in market prices of key commodities or raw materials.
- Contrasts of supply, demand and regulatory circumstances between geographic regions.
- Explanations of specific factors influencing the entity's profitability in specific segments.

Illustrations of Independent Auditor's Reports Relating to Other Information

- Illustration 1: An auditor's report of any entity, whether listed or other than listed, containing an unmodified opinion when 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.
- Illustration 2: An auditor's report of a listed entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
- Illustration 3: An auditor's report of an entity other than a listed entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
- Illustration 4: An auditor's report of a listed entity containing an unmodified opinion when the auditor has obtained no other information prior to the date of the auditor's report but expects to obtain other information after the date of the auditor's report.
- Illustration 5: An auditor's report of any entity, whether listed or other than listed, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has concluded that a material misstatement of the other information exists.
- Illustration 6: An auditor's report of any entity, whether listed or other than listed, containing a qualified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and there is a limitation of scope with respect to a material item in the consolidated financial statements which also affects the other information.
- Illustration 7: An auditor's report of any entity, whether listed or other than listed, containing an adverse opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and the adverse opinion on the consolidated financial statements also affects the other information.
- Illustration 8: An auditor's report of any entity incorporated in Hong Kong, whether listed or other than listed, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has concluded that a material misstatement of the other information exists and has identified an inconsistency between the information in the directors' report and the financial statements.

Illustration 1 – An auditor's report of any entity, whether listed or other than listed, containing an unmodified opinion when 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.

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

- Audit of a complete set of financial statements of any entity, whether listed or other than listed, using Hong Kong Financial Reporting Standards (HKFRSs). The audit is not a group audit (i.e., HKSA 600¹ 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 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).²
- Key audit matters have been communicated in accordance with HKSA 701.³
- 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 Companies Ordinance.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company

(incorporated in Hong Kong with limited liability)^{3a}

Report on the Audit of the Financial Statements⁴

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

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

² HKSA 570 (Revised), *Going Concern*

³ HKSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*. The Key Audit Matters section is required for listed entities only.

^{3a} In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

⁴ 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.

of profit or loss and]^{4a} 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 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 Companies Ordinance.

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 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]⁵

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.]

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

The directors⁶ are responsible for the other information. The other information comprises the [information included in the X report,⁷ 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

^{4a} HKAS 1 (Revised) 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.

⁵ The Key Audit Matters section is required for listed entities only.

⁶ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

⁷ 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.

misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements⁸

[Reporting in accordance with HKSA 700 (Revised)⁹ – see Illustration 1 or 3 in HKSA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with HKSA 700 (Revised) – see Illustration 1 or 3 in HKSA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with HKSA 700 (Revised) – see Illustration 1 or 3 in HKSA 700 (Revised).]

[The engagement partner on the audit resulting in this independent auditor's report is [name].¹⁰]

XYZ & Co.

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

[Date]

⁸ Throughout these illustrative auditor's reports, the terms directors/ 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

⁹ HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

¹⁰ The name of the engagement partner is included in the auditor's report for audits of complete sets of general purpose financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see HKSA 700 (Revised), paragraph 46).

Illustration 2 – An auditor's report of a listed entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the 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 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 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).
- Key audit matters have been communicated in accordance with HKSA 701.
- The auditor has obtained part of the other information (including the directors' report)^{10a} prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after 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.
- 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.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company

(incorporated in Hong Kong with limited liability)^{10b}

Report on the Audit of the Financial Statements¹¹

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

^{10a} For a company incorporated in Hong Kong, its auditor is required to comply with section 406(2) of the Companies Ordinance and therefore it is normally expected the auditor should have obtained the director's report of the company prior to the date of the auditor's report. For exception reporting under section 406(2), please refer to Illustration 8 for guidance.

^{10b} In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

¹¹ 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.

of profit or loss and]^{11a} 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 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 Companies Ordinance.

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 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 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.]

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

The directors¹² are responsible for the other information. The other information comprises the X report¹³ (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Y report, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will 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 identified above 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.

^{11a} HKAS 1 (Revised) 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.

¹² Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

¹³ 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.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

[When we read the Y report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and *[describe actions applicable in the jurisdiction]*]¹⁴

Responsibilities of Directors and Those Charged with Governance for the Financial Statements¹⁵

[Reporting in accordance with HKSA 700 (Revised) – see Illustration 1 in HKSA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with HKSA 700 (Revised) – see Illustration 1 in HKSA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with HKSA 700 (Revised) – see Illustration 1 in HKSA 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is *[name]*.¹⁶
XYZ & Co.

