



MEMBERS' HANDBOOK

Update No. 124

(Issued 27 December 2012)

Document Reference and Title	Instructions	Explanations
<u>VOLUME III</u>		
Contents of Volume III	Discard the existing pages i to iv and replace with the new pages i to iv.	Revised contents pages
<u>Glossary of Terms Relating to Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services (Clarified)</u>	Replace cover page and page 17 with revised cover page and page 17.	Note 1
<u>HONG KONG FRAMEWORK FOR ASSURANCE ENGAGEMENTS</u>	Replace cover page, pages 2 and 3 with revised cover page, pages 2 and 3.	- ditto -
HONG KONG STANDARDS ON AUDITING		
HKSA 210 (Clarified) <u>Agreeing The Terms of Audit Engagements</u>	Replace cover page and page 13 with revised cover page and page 13.	- ditto -
HKSA 260 (Clarified) <u>Communication with Those Charged with Governance</u>	Replace cover page and page 14 with revised cover page and page 14.	- ditto -
HKSA 300 (Clarified) <u>Planning an Audit of Financial Statements</u>	Replace cover page and page 8 with revised cover page and page 8.	- ditto -
HKSA 315 (Revised) <u>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</u>	Replace cover page and pages 12-14 with revised cover page and pages 12-14.	- ditto -
HKSA 330 (Clarified) <u>The Auditor's Responses to Assessed Risks</u>	Replace cover page and page 9 with revised cover page and page 9.	- ditto -

HKSA 610 (Revised) [Using the Work of Internal Auditors](#) Replace cover page, pages 6, 13 and 21 with revised cover page, pages 6, 13 and 21. - ditto -

HONG KONG STANDARDS ON REVIEW ENGAGEMENTS

HKSRE 2400 [Engagements to Review Financial Statements](#) Insert the revised page 1 and discard the replaced page 1. Note 2

HKSRE 2400 (Revised) [Engagements to Review Historical Financial Statements](#) Insert HKSRE 2400 (Revised) after HKSRE 2400. Note 2

HONG KONG STANDARDS ON ASSURANCE ENGAGEMENTS

HKSAE 3402 [Assurance Reports on Controls at a Service Organization](#) Replace cover page and page 17 with revised cover page and page 17. Note 1

HONG KONG STANDARDS ON INVESTMENT CIRCULAR REPORTING ENGAGEMENTS

HKSIR 400 [Comfort Letters and Due Diligence Meetings](#) Replace cover page, pages 2,12,14,16-18, 24-26, 32-34,40-47 and 49-67 with revised cover page, pages 2,12,14,16-18, 24-26, 32-34,40-47 and 49-69. Note 3

HONG KONG AUDITING PRACTICE GUIDANCE

HKAPG 1000 [Special Considerations in Auditing Financial Instruments](#) Replace cover page, pages 47-48 and 52 with revised cover page, pages 47-48 and 52. Note 1

Notes:

1. In June 2012, the International Auditing and Assurance Standards Board (IAASB) published the 2012 edition of *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* (2012 Handbook) and made editorial and formatting changes in finalizing the 2012 Handbook. As part of the convergence with the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, the changes have been made to the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements. To assist users, a Consolidated Table of Changes outlines these editorial and formatting changes which is posted at:
http://www.hkicpa.org.hk/file/media/section6_standards/technical_resources/pdf-file/handbook/changes_update124.pdf
2. HKSRE 2400 (Revised) conforms with ISRE 2400 (Revised) issued by the IAASB in September 2012. HKSRE 2400 (Revised) aims to enhance the quality and consistency of engagements to review historical financial statements, through revised requirements and guidance addressing the responsibilities, work effort and reporting considerations of practitioners undertaking such engagements. HKSRE 2400 (Revised) is effective for reviews of financial statements for periods ending on or after 31 December 2013.

HKSRE 2400 is updated to reflect that it will be superseded by HKSRE 2400 (Revised) effective for reviews of financial statements for periods ending on or after 31 December 2013.

3. HKSIR 400 is revised to reflect the improvement changes made to paragraph 56 and the illustrative examples. There is no change to the principles in the standard. The revisions made are effective upon issuance.



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Glossary
Issued September 2009; revised July 2010, December 2012

Effective as of 15 December 2009

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



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

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

Reasonable assurance engagement - (see *Assurance engagement*)

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

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

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

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

Related services - Comprise agreed-upon procedures and compilations.

*[†]*Relevant ethical requirements* - Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise Parts A, B and D of the HKICPA's *Code of Ethics for Professional Accountants* (the Code) together with national requirements that are more restrictive.

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

**Report on the description and design of controls at a service organization (referred to in HKSA 402¹⁸ as a type 1 report)* - A report that comprises:

- (a) A description, prepared by management of the service organization, of the service organization's system, control objectives and related controls that have been designed and implemented as at a specified date; and

¹⁸ HKSA 402, "Audit Considerations Relating to an Entity Using a Service Organization."

Framework
Issued October 2004, Revised December 2012

Effective upon issue

Hong Kong Framework for Assurance Engagements



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HONG KONG FRAMEWORK FOR ASSURANCE ENGAGEMENTS

(Effective upon issue, Revised December 2012)

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Introduction

1. This Framework defines and describes the elements and objectives of an assurance engagement, and identifies engagements to which Hong Kong Standards on Auditing and Assurance (HKSAAs) apply. HKSAAs cover Hong Kong Standards on Auditing (HKSAAs), Hong Kong Standards on Review Engagements (HKSREs), Hong Kong Standards on Investment Circular Reporting Engagements (HKSIRs), and Hong Kong Standards on Assurance Engagements (HKSAEs). It provides a frame of reference for:
 - (a) Professional accountants in public practice (“practitioners”) when performing assurance engagements. Professional accountants in the public sector refer to the Public Sector Perspective at the end of the Framework. Professional accountants who are neither in public practice nor in the public sector are encouraged to consider the Framework when performing assurance engagements;¹
 - (b) Others involved with assurance engagements, including the intended users of an assurance report and the responsible party; and
 - (c) The Hong Kong Institute of Certified Public Accountants (HKICPA) in its development of HKSAAs.
2. This Framework does not itself establish standards or provide procedural requirements for the performance of assurance engagements. HKSAAs contain basic principles, essential procedures and related guidance, consistent with the concepts in this Framework, for the performance of assurance engagements. The relationship between the Framework and the HKSAAs is illustrated in the “Structure of Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements”, which is attached as an appendix to “Amended Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements”.
3. The following is an overview of this Framework:
 - *Introduction:* This Framework deals with assurance engagements performed by practitioners. It provides a frame of reference for practitioners and others involved with assurance engagements, such as those engaging a practitioner (the “engaging party”).
 - *Definition and objective of an assurance engagement:* This section defines assurance engagements and identifies the objectives of the two types of assurance engagement a practitioner is permitted to perform. This Framework calls these two types reasonable assurance engagements and limited assurance engagements.²
 - *Scope of the Framework:* This section distinguishes assurance engagements from other engagements, such as consulting engagements.
 - *Engagement acceptance:* This section sets out characteristics that must be exhibited before a practitioner can accept an assurance engagement.
 - *Elements of an assurance engagement:* This section identifies and discusses five elements assurance engagements performed by practitioners exhibit: a three party relationship, a subject matter, criteria, evidence and an assurance report. It explains important distinctions between reasonable assurance engagements and limited assurance engagements (also outlined in the Appendix). This section also

¹ If a professional accountant not in public practice, for example an internal auditor, applies this Framework, and (a) this Framework, the HKSAAs are referred to in the professional accountant’s report; and (b) the professional accountant or other members of the assurance team and, when applicable, the professional accountant’s employer, are not independent of the entity in respect of which the assurance engagement is being performed, the lack of independence and the nature of the relationship(s) with the entity are prominently disclosed in the professional accountant’s report. Also, that report does not include the word “independent” in its title, and the purpose and users of the report are restricted.

² For assurance engagements regarding historical financial information in particular, reasonable assurance engagements are called audits, and limited assurance engagements are called reviews.

HKSA 210
Issued June 2009; revised July, October 2010, December 2012

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

Hong Kong Standard on Auditing 210

Agreeing the Terms of Audit Engagements



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*Audit Engagement Letter or Other Form of Written Agreement*¹⁶ (Ref: Para. 10-11)

A22. It is in the interests of both the entity and the auditor that the auditor sends an audit engagement letter before the commencement of the audit to help avoid misunderstandings with respect to the audit. In some countries, however, the objective and scope of an audit and the responsibilities of management and of the auditor may be sufficiently established by law, that is, they prescribe the matters described in paragraph 10. Although in these circumstances paragraph 11 permits the auditor to include in the engagement letter only reference to the fact that relevant law or regulation applies and that management acknowledges and understands its responsibilities as set out in paragraph 6(b), the auditor may nevertheless consider it appropriate to include the matters described in paragraph 10 in an engagement letter for the information of management.

Form and Content of the Audit Engagement Letter

A23. The form and content of the audit engagement letter may vary for each entity. Information included in the audit engagement letter on the auditor's responsibilities may be based on HKSA 200.¹⁷ Paragraphs 6(b) and 12 of this HKSA deal with the description of the responsibilities of management. In addition to including the matters required by paragraph 10, an audit engagement letter may make reference to, for example:

- Elaboration of the scope of the audit, including reference to applicable legislation, regulations, HKSAs, and ethical and other pronouncements of professional bodies to which the auditor adheres.
- The form of any other communication of results of the audit engagement.
- The fact that because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with HKSAs.
- Arrangements regarding the planning and performance of the audit, including the composition of the engagement team.
- The expectation that management will provide written representations (see also paragraph A13).
- The agreement of management to make available to the auditor draft financial statements and any accompanying other information in time to allow the auditor to complete the audit in accordance with the proposed timetable.
- The agreement of management to inform the auditor of facts that may affect the financial statements, of which management may become aware during the period from the date of the auditor's report to the date the financial statements are issued.
- The basis on which fees are computed and any billing arrangements.
- A request for management to acknowledge receipt of the audit engagement letter and to agree to the terms of the engagement outlined therein.

¹⁶ In the paragraphs that follow, any reference to an audit engagement letter is to be taken as a reference to an audit engagement letter or other suitable form of written agreement.

¹⁷ HKSA 200, paragraphs 3-9.

HKSA 260
Issued June 2009; revised July 2010, December 2012

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

Hong Kong Standard on Auditing 260

Communication with Those Charged with Governance



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the entity is owner-managed, and the auditor's firm and network firms have little involvement with the entity beyond a financial statement audit.

Supplementary Matters (Ref: Para. 3)

- A24. The oversight of management by those charged with governance includes ensuring that the entity designs, implements and maintains appropriate internal control with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.
- A25. The auditor may become aware of supplementary matters that do not necessarily relate to the oversight of the financial reporting process but which are, nevertheless, likely to be significant to the responsibilities of those charged with governance in overseeing the strategic direction of the entity or the entity's obligations related to accountability. Such matters may include, for example, significant issues regarding governance structures or processes, and significant decisions or actions by senior management that lack appropriate authorization.
- A26. In determining whether to communicate supplementary matters with those charged with governance, the auditor may discuss matters of this kind of which the auditor has become aware with the appropriate level of management, unless it is inappropriate to do so in the circumstances.
- A27. If a supplementary matter is communicated, it may be appropriate for the auditor to make those charged with governance aware that:
- (a) Identification and communication of such matters is incidental to the purpose of the audit, which is to form an opinion on the financial statements;
 - (b) No procedures were carried out with respect to the matter other than any that were necessary to form an opinion on the financial statements; and
 - (c) No procedures were carried out to determine whether other such matters exist.

The Communication Process

Establishing the Communication Process (Ref: Para. 18)

- A28. Clear communication of the auditor's responsibilities, the planned scope and timing of the audit, and the expected general content of communications helps establish the basis for effective two-way communication.
- A29. Matters that may also contribute to effective two-way communication include discussion of:
- The purpose of communications. When the purpose is clear, the auditor and those charged with governance are better placed to have a mutual understanding of relevant issues and the expected actions arising from the communication process.
 - The form in which communications will be made.
 - The person(s) in the engagement team and amongst those charged with governance who will communicate regarding particular matters.
 - The auditor's expectation that communication will be two-way, and that those charged with governance will communicate with the auditor matters they consider relevant to the audit, for example, strategic decisions that may significantly affect the nature, timing and extent of audit procedures, the suspicion or the detection of fraud, and concerns with the integrity or competence of senior management.

HKSA 300
Issued June 2009; revised July 2010, December 2012

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

Hong Kong Standard on Auditing 300

Planning an Audit of Financial Statements



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Planning Activities

The Overall Audit Strategy (Ref: Para. 7-8)

- A8. The process of establishing the overall audit strategy assists the auditor to determine, subject to the completion of the auditor's risk assessment procedures, such matters as:
- The resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas or the involvement of experts on complex matters;
 - The amount of resources to allocate to specific audit areas, such as the number of team members assigned to observe the inventory count at material locations, the extent of review of other auditors' work in the case of group audits, or the audit budget in hours to allocate to high risk areas;
 - When these resources are to be deployed, such as whether at an interim audit stage or at key cutoff dates; and
 - How such resources are managed, directed and supervised, such as when team briefing and debriefing meetings are expected to be held, how engagement partner and manager reviews are expected to take place (for example, on-site or off-site), and whether to complete engagement quality control reviews.
- A9. The Appendix lists examples of considerations in establishing the overall audit strategy.
- A10. Once the overall audit strategy has been established, an audit plan can be developed to address the various matters identified in the overall audit strategy, taking into account the need to achieve the audit objectives through the efficient use of the auditor's resources. The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.

Considerations Specific to Smaller Entities

- A11. In audits of small entities, the entire audit may be conducted by a very small engagement team. Many audits of small entities involve the engagement partner (who may be a sole practitioner) working with one engagement team member (or without any engagement team members). With a smaller team, co-ordination of, and communication between, team members are easier. Establishing the overall audit strategy for the audit of a small entity need not be a complex or time-consuming exercise; it varies according to the size of the entity, the complexity of the audit, and the size of the engagement team. For example, a brief memorandum prepared at the completion of the previous audit, based on a review of the working papers and highlighting issues identified in the audit just completed, updated in the current period based on discussions with the owner-manager, can serve as the documented audit strategy for the current audit engagement if it covers the matters noted in paragraph 8.

The Audit Plan (Ref: Para. 9)

- A12. The audit plan is more detailed than the overall audit strategy in that it includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops. For example, planning of the auditor's risk assessment procedures occurs early in the audit process. However, planning the nature, timing and extent of specific further audit procedures depends on the outcome of those risk assessment

HKSA 315 (Revised)
Revised July 2012, December 2012

Effective for audits of financial statements
for periods ending on or after 15 December 2013

Hong Kong Standard on Auditing 315 (Revised)

Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment



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- Inquiries directed to the risk management function (or those performing such roles) may provide information about operational and regulatory risks that may affect financial reporting.
- Inquiries directed to information systems personnel may provide information about system changes, system or control failures, or other information system-related risks.
- Inquiries directed to the risk management function (or those performing such roles) may provide information about operational and regulatory risks that may affect financial reporting.
- Inquiries directed to information systems personnel may provide information about system changes, system or control failures, or other information system-related risks.

A8. As obtaining an understanding of the entity and its environment is a continual, dynamic process, the auditor's inquiries may occur throughout the audit engagement.

Inquiries of the Internal Audit Function

- A9. If an entity has an internal audit function, inquiries of the appropriate individuals within the function may provide information that is useful to the auditor in obtaining an understanding of the entity and its environment, and in identifying and assessing risks of material misstatement at the financial statement and assertion levels. In performing its work, the internal audit function is likely to have obtained insight into the entity's operations and business risks, and may have findings based on its work, such as identified control deficiencies or risks, that may provide valuable input into the auditor's understanding of the entity, the auditor's risk assessments or other aspects of the audit. The auditor's inquiries are therefore made whether or not the auditor expects to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed.⁶ Inquiries of particular relevance may be about matters the internal audit function has raised with those charged with governance and the outcomes of the function's own risk assessment process.
- A10. If, based on responses to the auditor's inquiries, it appears that there are findings that may be relevant to the entity's financial reporting and the audit, the auditor may consider it appropriate to read related reports of the internal audit function. Examples of reports of the internal audit function that may be relevant include the function's strategy and planning documents and reports that have been prepared for management or those charged with governance describing the findings of the internal audit function's examinations.
- A11. In addition, in accordance with HKSA 240,⁷ if the internal audit function provides information to the auditor regarding any actual, suspected or alleged fraud, the auditor takes this into account in the auditor's identification of risk of material misstatement due to fraud.
- A12. Appropriate individuals within the internal audit function with whom inquiries are made are those who, in the auditor's judgment, have the appropriate knowledge, experience and authority, such as the chief internal audit executive or, depending on the circumstances, other personnel within the function. The auditor may also consider it appropriate to have periodic meetings with these individuals.

Considerations specific to public sector entities (Ref: Para 6(a))

- A13. Auditors of public sector entities often have additional responsibilities with regard to internal control and compliance with applicable laws and regulations. Inquiries of appropriate individuals in the internal audit function can assist the auditors in identifying the risk of

⁶ The relevant requirements are contained in HKSA 610 (Revised).

⁷ HKSA 240, paragraph 19

material noncompliance with applicable laws and regulations and the risk of deficiencies in internal control over financial reporting.

Analytical Procedures (Ref: Para. 6(b))

- A14. Analytical procedures performed as risk assessment procedures may identify aspects of the entity of which the auditor was unaware and may assist in assessing the risks of material misstatement in order to provide a basis for designing and implementing responses to the assessed risks. Analytical procedures performed as risk assessment procedures may include both financial and non-financial information, for example, the relationship between sales and square footage of selling space or volume of goods sold.
- A15. Analytical procedures may help identify the existence of unusual transactions or events, and amounts, ratios, and trends that might indicate matters that have audit implications. Unusual or unexpected relationships that are identified may assist the auditor in identifying risks of material misstatement, especially risks of material misstatement due to fraud.
- A16. However, when such analytical procedures use data aggregated at a high level (which may be the situation with analytical procedures performed as risk assessment procedures), the results of those analytical procedures only provide a broad initial indication about whether a material misstatement may exist. Accordingly, in such cases, consideration of other information that has been gathered when identifying the risks of material misstatement together with the results of such analytical procedures may assist the auditor in understanding and evaluating the results of the analytical procedures.

Considerations Specific to Smaller Entities

- A17. Some smaller entities may not have interim or monthly financial information that can be used for purposes of analytical procedures. In these circumstances, although the auditor may be able to perform limited analytical procedures for purposes of planning the audit or obtain some information through inquiry, the auditor may need to plan to perform analytical procedures to identify and assess the risks of material misstatement when an early draft of the entity's financial statements is available.

Observation and Inspection (Ref: Para. 6(c))

- A18. Observation and inspection may support inquiries of management and others, and may also provide information about the entity and its environment. Examples of such audit procedures include observation or inspection of the following:
- The entity's operations.
 - Documents (such as business plans and strategies), records, and internal control manuals.
 - Reports prepared by management (such as quarterly management reports and interim financial statements) and those charged with governance (such as minutes of board of directors' meetings).
 - The entity's premises and plant facilities.

Information Obtained in Prior Periods (Ref: Para. 9)

- A19. The auditor's previous experience with the entity and audit procedures performed in previous audits may provide the auditor with information about such matters as:
- Past misstatements and whether they were corrected on a timely basis.

- The nature of the entity and its environment, and the entity's internal control (including deficiencies in internal control).
- Significant changes that the entity or its operations may have undergone since the prior financial period, which may assist the auditor in gaining a sufficient understanding of the entity to identify and assess risks of material misstatement.

A20. The auditor is required to determine whether information obtained in prior periods remains relevant, if the auditor intends to use that information for the purposes of the current audit. This is because changes in the control environment, for example, may affect the relevance of information obtained in the prior year. To determine whether changes have occurred that may affect the relevance of such information, the auditor may make inquiries and perform other appropriate audit procedures, such as walk-throughs of relevant systems.