Certified Public Accountants (Practising) or Certified Public Accountants

[Auditor Address]

[Date]

¹⁴ This additional paragraph may be useful when the auditor has identified an uncorrected material misstatement of the other information obtained after the date of the auditor's report and has a legal obligation to take specific action in response.

¹⁵ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

¹⁶ The name of the engagement partner is included in the auditor's report for audits of complete sets of general purpose financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see HKSA 700 (Revised), paragraph 46).

Illustration 3 – An auditor's report of an entity other than a listed entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the 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 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 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 part of the other information (including the director's report)^{16a} prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after 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.
- The auditor has no other reporting responsibilities required under law or regulation except for the Companies Ordinance.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company

(incorporated in Hong Kong with limited liability)^{16b}

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

^{16a} For a company incorporated in Hong Kong, its auditor is required to comply with section 406(2) of the Companies Ordinance and therefore it is normally expected the auditor should have obtained the director's report of the company prior to the date of the auditor's report. For exception reporting under section 406(2), please refer to Illustration 8 for guidance.

^{16b} In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

of profit or loss and]^{16c} 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 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 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 directors¹⁷ are responsible for the other information. The other information obtained at the date of this auditor's report is [information included in the X report,¹⁸ 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 on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements¹⁹

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

^{16c} HKAS 1 (Revised) 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.

¹⁷ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

¹⁸ 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.

¹⁹ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

Auditor's Responsibilities for the Audit of the Financial Statements

[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 Address]

[Date]

Illustration 4 – An auditor's report of a listed entity containing an unmodified opinion when the auditor has obtained no other information prior to the date of the auditor's report but expects to obtain other information after the date of the auditor's report.^{19a}

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 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.
- 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 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).
- Key audit matters have been communicated in accordance with HKSA 701.
- The auditor has obtained no other information prior to the date of the auditor's report but expects to obtain other information after the date of the auditor's report.^{19a}
- 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.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements²⁰

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]^{20a} 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 a summary of significant accounting policies.

^{19a} For a company incorporated in Hong Kong, its auditor is required to comply with section 406(2) of the Companies Ordinance and therefore it is normally expected the auditor should have obtained the director's report of the company prior to the date of the auditor's report. Therefore, this illustration is generally not applicable for a company incorporated in Hong Kong.

²⁰ 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.

^{20a} HKAS 1 (Revised) 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.

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 disclosure requirements of the Companies Ordinance]^{20b}.

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 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 opinion.

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.

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

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

Management²¹ is responsible for the other information. The other information comprises the [information included in the X report,²² but does not include the financial statements and our auditor's report thereon]. The X report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will 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 identified above when it becomes available 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.

[When we read the X report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and [describe actions applicable in the jurisdiction].]²³

^{20b} For a company incorporated overseas and listed in Hong Kong, the disclosure requirements of the Companies Ordinance are applicable.

²¹ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

²² A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.

²³ This additional paragraph may be useful when the auditor has identified an uncorrected material misstatement of the other information obtained after the date of the auditor's report and has a legal obligation to take specific action in response.

Responsibilities of Management and Those Charged with Governance for the Financial Statements^{20b, 24}

[Reporting in accordance with HKSA 700 (Revised) – see Illustration 1 or 6 in HKSA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with HKSA 700 (Revised) – see Illustration 1 in HKSA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with HKSA 700 (Revised) – see Illustration 1 in HKSA 700 (Revised).]

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]

²⁴ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

Illustration 5 – An auditor's report of any entity, whether listed or other than listed, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has concluded that a material misstatement of the other information exists.

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

- Audit of a complete set of financial statements of any entity, whether listed or other than listed, 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 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).
- 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 concluded that a material misstatement of the other information exists
- 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 law or regulation except for the Companies Ordinance.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company
(incorporated in Hong Kong with limited liability)^{24a}

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] ^{24b} 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 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

^{24a} In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

^{24b} HKAS 1 (Revised) 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.

the Companies Ordinance.

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 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 directors²⁵ are responsible for the other information. The other information comprises the [information included in the X report,²⁶ 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 Matters²⁷

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.]

Responsibilities of Directors and Those Charged with Governance for the Financial Statements²⁸

[Reporting in accordance with HKSA 700 (Revised) – see Illustration 1 or 3 in HKSA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with HKSA 700 (Revised) – see Illustration 1 or 3 in HKSA 700 (Revised).]

²⁵ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

²⁶ 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.

²⁷ The Key Audit Matters section is required for listed entities only.

²⁸ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION

[The engagement partner on the audit resulting in this independent auditor's report is *[name]*.²⁹]

XYZ & Co.