Discussion among the Engagement Team (Ref: Para. 10)

A21. The discussion among the engagement team about the susceptibility of the entity's financial statements to material misstatement:

- Provides an opportunity for more experienced engagement team members, including the engagement partner, to share their insights based on their knowledge of the entity.
- Allows the engagement team members to exchange information about the business risks to which the entity is subject and about how and where the financial statements might be susceptible to material misstatement due to fraud or error.
- Assists the engagement team members to gain a better understanding of the potential for material misstatement of the financial statements in the specific areas assigned to them, and to understand how the results of the audit procedures that they perform may affect other aspects of the audit including the decisions about the nature, timing and extent of further audit procedures.
- Provides a basis upon which engagement team members communicate and share new information obtained throughout the audit that may affect the assessment of risks of material misstatement or the audit procedures performed to address these risks.

HKSA 240 provides further requirements and guidance in relation to the discussion among the engagement team about the risks of fraud.⁸

A22. It is not always necessary or practical for the discussion to include all members in a single discussion (as, for example, in a multi-location audit), nor is it necessary for all of the members of the engagement team to be informed of all of the decisions reached in the discussion. The engagement partner may discuss matters with key members of the engagement team including, if considered appropriate, those with specific skills or knowledge, and those responsible for the audits of components, while delegating discussion with others, taking account of the extent of communication considered necessary throughout the engagement team. A communications plan, agreed by the engagement partner, may be useful.

Considerations Specific to Smaller Entities

A23. Many small audits are carried out entirely by the engagement partner (who may be a sole practitioner). In such situations, it is the engagement partner who, having personally conducted the planning of the audit, would be responsible for considering the susceptibility of the entity's financial statements to material misstatement due to fraud or error.

⁸ HKSA 240, paragraph 15

HKSA 330
Issued June 2009; revised July 2010, December 2012

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

Hong Kong Standard on Auditing 330

The Auditor's Responses to Assessed Risks



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29. If the auditor plans to use audit evidence about the operating effectiveness of controls obtained in previous audits, the auditor shall include in the audit documentation the conclusions reached about relying on such controls that were tested in a previous audit.
30. The auditor's documentation shall demonstrate that the financial statements agree or reconcile with the underlying accounting records.

Conformity and Compliance with International Standards on Auditing

31. As of June 2009 (date of issue), this HKSA conforms with International Standard on Auditing (ISA) 330, "The Auditor's Responses To Assessed Risks". Compliance with the requirements of this HKSA ensures compliance with ISA 330.

* * *

Application and Other Explanatory Material

Overall Responses (Ref: Para. 5)

- A1. Overall responses to address the assessed risks of material misstatement at the financial statement level may include:
 - Emphasizing to the engagement team the need to maintain professional skepticism.
 - Assigning more experienced staff or those with special skills or using experts.
 - Providing more supervision.
 - Incorporating additional elements of unpredictability in the selection of further audit procedures to be performed.
 - Making general changes to the nature, timing or extent of audit procedures, for example: performing substantive procedures at the period end instead of at an interim date; or modifying the nature of audit procedures to obtain more persuasive audit evidence.
- A2. The assessment of the risks of material misstatement at the financial statement level, and thereby the auditor's overall responses, is affected by the auditor's understanding of the control environment. An effective control environment may allow the auditor to have more confidence in internal control and the reliability of audit evidence generated internally within the entity and thus, for example, allow the auditor to conduct some audit procedures at an interim date rather than at the period end. Deficiencies in the control environment, however, have the opposite effect; for example, the auditor may respond to an ineffective control environment by:
 - Conducting more audit procedures as of the period end rather than at an interim date.
 - Obtaining more extensive audit evidence from substantive procedures.
 - Increasing the number of locations to be included in the audit scope.
- A3. Such considerations, therefore, have a significant bearing on the auditor's general approach, for example, an emphasis on substantive procedures (substantive approach), or an approach that uses tests of controls as well as substantive procedures (combined approach).

HKSA 610 (Revised)
Revised July 2012, December 2012

Effective for audits of financial statements
for periods ending on or after 15 December 2013

Hong Kong Standard on Auditing 610 (Revised)

Using the Work of Internal Auditors

Conforming Amendments to Other HKSAs



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Requirements

Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used

Evaluating the Internal Audit Function

13. The external auditor shall determine whether the work of the internal audit function can be used for purposes of the audit by evaluating the following:
 - (a) The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors; (Ref: Para. A5–A9)
 - (b) The level of competence of the internal audit function; and (Ref: Para. A5–A9)
 - (c) Whether the internal audit function applies a systematic and disciplined approach, including quality control. (Ref: Para. A10–A11)
14. The external auditor shall not use the work of the internal audit function if the external auditor determines that:
 - (a) The function's organizational status and relevant policies and procedures do not adequately support the objectivity of internal auditors;
 - (b) The function lacks sufficient competence; or
 - (c) The function does not apply a systematic and disciplined approach, including quality control. (Ref: Para. A12–A14)

Determining the Nature and Extent of Work of the Internal Audit Function that Can Be Used

15. As a basis for determining the areas and the extent to which the work of the internal audit function can be used, the external auditor shall consider the nature and scope of the work that has been performed, or is planned to be performed, by the internal audit function and its relevance to the external auditor's overall audit strategy and audit plan. (Ref: Para. A15–A17)
16. The external auditor shall make all significant judgments in the audit engagement and, to prevent undue use of the work of the internal audit function, shall plan to use less of the work of the function and perform more of the work directly: (Ref: Para. A15–A17)
 - (a) The more judgment is involved in:
 - (i) Planning and performing relevant audit procedures; and
 - (ii) Evaluating the audit evidence gathered; (Ref: Para. A18–A19)
 - (b) The higher the assessed risk of material misstatement at the assertion level, with special consideration given to risks identified as significant; (Ref: Para. A20–A22)
 - (c) The less the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors; and
 - (d) The lower the level of competence of the internal audit function.

A17. The external auditor's determination of the planned nature and extent of use of the work of the internal audit function will be influenced by the external auditor's evaluation of the extent to which the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors and the level of competence of the internal audit function in paragraph 16 of this HKSA. In addition, the amount of judgment needed in planning, performing and evaluating such work and the assessed risk of material misstatement at the assertion level are inputs to the external auditor's determination. Further, there are circumstances in which the external auditor cannot use the work of the internal audit function for purpose of the audit as described in paragraph 14 of this HKSA.

Judgments in planning and performing audit procedures and evaluating results (Ref: Para. 16(a))

A18. The greater the judgment needed to be exercised in planning and performing the audit procedures and evaluating the audit evidence, the external auditor will need to perform more procedures directly in accordance with paragraph 16 of this HKSA, because using the work of the internal audit function alone will not provide the external auditor with sufficient appropriate audit evidence.

A19. Since the external auditor has sole responsibility for the audit opinion expressed, the external auditor needs to make the significant judgments in the audit engagement in accordance with paragraph 16. Significant judgments include the following:

- Assessing the risks of material misstatement;
- Evaluating the sufficiency of tests performed;
- Evaluating the appropriateness of management's use of the going concern assumption;
- Evaluating significant accounting estimates; and
- Evaluating the adequacy of disclosures in the financial statements, and other matters affecting the auditor's report.

Assessed risk of material misstatement (Ref: Para. 16(b))

A20. For a particular account balance, class of transaction or disclosure, the higher an assessed risk of material misstatement at the assertion level, the more judgment is often involved in planning and performing the audit procedures and evaluating the results thereof. In such circumstances, the external auditor will need to perform more procedures directly in accordance with paragraph 16 of this HKSA, and accordingly, make less use of the work of the internal audit function in obtaining sufficient appropriate audit evidence. Furthermore, as explained in HKSA 200,¹⁷ the higher the assessed risks of material misstatement, the more persuasive the audit evidence required by the external auditor will need to be, and, therefore, the external auditor will need to perform more of the work directly.

A21. As explained in HKSA 315 (Revised),¹⁸ significant risks require special audit consideration and therefore the external auditor's ability to use the work of the internal audit function in relation to significant risks will be restricted to procedures that involve limited judgment. In addition, where the risk of material misstatement is other than low, the use of the work of the internal audit function alone is unlikely to reduce audit risk to an acceptably low level and eliminate the need for the external auditor to perform some tests directly.

¹⁷ HKSA 200, paragraph A29

¹⁸ HKSA 315 (Revised), paragraph 4(e)

Appendix 2

Examples of Matters about Which the Group Engagement Team Obtains an Understanding

The examples provided cover a broad range of matters; however, not all matters are relevant to every group audit engagement and the list of examples is not necessarily complete.

Group-Wide Controls

1. Group-wide controls may include a combination of the following:
 - ...
 - Monitoring of controls, including activities of the internal audit function and self-assessment programs.
 - ...
2. The internal audit function may be regarded as part of group-wide controls, for example, when the ~~internal audit function~~ is centralized. HKSA 610 (Revised)¹ deals with the group engagement team's evaluation of ~~the~~ whether the internal audit function's organizational status and relevant policies and procedures adequately supports the competence and objectivity of the internal auditors, the level of competence of the internal audit function, and whether the function applies a systematic and disciplined approach where the group engagement team expects it plans to use their the function's work.

Appendix 5

Required and Additional Matters Included in the Group Engagement Team's Letter of Instruction

Matters that are relevant to the conduct of the work of the component auditor:

- ...
- The findings of the internal audit function, based on work performed on controls at or relevant to components

¹ HKSA 610 (Revised), *Using the Work of Internal Auditors*, paragraphs 16-17~~49~~

Effective upon issue

Hong Kong Standard on Review Engagements 2400

Engagements to Review Financial Statements

1. HKSRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued in March 2007 gave rise to conforming amendments to HKSRE 2400. These amendments are effective for reviews of financial statements for periods beginning on or after 15 December 2006 unless HKSRE 2410 is early adopted. Early adoption of HKSRE 2410 is permissible. The amendments have been incorporated in the text of this HKSRE.

For reporting purposes under the Main Board Listing Rules and GEM Listing Rules of the Stock Exchange of Hong Kong Limited, practitioners who are not the auditor of the entity and are performing a review in accordance with HKSRE 2400 may refer to the example review reports set out in HKSRE 2410.

2. Paragraph 2 is revised on March 2008 (marked-up) to provide further clarification that HKSRE 2400 is directed towards the review of financial statements. However, it is to be applied, adapted as necessary in the circumstances, to engagements to review other historical financial information. Early adoption is permissible.
3. HKSRE 2400 is applicable for reviews of financial statements for periods ending before 31 December 2013. HKSRE 2400 (Revised) is applicable for reviews of financial statements for periods ending on or after 31 December 2013.



HKSRE 2400 (Revised)
Issued December 2012

Hong Kong Standard on Review Engagements 2400 (Revised)

Engagements to Review Historical Financial Statements



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HONG KONG STANDARD ON REVIEW ENGAGEMENTS 2400 (REVISED)

ENGAGEMENTS TO REVIEW HISTORICAL FINANCIAL STATEMENTS

(Effective for reviews of financial statements for periods ending on or after 31 December 2013)

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Hong Kong Standard on Review Engagements (HKSRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*, should be read in conjunction with the *Preface to the Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*.

Introduction

Scope of this HKSRE

1. This Hong Kong Standard on Review Engagements (HKSRE) deals with: (Ref: Para. A1)
 - (a) The practitioner's responsibilities when engaged to perform a review of historical financial statements, when the practitioner is not the auditor of the entity's financial statements; and
 - (b) The form and content of the practitioner's report on the financial statements.
2. This HKSRE does not address a review of an entity's financial statements or interim financial information performed by a practitioner who is the independent auditor of the entity's financial statements. (Ref: Para. A2)
3. This HKSRE is to be applied, adapted as necessary, to reviews of other historical financial information. Limited assurance engagements other than reviews of historical financial information are performed under HKSAE 3000.¹

Relationship with HKSQC 1²

4. Quality control systems, policies and procedures are the responsibility of the firm. HKSQC 1 applies to firms of professional accountants in respect of a firm's engagements to review financial statements.³ The provisions of this HKSRE regarding quality control at the level of individual review engagements are premised on the basis that the firm is subject to HKSQC 1 or requirements that are at least as demanding. (Ref: Para. A3–A5)

The Engagement to Review Historical Financial Statements

5. The review of historical financial statements is a limited assurance engagement, as described in the *Hong Kong Framework for Assurance Engagements* (the Assurance Framework).⁴ (Ref: Para. A6–A7)
6. In a review of financial statements, the practitioner expresses a conclusion that is designed to enhance the degree of confidence of intended users regarding the preparation of an entity's financial statements in accordance with an applicable financial reporting framework. The practitioner's conclusion is based on the practitioner obtaining limited assurance. The practitioner's report includes a description of the nature of a review engagement as context for the readers of the report to be able to understand the conclusion.
7. The practitioner performs primarily inquiry and analytical procedures to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, expressed in accordance with the requirements of this HKSRE.

¹ Hong Kong Standard on Assurance Engagements (HKSAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

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

³ HKSQC 1, paragraph 4

⁴ Assurance Framework, paragraphs 7 and 11

8. If the practitioner becomes aware of a matter that causes the practitioner to believe the financial statements may be materially misstated, the practitioner designs and performs additional procedures, as the practitioner considers necessary in the circumstances, to be able to conclude on the financial statements in accordance with this HKSRE.

Authority of this HKSRE

9. This HKSRE contains the objectives of the practitioner in following the HKSRE which provide the context in which the requirements of this HKSRE are set, and are intended to assist the practitioner in understanding what needs to be accomplished in a review engagement.
10. The HKSRE contains requirements, expressed using "shall," that are designed to enable the practitioner to meet the stated objectives.
11. In addition, this HKSRE contains introductory material, definitions, and application and other explanatory material, that provide context relevant to a proper understanding of the HKSRE.
12. The application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. While such guidance does not itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this HKSRE that assists in the application of the requirements.

Effective Date

13. This HKSRE is effective for reviews of financial statements for periods ending on or after 31 December 2013.

Objectives

14. The practitioner's objectives in a review of financial statements under this HKSRE are to:
 - (a) Obtain limited assurance, primarily by performing inquiry and analytical procedures, about whether the financial statements as a whole are free from material misstatement, thereby enabling the practitioner to express a conclusion on whether anything has come to the practitioner's attention that causes the practitioner to believe the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework; and
 - (b) Report on the financial statements as a whole and communicate, as required by this HKSRE.
15. In all cases when limited assurance cannot be obtained and a qualified conclusion in the practitioner's report is insufficient in the circumstances, this HKSRE requires that the practitioner either disclaim a conclusion in the report issued for the engagement or, where appropriate, withdraw from the engagement if withdrawal is possible under applicable law or regulation. (Ref. Para. A8–A10, A115–A116)

Definitions

16. The Glossary of Terms⁵ (the Glossary) includes the terms defined in this HKSRE as well as descriptions of other terms used in this HKSRE, to assist in consistent application and interpretation. For example, the terms "management" and "those charged with governance" used throughout this HKSRE are as defined in the Glossary. (Ref: Para. A11–A12)
17. For purposes of this HKSRE, the following terms have the meanings attributed below:
- (a) *Analytical procedures*—Evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.
 - (b) *Engagement risk*—The risk that the practitioner expresses an inappropriate conclusion when the financial statements are materially misstated.
 - (c) *General purpose financial statements*—Financial statements prepared in accordance with a general purpose framework.
 - (d) *General purpose framework*—A financial reporting framework designed to meet the common financial needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework.
 - (e) *Inquiry*—Inquiry consists of seeking information of knowledgeable persons from within or outside the entity.
 - (f) *Limited assurance*—The level of assurance obtained where engagement risk is reduced to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for expressing a conclusion in accordance with this HKSRE. The combination of the nature, timing and extent of evidence gathering procedures is at least sufficient for the practitioner to obtain a meaningful level of assurance. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the financial statements. (Ref: Para. A13)
 - (g) *Practitioner*—A professional accountant in public practice. The term includes the engagement partner or other members of the engagement team, or, as applicable, the firm. Where this HKSRE expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "practitioner" is used. "Engagement partner" and "firm" are to be read as referring to their public sector equivalents where relevant.
 - (h) *Professional judgment*—The application of relevant training, knowledge and experience, within the context provided by assurance, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the review engagement.

⁵ The Glossary of Terms Relating to Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services issued by the HKICPA

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

Requirements

Conduct of a Review Engagement in Accordance with this HKSRE

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

Complying with Relevant Requirements

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

Ethical Requirements

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

Professional Skepticism and Professional Judgment

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

Engagement Level Quality Control

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

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

Relevant Considerations after Engagement Acceptance

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

Compliance with Relevant Ethical Requirements

27. Throughout the engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action.

Monitoring

28. An effective system of quality control for a firm includes a monitoring process designed to provide the firm with reasonable assurance that the firm's policies and procedures relating to the system of quality control are relevant, adequate and operate effectively. The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the review engagement.

Acceptance and Continuance of Client Relationships and Review Engagements

Factors Affecting Acceptance and Continuance of Client Relationships and Review Engagements

29. Unless required by law or regulation, the practitioner shall not accept a review engagement if: (Ref: Para. A34–A35)
- (a) The practitioner is not satisfied:
 - (i) That there is a rational purpose for the engagement; or (Ref: Para. A36)
 - (ii) That a review engagement would be appropriate in the circumstances; (Ref: Para. A37)
 - (b) The practitioner has reason to believe that relevant ethical requirements, including independence, will not be satisfied;
 - (c) The practitioner's preliminary understanding of the engagement circumstances indicates that information needed to perform the review engagement is likely to be unavailable or unreliable; (Ref: Para. A38)
 - (d) The practitioner has cause to doubt management's integrity such that it is likely to affect proper performance of the review; or (Ref: Para. A37(b))
 - (e) Management or those charged with governance impose a limitation on the scope of the practitioner's work in the terms of a proposed review engagement such that the practitioner believes the limitation will result in the practitioner disclaiming a conclusion on the financial statements.

Preconditions for Accepting a Review Engagement

30. Prior to accepting a review engagement, the practitioner shall: (Ref: Para. A39)
- (a) Determine whether the financial reporting framework applied in the preparation of the financial statements is acceptable including, in the case of special purpose financial statements, obtaining an understanding of the purpose for which the financial statements are prepared and of the intended users; and (Ref: Para. A40–A46)
 - (b) Obtain the agreement of management that it acknowledges and understands its responsibilities: (Ref: Para. A47–A50)
 - (i) For preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation;
 - (ii) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and

- (iii) To provide the practitioner with:
 - a. Access to all information of which management is aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - b. Additional information that the practitioner may request from management for the purpose of the review; and
 - c. Unrestricted access to persons within the entity from whom the practitioner determines it necessary to obtain evidence.
31. If the practitioner is not satisfied as to any of the matters set out above as preconditions for accepting a review engagement, the practitioner shall discuss the matter with management or those charged with governance. If changes cannot be made to satisfy the practitioner as to those matters, the practitioner shall not accept the proposed engagement unless required by law or regulation to do so. However, an engagement conducted under such circumstances does not comply with this HKSRE. Accordingly, the practitioner shall not include any reference within the practitioner's report to the review having been conducted in accordance with this HKSRE.
32. If it is discovered after the engagement has been accepted that the practitioner is not satisfied as to any of the above preconditions, the practitioner shall discuss the matter with management or those charged with governance, and shall determine:
- (a) Whether the matter can be resolved;
 - (b) Whether it is appropriate to continue with the engagement; and
 - (c) Whether and, if so, how to communicate the matter in the practitioner's report.

Additional Considerations When the Wording of the Practitioner's Report Is Prescribed by Law or Regulation

33. The practitioner's report issued for the review engagement shall refer to this HKSRE only if the report complies with the requirements of paragraph 86.
34. In some cases, when the review is performed pursuant to applicable law or regulation of a jurisdiction, the relevant law or regulation may prescribe the layout or wording of the practitioner's report in a form or in terms that are significantly different from the requirements of this HKSRE. In those circumstances, the practitioner shall evaluate whether users might misunderstand the assurance obtained from the review of the financial statements and, if so, whether additional explanation in the practitioner's report can mitigate possible misunderstanding. (Ref: Para. A51, A142)
35. If the practitioner concludes that additional explanation in the practitioner's report cannot mitigate possible misunderstanding, the practitioner shall not accept the review engagement unless required by law or regulation to do so. A review conducted in accordance with such law or regulation does not comply with this HKSRE. Accordingly, the practitioner shall not include any reference within the practitioner's report to the review having been conducted in accordance with this HKSRE. (Ref: Para. A51, A142)

Agreeing the Terms of Engagement

36. The practitioner shall agree the terms of the engagement with management or those charged with governance, as appropriate, prior to performing the engagement.
37. The agreed terms of engagement shall be recorded in an engagement letter or other suitable form of written agreement, and shall include: (Ref: Para. A52–A54, A56)
 - (a) The intended use and distribution of the financial statements, and any restrictions on use or distribution where applicable;
 - (b) Identification of the applicable financial reporting framework;
 - (c) The objective and scope of the review engagement;
 - (d) The responsibilities of the practitioner;
 - (e) The responsibilities of management, including those in paragraph 30(b); (Ref: Para. A47–A50, A55)
 - (f) A statement that the engagement is not an audit, and that the practitioner will not express an audit opinion on the financial statements; and
 - (g) Reference to the expected form and content of the report to be issued by the practitioner, and a statement that there may be circumstances in which the report may differ from its expected form and content.

Recurring Engagements

38. On recurring review engagements, the practitioner shall evaluate whether circumstances, including changes in the engagement acceptance considerations, require the terms of engagement to be revised and whether there is a need to remind management or those charged with governance, as appropriate, of the existing terms of engagement. (Ref: Para. A57)

Acceptance of a Change in the Terms of the Review Engagement

39. The practitioner shall not agree to a change in the terms of the engagement where there is no reasonable justification for doing so. (Ref: Para. A58–A60)
40. If, prior to completing the review engagement, the practitioner is requested to change the engagement to an engagement for which no assurance is obtained, the practitioner shall determine whether there is reasonable justification for doing so. (Ref: Para. A61–A62)
41. If the terms of engagement are changed during the course of the engagement, the practitioner and management or those charged with governance, as appropriate, shall agree on and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.

Communication with Management and Those Charged with Governance

42. The practitioner shall communicate with management or those charged with governance, as appropriate, on a timely basis during the course of the review engagement, all matters concerning the review engagement that, in the practitioner's professional judgment, are of sufficient importance to merit the attention of management or those charged with governance, as appropriate. (Ref: Para. A63–A69)

Performing the Engagement

Materiality in a Review of Financial Statements

43. The practitioner shall determine materiality for the financial statements as a whole, and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures. (Ref: Para. A70–A73)
44. The practitioner shall revise materiality for the financial statements as a whole in the event of becoming aware of information during the review that would have caused the practitioner to have determined a different amount initially. (Ref. Para. A74)

The Practitioner's Understanding

45. The practitioner shall obtain an understanding of the entity and its environment, and the applicable financial reporting framework, to identify areas in the financial statements where material misstatements are likely to arise and thereby provide a basis for designing procedures to address those areas. (Ref: Para. A75–A77)
46. The practitioner's understanding shall include the following: (Ref: Para. A78, A87, A89)
 - (a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework;
 - (b) The nature of the entity, including:
 - (i) Its operations;
 - (ii) Its ownership and governance structure;
 - (iii) The types of investments that the entity is making and plans to make;
 - (iv) The way that the entity is structured and how it is financed; and
 - (v) The entity's objectives and strategies;
 - (c) The entity's accounting systems and accounting records; and
 - (d) The entity's selection and application of accounting policies.

Designing and Performing Procedures

47. In obtaining sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, the practitioner shall design and perform inquiry and analytical procedures: (Ref: Para. A79–A83, A87, A89)
 - (a) To address all material items in the financial statements, including disclosures; and
 - (b) To focus on addressing areas in the financial statements where material misstatements are likely to arise.

48. The practitioner's inquiries of management and others within the entity, as appropriate, shall include the following: (Ref: Para. A84–A87)
- (a) How management makes the significant accounting estimates required under the applicable financial reporting framework;
 - (b) The identification of related parties and related party transactions, including the purpose of those transactions;
 - (c) Whether there are significant, unusual or complex transactions, events or matters that have affected or may affect the entity's financial statements, including:
 - (i) Significant changes in the entity's business activities or operations;
 - (ii) Significant changes to the terms of contracts that materially affect the entity's financial statements, including terms of finance and debt contracts or covenants;
 - (iii) Significant journal entries or other adjustments to the financial statements;
 - (iv) Significant transactions occurring or recognized near the end of the reporting period;
 - (v) The status of any uncorrected misstatements identified during previous engagements; and
 - (vi) Effects or possible implications for the entity of transactions or relationships with related parties;
 - (d) The existence of any actual, suspected or alleged:
 - (i) Fraud or illegal acts affecting the entity; and
 - (ii) Non-compliance with provisions of laws and regulations that are generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements, such as tax and pension laws and regulations;
 - (e) Whether management has identified and addressed events occurring between the date of the financial statements and the date of the practitioner's report that require adjustment of, or disclosure in, the financial statements;
 - (f) The basis for management's assessment of the entity's ability to continue as a going concern; (Ref: Para. A88)
 - (g) Whether there are events or conditions that appear to cast doubt on the entity's ability to continue as a going concern;
 - (h) Material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements, including disclosures; and
 - (i) Material non-monetary transactions or transactions for no consideration in the financial reporting period under consideration.
49. In designing analytical procedures, the practitioner shall consider whether the data from the entity's accounting system and accounting records are adequate for the purpose of performing the analytical procedures. (Ref: Para. A89–A91)

Procedures to Address Specific Circumstances

Related parties

50. During the review, the practitioner shall remain alert for arrangements or information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the practitioner.
51. If the practitioner identifies significant transactions outside the entity's normal course of business in the course of performing the review, the practitioner shall inquire of management about:
 - (a) The nature of those transactions;
 - (b) Whether related parties could be involved; and
 - (c) The business rationale (or lack thereof) of those transactions.

Fraud and non-compliance with laws or regulations

52. When there is an indication that fraud or non-compliance with laws or regulations, or suspected fraud or non-compliance with laws or regulations, has occurred in the entity, the practitioner shall:
 - (a) Communicate that matter to the appropriate level of senior management or those charged with governance as appropriate;
 - (b) Request management's assessment of the effect(s), if any, on the financial statements;
 - (c) Consider the effect, if any, of management's assessment of the effects of fraud or non-compliance with laws or regulations communicated to the practitioner on the practitioner's conclusion on the financial statements and on the practitioner's report; and
 - (d) Determine whether there is a responsibility to report the occurrence or suspicion of fraud or illegal acts to a party outside the entity. (Ref: Para. A92)

Going concern

53. A review of financial statements includes consideration of the entity's ability to continue as a going concern. In considering management's assessment of the entity's ability to continue as a going concern, the practitioner shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation where a longer period is specified.
54. If, during the performance of the review, the practitioner becomes aware of events or conditions that may cast significant doubt about the entity's ability to continue as a going concern, the practitioner shall: (Ref: Para. A93)
 - (a) Inquire of management about plans for future actions affecting the entity's ability to continue as a going concern and about the feasibility of those plans, and also whether management believes the outcome of those plans will improve the situation regarding the entity's ability to continue as a going concern;

- (b) Evaluate the results of those inquiries, to consider whether management's responses provide a sufficient basis to:
 - (i) Continue to present the financial statements on the going concern basis if the applicable financial reporting framework includes the assumption of an entity's continuance as a going concern; or
 - (ii) Conclude whether the financial statements are materially misstated, or are otherwise misleading regarding the entity's ability to continue as a going concern; and
- (c) Consider management's responses in light of all relevant information of which the practitioner is aware as a result of the review.

Use of work performed by others

55. In performing the review, it may be necessary for the practitioner to use work performed by other practitioners, or the work of an individual or organization possessing expertise in a field other than accounting or assurance. If the practitioner uses work performed by another practitioner or an expert in the course of performing the review, the practitioner shall take appropriate steps to be satisfied that the work performed is adequate for the practitioner's purposes. (Ref: Para. A80)

Reconciling the Financial Statements to the Underlying Accounting Records

56. The practitioner shall obtain evidence that the financial statements agree with, or reconcile to, the entity's underlying accounting records. (Ref: Para. A94)

Additional Procedures When the Practitioner Becomes Aware that the Financial Statements May Be Materially Misstated

57. If the practitioner becomes aware of a matter(s) that causes the practitioner to believe the financial statements may be materially misstated, the practitioner shall design and perform additional procedures sufficient to enable the practitioner to: (Ref: Para. A95–A99)
- (a) Conclude that the matter(s) is not likely to cause the financial statements as a whole to be materially misstated; or
 - (b) Determine that the matter(s) causes the financial statements as a whole to be materially misstated.

Subsequent Events

58. If the practitioner becomes aware of events occurring between the date of the financial statements and the date of the practitioner's report that require adjustment of, or disclosure in, the financial statements, the practitioner shall request management to correct those misstatements.
59. The practitioner has no obligation to perform any procedures regarding the financial statements after the date of the practitioner's report. However, if, after the date of the practitioner's report but before the date the financial statements are issued, a fact becomes known to the practitioner that, had it been known to the practitioner at the date of the practitioner's report, may have caused the practitioner to amend the report, the practitioner shall:

- (a) Discuss the matter with management or those charged with governance, as appropriate;
 - (b) Determine whether the financial statements need amendment; and
 - (c) If so, inquire how management intends to address the matter in the financial statements.
60. If management does not amend the financial statements in circumstances where the practitioner believes they need to be amended, and the practitioner's report has already been provided to the entity, the practitioner shall notify management and those charged with governance not to issue the financial statements to third parties before the necessary amendments have been made. If the financial statements are nevertheless subsequently issued without the necessary amendments, the practitioner shall take appropriate action to seek to prevent reliance on the practitioner's report.

Written Representations

61. The practitioner shall request management to provide a written representation that management has fulfilled its responsibilities described in the agreed terms of engagement. The written representation shall include that: (Ref: Para. A100–A102)
- (a) Management has fulfilled its responsibility for the preparation of financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, and has provided the practitioner with all relevant information and access to information as agreed in the terms of the engagement; and
 - (b) All transactions have been recorded and are reflected in the financial statements.
- If law or regulation requires management to make written public statements about its responsibilities, and the practitioner determines that such statements provide some or all of the representations required by subparagraphs (a)–(b), the relevant matters covered by such statements need not be included in the written representation.
62. The practitioner shall also request management's written representations that management has disclosed to the practitioner: (Ref: Para. A101)
- (a) The identity of the entity's related parties and all the related party relationships and transactions of which management is aware;
 - (b) Significant facts relating to any frauds or suspected frauds known to management that may have affected the entity;
 - (c) Known actual or possible non-compliance with laws and regulations for which the effects of non-compliance affect the entity's financial statements;
 - (d) All information relevant to use of the going concern assumption in the financial statements;
 - (e) That all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure, have been adjusted or disclosed;

- (f) Material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements, including disclosures; and
 - (g) Material non-monetary transactions or transactions for no consideration undertaken by the entity in the financial reporting period under consideration.
63. If management does not provide one or more of the requested written representations, the practitioner shall: (Ref: Para. A100)
- (a) Discuss the matter with management and those charged with governance, as appropriate;
 - (b) Re-evaluate the integrity of management, and evaluate the effect that this may have on the reliability of representations (oral or written) and evidence in general; and
 - (c) Take appropriate actions, including determining the possible effect on the conclusion in the practitioner's report in accordance with this HKSRE.
64. The practitioner shall disclaim a conclusion on the financial statements, or withdraw from the engagement if withdrawal is possible under applicable law or regulation, as appropriate, if:
- (a) The practitioner concludes that there is sufficient doubt about the integrity of management such that the written representations are not reliable; or
 - (b) Management does not provide the required representations required by paragraph 61.

Date of and Period(s) Covered by Written Representations

65. The date of the written representations shall be as near as practicable to, but not after, the date of the practitioner's report. The written representations shall be for all financial statements and period(s) referred to in the practitioner's report.

Evaluating Evidence Obtained from the Procedures Performed

66. The practitioner shall evaluate whether sufficient appropriate evidence has been obtained from the procedures performed and, if not, the practitioner shall perform other procedures judged by the practitioner to be necessary in the circumstances to be able to form a conclusion on the financial statements. (Ref: Para. A103)
67. If the practitioner is not able to obtain sufficient appropriate evidence to form a conclusion, the practitioner shall discuss with management and those charged with governance, as appropriate, the effects such limitations have on the scope of the review. (Ref: Para. A104–A105)

Evaluating the Effect on the Practitioner's Report

68. The practitioner shall evaluate the evidence obtained from the procedures performed to determine the effect on the practitioner's report. (Ref: Para. A103)

Forming the Practitioner's Conclusion on the Financial Statements

Consideration of the Applicable Financial Reporting Framework in Relation to the Financial Statements

69. In forming the conclusion on the financial statements, the practitioner shall:
- (a) Evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework; (Ref: Para. A106–A107)
 - (b) Consider whether, in the context of the requirements of the applicable financial reporting framework and the results of procedures performed:
 - (i) The terminology used in the financial statements, including the title of each financial statement, is appropriate;
 - (ii) The financial statements adequately disclose the significant accounting policies selected and applied;
 - (iii) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
 - (iv) Accounting estimates made by management appear reasonable;
 - (v) The information presented in the financial statements appears relevant, reliable, comparable, and understandable; and
 - (vi) The financial statements provide adequate disclosures to enable the intended users to understand the effects of material transactions and events on the information conveyed in the financial statements. (Ref: Para. A108–A110)
70. The practitioner shall consider the impact of:
- (a) Uncorrected misstatements identified during the review, and in the previous year's review of the entity's financial statements, on the financial statements as a whole; and
 - (b) Qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. (Ref: Para. A111–A112)
71. If the financial statements are prepared using a fair presentation framework, the practitioner's consideration shall also include: (Ref: Para. A109)
- (a) The overall presentation, structure and content of the financial statements in accordance with the applicable framework; and
 - (b) Whether the financial statements, including the related notes, appear to represent the underlying transactions and events in a manner that achieves fair presentation or gives a true and fair view, as appropriate, in the context of the financial statements as a whole.

Form of the Conclusion

72. The practitioner's conclusion on the financial statements, whether unmodified or modified, shall be expressed in the appropriate form in the context of the financial reporting framework applied in the financial statements.

Unmodified Conclusion

73. The practitioner shall express an unmodified conclusion in the practitioner's report on the financial statements as a whole when the practitioner has obtained limited assurance to be able to conclude that nothing has come to the practitioner's attention that causes the practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework.
74. When the practitioner expresses an unmodified conclusion, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate: (Ref: Para. A113-A114)
- (a) "Based on our review, nothing has come to our attention that causes us to believe that the financial statements do not present fairly, in all material respects (or do not give a true and fair view), in accordance with the applicable financial reporting framework," (for financial statements prepared using a fair presentation framework); or
 - (b) "Based on our review, nothing has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework," (for financial statements prepared using a compliance framework).

Modified Conclusion

75. The practitioner shall express a modified conclusion in the practitioner's report on the financial statements as a whole when:
- (a) The practitioner determines, based on the procedures performed and the evidence obtained, that the financial statements are materially misstated; or
 - (b) The practitioner is unable to obtain sufficient appropriate evidence in relation to one or more items in the financial statements that are material in relation to the financial statements as a whole.
76. When the practitioner modifies the conclusion expressed on the financial statements, the practitioner shall:
- (a) Use the heading "Qualified Conclusion," "Adverse Conclusion" or "Disclaimer of Conclusion," as appropriate, for the conclusion paragraph in the practitioner's report; and
 - (b) Provide a description of the matter giving rise to the modification, under an appropriate heading (for example, "Basis for Qualified Conclusion," "Basis for Adverse Conclusion" or "Basis for Disclaimer of Conclusion," as appropriate), in a separate paragraph in the practitioner's report immediately before the conclusion paragraph (referred to as the basis for conclusion paragraph).

Financial statements are materially misstated

77. If the practitioner determines that the financial statements are materially misstated, the practitioner shall express:
- (a) A qualified conclusion, when the practitioner concludes that the effects of the matter(s) giving rise to the modification are material, but not pervasive to the financial statements; or
 - (b) An adverse conclusion, when the effects of the matter(s) giving rise to the modification are both material and pervasive to the financial statements.
78. When the practitioner expresses a qualified conclusion on the financial statements because of a material misstatement, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate:
- (a) "Based on our review, except for the effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements do not present fairly, in all material respects (or do not give a true and fair view), ... in accordance with the applicable financial reporting framework," (for financial statements prepared using a fair presentation framework); or
 - (b) "Based on our review, except for the effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework," (for financial statements prepared using a compliance framework).
79. When the practitioner expresses an adverse conclusion on the financial statements, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate:
- (a) "Based on our review, due to the significance of the matter(s) described in the Basis for Adverse Conclusion paragraph, the financial statements do not present fairly, in all material respects (or do not give a true and fair view), ... in accordance with the applicable financial reporting framework," (for financial statements prepared using a fair presentation framework); or
 - (b) "Based on our review, due to the significance of the matter(s) described in the Basis for Adverse Conclusion paragraph, the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework," (for financial statements prepared using a compliance framework).
80. In the basis for conclusion paragraph, in relation to material misstatements that give rise to either a qualified conclusion or an adverse conclusion, the practitioner shall:
- (a) Describe and quantify the financial effects of the misstatement if the material misstatement relates to specific amounts in the financial statements (including quantitative disclosures), unless impracticable, in which case the practitioner shall so state;
 - (b) Explain how disclosures are misstated if the material misstatement relates to narrative disclosures; or

- (c) Describe the nature of omitted information if the material misstatement relates to the non-disclosure of information required to be disclosed. Unless prohibited by law or regulation, the practitioner shall include the omitted disclosures where practicable to do so.

Inability to obtain sufficient appropriate evidence

- 81. If the practitioner is unable to form a conclusion on the financial statements due to inability to obtain sufficient appropriate evidence, the practitioner shall:
 - (a) Express a qualified conclusion if the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive; or
 - (b) Disclaim a conclusion if the practitioner concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.
- 82. The practitioner shall withdraw from the engagement if the following conditions are present: (Ref: Para. A115–A117)
 - (a) Due to a limitation on the scope of the review imposed by management after the practitioner has accepted the engagement, the practitioner is unable to obtain sufficient appropriate evidence to form a conclusion on the financial statements;
 - (b) The practitioner has determined that the possible effects on the financial statements of undetected misstatements are material and pervasive; and
 - (c) Withdrawal is possible under applicable law or regulation.
- 83. When the practitioner expresses a qualified conclusion on the financial statements due to inability to obtain sufficient appropriate evidence, the practitioner shall, unless otherwise required by law or regulation, use one of the following phrases, as appropriate:
 - (a) "Based on our review, except for the possible effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements do not present fairly, in all material respects (or do not give a true and fair view), ... in accordance with the applicable financial reporting framework," (for financial statements prepared using a fair presentation framework); or
 - (b) "Based on our review, except for the possible effects of the matter(s) described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework," (for financial statements prepared using a compliance framework).
- 84. When disclaiming a conclusion on the financial statements the practitioner shall state in the conclusion paragraph that:
 - (a) Due to the significance of the matter(s) described in the Basis for Disclaimer of Conclusion paragraph, the practitioner is unable to obtain sufficient appropriate evidence to form a conclusion on the financial statements; and
 - (b) Accordingly, the practitioner does not express a conclusion on the financial statements.

85. In the basis for conclusion paragraph, in relation to either the qualified conclusion due to inability to obtain sufficient appropriate evidence or when the practitioner disclaims a conclusion, the practitioner shall include the reason(s) for the inability to obtain sufficient appropriate evidence.