Certified Public Accountants (Practising) or Certified Public Accountants

[Auditor Address]

[Date]

²⁹ The name of the engagement partner is included in the auditor's report for audits of complete sets of general purpose financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see HKSA 700 (Revised), paragraph 46).

Illustration 6 – An auditor's report of any entity, whether listed or other than listed, containing an qualified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and there is a limitation of scope with respect to a material item in the consolidated financial statements which also affects the other information.

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

- Audit of a complete set of consolidated financial statements of any entity, whether listed or other than listed, using Hong Kong Financial Reporting Standards (HKFRSs). The audit is a group audit (i.e., HKSA 600 applies).
- The consolidated 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 consolidated financial statements in HKSA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the consolidated 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).
- 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 the matter giving rise to the qualified 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.
- The auditor has no other reporting responsibilities required under law or regulation except for the Companies Ordinance.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company

(incorporated in Hong Kong with limited liability)^{29a}

Qualified Opinion

We have audited the consolidated financial statements of ABC 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 statement of profit or loss and]^{29b} the consolidated statement of profit or loss and other comprehensive income, consolidated statement of

^{29a} In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

^{29b} HKAS 1 (Revised) 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.

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

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 20X1, and of its consolidated financial performance and its consolidated 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 Companies Ordinance.

Basis for Qualified Opinion

The Group'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 consolidated statement of financial position as at 31 December 20X1, and ABC's share of DEF's net income of xxx is included in ABC's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in DEF as at 31 December 20X1 and ABC's share of DEF's net income for the year because we were denied access to the financial information, management, and the auditors of DEF. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

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 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 qualified opinion.

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

The directors³⁰ are responsible for the other information. The other information comprises the [information included in the X report,³¹ but does not include the consolidated financial statements and our auditor's report thereon.]

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, 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 a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Qualified Opinion* section above, we were unable to obtain sufficient appropriate evidence about the carrying amount of ABC's investment in DEF as at 31 December 20X1 and ABC's share of DEF's net income for the

³⁰ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

³¹ 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.

year. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

[Key Audit Matters]³²

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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 *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

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

Responsibilities of Directors and Those Charged with Governance for the Financial Statements³³

[Reporting in accordance with HKSA 700 (Revised) – see Illustration 2 or 4 in HKSA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with HKSA 700 (Revised) – see Illustration 2 or 4 in HKSA 700 (Revised).]

[The engagement partner on the audit resulting in this independent auditor's report is *[name]*.³⁴

XYZ & Co.

Certified Public Accountants (Practising) or Certified Public Accountants

[Auditor Address]

[Date]

³² The Key Audit Matters section is required for listed entities only.

³³ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

³⁴ The name of the engagement partner is included in the auditor's report for audits of complete sets of general purpose financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see HKSA 700 (Revised), paragraph 46).

Illustration 7 – An auditor's report of any entity, whether listed or other than listed, containing an adverse opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and the adverse opinion on the consolidated financial statements also affects the other information.

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

- Audit of a complete set of consolidated financial statements of any entity, whether listed or other than listed, using Hong Kong Financial Reporting Standards (HKFRSs). The audit is a group audit (i.e., HKSA 600 applies).
- The consolidated 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 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).
- 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 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.
- The auditor has no other reporting responsibilities required under law or regulation except for the Companies Ordinance.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company

(incorporated in Hong Kong with limited liability)^{34a}

Adverse Opinion

We have audited the consolidated financial statements of ABC 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 statement of profit or loss and]^{34b} the consolidated statement of profit or loss and other comprehensive income, consolidated statement of

^{34a} In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

^{34b} HKAS 1 (Revised) 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.

changes in equity and consolidated statement of cash flows 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 do not give a true and fair view of the consolidated financial position of the Group as at 31 December 20X1, and of its consolidated financial performance and its consolidated 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 Companies Ordinance.

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 HKFRSs, the Group should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had DEF Company been consolidated, many elements in the accompanying 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") 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"]

The directors³⁵ are responsible for the other information. The other information comprises the [information included in the X report,³⁶ but does not include the consolidated financial statements and our auditor's report thereon.]

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, 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 a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Adverse Opinion* section above, the Group should have consolidated DEF Company and accounted for the acquisition based on provisional amounts. We have concluded that

³⁵ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

³⁶ 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.

the other information is materially misstated for the same reason with respect to the amounts or other items in the X report affected by the failure to consolidate DEF Company.

[Key Audit Matters³⁷

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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 *Basis for Adverse Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

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

Responsibilities of Directors and Those Charged with Governance for the Financial Statements³⁸

[Reporting in accordance with HKSA 700 (Revised) – see Illustration 2 or 4 in HKSA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with HKSA 700 (Revised) – see Illustration 2 or 4 in HKSA 700 (Revised).]