The Practitioner's Report

86. The practitioner's report for the review engagement shall be in writing, and shall contain the following elements: (Ref: Para. A118–A121, A142, A144)
- (a) A title, which shall clearly indicate that it is the report of an independent practitioner for a review engagement;
 - (b) The addressee(s), as required by the circumstances of the engagement;
 - (c) An introductory paragraph that:
 - (i) Identifies the financial statements reviewed, including identification of the title of each of the statements contained in the set of financial statements and the date and period covered by each financial statement;
 - (ii) Refers to the summary of significant accounting policies and other explanatory information; and
 - (iii) States that the financial statements have been reviewed;
 - (d) A description of the responsibility of management for the preparation of the financial statements, including an explanation that management is responsible for: (Ref: Para. A122–A125)
 - (i) Their preparation in accordance with the applicable financial reporting framework including, where relevant, their fair presentation;
 - (ii) Such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
 - (e) If the financial statements are special purpose financial statements:
 - (i) A description of the purpose for which the financial statements are prepared and, if necessary, the intended users, or reference to a note in the special purpose financial statements that contains that information; and
 - (ii) If management has a choice of financial reporting frameworks in the preparation of such financial statements, a reference within the explanation of management's responsibility for the financial statements to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances;
 - (f) A description of the practitioner's responsibility to express a conclusion on the financial statements including reference to this HKSRE and, where relevant, applicable law or regulation; (Ref: Para. A126–127, A143)

- (g) A description of a review of financial statements and its limitations, and the following statements: (Ref: Para. A128)
 - (i) A review engagement under this HKSRE is a limited assurance engagement;
 - (ii) The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained; and
 - (iii) The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Hong Kong Standards on Auditing (HKSA), and, accordingly, the practitioner does not express an audit opinion on the financial statements;
- (h) A paragraph under the heading "Conclusion" that contains:
 - (i) The practitioner's conclusion on the financial statements as a whole in accordance with paragraphs 72–85, as appropriate; and
 - (ii) A reference to the applicable financial reporting framework used to prepare the financial statements, including identification of the jurisdiction of origin of the financial reporting framework that is not Hong Kong Financial Reporting Standards or Hong Kong Financial Reporting Standard for Private Entities issued by the Hong Kong Institute of Certified Public Accountants; (Ref: Para. A129–A130)
- (i) When the practitioner's conclusion on the financial statements is modified:
 - (i) A paragraph under the appropriate heading that contains the practitioner's modified conclusion in accordance with paragraphs 72 and 75–85, as appropriate; and
 - (ii) A paragraph, under an appropriate heading, that provides a description of the matter(s) giving rise to the modification; (Ref: Para. A131)
- (j) A reference to the practitioner's obligation under this HKSRE to comply with relevant ethical requirements;
- (k) The date of the practitioner's report; (Ref: Para. A138–A141)
- (l) The practitioner's signature; and (Ref: Para. A132)
- (m) The location in the jurisdiction where the practitioner practices.

Emphasis of Matter and Other Matter Paragraphs in the Practitioner's Report

Emphasis of Matter Paragraphs

87. The practitioner may consider it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the practitioner's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. In such cases, the practitioner shall include an Emphasis of Matter paragraph in the practitioner's report, provided the practitioner has obtained sufficient appropriate evidence to conclude that the matter is not likely to be materially misstated as presented in the financial statements. Such paragraph shall refer only to information presented or disclosed in the financial statements.

88. The practitioner's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the practitioner's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose. (Ref: Para. A133–A134)
89. The practitioner shall include an Emphasis of Matter paragraph immediately after the paragraph that contains the practitioner's conclusion on the financial statements under the heading "Emphasis of Matter," or other appropriate heading.

Other Matter Paragraphs

90. If the practitioner considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the practitioner's judgment, is relevant to users' understanding of the review, the practitioner's responsibilities or the practitioner's report and this is not prohibited by law or regulation, the practitioner shall do so in a paragraph in the practitioner's report with the heading "Other Matter" or other appropriate heading.

Other Reporting Responsibilities

91. A practitioner may be requested to address other reporting responsibilities in the practitioner's report on the financial statements that are in addition to the practitioner's responsibilities under this HKSRE to report on the financial statements. In such situations, those other reporting responsibilities shall be addressed by the practitioner in a separate section in the practitioner's report headed "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section, following the section of the report headed "Report on the Financial Statements." (Ref: Para. A135–A137)

Date of the Practitioner's Report

92. The practitioner shall date the report no earlier than the date on which the practitioner has obtained sufficient appropriate evidence as the basis for the practitioner's conclusion on the financial statements, including being satisfied that: (Ref: Para. A138–A141)
- (a) All the statements that comprise the financial statements under the applicable financial reporting framework, including the related notes where applicable, have been prepared; and
 - (b) Those with the recognized authority have asserted that they have taken responsibility for those financial statements.

Documentation

93. The preparation of documentation for the review provides evidence that the review was performed in accordance with this HKSRE, and legal and regulatory requirements where relevant, and a sufficient and appropriate record of the basis for the practitioner's report. The practitioner shall document the following aspects of the engagement in a timely manner, sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand: (Ref: Para. A145)
- (a) The nature, timing, and extent of the procedures performed to comply with this HKSRE and applicable legal and regulatory requirements;

- (b) Results obtained from the procedures, and the practitioner's conclusions formed on the basis of those results; and
 - (c) Significant matters arising during the engagement, the practitioner's conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
94. In documenting the nature, timing and extent of procedures performed as required in this HKSRE, the practitioner shall record:
- (a) Who performed the work and the date such work was completed; and
 - (b) Who reviewed the work performed for the purpose of quality control for the engagement, and the date and extent of the review.
95. The practitioner shall also document discussions with management, those charged with governance, and others as relevant to the performance of the review of significant matters arising during the engagement, including the nature of those matters.
96. If, in the course of the engagement, the practitioner identified information that is inconsistent with the practitioner's findings regarding significant matters affecting the financial statements, the practitioner shall document how the inconsistency was addressed.

Conformity and Compliance with International Standards on Review Engagements

97. As of December 2012 (*date of issue*), this HKSRE conforms with International Standard on Review Engagements (ISRE) 2400 (Revised), "Engagements to Review Historical Financial Statements" except that a reference to the IESBA's Code of Ethics for Professional Accountants is replaced by the HKICPA's Code of Ethics for Professional Accountants. With the exception of the foregoing difference, compliance with the requirements of this HKSRE ensures compliance with ISRE 2400 (Revised).
98. Additional local guidance is provided in footnote 10a of Appendix 1 and footnotes 17a, 19a, 21a, 24a, 26a, 27a and 28a of Appendix 2.

Application and Other Explanatory Material

Scope of this HKSRE (Ref: Para. 1–2)

- A1. In performing a review of financial statements, the practitioner may be required to comply with legal or regulatory requirements, which may differ from the requirements established in this HKSRE. While the practitioner may find aspects of this HKSRE helpful in these circumstances, it is the responsibility of the practitioner to ensure compliance with all relevant legal, regulatory and professional obligations.

Reviews of Financial Information of Components in the Context of an Audit of the Financial Statements of a Group of Entities

- A2. Review engagements in accordance with this HKSRE may be requested for component entities by the auditor of the financial statements of a group of entities.⁶ Such a review engagement performed in accordance with this HKSRE may be accompanied by a request from the group auditor to undertake additional work or procedures as needed in the circumstances of the group audit engagement.

Relationship with HKSQC 1 (Ref: Para. 4)

- A3. HKSQC 1 deals with the firm's responsibilities to establish and maintain its system of quality control for assurance engagements, including review engagements. Those responsibilities are directed at establishing the firm's:
- Quality control system; and
 - Related policies designed to achieve the objective of the quality control system and the firm's procedures to implement and monitor compliance with those policies, including policies and procedures that address each of the following elements:
 - Leadership responsibilities for quality within the firm.
 - Relevant ethical requirements.
 - Acceptance and continuance of client relationships and specific engagements.
 - Human resources.
 - Engagement performance.
 - Monitoring.
- A4. Under HKSQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:
- (a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
 - (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.⁷

⁶ HKSA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph A52

⁷ HKSQC 1, paragraph 11

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

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

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

Objectives (Ref: Para. 15)

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

Definitions (Ref: Para. 16)

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

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

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

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

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

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

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

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

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

Ethical Requirements (Ref: Para. 21)

A15. Part A of the Code establishes the fundamental principles of professional ethics practitioners must comply with, and provides a conceptual framework for applying those principles. The fundamental principles are:

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

Parts B and D of the Code illustrates how the conceptual framework is to be applied in specific situations. In complying with the Code, threats to the practitioner's compliance with relevant ethical requirements are required to be identified and appropriately addressed.

- A16. In the case of an engagement to review financial statements, the Code requires that the practitioner be independent of the entity whose financial statements are reviewed. The Code describes independence as comprising both independence of mind and independence in appearance. The practitioner's independence safeguards the practitioner's ability to form a conclusion without being affected by influences that might otherwise compromise that conclusion. Independence enhances the practitioner's ability to act with integrity, to be objective and to maintain an attitude of professional skepticism.

Professional Skepticism and Professional Judgment

Professional Skepticism (Ref: Para. 22)

- A17. Professional skepticism is necessary for the critical assessment of evidence in a review. This includes questioning inconsistencies and investigating contradictory evidence, and questioning the reliability of responses to inquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of evidence obtained in the light of the engagement circumstances.
- A18. Professional skepticism includes being alert to, for example:
- Evidence that is inconsistent with other evidence obtained.
 - Information that calls into question the reliability of documents and responses to inquiries to be used as evidence.
 - Conditions that may indicate possible fraud.
 - Any other circumstances that suggest the need for additional procedures.
- A19. Maintaining professional skepticism throughout the review is necessary if the practitioner is to reduce the risks of:
- Overlooking unusual circumstances.
 - Over-generalizing when drawing conclusions from evidence obtained.
 - Using inappropriate assumptions in determining the nature, timing, and extent of the procedures performed in the review, and evaluating the results thereof.
- A20. The practitioner cannot be expected to disregard past experience of the honesty and integrity of the entity's management and those charged with governance. Nevertheless, a belief that management and those charged with governance are honest and have integrity does not relieve the practitioner of the need to maintain professional skepticism or allow the practitioner to be satisfied with evidence that is inadequate for the purpose of the review.

Professional Judgment (Ref: Para. 23)

- A21. Professional judgment is essential to the proper conduct of a review engagement. This is because interpretation of relevant ethical requirements and the requirements of this HKSRE, and the need for informed decisions throughout the performance of a review engagement, require the application of relevant knowledge and experience to the facts and circumstances of the engagement. Professional judgment is necessary, in particular:
- Regarding decisions about materiality, and the nature, timing, and extent of procedures used to meet the requirements of this HKSRE, and to gather evidence.

- When evaluating whether the evidence obtained from the procedures performed reduces the engagement risk to a level that is acceptable in the engagement circumstances.
 - When considering management's judgments in applying the entity's applicable financial reporting framework.
 - When forming the conclusion on the financial statements based on the evidence obtained, including considering the reasonableness of the estimates made by management in preparing the financial statements.
- A22. The distinguishing feature of the professional judgment expected of the practitioner is that it is exercised by a practitioner whose training, knowledge and experience, including in the use of assurance skills and techniques, have assisted in developing the necessary competencies to achieve reasonable judgments. Consultation on difficult or contentious matters during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm, assists the practitioner in making informed and reasonable judgments.
- A23. The exercise of professional judgment in individual engagements is based on the facts and circumstances that are known by the practitioner throughout the engagement, including:
- Knowledge acquired from engagements carried out with respect to the entity's financial statements in prior periods, where applicable.
 - The practitioner's understanding of the entity and its environment, including its accounting system, and of the application of the applicable financial reporting framework in the entity's industry.
 - The extent to which the preparation and presentation of the financial statements require the exercise of management judgment.
- A24. Professional judgment can be evaluated based on whether the judgment reached reflects a competent application of assurance and accounting principles, and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the practitioner up to the date of the practitioner's report.
- A25. Professional judgment needs to be exercised throughout the engagement. It also needs to be appropriately documented in accordance with the requirements of this HKSRE. Professional judgment is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement, or the evidence obtained.

Engagement Level Quality Control (Ref: Para. 24–25)

- A26. Assurance skills and techniques include:
- Applying professional skepticism and professional judgment to planning and performing an assurance engagement, including obtaining and evaluating evidence;
 - Understanding information systems and the role and limitations of internal control;
 - Linking the consideration of materiality and engagement risks to the nature, timing and extent of procedures for the review;

- Applying procedures as appropriate to the review engagement, which may include other types of procedures in addition to inquiry and analytical procedures (such as inspection, re-calculation, re-performance, observation and confirmation);
 - Systematic documentation practices; and
 - Application of skills and practices relevant for writing reports for assurance engagements.
- A27. Within the context of the firm's system of quality control, engagement teams have a responsibility to implement quality control procedures applicable to the engagement, and provide the firm with relevant information to enable the functioning of that part of the firm's system of quality control relating to independence.
- A28. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in the context of the engagement partner taking responsibility for the overall quality on each review engagement, emphasize the fact that quality is essential in performing a review engagement, and the importance to the quality of the review engagement of:
- (a) Performing work that complies with professional standards and regulatory and legal requirements.
 - (b) Complying with the firm's quality control policies and procedures as applicable.
 - (c) Issuing a report for the engagement that is appropriate in the circumstances.
 - (d) The engagement team's ability to raise concerns without fear of reprisals.
- A29. Unless information provided by the firm or other parties suggests otherwise, the engagement team is entitled to rely on the firm's system of quality control. For example, the engagement team may rely on the firm's system of quality control in relation to:
- Competence of personnel through their recruitment and formal training.
 - Independence through the accumulation and communication of relevant independence information.
 - Maintenance of client relationships through acceptance and continuance systems.
 - Adherence to regulatory and legal requirements through the monitoring process.
- In considering deficiencies identified in the firm's system of quality control that may affect the review engagement, the engagement partner may consider measures taken by the firm to rectify those deficiencies.
- A30. A deficiency in the firm's system of quality control does not necessarily indicate that a review engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the practitioner's report was not appropriate.

Assignment of Engagement Teams (Ref: Para. 25(b))

- A31. When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement partner may take into consideration such matters as the team's:
- Understanding of, and practical experience with, review engagements of a similar nature and complexity through appropriate training and participation.
 - Understanding of professional standards and applicable legal and regulatory requirements.
 - Technical expertise, including expertise with relevant information technology and specialized areas of accounting or assurance.
 - Knowledge of relevant industries in which the client operates.
 - Ability to apply professional judgment.
 - Understanding of the firm's quality control policies and procedures.

Acceptance and Continuance of Client Relationships and Review Engagements (Ref: Para. 25(d)(i))

- A32. HKSQC 1 requires the firm to obtain information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Information that assists the engagement partner in determining whether acceptance and continuance of client relationships and review engagements are appropriate may include information concerning:
- The integrity of the principal owners, key management and those charged with governance; and
 - Significant matters that have arisen during the current or a previous review engagement, and their implications for continuing the relationship.
- A33. If the engagement partner has cause to doubt management's integrity to a degree that is likely to affect proper performance of the review, it is not appropriate under this HKSRE to accept the engagement, unless required by law or regulation, as doing so may lead to the practitioner being associated with the entity's financial statements in an inappropriate manner.

Acceptance and Continuance of Client Relationships and Review Engagements (Ref: Para. 29)

- A34. The practitioner's consideration of engagement continuance, and relevant ethical requirements, including independence, occurs throughout the engagement, as conditions and changes in circumstances occur. Performing initial procedures on engagement continuance and evaluation of relevant ethical requirements (including independence) at the beginning of an engagement informs the practitioner's decisions and actions prior to the performance of other significant activities for the engagement.

Factors Affecting Acceptance and Continuance of Client Relationships and Review Engagements
(Ref: Para. 29)

A35. Assurance engagements may only be accepted when the engagement exhibits certain characteristics⁸ that are conducive to achieving the practitioner's objectives specified for the engagement.

Rational Purpose (Ref: Para. 29(a)(i))

- A36. It may be unlikely that there is a rational purpose for the engagement if, for example:
- (a) There is a significant limitation on the scope of the practitioner's work;
 - (b) The practitioner suspects the engaging party intends to associate the practitioner's name with the financial statements in an inappropriate manner; or
 - (c) The engagement is intended to meet compliance requirements of relevant law or regulation and such law or regulation requires the financial statements to be audited.

Review Engagement Is Appropriate (Ref: Para. 29(a)(ii))

A37. When the practitioner's preliminary understanding of the engagement circumstances indicates that accepting a review engagement would not be appropriate, the practitioner may consider recommending that another type of engagement be undertaken. Depending on the circumstances, the practitioner may, for example, believe that performance of an audit engagement would be more appropriate than a review. In other cases, if the engagement circumstances preclude performance of an assurance engagement, the practitioner may recommend a compilation engagement, or other accounting services engagement, as appropriate.

Information Needed to Perform the Review Engagement (Ref: Para. 29(c))

A38. An example of where the practitioner may have cause to doubt that the information needed to perform the review will be available or reliable is where the accounting records necessary for purposes of performing analytical procedures are suspected to be substantially inaccurate or incomplete. This consideration is not directed at the need that sometimes arises in the course of a review engagement to assist management by recommending adjusting entries required to finalize the financial statements prepared by management.

Preconditions for Accepting a Review Engagement (Ref: Para. 30)

A39. This HKSRE also requires the practitioner to ascertain certain matters, upon which it is necessary for the practitioner and the entity's management to agree, and which are within the control of the entity, prior to the practitioner accepting the engagement.

The Applicable Financial Reporting Framework (Ref: Para. 30(a))

A40. A condition for acceptance of an assurance engagement is that the criteria⁹ referred to in the definition of an assurance engagement are suitable and available to intended users.¹⁰ For purposes of this HKSRE, the applicable financial reporting framework provides the criteria the practitioner uses to review the financial statements including, where relevant, the fair presentation of the financial statements. Some financial reporting frameworks are fair presentation frameworks, while others are compliance frameworks. The requirements of the

⁸ Assurance Framework, paragraph 17

⁹ Assurance Framework, paragraph 34

¹⁰ Assurance Framework, paragraph 17(b)(ii)

applicable financial reporting framework determine the form and content of the financial statements, including what constitutes a complete set of financial statements.

Acceptability of the applicable financial reporting framework

- A41. Without an acceptable financial reporting framework, management does not have an appropriate basis for the preparation of the financial statements and the practitioner does not have suitable criteria for the review of the financial statements.
- A42. The practitioner's determination of the acceptability of the financial reporting framework applied in the financial statements is made in the context of the practitioner's understanding of who the intended users of the financial statements are. The intended users are the person, persons or group of persons for whom the practitioner prepares the report. The practitioner may not be able to identify all those who will read the assurance report, particularly where there is a large number of people who have access to it.
- A43. In many cases, in the absence of any indications to the contrary, the practitioner may presume that the applicable financial reporting framework is acceptable (for example, a financial reporting framework that is prescribed by law or regulation in a jurisdiction to be used in the preparation of general purpose financial statements for certain types of entities).
- A44. Factors that are relevant to the practitioner's determination of the acceptability of the financial reporting framework to be applied in the preparation of the financial statements include:
- The nature of the entity (for example, whether it is a business enterprise, a public sector entity or a not-for-profit organization).
 - The purpose of the financial statements (for example, whether they are prepared to meet the common financial information needs of a wide range of users or the financial information needs of specific users).
 - The nature of the financial statements (for example, whether the financial statements are a complete set of financial statements or a single financial statement).
 - Whether the applicable financial reporting framework is prescribed in relevant law or regulation.
- A45. If the financial reporting framework used to prepare the financial statements is not acceptable in view of the purpose of the financial statements and management will not agree to use of a financial reporting framework that is acceptable in the practitioner's view, the practitioner is required under this HKSRE to decline the engagement.
- A46. Deficiencies in the applicable financial reporting framework that indicate that the framework is not acceptable may be encountered after the review engagement has been accepted. When use of that financial reporting framework is not prescribed by law or regulation, management may decide to adopt another framework that is acceptable. When management does so, the practitioner is required under this HKSRE to agree the new terms of the review engagement with management to reflect the change in the applicable financial reporting framework.

Responsibilities of Management and Those Charged with Governance (Ref: Para. 30(b), 37(e))

- A47. The financial statements subject to review are those of the entity, prepared by management of the entity with oversight from those charged with governance. This HKSRE does not impose responsibilities on management and those charged with governance, nor does it override laws and regulations that govern their respective responsibilities. However, a review in accordance with this HKSRE is conducted on the premise that management, and those

charged with governance as appropriate, have acknowledged certain responsibilities that are fundamental to the conduct of the review. The review of the financial statements does not relieve management and those charged with governance of their responsibilities.

- A48. As part of its responsibility for the preparation of the financial statements, management is required to exercise judgment in making accounting estimates that are reasonable in the circumstances, and to select and apply appropriate accounting policies. These judgments are made in the context of the applicable financial reporting framework.
- A49. Because of the significance of the preconditions for undertaking a review of financial statements, the practitioner is required under this HKSRE to obtain the agreement of management that it understands its responsibilities before accepting a review engagement. The practitioner may obtain management's agreement either orally or in writing. However, management's agreement is subsequently recorded within the written terms of the engagement.
- A50. If management, and those charged with governance where appropriate, do not or will not acknowledge their responsibilities in relation to the financial statements, it is not appropriate to accept the engagement unless law or regulation requires the practitioner to do so. In circumstances where the practitioner is required to accept the review engagement, the practitioner may need to explain to management and those charged with governance, where different, the importance of these matters and the implications for the engagement.

Additional Considerations When the Wording of the Practitioner's Report Is Prescribed by Law or Regulation (Ref: Para. 34–35)

- A51. This HKSRE requires the practitioner to not represent compliance with this HKSRE unless the practitioner has complied with all the requirements of this HKSRE that are relevant to the review engagement. Law or regulation may prescribe matters in relation to an engagement that would ordinarily cause the practitioner to decline the engagement were it possible to do so, for example, if:
- The practitioner considers that the financial reporting framework prescribed by law or regulation is not acceptable; or
 - The prescribed layout or wording of the practitioner's report is in a form or in terms that are significantly different from the layout or wording required by this HKSRE.

Under this HKSRE, a review conducted in these situations does not comply with this HKSRE and the practitioner cannot represent compliance with this HKSRE in the report issued for the engagement. Notwithstanding that the practitioner is not permitted to represent compliance with this HKSRE, the practitioner is, however, encouraged to apply this HKSRE, including the reporting requirements, to the extent practicable. When appropriate to avoid misunderstanding, the practitioner may consider including a statement in the report that the review is not conducted in accordance with this HKSRE.

Agreeing the Terms of Engagement

Engagement Letter or Other Form of Written Agreement (Ref: Para. 37)

- A52. It is in the interests of both management and those charged with governance, and the practitioner, that the practitioner sends an engagement letter prior to performing the review engagement, to help avoid misunderstandings with respect to the engagement.

Form and content of the engagement letter

- A53. The form and content of the engagement letter may vary for each engagement. In addition to including the matters required by this HKSRE, an engagement letter may make reference to, for example:
- Arrangements concerning the involvement of other practitioners and experts in the review engagement.
 - Arrangements to be made with the predecessor practitioner, if any, in the case of an initial engagement.
 - The fact that a review engagement will not satisfy any statutory or third party requirements for an audit.
 - The expectation that management will provide written representations to the practitioner.
 - The agreement of management to inform the practitioner of facts that may affect the financial statements of which management may become aware during the period from the date of the practitioner's report to the date the financial statements are issued.
 - A request for management to acknowledge receipt of the engagement letter and to agree to the terms of the engagement outlined therein.

Review of components of groups of entities

- A54. The auditor of the financial statements of a group of entities may request that a practitioner perform a review of the financial information of a component entity of the group. Depending on the instructions of the group auditor, a review of the financial information of a component may be performed in accordance with this HKSRE. The group auditor may also specify additional procedures to supplement the work done for the review performed under this HKSRE. Where the practitioner conducting the review is the auditor of the component entity's financial statements, the review is not performed in accordance with this HKSRE.

Responsibilities of management prescribed by law or regulation (Ref: Para. 37(e))

- A55. If, in the circumstances of the engagement, the practitioner concludes that it is not necessary to record certain terms of the engagement in an engagement letter, the practitioner is still required to seek the written agreement from management, and those charged with governance where appropriate, required under this HKSRE that they acknowledge and understand their responsibilities set out in this HKSRE. This written agreement may use the wording of the law or regulation if the law or regulation establishes responsibilities for management that are equivalent in effect to those described in this HKSRE.

Illustrative Engagement Letter (Ref: Para. 37)

- A56. An illustrative engagement letter for a review engagement is set out in Appendix 1 to this HKSRE.

Recurring Engagements (Ref: Para. 38)

A57. The practitioner may decide not to send a new engagement letter or other written agreement each period. However, the following factors may indicate that it is appropriate to revise the terms of the review engagement or to remind management and those charged with governance, as appropriate, of the existing terms of the engagement:

- Any indication that management misunderstands the objective and scope of the review.
- Any revised or special terms of the engagement.
- A recent change of senior management of the entity.
- A significant change in ownership of the entity.
- A significant change in nature or size of the entity's business.
- A change in legal or regulatory requirements affecting the entity.
- A change in the applicable financial reporting framework.

Acceptance of a Change in the Terms of the Review Engagement

Request to Change the Terms of the Review Engagement (Ref: Para. 39)

A58. A request from the entity for the practitioner to change the terms of the review engagement may result from factors including:

- A change in circumstances affecting the need for the service.
- Misunderstanding as to the nature of a review engagement as originally requested.
- A restriction on the scope of the review engagement, whether imposed by management or caused by other circumstances.

A59. A change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of the service originally requested may be considered a reasonable basis for requesting a change to the terms of the review engagement.

A60. In contrast, a change may not be considered reasonable if it appears that the change relates to information that is incorrect, incomplete or otherwise unsatisfactory. An example might be where the practitioner is unable to obtain sufficient appropriate evidence for a material item in the financial statements, and management asks for the engagement to be changed to a related services engagement to avoid the expression of a modified conclusion by the practitioner.

Request to Change the Nature of the Engagement (Ref: Para. 40)

A61. Before agreeing to change a review engagement to another type of engagement or related service, a practitioner who was engaged to perform a review in accordance with this HKSRE may need to assess, in addition to the matters referred to in this HKSRE, any legal or contractual implications of the change.

- A62. If the practitioner concludes that there is reasonable justification to change the review engagement to another type of engagement or related service, the work performed in the review engagement to the date of change may be relevant to the changed engagement; however, the work required to be performed and the report to be issued would be those appropriate to the revised engagement. In order to avoid confusing the reader, the report on the other engagement or related service would not include reference to:
- (a) The original review engagement; or
 - (b) Any procedures that may have been performed in the original review engagement, except where the review engagement is changed to an engagement to perform agreed-upon procedures and thus reference to the procedures performed is a normal part of the report.

Communication with Management and Those Charged with Governance (Ref: Para. 42)

- A63. In a review engagement, the practitioner's communications with management and those charged with governance take the form of:
- (a) Inquiries the practitioner makes in the course of performing the procedures for the review; and
 - (b) Other communications, in the context of having effective two-way communication to understand matters arising and to develop a constructive working relationship for the engagement.
- A64. The appropriate timing for communications will vary with the circumstances of the engagement. Relevant factors include the significance and nature of the matter, and any action expected to be taken by management or those charged with governance. For example, it may be appropriate to communicate a significant difficulty encountered during the review as soon as practicable if management or those charged with governance are able to assist the practitioner to overcome the difficulty.
- A65. Law or regulation may restrict the practitioner's communication of certain matters with those charged with governance. For example, law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act. In some circumstances, potential conflicts between the practitioner's obligations of confidentiality and obligations to communicate may be complex. In such cases, the practitioner may consider obtaining legal advice.

Communicating Matters Concerning the Review

- A66. Matters to be communicated to management or those charged with governance, as appropriate, under this HKSRE may include:
- The practitioner's responsibilities in the review engagement, as included in the engagement letter or other suitable form of written agreement.
 - Significant findings from the review, for example:
 - The practitioner's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

- Significant findings from the performance of procedures, including situations where the practitioner considered performance of additional procedures necessary under this HKSRE. The practitioner may need to confirm that those charged with governance have the same understanding of the facts and circumstances relevant to specific transactions or events.
- Matters arising that may lead to modification of the practitioner's conclusion.
- Significant difficulties, if any, encountered during the review; for example, unavailability of expected information; unexpected inability to obtain evidence that the practitioner considers necessary for the review; or restrictions imposed on the practitioner by management. In some circumstances, such difficulties may constitute a scope limitation that, if not addressed by management or those charged with governance, may lead to modification of the practitioner's conclusion or to the practitioner's withdrawal from the engagement in certain circumstances.

A67. In some entities, different persons are responsible for the management and the governance of an entity. In these circumstances, management may have the responsibility to communicate matters of governance interest to those charged with governance. Communication by management with those charged with governance of matters that the practitioner is required to communicate does not relieve the practitioner of the responsibility to also communicate them to those charged with governance. However, communication of these matters by management may affect the form or timing of the practitioner's communication with those charged with governance.

Communication with Third Parties

- A68. In some jurisdictions, the practitioner may be required by law or regulation to, for example:
- Notify a regulatory or enforcement body of certain matters communicated with those charged with governance. For example, in some jurisdictions the practitioner has a duty to report misstatements to authorities where management and those charged with governance fail to take corrective action.
 - Submit copies of certain reports prepared for those charged with governance to relevant regulatory or funding bodies or, in some cases, make such reports publicly available.
- A69. Unless required by law or regulation to provide a third party with a copy of the practitioner's written communications with those charged with governance, the practitioner may need the prior consent of management or those charged with governance before doing so.

Performing the Engagement

Materiality in a Review of Financial Statements (Ref: Para. 43)

- A70. The practitioner's consideration of materiality is made in the context of the applicable financial reporting framework. Some financial reporting frameworks discuss the concept of materiality in the context of the preparation and presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that:
- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;

- Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

A71. If present in the applicable financial reporting framework, a discussion of the concept of materiality provides a frame of reference for the practitioner in determining materiality for the review. If not present, the above considerations provide the practitioner with a frame of reference.

A72. The practitioner's determination of materiality is a matter of professional judgment, and is affected by the practitioner's perception of the needs of the intended users of the financial statements. In this context, it is reasonable for the practitioner to assume that users:

- Have a reasonable knowledge of business and economic activities and accounting, and a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented and reviewed to levels of materiality;
- Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and
- Make reasonable economic decisions on the basis of the information in the financial statements.

Further, unless the review engagement is undertaken for financial statements that are intended to meet the particular needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered.

A73. The practitioner's judgment about what is material in relation to the financial statements as a whole is the same regardless of the level of assurance obtained by a practitioner as the basis for expressing the conclusion on the financial statements.

Revising Materiality (Ref: Para. 44)

A74. The practitioner's determination of materiality for the financial statements as a whole may need to be revised during the engagement as a result of:

- A change in the circumstances that occurred during the review (for example, a decision to dispose of a major part of the entity's business).
- New information, or a change in the practitioner's understanding of the entity and its environment as a result of performing procedures for the review in accordance with this HKSRE (for example, if during the review it appears as though actual financial results are likely to be substantially different from the anticipated period-end financial results that were used initially to determine materiality for the financial statements as a whole).

The Practitioner's Understanding (Ref: Para. 45–46)

- A75. The practitioner uses professional judgment to determine the extent of the understanding of the entity and its environment required to perform the review of the entity's financial statements in accordance with this HKSRE. The practitioner's primary consideration is whether the understanding obtained is sufficient to meet the practitioner's objectives for the engagement. The breadth and depth of the overall understanding that the practitioner obtains is less than that possessed by management.
- A76. Obtaining an understanding of the entity and its environment is a continual dynamic process of gathering, updating and analyzing information throughout the review engagement. The practitioner's understanding is obtained and applied on an iterative basis throughout performance of the engagement, and is updated as changes in conditions and circumstances occur. Initial procedures for engagement acceptance and continuance at the time of commencement of a review engagement are based on the practitioner's preliminary understanding of the entity and of the engagement circumstances. In a continuing client relationship, the practitioner's understanding includes knowledge obtained from prior engagements performed by the practitioner in relation to the entity's financial statements and other financial information.
- A77. The understanding establishes a frame of reference within which the practitioner plans and performs the review engagement, and exercises professional judgment throughout the engagement. Specifically, the understanding needs to be sufficient for the practitioner to be able to identify areas in the financial statements where material misstatements are likely to arise, to inform the practitioner's approach to designing and performing procedures to address those areas.
- A78. In obtaining an understanding of the entity and its environment, and of the applicable financial reporting framework, the practitioner may also consider:
- Whether the entity is a component of a group of entities, or an associated entity of another entity.
 - The complexity of the financial reporting framework.
 - The entity's financial reporting obligations or requirements, and whether those obligations or requirements exist under applicable law or regulation or in the context of voluntary financial reporting arrangements established under formalized governance or accountability arrangements, for example, under contractual arrangements with third parties.
 - Relevant provisions of laws and regulations that are generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements, such as tax and pension laws and regulations.
 - The level of development of the entity's management and governance structure regarding management and oversight of the entity's accounting records and financial reporting systems that underpin preparation of the financial statements. Smaller entities often have fewer employees, which may influence how management exercises oversight. For example, segregation of duties may not be practicable. However, in a small owner-managed entity, the owner-manager may be able to exercise more effective oversight than in a larger entity. This oversight may compensate for the generally more limited opportunities for segregation of duties.
 - The "tone at the top" and the entity's control environment through which the entity addresses risks relating to financial reporting and compliance with the entity's financial reporting obligations.

- The level of development and complexity of the entity's financial accounting and reporting systems and related controls through which the entity's accounting records and related information are maintained.
- The entity's procedures for recording, classifying and summarizing transactions, accumulating information for inclusion in the financial statements and related disclosures.
- The types of matters that required accounting adjustments in the entity's financial statements in prior periods.

Designing and Performing Procedures (Ref: Para. 47, 55)

- A79. The planned nature, timing and extent of the procedures the practitioner considers are needed to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole are influenced by:
- (a) The requirements of this HKSRE; and
 - (b) Requirements established under applicable law or regulation, including additional reporting requirements contained in applicable laws or regulations.
- A80. When the practitioner is engaged to review the financial statements of a group of entities, the planned nature, timing and extent of the procedures for the review are directed at achieving the practitioner's objectives for the review engagement stated in this HKSRE, but in the context of the group financial statements.
- A81. The requirements of this HKSRE relating to designing and performing inquiry and analytical procedures, and procedures addressing specific circumstances, are designed to enable the practitioner to achieve the objectives specified in this HKSRE. The circumstances of review engagements vary widely and, accordingly, there may be circumstances where the practitioner may consider it effective or efficient to design and perform other procedures. For example, if in the course of obtaining an understanding of the entity, the practitioner becomes aware of a significant contract the practitioner may choose to read the contract.
- A82. The fact that the practitioner may deem it necessary to perform other procedures does not alter the practitioner's objective of obtaining limited assurance in relation to the financial statements as a whole.

Significant or Unusual Transactions

- A83. The practitioner may consider, reviewing the accounting records with a view to identifying significant or unusual transactions that may require specific attention in the review.

Inquiry (Ref: Para. 46–48)

- A84. In a review, inquiry includes seeking information of management and other persons within the entity, as the practitioner considers appropriate in the engagement circumstances. The practitioner may also extend inquiries to obtain non-financial data if appropriate. Evaluating the responses provided by management is integral to the inquiry process.
- A85. Depending on the engagement circumstances, inquiries may also include inquiries about:
- Actions taken at meetings of owners, those charged with governance and committees thereof, and proceedings at other meetings, if any, that affect the information and disclosures contained in the financial statements.

- Communications the entity has received, or expects to receive or obtain, from regulatory agencies.
- Matters arising in the course of applying other procedures. When performing further inquiries in relation to identified inconsistencies, the practitioner considers the reasonableness and consistency of management's responses in light of the results obtained from other procedures, and the practitioner's knowledge and understanding of the entity and the industry in which it operates.

A86. Evidence obtained through inquiry is often the principal source of evidence about management intent. However, information available to support management's intent may be limited. In that case, understanding management's past history of carrying out its stated intentions, management's stated reasons for choosing a particular course of action, and management's ability to pursue a specific course of action may provide relevant information to corroborate the evidence obtained through inquiry. Application of professional skepticism in evaluating responses provided by management is important to enable the practitioner to evaluate whether there are any matter(s) that would cause the practitioner to believe the financial statements may be materially misstated.

A87. Performing inquiry procedures assists the practitioner also in obtaining or updating the practitioner's understanding of the entity and its environment, to be able to identify areas where material misstatements are likely to arise in the financial statements.

Inquiry about the entity's ability to continue as a going concern (Ref: Para. 48(f))

A88. Often in smaller entities, management may not have prepared an assessment of the entity's ability to continue as a going concern, but instead may rely on knowledge of the business and anticipated future prospects. In these circumstances, it may be appropriate to discuss the medium and long-term prospects and financing of the entity with management, including consideration of whether management's contentions are not inconsistent with the practitioner's understanding of the entity.

Analytical Procedures (Ref: Para. 46–47, 49)

A89. In a review of financial statements, performing analytical procedures assists the practitioner in:

- Obtaining or updating the practitioner's understanding of the entity and its environment, including to be able to identify areas where material misstatements are likely to arise in the financial statements.
- Identifying inconsistencies or variances from expected trends, values or norms in the financial statements such as the level of congruence of the financial statements with key data, including key performance indicators.
- Providing corroborative evidence in relation to other inquiry or analytical procedures already performed.
- Serving as additional procedures when the practitioner becomes aware of matter(s) that cause the practitioner to believe that the financial statements may be materially misstated. An example of such an additional procedure is a comparative analysis of monthly revenue and cost figures across profit centers, branches or other components of the entity, to provide evidence about financial information contained in line items or disclosures contained in the financial statements.

A90. Various methods may be used to perform analytical procedures. These methods range from performing simple comparisons to performing complex analysis using statistical techniques. The practitioner may, for example, apply analytical procedures to evaluate the financial information underlying the financial statements through analysis of plausible relationships among both financial and non-financial data, and assessment of results for consistency with expected values with a view to identifying relationships and individual items that appear unusual, or that vary from expected trends or values. The practitioner would compare recorded amounts, or ratios developed from recorded amounts, to expectations developed by the practitioner from information obtained from relevant sources. Examples of sources of information the practitioner often uses to develop expectations, depending on the engagement circumstances, include:

- Financial information for comparable prior period(s), taking known changes into account.
- Information about expected operating and financial results, such as budgets or forecasts including extrapolations from interim or annual data.
- Relationships among elements of financial information within the period.
- Information regarding the industry in which the entity operates, such as gross margin information, or comparison of the entity's ratio of sales to accounts receivable with industry averages or with other entities of comparable size in the same industry.
- Relationships of financial information with relevant non-financial information, such as payroll costs to number of employees.

A91. The practitioner's consideration of whether data to be used for analytical procedures are satisfactory for the intended purpose(s) of those procedures is based on the practitioner's understanding of the entity and its environment, and is influenced by the nature and source of the data, and by the circumstances in which the data are obtained. The following considerations may be relevant:

- Source of the information available. For example, information may be more reliable when it is obtained from independent sources outside the entity;
- Comparability of the information available. For example, broad industry data may need to be supplemented or be adjusted to be comparable to data of an entity that produces and sells specialized products;
- Nature and relevance of the information available; for example, whether the entity's budgets are established as results to be expected rather than as goals to be achieved; and
- The knowledge and expertise involved in the preparation of the information, and related controls that are designed to ensure its completeness, accuracy and validity. Such controls may include, for example, controls over the preparation, review and maintenance of budgetary information.

Procedures to Address Specific Circumstances

Fraud and non-compliance with laws or regulations (Ref: Para. 52(d))

A92. Under this HKSRE, if the practitioner has identified or suspects fraud or illegal acts, the practitioner is required to determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity. Although the practitioner's professional duty to maintain the confidentiality of client information may preclude such reporting, the practitioner's legal responsibilities may override the duty of confidentiality in some circumstances.

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

A93. The list of factors below gives examples of events or conditions that, individually or collectively, may cast significant doubt about the going concern assumption. The list is not all-inclusive, and the existence of one or more of the items does not always signify that uncertainty exists about whether the entity can continue as a going concern.

Financial

- Net liability or net current liability position
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment, or excessive reliance on short-term borrowings to finance long-term assets
- Indications of withdrawal of financial support by creditors
- Negative operating cash flows indicated by historical or prospective financial statements
- Adverse key financial ratios
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows
- Arrears or discontinuance of dividends
- Inability to pay creditors on due dates
- Inability to comply with the terms of loan agreements
- Change from credit to cash-on-delivery transactions with suppliers
- Inability to obtain financing for essential new product development or other essential investments

Operating

- Management intentions to liquidate the entity or to cease operations
- Loss of key management without replacement
- Loss of a major market, key customer(s), franchise, license, or principal supplier(s)

- Labor difficulties
- Shortages of important supplies
- Emergence of a highly successful competitor

Other

- Non-compliance with capital or other statutory requirements
- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy
- Changes in law or regulation or government policy expected to adversely affect the entity
- Uninsured or underinsured catastrophes when they occur

The significance of such events or conditions often can be mitigated by other factors. For example, the effect of an entity being unable to make its normal debt repayments may be counter-balanced by management's plans to maintain adequate cash flows by alternative means, such as by disposing of assets, rescheduling loan repayments, or obtaining additional capital. Similarly, the loss of a principal supplier may be mitigated by the availability of a suitable alternative source of supply.