[The engagement partner on the audit resulting in this independent auditor's report is *[name]*.³⁹

XYZ & Co.

Certified Public Accountants (Practising) or Certified Public Accountants

[Auditor Address]

[Date]

³⁷ The Key Audit Matters section is required for listed entities only.

³⁸ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

³⁹ The name of the engagement partner is included in the auditor's report for audits of complete sets of general purpose financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see HKSA 700 (Revised), paragraph 46).

Illustration 8 – An auditor's report of any entity incorporated in Hong Kong, whether listed or other than listed, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has concluded that a material misstatement of the other information exists and has identified an inconsistency between the information in the directors' report and 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 any entity, whether listed or other than listed, 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 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).
- 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 concluded that a material misstatement of the other information exists.
- 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 Companies Ordinance.
- The information in the directors' report is not consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company

(incorporated in Hong Kong with limited liability)⁴⁰

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]⁴¹ the statement of profit or loss and other comprehensive income, statement of

⁴⁰ In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

⁴¹ HKAS 1 (Revised) 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.

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 Companies Ordinance.

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 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 directors⁴² are responsible for the other information. The other information comprises the [information included in the X report,⁴³ 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 Matters⁴⁴

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.]

⁴² Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

⁴³ 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.

⁴⁴ The Key Audit Matters section is required for listed entities only.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements⁴⁵

[Reporting in accordance with HKSA 700 (Revised) – see Illustration 1 or 3 in HKSA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with HKSA 700 (Revised) – see Illustration 1 or 3 in HKSA 700 (Revised).]

Report on the Directors' Report under section 406(2)⁴⁶ of the Companies Ordinance

Directors' and Auditor's Respective Responsibilities for the Directors' Report⁴⁶

In addition to the respective responsibilities of the directors and auditor stated in the 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 Companies Ordinance.

It is our responsibility under section 406(2) of the 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 other assurance conclusion on the directors' report as a whole.

Matters on Which We are Required to Report by Exception

In accordance with the 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 inconsistencies⁴⁶.*]

[The engagement partner on the audit resulting in this independent auditor's report is [*name*].⁴⁷]

XYZ & Co.

Certified Public Accountants (Practising) or Certified Public Accountants [*Auditor Address*]

[*Date*]

⁴⁵ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

⁴⁶ Section 406(2) of the Companies Ordinance ("CO") 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.

⁴⁷ The name of the engagement partner is included in the auditor's report for audits of complete sets of general purpose financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see HKSA 700 (Revised), paragraph 46).

Appendix 3

(Ref: Para. 9, 18 and 24)

Additional Local Guidance on Requirements of the Companies Ordinance

1. Section 406(2) of the Companies Ordinance 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.

The auditor is required to report by exception under section 406(2). An example is set out in Illustration 8 in Appendix 2 of this HKSA for guidance. In the circumstances where the information in a directors' report is not consistent with the financial statements, the auditor must state that opinion and a description of the inconsistencies under the last section "Report on the Directors' Report under section 406(2) of the Companies Ordinance" of the auditor's report. Such inconsistencies would also be expected to be included under the section "Other Information" in accordance with paragraph 22 of this HKSA.

If the auditor is of the opinion that there is no inconsistency and has nothing to report under section 406(2), the last section "Report on Directors' Report under section 406(2) of the Companies Ordinance" in Illustration 8 is not necessary (nor a statement that the auditor has nothing to report under Section 406(2) is required) and the auditor refers to Illustration 1 in Appendix 2 instead.

2. An auditor who is considering the course of reporting in the auditor's report on a material inconsistency between the financial statements and the other information or a material misstatement of fact in the other information (with the exception of reporting inconsistencies with the director's report) is advised that the qualified privilege (i.e. the defence to an action for defamation) which an auditor's report normally enjoys may not extend to comments on items of the other information. Similarly, no qualified privilege may attach to statements made by the auditor on such matter at a general meeting pursuant to his right under section 411 of the Companies Ordinance. The auditor would also bear in mind the provisions of sections 417 and 424 of the Companies Ordinance before deciding whether resignation from the engagement would be likely to resolve the matter. The auditor would consider seeking legal advice both as to which course of action to adopt and as to the precise form of any wording to be used.
3. If an amendment is necessary to the other information and the entity refuses to make the amendment, the auditor's possible further courses of action may involve using the auditor's right under section 411 of the Companies Ordinance to be heard at any general meeting of the members on any business of the meeting which concerns the person as auditor.