Reconciling the Financial Statements to the Underlying Accounting Records (Ref: Para. 56)

- A94. The practitioner ordinarily obtains evidence that the financial statements agree with, or reconcile to, the underlying accounting records by tracing the financial statement amounts and balances to the relevant accounting records such as the general ledger, or to a summary record or schedule that reflects the agreement or reconciliation of the financial statement amounts with the underlying accounting records (such as a trial balance).

Performing Additional Procedures (Ref: Para. 57)

- A95. Additional procedures are required under this HKSRE if the practitioner becomes aware of a matter that causes the practitioner to believe the financial statements may be materially misstated.
- A96. The practitioner's response in undertaking additional procedures with respect to an item the practitioner has cause to believe may be materially misstated in the financial statements will vary, depending on the circumstances, and is a matter for the practitioner's professional judgment.
- A97. The practitioner's judgment about the nature, timing and extent of additional procedures that are needed to obtain evidence to either conclude that a material misstatement is not likely, or determine that a material misstatement exists, is guided by:
- Information obtained from the practitioner's evaluation of the results of the procedures already performed;
 - The practitioner's updated understanding of the entity and its environment obtained throughout the course of the engagement; and

- The practitioner's view on the persuasiveness of evidence needed to address the matter that causes the practitioner to believe that the financial statements may be materially misstated.
- A98. Additional procedures focus on obtaining sufficient appropriate evidence to enable the practitioner to form a conclusion on matters that the practitioner believes may cause the financial statements to be materially misstated. The procedures may be:
- Additional inquiry or analytical procedures, for example, being performed in greater detail or being focused on the affected items (i.e. amounts or disclosures concerning the affected accounts or transactions as reflected in the financial statements); or
 - Other types of procedures, for example, substantive test of details or external confirmations.
- A99. The following example illustrates the practitioner's evaluation of the need to perform additional procedures, and the practitioner's response when the practitioner believes additional procedures are necessary.
- In the course of performing the inquiry and analytical procedures for the review, the practitioner's analysis of accounts receivable shows a material amount of past due accounts receivable, for which there is no allowance for bad or doubtful debts.
 - This causes the practitioner to believe that the accounts receivable balance in the financial statements may be materially misstated. The practitioner then inquires of management whether there are uncollectible accounts receivable that would need to be shown as being impaired.
 - Depending on management's response, the practitioner's evaluation of the response may:
 - (a) Enable the practitioner to conclude that the accounts receivable balance is not likely to be materially misstated. In that case, no further procedures are required.
 - (b) Enable the practitioner to determine that the matter causes the financial statements to be materially misstated. No further procedures are required, and the practitioner would form the conclusion that the financial statements as a whole are materially misstated.
 - (c) Lead the practitioner to continue to believe that the accounts receivable balance is likely to be materially misstated, while not providing sufficient appropriate evidence for the practitioner to determine that they are in fact misstated.

In that case, the practitioner is required to perform additional procedures, for example, requesting from management an analysis of amounts received for those accounts after the balance sheet date to identify uncollectible accounts receivable. The evaluation of the results of the additional procedures may enable the practitioner to get to (a) or (b) above. If not, the practitioner is required to:

 - (i) Continue performing additional procedures until the practitioner reaches either (a) or (b) above; or

- (ii) If the practitioner is not able to either conclude that the matter is not likely to cause the financial statements as a whole to be materially misstated, or to determine that the matter does cause the financial statements as a whole to be materially misstated, then a scope limitation exists and the practitioner is not able to form an unmodified conclusion on the financial statements.

Written Representations (Ref: Para. 61–63)

- A100. Written representations are an important source of evidence in a review engagement. If management modifies or does not provide the requested written representations, it may alert the practitioner to the possibility that one or more significant issues may exist. Further, a request for written, rather than oral, representations in many cases may prompt management to consider such matters more rigorously, thereby enhancing the quality of the representations.
- A101. In addition to the written representations required under this HKSRE, the practitioner may consider it necessary to request other written representations about the financial statements. These may be needed, for example, to complete the practitioner's evidence with respect to certain items or disclosures reflected in the financial statements where the practitioner considers such representations to be important in forming a conclusion on the financial statements on either a modified or unmodified basis.
- A102. In some cases, management may include in the written representations qualifying language to the effect that representations are made to the best of management's knowledge and belief. It is reasonable for the practitioner to accept such wording if the practitioner is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.

Evaluating Evidence Obtained from the Procedures Performed (Ref: Para. 66–68)

- A103. In some circumstances, the practitioner may not have obtained the evidence that the practitioner had expected to obtain through the design of primarily inquiry and analytical procedures and procedures addressing specific circumstances. In these circumstances, the practitioner considers that the evidence obtained from the procedures performed is not sufficient and appropriate to be able to form a conclusion on the financial statements. The practitioner may:
- Extend the work performed; or
 - Perform other procedures judged by the practitioner to be necessary in the circumstances.

Where neither of these is practicable in the circumstances, the practitioner will not be able to obtain sufficient appropriate evidence to be able to form a conclusion and is required by this HKSRE to determine the effect on the practitioner's report, or on the practitioner's ability to complete the engagement, for example, if a member of management is unavailable at the time of the review to respond to the practitioner's inquiries on significant matters. This situation may arise even though the practitioner has not become aware of a matter(s) that causes the practitioner to believe the financial statements may be materially misstated, as addressed in paragraph 57.

Scope Limitations

- A104. Inability to perform a specific procedure does not constitute a limitation on the scope of the review if the practitioner is able to obtain sufficient appropriate evidence by performing other procedures.
- A105. Limitations on the scope of the review imposed by management may have other implications for the review, such as for the practitioner's consideration of areas where the financial statements are likely to be materially misstated, and engagement continuance.

Forming the Practitioner's Conclusion on the Financial Statements

Description of the Applicable Financial Reporting Framework (Ref: Para. 69(a))

- A106. The description of the applicable financial reporting framework in the financial statements is important because it advises users of the financial statements of the framework on which the financial statements are based. If the financial statements are special purpose financial statements, they may be prepared under a special purpose financial reporting framework that is available only to the engaging party and the practitioner. Description of the special purpose financial reporting framework used is important as the special purpose financial statements may not be appropriate for any use other than the intended use identified for the special purpose financial statements.
- A107. A description of the applicable financial reporting framework that contains imprecise qualifying or limiting language (for example, "the financial statements are in substantial compliance with Hong Kong Financial Reporting Standards") is not an adequate description of that framework as it may mislead users of the financial statements.

Disclosure of Effects of Material Transactions and Events on Information Conveyed in the Financial Statements (Ref: Para. 69(b)(vi), 71)

- A108. The practitioner is required under this HKSRE to evaluate whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the entity's financial position, financial performance and cash flows.
- A109. In the case of financial statements prepared in accordance with the requirements of a fair presentation framework, management may need to include additional disclosures in the financial statements beyond those specifically required by the applicable financial reporting framework or, in extremely rare circumstances, to depart from a requirement in the framework, in order to achieve the fair presentation of the financial statements.

Considerations When a Compliance Framework Is Used

- A110. It will be extremely rare for the practitioner to consider financial statements prepared in accordance with a compliance framework to be misleading if, in accordance with this HKSRE, the practitioner has determined at the time of engagement acceptance that the framework is acceptable.

Qualitative Aspects of the Entity's Accounting Practices (Ref: Para. 70(b))

- A111. In considering the qualitative aspects of the entity's accounting practices, the practitioner may become aware of possible bias in management's judgments. The practitioner may conclude that the cumulative effect of a lack of neutrality, together with the effect of apparent uncorrected misstatements, causes the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality that may affect the practitioner's evaluation of

whether the financial statements as a whole may be materially misstated include the following:

- The selective correction of apparent misstatements brought to management's attention during the review (for example, correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings).
- Possible management bias in the making of accounting estimates.

A112. Indicators of possible management bias do not necessarily mean there are misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the practitioner's consideration of whether the financial statements as a whole may be materially misstated.

Form of the Conclusion (Ref: Para. 74)

Description of the Information the Financial Statements Present

A113. In the case of financial statements prepared in accordance with a fair presentation framework, the practitioner's conclusion states that nothing has come to the practitioner's attention that causes the practitioner to believe that the financial statements do not present fairly, in all material respects, ... (or do not give a true and fair view of ...) in accordance with [the applicable fair presentation framework]. In the case of many general purpose frameworks, for example, the financial statements are required to fairly present (or give a true and fair view of) the financial position of the entity as at the end of a period, and the entity's financial performance and cash flows for that period.

"Present fairly, in all material respects" or "gives a true and fair view"

A114. Whether the phrase "present fairly, in all material respects," or the phrase "gives a true and fair view" is used in any particular jurisdiction is determined by the law or regulation governing the review of financial statements in that jurisdiction, or by generally accepted practice in that jurisdiction. Where law or regulation requires the use of different wording, this does not affect the requirement in this HKSRE for the practitioner to evaluate the fair presentation of financial statements prepared in accordance with a fair presentation framework.

Inability to Form a Conclusion Due to a Management-Imposed Limitation on the Scope of the Review after Engagement Acceptance (Ref: Para. 15, 82)

A115. The practicality of withdrawing from the engagement may depend on the stage of completion of the engagement at the time that management imposes the scope limitation. If the practitioner has substantially completed the review, the practitioner may decide to complete the review to the extent possible, disclaim a conclusion and explain the scope limitation in the paragraph in the report that describes the basis for disclaiming a conclusion.

A116. In certain circumstances, withdrawal from the engagement may not be possible if the practitioner is required by law or regulation to continue the engagement. For example, this may be the case for a practitioner appointed to review the financial statements of a public sector entity. It may also be the case in jurisdictions where the practitioner is appointed to review the financial statements covering a specific period, or appointed for a specific period, and is prohibited from withdrawing before the completion of the review of those financial statements or before the end of that period, respectively. The practitioner may also consider it necessary to include an Other Matter paragraph in the practitioner's report to explain why it is not possible for the practitioner to withdraw from the engagement.

Communication with Regulators or the Entity's Owners

- A117. When the practitioner concludes that withdrawal from the engagement is necessary because of a scope limitation, there may be a professional, legal or regulatory requirement for the practitioner to communicate matters relating to the withdrawal from the engagement to regulators or the entity's owners.

The Practitioner's Report (Ref: Para. 86–92)

- A118. The written report encompasses reports issued in hard copy format and those using an electronic medium.

Elements of the Practitioner's Report (Ref: Para. 86)

- A119. A title indicating the report is the report of an independent practitioner, for example, "Independent Practitioner's Review Report," affirms that the practitioner has met all of the relevant ethical requirements regarding independence and, therefore, distinguishes the independent practitioner's report from reports issued by others.
- A120. Law or regulation may specify to whom the practitioner's report is to be addressed in that particular jurisdiction. The practitioner's report is normally addressed to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being reviewed.
- A121. When the practitioner is aware that the financial statements that have been reviewed will be included in a document that contains other information, such as a financial report, the practitioner may consider, if the form of presentation allows, identifying the page numbers on which the financial statements that have been reviewed are presented. This helps users to identify the financial statements to which the practitioner's report relates.

Management's Responsibility for the Financial Statements (Ref: Para. 86(d))

- A122. The requirement of this HKSRE that the practitioner must obtain management's agreement that it acknowledges and understands its responsibilities, both in relation to the preparation of the financial statements and in relation to the review engagement, is fundamental to performing the review and reporting on the engagement. The description of management's responsibilities in the practitioner's report provides context for readers of the practitioner's report about management's responsibilities, as they relate to the review engagement performed.
- A123. The practitioner's report need not refer specifically to "management" but instead may use the term that is appropriate in the context of the legal framework in the particular jurisdiction. In some jurisdictions, the appropriate reference is to those charged with governance of the entity.
- A124. There may be circumstances when it is appropriate for the practitioner to add to the description of management's responsibilities as described in this HKSRE to reflect additional responsibilities that are relevant to the preparation of the financial statements in the context of a jurisdiction, or due to the type of entity.
- A125. In some jurisdictions, law or regulation prescribing management's responsibilities may specifically refer to a responsibility for the adequacy of the accounting books and records, or accounting system. As books, records and systems are an integral part of internal control, this HKSRE does not use these descriptions or make any specific reference to them.

The Practitioner's Responsibility (Ref: Para. 86(f))

A126. The practitioner's report states that the practitioner's responsibility is to express a conclusion on the financial statements based on the review performed, in order to contrast the practitioner's responsibility with management's responsibility for preparation of the financial statements.

Reference to standards (Ref: Para. 86(f))

A127. The reference to the standards used by the practitioner for the review conveys to the users of the practitioner's report that the review has been conducted in accordance with established standards.

Communication of the Nature of a Review of Financial Statements (Ref: Para. 86(g))

A128. The description of the nature of a review engagement in the practitioner's report explains the scope and limitations of the engagement undertaken for the benefit of the readers of the report. This explanation clarifies, for avoidance of doubt, that the review is not an audit and that accordingly, the practitioner does not express an audit opinion on the financial statements.

Description of the Applicable Financial Reporting Framework and How it May Affect the Practitioner's Conclusion (Ref: Para. 86(i)(ii))

A129. The identification of the applicable financial reporting framework in the practitioner's conclusion is intended to advise users of the practitioner's report of the context in which that conclusion is expressed. It is not intended to limit the evaluation required in paragraph 30(a). The applicable financial reporting framework is identified in such terms as:

"... in accordance with Hong Kong Financial Reporting Standards;" or

"... in accordance with accounting principles generally accepted in Jurisdiction X ..."

A130. When the applicable financial reporting framework encompasses financial reporting standards and legal or regulatory requirements, the framework is identified in such terms as "... in accordance with Hong Kong Financial Reporting Standards and the requirements of Jurisdiction X Corporations Act."

Basis for Modification Paragraph When the Conclusion Is Modified (Ref: Para. 85(h)(ii))

A131. An adverse conclusion or a disclaimer of conclusion relating to a specific matter described in the basis for modification paragraph does not justify the omission of a description of other identified matters that would have otherwise required a modification of the practitioner's conclusion. In such cases, the disclosure of such other matters of which the practitioner is aware may be relevant to users of the financial statements.

Signature of the Practitioner (Ref: Para. 86(l))

A132. The practitioner's signature is either in the name of the practitioner's firm, the personal name of the individual practitioner, or both, as appropriate for the particular jurisdiction. In addition to the practitioner's signature, in certain jurisdictions, the practitioner may be required to make a declaration in the practitioner's report about professional designations or recognition by the appropriate licensing authority in that jurisdiction.

Alerting Readers that the Financial Statements Are Prepared in Accordance with a Special Purpose Framework (Ref: Para. 88)

A133. The special purpose financial statements may be used for purposes other than those for which they were intended. For example, a regulator may require certain entities to place the special purpose financial statements on public record. For avoidance of misunderstanding, it is important that the practitioner alert users of the practitioner's report that the financial statements are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose.

Restriction on Distribution or Use

A134. In addition to the alert to the reader of the practitioner's report that is required by this HKSRE when the financial statements are prepared using a special purpose framework, the practitioner may consider it appropriate to indicate that the practitioner's report is intended solely for the specific users. Depending on the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the practitioner's report. In these circumstances, the paragraph containing the alert about the use of a special purpose framework may be expanded to include these other matters, and the heading modified accordingly.

Other Reporting Responsibilities (Ref: Para. 91)

A135. In some jurisdictions, the practitioner may have additional responsibilities to report on other matters that are supplementary to the practitioner's responsibility under this HKSRE. For example, the practitioner may be asked to report certain matters if they come to the practitioner's attention during the course of the review of the financial statements. Alternatively, the practitioner may be asked to perform and report on additional specified procedures, or to express a conclusion on specific matters, such as the adequacy of accounting books and records. Standards on engagements to review financial statements in the specific jurisdiction may provide guidance on the practitioner's responsibilities with respect to specific additional reporting responsibilities in that jurisdiction.

A136. In some cases, the relevant law or regulation may require or permit the practitioner to report on these other responsibilities within the practitioner's report on the financial statements. In other cases, the practitioner may be required or permitted to report on them in a separate report.

A137. These other reporting responsibilities are addressed in a separate section of the practitioner's report, to clearly distinguish them from the practitioner's responsibility under this HKSRE to report on the financial statements. Where relevant, this section may contain sub-heading(s) that describe(s) the content of the other reporting responsibility paragraph(s). In some jurisdictions, the additional reporting responsibilities may be addressed in a report that is separate from the practitioner's report provided for the review of the financial statements.

Date of the Practitioner's Report (Ref: Para. 86(k), 92)

A138. The date of the practitioner's report informs the user of the practitioner's report that the practitioner has considered the effect of events and transactions of which the practitioner became aware and that occurred up to that date.

A139. The practitioner's conclusion is provided on the financial statements and the financial statements are the responsibility of management. The practitioner is not in a position to conclude that sufficient appropriate evidence has been obtained until the practitioner is satisfied that all the statements that comprise the financial statements, including the related notes, have been prepared and management has accepted responsibility for them.

- A140. In some jurisdictions, law or regulation identifies the individuals or bodies (for example, the directors) that are responsible for concluding that all the statements that comprise the financial statements, including the related notes, have been prepared, and specifies the necessary approval process. In such cases, evidence is obtained of that approval before dating the report on the financial statements. In other jurisdictions, however, the approval process is not prescribed in law or regulation. In such cases, the procedures the entity follows in preparing and finalizing its financial statements in view of its management and governance structures are considered in order to identify the individuals or body with the authority to conclude that all the statements that comprise the financial statements, including the related notes, have been prepared. In some cases, law or regulation may identify the point in the financial statement reporting process at which the review is expected to be complete.
- A141. In some jurisdictions, final approval of the financial statements by shareholders is required before the financial statements are issued publicly. In these jurisdictions, final approval by shareholders is not necessary for the practitioner to conclude on the financial statements. The date of approval of the financial statements for purposes of this HKSRE is the earlier date on which those with the recognized authority determine that all the statements that comprise the financial statements, including the related notes, have been prepared and that those with the recognized authority have asserted that they have taken responsibility for them.

Practitioner's Report Prescribed by Law or Regulation (Ref: Para. 34–35, 86)

- A142. Consistency in the practitioner's report, when the review has been conducted in accordance with this HKSRE, promotes credibility in the global marketplace by making more readily identifiable those reviews of financial statements that have been conducted in accordance with globally recognized standards. The practitioner's report may refer to this HKSRE when the differences between the legal or regulatory requirements and this HKSRE relate only to the layout or wording of the practitioner's report and, at a minimum, the report complies with the requirements of paragraph 86 of this HKSRE. Accordingly, in such circumstances the practitioner is considered to have complied with the requirements of this HKSRE, even when the layout and wording used in the practitioner's report are specified by legal or regulatory reporting requirements. Where specific requirements in a particular jurisdiction do not conflict with this HKSRE, adoption of the layout and wording used in this HKSRE assists users of the practitioner's report to more readily recognize the practitioner's report as a report on a review of financial statements conducted in accordance with this HKSRE. Circumstances where law or regulation prescribes the layout or wording of the practitioner's report in terms that are significantly different from the requirements of this HKSRE are addressed in the requirements of this HKSRE concerning acceptance of review engagements and continuance of client relationships.

Practitioner's Report for Reviews Conducted in Accordance with Both Relevant Standards of a Specific Jurisdiction and this HKSRE (Ref: Para. 86(f))

- A143. When, in addition to complying with the requirements of this HKSRE, the practitioner also complies with other standards, the report may refer to the review having been performed in accordance with both this HKSRE and other standards for engagements to review financial statements. However, a reference to both this HKSRE and other standards is not appropriate if there is a conflict between the requirements of this HKSRE and those in the other standards that would lead the practitioner to form a different conclusion or not to include an Emphasis of Matter paragraph that, in the particular circumstances, would be required by this HKSRE. In such a case, the practitioner's report refers only to the relevant standards (either this HKSRE or the other standards) in accordance with which the practitioner's report has been prepared.

Illustrative Review Reports (Ref: Para. 86)

A144. Appendix 2 to this HKSRE contains illustrations of practitioners' reports for a review of financial statements incorporating the reporting requirements of this HKSRE.

Documentation

Timeliness of Engagement Documentation (Ref: Para. 93)

A145. HKSQC 1 requires the firm to establish time limits that reflect the need to complete the assembly of final engagement files on a timely basis.

Appendix 1

(Ref: Para. A56)

Illustrative Engagement Letter for an Engagement to Review Historical Financial Statements

The following is an example of an engagement letter for a review of general purpose financial statements (prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs)), which illustrates the relevant requirements and guidance contained in this HKSRE. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this HKSRE. It will need to be varied according to individual requirements and circumstances^{10a}. It is drafted to refer to the review of financial statements for a single reporting period and would require adaptation if intended or expected to apply to recurring reviews. It may be appropriate to seek legal advice that any proposed letter is suitable.

To the appropriate representative of management or those charged with governance of ABC Company:¹¹

[The objective and scope of the review]

You¹² have requested that we review the general purpose financial statements of ABC Company, which comprise the statement of financial position as at 31 December 20X1, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. We are pleased to confirm our acceptance and our understanding of this review engagement by means of this letter.

Our review will be conducted with the objective of expressing our conclusion on the financial statements. Our conclusion, if unmodified, will be in the form "Based on our review, nothing has come to our attention that causes us to believe that these financial statements do not present fairly, in all material respects, (or do not give a true and fair view of) the financial position of the company as at [date] and (of) its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs)."

[The practitioner's responsibilities]

We will conduct our review in accordance with Hong Kong Standard on Review Engagements (HKSRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*. HKSRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. HKSRE 2400 also requires us to comply with relevant ethical requirements.

^{10a} Practitioners may consider it appropriate to include a limitation of liability clause in accordance with their firms' risk management policies.

¹¹ The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons—see paragraph 36 of this HKSRE.

¹² Throughout this letter, references to "you," "we," "us," "management," "those charged with governance" and "practitioner" would be used or amended as appropriate in the circumstances.

A review of financial statements in accordance with HKSRE 2400 (Revised) is a limited assurance engagement. We will perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained. We will also perform additional procedures if we become aware of matters that cause us to believe the financial statements as a whole may be materially misstated. These procedures are performed to enable us to express our conclusion on the financial statements in accordance with HKSRE 2400 (Revised). The procedures selected will depend on what we consider necessary applying our professional judgment, based on our understanding of ABC Company and its environment, and our understanding of HKFRSs and its application in the industry context.

A review is not an audit of the financial statements, therefore:

- (a) There is a commensurate higher risk than there would be in an audit, that any material misstatements that exist in the financial statements reviewed may not be revealed by the review, even though the review is properly performed in accordance with HKSRE 2400 (Revised).
- (b) In expressing our conclusion from the review of the financial statements, our report on the financial statements will expressly disclaim any audit opinion on the financial statements.

[The responsibilities of management and identification of the applicable financial reporting framework (for purposes of this example, it is assumed that the practitioner has not determined that the law or regulation prescribes those responsibilities in appropriate terms; the descriptions in paragraph 30(b) of this HKSRE are therefore used).]

Our review will be conducted on the basis that [management and, where appropriate, those charged with governance]¹³ acknowledge and understand that they have the responsibility:

- (a) For preparation and fair presentation of the financial statements in accordance with HKFRSs;¹⁴
- (b) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- (c) To provide us with:
 - (i) Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation and other matters;
 - (ii) Additional information that we may request from management for the purpose of the review; and
 - (iii) Unrestricted access to persons within ABC Company from whom we determine it necessary to obtain evidence.

As part of our review, we will request from [management and, where appropriate, those charged with governance], written confirmation concerning representations made to us in connection with the review.

We look forward to full cooperation from your staff during our review.

[Other relevant information]

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

¹³ Use terminology as appropriate in the circumstances.

¹⁴ Or, if appropriate, "For the preparation of financial statements that give a true and fair view in accordance with HKFRS."

[Reporting]

[Insert appropriate reference to the expected form and content of the practitioner's report.]

The form and content of our report may need to be amended in the light of our findings obtained from the review.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our review of the financial statements including our respective responsibilities.

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company by

(signed)

.....

Name and Title

Date

Appendix 2

(Ref: Para. A144)

Illustrative Practitioners' Review Reports**Review Reports on General Purpose Financial Statements***Illustrative Review Reports with Unmodified Conclusions*

- Illustration 1: A practitioner's report on financial statements prepared in accordance with a fair presentation framework designed to meet the common financial information needs of a wide range of users (for example, the Hong Kong Financial Reporting Standard for Private Entities).

Illustrative Review Reports with Modified Conclusions

- Illustration 2: A practitioner's report containing a qualified conclusion due to an apparent material misstatement of the financial statements. Financial statements prepared in accordance with a compliance framework designed to meet the common information needs of a wide range of users. (Financial statements prepared using a compliance framework)
- Illustration 3: A practitioner's report containing a qualified conclusion due to the practitioner's inability to obtain sufficient appropriate evidence. (Financial statements prepared using a fair presentation framework—HKFRSs)
- Illustration 4: A practitioner's report containing an adverse conclusion due to material misstatement of the financial statements. (Financial statements prepared using a fair presentation framework—HKFRSs)
- Illustration 5: A practitioner's report containing a disclaimer of conclusion due to the practitioner's inability to obtain sufficient appropriate evidence about multiple elements of the financial statements—resulting in inability to complete the review. (Financial statements prepared using a fair presentation framework—HKFRSs)

Review Reports on Special Purpose Financial Statements

- Illustration 6: A practitioner's report on financial statements prepared in accordance with the financial reporting provisions of a contract (for purposes of this illustration, a compliance framework).
- Illustration 7: A practitioner's report on a single financial statement prepared in accordance with the cash receipts and disbursements basis of accounting (for purposes of this illustration, a fair presentation framework).

Illustration 1

Circumstances include the following:

- **Review of a complete set of financial statements.**
- **The financial statements are prepared for a general purpose by management of the entity in accordance with the Hong Kong Financial Reporting Standard for Private Entities.**
- **The terms of the review engagement reflect the description of management's responsibility for the financial statements in paragraph 30(b) of this HKSRE.**
- **In addition to the review of the financial statements, the practitioner has other reporting responsibilities under local law.**

INDEPENDENT PRACTITIONER'S REVIEW REPORT

[Appropriate Addressee]

Report on the Financial Statements¹⁵

We have reviewed the accompanying financial statements of ABC Company that comprise the statement of financial position as at 31 December 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's*¹⁶ *Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Hong Kong Financial Reporting Standard for Private Entities,¹⁷ and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements^{17a}. We conducted our review in accordance with Hong Kong Standard on Review Engagements (HKSRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*. HKSRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

¹⁵ The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

¹⁶ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

¹⁷ Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Hong Kong Financial Reporting Standard for Private Entities, and for such ..."

^{17a} Practitioners may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditor's Duty of Care To Third Parties and The Audit Report".

A review of financial statements in accordance with HKSRE 2400 (Revised) is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Hong Kong Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements do not present fairly, in all material respects, (or *do not give a true and fair view of*) the financial position of ABC Company as at 31 December 20X1, and (of) its financial performance and cash flows for the year then ended, in accordance with the Hong Kong Financial Reporting Standard for Private Entities.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the practitioner's report will vary depending on the nature of the practitioner's other reporting responsibilities.]

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

Illustration 2

Circumstances include the following:

- **Review of a complete set of financial statements required by law or regulation.**
- **The financial statements are prepared for a general purpose by management of the entity in accordance with the Financial Reporting Framework (XYZ Law) of Jurisdiction X (that is, a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).**
- **The terms of the review engagement reflect the description of management's responsibility for the financial statements in paragraph 30(b) of this HKSRE.**
- **Based on the review, inventories are misstated. The misstatement is material but not pervasive to the financial statements.**
- **In addition to the review of the financial statements, the practitioner has other reporting responsibilities under local law.**

INDEPENDENT PRACTITIONER'S REVIEW REPORT

[Appropriate Addressee]

Report on the Financial Statements¹⁸

We have reviewed the accompanying financial statements of ABC Company that comprise the statement of financial position as at 31 December 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's¹⁹ Responsibility for the Financial Statements

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

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements^{19a}. We conducted our review in accordance with Hong Kong Standard on Review Engagements (HKSRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*. HKSRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

¹⁸ The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

¹⁹ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

^{19a} Practitioners may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditor's Duty of Care To Third Parties and The Audit Report".

A review of financial statements in accordance with HKSRE 2400 (Revised) is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Hong Kong Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

Basis for Qualified Conclusion

The company's inventories are carried in the statement of financial position at xxx. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from the requirements of the Financial Reporting Framework (XYZ Law) of Jurisdiction X. The company's records indicate that, had management stated the inventories at the lower of cost and net realizable value, an amount of xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by xxx, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

Qualified Conclusion

Based on our review, except for the effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements of ABC Company are not prepared, in all material respects, in accordance with the Financial Reporting Framework (XYZ Law) of Jurisdiction X.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the practitioner's report will vary depending on the nature of the practitioner's other reporting responsibilities.]

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

Illustration 3

Circumstances include the following:

- Review of a complete set of general purpose financial statements prepared by management of the entity in accordance with [a financial reporting framework designed to achieve fair presentation other than Hong Kong Financial Reporting Standards].
- The terms of the review engagement reflect the description of management's responsibility for the financial statements in paragraph 30(b) of this HKSRE.
- The practitioner was unable to obtain sufficient appropriate evidence regarding an investment in a foreign affiliate. The possible effects of the inability to obtain sufficient appropriate evidence are deemed to be material but not pervasive to the financial statements.
- The practitioner does not have other reporting responsibilities under local law in addition to the review of the consolidated financial statements.

INDEPENDENT PRACTITIONER'S REVIEW REPORT

[Appropriate Addressee]

We have reviewed the accompanying financial statements of ABC Company that comprise the statement of financial position as at 31 December 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's²⁰ Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with [name of applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not Hong Kong Financial Reporting Standards],²¹ and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements^{21a}. We conducted our review in accordance with Hong Kong Standard on Review Engagements (HKSRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*. HKSRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

²⁰ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

²¹ Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with [name of applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not Hong Kong Financial Reporting Standards], and for such ..."

^{21a} Practitioners may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditor's Duty of Care To Third Parties and The Audit Report".

A review of financial statements in accordance with HKSRE 2400 (Revised) is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Hong Kong Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

Basis for Qualified Conclusion

ABC Company's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at xxx on the statement of financial position as at 31 December 20X1, and ABC's share of XYZ's net income of xxx is included in ABC's income for the year then ended. We were unable to obtain access to the relevant financial information of XYZ concerning the carrying amount of ABC's investment in XYZ as at 31 December 20X1 and ABC's share of XYZ's net income for the year. Consequently, we were unable to perform the procedures we considered necessary.

Qualified Conclusion

Based on our review, except for the possible effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying financial statements do not present fairly, in all material respects, (*or do not give a true and fair view of*) the financial position of ABC Company as at 31 December 20X1, and (*of*) its financial performance and cash flows for the year then ended in accordance with [name of applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not Hong Kong Financial Reporting Standards].

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

Illustration 4

Circumstances include the following:

- **Review of consolidated general purpose financial statements prepared by management of the parent in accordance with Hong Kong Financial Reporting Standards.**
- **The terms of the review engagement reflect the description of management's responsibility for the financial statements in paragraph 30(b) of this HKSRE.**
- **The financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the financial statements. The effects of the misstatement on the financial statements have not been determined because it was not practicable to do so.**
- **The practitioner does not have other reporting responsibilities under local law in addition to the review of the consolidated financial statements.**

INDEPENDENT PRACTITIONER'S REVIEW REPORT

[Appropriate Addressee]

Report on the Consolidated Financial Statements²²

We have reviewed the accompanying consolidated financial statements of ABC Company that comprise the consolidated statement of financial position as at 31 December 20X1, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's²³ Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards,²⁴ and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility

Our responsibility is to express a conclusion on these consolidated financial statements^{24a}. We conducted our review in accordance with Hong Kong Standard on Review Engagements (HKSRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*. HKSRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

²² The sub-title "Report on the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

²³ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

²⁴ Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards, and for such ..."

^{24a} Practitioners may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditor's Duty of Care To Third Parties and The Audit Report".

A review of consolidated financial statements in accordance with HKSRE 2400 (Revised) is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Hong Kong Standards on Auditing. Accordingly, we do not express an audit opinion on these consolidated financial statements.

Basis for Adverse Conclusion

As explained in Note X, the company has not consolidated the financial statements of subsidiary XYZ Company it acquired during 20X1 because it has not yet been able to ascertain 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 Hong Kong Financial Reporting Standards, the subsidiary should have been consolidated because it is controlled by the company. Had XYZ been consolidated, many elements in the accompanying financial statements would have been materially affected.

Adverse Conclusion

Based on our review, due to the significance of the matter discussed in the Basis for Adverse Conclusion paragraph, the consolidated financial statements do not present fairly (or *do not give a true and fair view of*) the financial position of ABC Company and its subsidiaries as at 31 December 20X1, and (of) their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the practitioner's report will vary depending on the nature of the practitioner's other reporting responsibilities.]

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

Illustration 5

Circumstances include the following:

- **Review of a complete set of general purpose financial statements prepared by management of the entity in accordance with Hong Kong Financial Reporting Standards.**
- **The terms of the review engagement reflect the description of management's responsibility for the financial statements in paragraph 30(b) of this HKSRE.**
- **The practitioner was unable to form a conclusion on the financial statements, due to inability to obtain sufficient appropriate evidence about multiple elements of the financial statements, and the practitioner believes the effect is material and pervasive to the financial statements. Specifically, the practitioner was unable to obtain evidence about the entity's physical inventory and accounts receivable.**

INDEPENDENT PRACTITIONER'S REVIEW REPORT

[Appropriate Addressee]

We were engaged to review the accompanying financial statements of ABC Company that comprise the statement of financial position as at 31 December 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's²⁵ Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards,²⁶ and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements^{26a}. Because of the matter(s) described in the Basis for Disclaimer of Conclusion paragraph, however, we were not able to obtain sufficient appropriate evidence as a basis for expressing a conclusion on the financial statements.

Basis for Disclaimer of Conclusion

Management did not conduct a count of physical inventory on hand at the end of the year. We were unable to perform the procedures we considered necessary concerning the inventory quantities held at 31 December 20X1, which are stated at xxx in the statement of financial position at 31 December 20X1.

²⁵ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

²⁶ Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards, and for such ..."

^{26a} Practitioners may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditor's Duty of Care To Third Parties and The Audit Report".

In addition, the introduction of a new computerized accounts receivable system in September 20X1 resulted in numerous errors in accounts receivable and inventory. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows.

Disclaimer of Conclusion

Due to the significance of the matters described in the Basis for Disclaimer of Conclusion paragraph, we were unable to obtain sufficient appropriate evidence to form a conclusion on the accompanying financial statements. Accordingly, we do not express a conclusion on these financial statements.

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

Illustration 6

Circumstances include the following:

- **The financial statements have been prepared by management of the entity in accordance with the financial reporting provisions of a contract (that is, a special purpose framework), to comply with the provisions of the contract. Management does not have a choice of financial reporting frameworks.**
- **The applicable financial reporting framework is a compliance framework.**
- **The terms of the review engagement reflect the description of management's responsibility for the financial statements in paragraph 30(b) of this HKSRE.**
- **Distribution or use of the practitioner's report is restricted.**

INDEPENDENT PRACTITIONER'S REVIEW REPORT

[Appropriate Addressee]

We have reviewed the accompanying financial statements of ABC Company that comprise the balance sheet as at 31 December 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management of ABC Company based on the financial reporting provisions of Section Z of the contract dated 1 January 20X1 between ABC Company and DEF Company ("the contract").

Management's²⁷ Responsibility for the Financial Statements

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

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements. We conducted our review in accordance with Hong Kong Standard on Review Engagements (HKSRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*. HKSRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with HKSRE 2400 (Revised) is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

²⁷ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Hong Kong Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not prepared, in all material respects, in accordance with the financial reporting provisions of Section Z of the contract.

Basis of Accounting, and Restriction on Distribution and Use

Without modifying our conclusion, we draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist ABC Company to comply with the financial reporting provisions of the contract referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for ABC Company and DEF Company and should not be distributed to or used by parties other than ABC Company or DEF Company^{27a}.

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

^{27a} Practitioners may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditor's Duty of Care To Third Parties and The Audit Report".

Illustration 7

Circumstances include the following:

- **Review of a statement of cash receipts and disbursements**
- **The financial statement has been prepared by management of the entity in accordance with the cash receipts and disbursements basis of accounting to respond to a request for cash flow information received from a creditor. The basis of accounting applied to prepare the financial statement has been agreed between the entity and the creditor.**
- **The applicable financial reporting framework is a fair presentation framework designed to meet the financial information needs of specific users.**
- **The practitioner has determined that it is appropriate to use the phrase "presents fairly, in all material respects," in the practitioner's conclusion.**
- **The terms of the review engagement reflect the description of management's responsibility for the financial statement in paragraph 30(b) of this HKSRE.**
- **Distribution or use of the practitioner's report is not restricted.**

INDEPENDENT PRACTITIONER'S REVIEW REPORT

[Appropriate Addressee]

We have reviewed the accompanying statement of cash receipts and disbursements of ABC Company for the year ended 31 December 20X1, and a summary of significant accounting policies and other explanatory information (together "the financial statement"). The financial statement has been prepared by management of ABC Company using the cash receipts and disbursements basis of accounting described in Note X.

Management's²⁸ Responsibility for the Financial Statement

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

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statement. We conducted our review in accordance with Hong Kong Standard on Review Engagements (HKSRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*. HKSRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial statement is not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with HKSRE 2400 (Revised) is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

²⁸ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Hong Kong Standards on Auditing. Accordingly, we do not express an audit opinion on this financial statement.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial statement does not present fairly, in all material respects, (or *does not give a true and fair view of*) the cash receipts and disbursements of ABC Company for the year ended 31 December 20X1 in accordance with the cash receipts and disbursements basis of accounting described in Note X.

Basis of Accounting

Without modifying our conclusion, we draw attention to Note X to the financial statement, which describes the basis of accounting. The financial statement is prepared to provide information to XYZ Creditor. As a result, the financial statement may not be suitable for another purpose^{28a}.

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]

^{28a} Practitioners may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditor's Duty of Care To Third Parties and The Audit Report".

HKSAE 3402
Issued May 2010, Revised December 2012

Effective for service auditors' assurance reports
covering periods ending on or after 15 June 2011

Hong Kong Standard on Assurance Engagements 3402

Assurance Reports on Controls at a Service Organization



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

46. In documenting the nature, timing and extent of procedures performed, the service auditor shall record:
 - (a) The identifying characteristics of the specific items or matters being tested;
 - (b) Who performed the work and the date such work was completed; and
 - (c) Who reviewed the work performed and the date and extent of such review.
47. If the service auditor uses specific work of the internal auditors, the service auditor shall document the conclusions reached regarding the evaluation of the adequacy of the work of the internal auditors, and the procedures performed by the service auditor on that work.
48. The service auditor shall document discussions of significant matters with the service organization and others including the nature of the significant matters discussed and when and with whom the discussions took place.
49. If the service auditor has identified information that is inconsistent with the service auditor's final conclusion regarding a significant matter, the service auditor shall document how the service auditor addressed the inconsistency.
50. The service auditor shall assemble the documentation in an engagement file and complete the administrative process of assembling the final engagement file on a timely basis after the date of the service auditor's assurance report.¹¹
51. After the assembly of the final engagement file has been completed, the service auditor shall not delete or discard documentation before the end of its retention period. (Ref: Para. A46)
52. If the service auditor finds it necessary to modify existing engagement documentation or add new documentation after the assembly of the final engagement file has been completed and that documentation does not affect the service auditor's report, the service auditor shall, regardless of the nature of the modifications or additions, document:
 - (a) The specific reasons for making them; and
 - (b) When and by whom they were made and reviewed.

Preparing the Service Auditor's Assurance Report

Content of the Service Auditor's Assurance Report

53. The service auditor's assurance report shall include the following basic elements: (Ref: Para. A47)
 - (a) A title that clearly indicates the report is an independent service auditor's assurance report.
 - (b) An addressee.

¹¹ Hong Kong Standard on Quality Control (HKSQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, paragraphs A54-A55, provide further guidance.

HKSIR 400
Issued October 2005
Revised October 2011, December 2012

Effective for engagements where
the investment circular is dated on or after 1 January 2006

*Hong Kong Standard on
Investment Circular Reporting Engagements 400*

Comfort Letters and Due Diligence Meetings



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

**HONG KONG STANDARD ON
INVESTMENT CIRCULAR REPORTING ENGAGEMENTS 400
COMFORT LETTERS AND DUE DILIGENCE MEETINGS**

(Effective for engagements where
the investment circular is dated on or after 1 January 2006)

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Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 400 "Comfort Letters and Due Diligence Meetings" should be read in the context of the "Preface to Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services" which sets out the application and authority of HKSIRs.

This HKSIR is based on the Listing Rules/GEM Rules, the Takeover Code and the Companies Ordinance that were in effect as at 30 September 2011.

The revisions made in October 2011 are effective for investment circulars dated on or after 1 January 2012. Earlier application of the revisions is permitted.

The revisions made in December 2012 are effective upon issuance.

50. **Alternatively, when agreed between the parties, if the change, increase or decrease, actual or contemplated, is disclosed in the investment circular, the phrase “except for changes, increases or decreases that the investment circular discloses have occurred or may occur” can be included in the letter. When using this alternative presentation, if the amount of the change, increase or decrease is not disclosed in the investment circular, reporting accountants should note the amount of such change, increase or decrease in the comfort letter.**
51. In the context of a comfort letter, an increase (or a decrease) occurs when the amount of a financial statement item at the cut-off date or for the change period (as if financial statements had been prepared at that date and for that period) is more (or less) than the amount of the same item at a specified earlier date or for a specified earlier period.
52. The change period for which reporting accountants provide comfort ends on the cut-off date and ordinarily begins, for balance sheet items, immediately after the date of the last balance sheet in the historical financial information and, for income statement items, immediately after the latest period for which such items are presented in the document.
53. The comparison relates to the entire period and not to portions of that period. For example, a decrease during one part of the period may be offset by an equal or larger increase in another part of the period; however, because there was no decrease for the period as a whole, the comfort letter should not report the decrease occurring during one part of the period.
54. The arrangement letter usually specifies the dates as of which, and periods for which, data at the cut-off date and data for the change period are to be compared. For balance sheet items, the comparison date is normally that of the latest balance sheet included in the historical financial information (that is, immediately prior to the beginning of the change period). For income statement items, the comparison period or periods should ordinarily be the corresponding period of the preceding year, but might be instead or might include in addition any period of corresponding length chosen by sponsors.
55. Whether or not specified in the arrangement letter, the date and period used in comparison should be identified in the comfort letter in both draft and final form so that there is no misunderstanding about the matters being compared and so that sponsors can determine whether the comparison date and period are suitable for the sponsors’ purposes.
56. Limited assurance may only be provided on subsequent changes when the financial statements from which the changes are being measured have been subject to an audit or a review in accordance with standards within the Hong Kong Framework for Assurance Engagements. In addition, depending on the particular circumstances applicable to the engagement, reporting accountants may consider it inappropriate to provide limited assurance on subsequent changes. Factors that might be relevant include (but should not be limited to); the period of time since the latest financial information was subject to an assurance engagement, the extent that complete accounting information is not yet available, the extent that the internal financial statements have been prepared on a basis substantially consistent with that of the historical financial information included in the investment circular, and whether factual findings only are being provided in a separate comfort letter for the same transaction (e.g., in respect of an overseas tranche of the offering where a comfort letter is also being issued under a different framework to HKSIR 400). Where limited assurance is not provided reporting accountants may instead include in the comfort letter the procedures performed and the factual findings (i.e., in the manner of agreed-upon-procedures), provided that there is an adequate basis to do so.
57. **Reporting accountants should obtain written representations from management with respect to changes subsequent to the date of the historical financial information.**
58. An illustration of the representations from management is included in Appendix 4 to this HKSIR.

coverage (except in relation to the fairness of presentation of the historical financial information), or questions on forward-looking statements or on a business plan. Any questions on such matters are properly addressed to the issuer's management, and should be responded to by management.

65. Further guidance as to the manner in which reporting accountants might respond to requests in a due diligence meeting is provided in Appendix 5 to this HKSIR.

Cross-Border and International Offerings

66. When all or part of a securities offering for equity or debt is made overseas, reporting accountants may be requested to perform procedures and provide a separate comfort letter for the purposes of such offerings. In circumstances where there are no relevant standards governing the provision of a comfort letter in the overseas jurisdiction in which the offer is being made, reporting accountants refer to this HKSIR in establishing the scope of work to be performed and the form and content of the comfort letter to the sponsors (or persons fulfilling a similar role to sponsors in the relevant jurisdiction). A commonly encountered example of this is in the case of an international offering in conjunction with a Hong Kong public offering. In addition to providing a comfort letter under this HKSIR for the purposes of the Hong Kong public offering, the reporting accountants are typically requested to provide a separate comfort letter in respect of certain portions of the international offering. In such circumstances, with no requirement to follow any relevant jurisdictional standards, the reporting accountants refer to this HKSIR for the purposes of their comfort letter and due diligence meetings in relation to the relevant international tranche³ (excluding any tranche to be offered in the United States, which will typically be covered by a comfort letter in the style of U.S. Auditing Standard AU 634⁴); thereby aligning standards for both the Hong Kong and relevant international portions of the offering.⁵

Effective Date

67. This HKSIR is effective for engagements where the investment circular is dated on or after 1 January 2006. The revisions made in October 2011 are effective where the investment circular is dated on or after 1 January 2012. Earlier application is permitted. The revisions made in December 2012 are effective upon issuance.

³ For example, to be offered in reliance on Regulation S under the U.S. Securities Act of 1933, as amended.

⁴ For example, to be offered in reliance on Rule 144A under the U.S. Securities Act of 1933, as amended.

⁵ In the context of paragraph 66, it is noted that comfort letters issued in connection with U.S. S.E.C. registered offerings of securities are normally issued following the guidance in U.S. Auditing Standard AU 634.

Example 1 – Public Offering in Hong Kong (letterhead of reporting accountants)

[Date]

To: The Directors, XYZ Limited

Sponsors Limited

[Other Named Addressees and each of the Hong Kong underwriters as defined in the Hong Kong Underwriting Agreement dated [•] (the "Hong Kong Underwriters") that is an Addressee (as defined in Paragraph 3 below)⁶]

Dear Sirs,

Comfort Letter and Other Assistance Relating to the Proposed Listing of XYZ Limited (the "Issuer") on the [Main Board/Growth Enterprise Market] of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange")

Introduction

1. This arrangement letter sets out the scope and limitations of the work to be performed by us, being the reporting accountants of the Issuer, in connection with the issuance of a comfort letter and other assistance in respect of the above transaction, namely the proposed issue in Hong Kong of [•] (the "Issue") which will involve the preparation by the Issuer, and for which the Issuer will be solely responsible, of a prospectus in accordance with the [Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")]/[Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules")] (the "Prospectus"). This arrangement letter is written in the context of the respective roles of the directors of the Issuer, Sponsors Limited (the "Sponsor") and the other Addressees (as defined below) and ourselves, in relation to the Issue. This arrangement letter does not apply to, and shall have no effect on, the rights and obligations of the Issuer, the Addressees or us in relation to the proposed international offering proposed to be conducted (the "International Offering") simultaneously with the Issue in Hong Kong, including any offering in the United States or elsewhere in the world or in connection with any actual or potential proceedings or disputes under U.S. federal or state securities laws relating to the International Offering.
2. The services we will provide in connection with the Issue (the "Services") will comprise:
 - provision of a comfort letter and where applicable, additional or updated comfort letter(s) (addressed to the directors of the Issuer and the Addressees) in connection with the Prospectus (the "Comfort Letter"), and
 - having meetings and discussions with the Addressees and their professional advisers and responding orally or otherwise to questions raised by them in connection with their due diligence regarding the Issue and the Prospectus (the "Other Assistance").

⁶ Named addressees of the arrangement letter and the comfort letter might include the sponsors, global coordinators, bookrunners, lead managers or other managing underwriters. These parties typically enter into the arrangement letter on behalf of the other underwriters of the Hong Kong public offering. It should not be necessary to name such other underwriters in the arrangement letter, since the prospectus and the Hong Kong underwriting agreement will clearly identify them. In certain circumstances, it may be appropriate to address a comfort letter to other parties, in which case such parties would also be appropriate parties to the arrangement letter. Typically, the sponsors and the lead and/or managing underwriters (however named in the underwriting agreement), would be the named addressees of the comfort letter.

Addressees

3. This arrangement letter is addressed to [the Sponsor(s), the Global Coordinator(s) and the Lead Manager(s)] (the “Named Addressees”), and to each of the Hong Kong Underwriters (as defined in the Prospectus) which has agreed (or after the date of this arrangement letter agrees) to participate in the Issue and which has, or prior to the issue of the Comfort Letter will have agreed to be bound by the terms of this arrangement letter, either by having validly authorised one or more of the signatories of this arrangement letter to enter into this arrangement letter on its behalf or validly ratified the entry into this arrangement letter on its behalf. The addressees of this arrangement letter (other than the Issuer) are collectively referred to herein as the “Addressees”. By signing and accepting the terms of this arrangement letter, each Named Addressee confirms that it will use reasonable endeavours to obtain prima facie authority from each of the Hong Kong Underwriters authorising it to enter into this arrangement letter on the relevant underwriter’s behalf. However, no Named Addressee makes any representation as to whether such prima facie authority actually confers the necessary authority.

Comfort Letter

4. The Comfort Letter and the Other Assistance will be provided to the Issuer for its information only, and to the Addressees solely in the context of the due diligence procedures being undertaken or procured to be undertaken by the Addressees in connection with the offering or sale of the securities in Hong Kong pursuant to the Prospectus, for the purpose of establishing or seeking to establish any defence in such context (“Due Diligence Defence”) that the Addressees may wish to advance in any actual or potential court or arbitration proceedings, any investigation, hearing or other proceedings by any regulatory body, or any claim or dispute in respect of the Prospectus or otherwise in connection with the Issue. Accordingly, the Comfort Letter will be addressed to the Addressees for that purpose and neither the Comfort Letter nor the Other Assistance may be relied on by the Addressees for any other purpose. The Addressees are requesting the Comfort Letter in connection with the Issue as one of a number of procedures that the Addressees may use to establish the investigation that they have conducted.
5. Each Named Addressee confirms that it is aware of the due diligence guidance included in the [Listing Rules][GEM Rules], which will be followed.
6. For the avoidance of doubt and subject to the limitations or exclusions which are contained in or referred to in Paragraphs 7, 8, 24 and 30 of this arrangement letter, nothing in this arrangement letter shall preclude any Addressee from obtaining compensation from us in respect of any liability that it may incur to an investor arising out of the Issue or the contents of the Prospectus to the extent that such liability arises because the work undertaken pursuant to this arrangement letter or the Comfort Letter was undertaken negligently, in bad faith or as a result of our fraud or wilful default, it being understood that the foregoing is without prejudice to any defence of contributory negligence that may be available to us.
7. The Comfort Letter issued pursuant to this arrangement letter will be provided in accordance with the standards of the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and will not have been provided in accordance with any other professional standards, including but not limited to those of the American Institute of Certified Public Accountants. Accordingly, the Comfort Letter should not be relied upon in connection with any obligations or responsibilities that the Addressees may have under any legislation, regulations and/or rule of law other than those of Hong Kong and, in the event of any such use in any jurisdiction other than Hong Kong, we accept no responsibility in this regard.
8. Our work and findings shall not in any way constitute advice or recommendations (and we accept no liability in relation to any advice or recommendations) regarding any commercial decisions associated with the Issue, including, in particular, but without limitation, any which may be taken by any Addressee (or any person connected to any Addressee) in the capacity of investor or in providing investment advice to their clients.

9. The Comfort Letter will be provided solely for the Addressees' private information and should not be used for any purpose other than as set out in Paragraph 4. The Comfort Letter may not be referred to in any other document (except that references may be made to its existence in (i) contracts among any of the Issuer, the Addressees and ourselves and (ii) any communications in relation to the Issue among any of the Issuer, the Addressees, the underwriters of the International Offering and ourselves), nor made available to any other party (except that copies may be included in bibles of transaction documents memorialising the Issue).
10. Nothing in Paragraphs 4, 7 or 9 shall prevent the Addressees from disclosing this arrangement letter and the Comfort Letter to the Addressees' professional advisers or as may be required by law, regulation or court order or the rules or requirements of a regulatory body or stock exchange whose requirements the Addressees are complying with, and/or referring to and/or producing the Comfort Letter for any of the purposes set out in Paragraph 4. Except as permitted in the immediately preceding sentence, the Addressees shall first obtain our prior written consent for disclosure of the Comfort Letter to third parties.
11. Other than to those who have, or before the Comfort Letter is issued shall have, validly accepted this arrangement letter, we will not accept any responsibility to any party to whom the Comfort Letter is shown or into whose hands it may come.

Work and Procedures

12. Our work will be conducted in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 400 "Comfort Letters and Due Diligence Meetings" issued by the HKICPA. Specifically, our work will enable us to report factual findings in relation to selected financial information and to enable us to provide limited assurance on subsequent changes to historical financial information included in the Prospectus. [Procedures undertaken in connection with providing limited assurance on interim financial information will be conducted with reference to Hong Kong Standard on Review Engagements ("HKSRE") 2410.⁷] In other jurisdictions, standards and practices relevant to reporting accountants may be different and may not provide for reporting in the manner contemplated herein. Accordingly, the Comfort Letter should not be relied on as if it had been provided in accordance with the standards and practice of any professional body in any other jurisdiction.
13. Except as specifically stated in our comfort letter we have not performed an audit or review in respect of any financial information relating to the Issuer for any period subsequent to [date of last reported balance sheet] in accordance with Hong Kong Standards on Auditing ("HKSA") or [Hong Kong Standards on Review Engagements ("HKSREs")][HKSREs] issued by the HKICPA. The procedures we will use to perform the work set out in this arrangement letter including those in relation to subsequent changes will not constitute an audit or review made in accordance with HKSA or HKSREs issued by the HKICPA. Furthermore, they will not necessarily reveal matters of significance with respect to any material misstatement of the information referred to below.
14. We will only carry out those procedures expressly provided for in the Comfort Letter. Accordingly, we make no representations as to the sufficiency for the Addressees' purposes of the procedures provided for in the Comfort Letter and, therefore, our responsibility shall be limited to performing the work agreed upon in this arrangement letter and/or recorded in the Comfort Letter with due skill, care and attention. If we were to perform additional procedures or if we were to conduct an audit or review on the financial information of the Issuer in accordance with HKSA or HKSREs issued by the HKICPA, other matters might be reported to the Addressees in the Comfort Letter. The procedures to be performed by us in connection with the Comfort Letter should not be taken to supplant additional inquiries or procedures that may be appropriate in the performance of the Addressees' role under the proposed Issue.

⁷ In certain situations the reporting accountant may be required to perform a review of interim financial information in order to enable negative assurance to be provided on subsequent changes. This sentence should be included where such a review will be undertaken.

Example 2 – International Offering in reliance on Regulation S

(letterhead of reporting accountants)

[Date]

To: The Directors, XYZ Limited

Lead Manager Limited

[Other Named Addressees and each of the other international underwriters as defined in the International Underwriting Agreement dated [•] (the "International Underwriters") that is an Addressee (as defined in Paragraph 3 below)^{12]}

Dear Sirs,

Comfort Letter and Other Assistance Relating to the Proposed International Offering of the Ordinary Shares of XYZ Limited (the "Issuer") in reliance on Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act")

Introduction

1. This arrangement letter sets out the scope and limitations of the work to be performed by us, being the reporting accountants of the Issuer, in connection with the issuance of a comfort letter and other assistance in respect of the above transaction, namely the proposed international offering outside of the United States of America in reliance on Regulation S under the Securities Act (the "Regulation S Offering") of [•] (the "Issue") which will involve the preparation by the Issuer, and for which the Issuer will be solely responsible, of an offering memorandum, that may be delivered to investors and utilised by them as a basis for their investment decisions (the "Offering Memorandum"). This arrangement letter is written in the context of the respective roles of the directors of the Issuer, Lead Manager Limited (the "Lead Manager") and the other Addressees (as defined below) and ourselves, in relation to the Issue. This arrangement letter does not apply to, and shall have no effect on, the rights and obligations of the Issuer, the Addressees or us in relation to the proposed public offering in Hong Kong, or any offering in the United States proposed to be conducted simultaneously with the Regulation S Offering.
2. The services we will provide in connection with the Issue (the "Services") will comprise:
 - provision of a comfort letter and where applicable, additional or updated comfort letter(s) (addressed to the directors of the Issuer and the Addressees) in connection with the Offering Memorandum (the "Comfort Letter"), and
 - having meetings and discussions with the Addressees and their professional advisers and responding orally or otherwise to questions raised by them in connection with their due diligence regarding the Issue and the Offering Memorandum (the "Other Assistance").

¹² Named addressees of the arrangement letter and the comfort letter might include the global coordinators, bookrunners, lead managers or other managing underwriters. These parties typically enter into the arrangement letter on behalf of the other underwriters of the Regulation S offering. It should not be necessary to name such other underwriters in the arrangement letter, since the offering memorandum and the international underwriting agreement will clearly identify them. In certain circumstances, it may be appropriate to address a comfort letter to other parties, in which case such parties would also be appropriate parties to the arrangement letter. Typically, the lead and/or managing underwriters (however named in the underwriting agreement), would be the named addressees of the comfort letter.

Addressees

3. This arrangement letter is addressed to [the Global Coordinator(s) and the Lead Manager(s)] (the “Named Addressees”), and to each of the other International Underwriters (as defined in the Offering Memorandum) which has agreed (or after the date of this arrangement letter agrees) to participate in the Issue and which has, or prior to the issue of the Comfort Letter will have agreed to be bound by the terms of this arrangement letter, either by having validly authorised one or more of the signatories of this arrangement letter to enter into this arrangement letter on its behalf or validly ratified the entry into this arrangement letter on its behalf. The addressees of this arrangement letter (other than the Issuer) are collectively referred to herein as the “Addressees”. By signing and accepting the terms of this arrangement letter, each Named Addressee confirms that it will use reasonable endeavours to obtain prima facie authority from each of the other International Underwriters authorising it to enter into this arrangement letter as representative of the relevant underwriter. However, no Named Addressee makes any representation as to whether such prima facie authority actually confers the necessary authority.

Comfort Letter

4. The Comfort Letter and the Other Assistance will be provided to the Issuer for its information only, and to the Addressees solely in the context of the due diligence procedures being undertaken or procured to be undertaken by the Addressees in connection with the offering or sale of the securities outside of the United States under Regulation S pursuant to the Offering Memorandum, for the purpose of establishing or seeking to establish any defence in such context (“Due Diligence Defence”) that the Addressees may wish to advance in any actual or potential court or arbitration proceedings, any investigation, hearing or other proceedings by any regulatory body, or any claim or dispute in respect of the Offering Memorandum or otherwise in connection with the Issue. Accordingly, the Comfort Letter will be addressed to the Addressees for that purpose and neither the Comfort Letter nor the Other Assistance may be relied on by the Addressees for any other purpose. The Addressees are requesting the Comfort Letter in connection with the Issue as one of a number of procedures that the Addressees may use to establish the investigation that they have conducted.
5. Each Named Addressee confirms that it is aware of the due diligence guidance [issued by *name of framework/organization, e.g., the International Capital Market Association*][included in the [Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited]/[Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited]], which will be followed.
6. For the avoidance of doubt and subject to the limitations or exclusions which are contained in or referred to in Paragraphs 7, 8, 24 and 30 of this arrangement letter, nothing in this arrangement letter shall preclude any Addressee from obtaining compensation from us in respect of any liability that it may incur to an investor arising out of the Issue or the contents of the Offering Memorandum to the extent that such liability arises because the work undertaken pursuant to this arrangement letter or the Comfort Letter was undertaken negligently, in bad faith or as a result of our fraud or wilful default, it being understood that the foregoing is without prejudice to any defence of contributory negligence that may be available to us.
7. The Comfort Letter issued pursuant to this arrangement letter will be provided in accordance with the standards of the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and will not have been provided in accordance with any other professional standards, including but not limited to those of the American Institute of Certified Public Accountants.
8. Our work and findings shall not in any way constitute advice or recommendations (and we accept no liability in relation to any advice or recommendations) regarding any commercial decisions associated with the Issue, including, in particular, but without limitation, any which may be taken by any Addressee (or any person connected to any Addressee) in the capacity of investor or in providing investment advice to their clients.
9. The Comfort Letter will be provided solely for the Addressees' private information and should not be used for any purpose other than as set out in Paragraph 4. The Comfort Letter may not be referred to in any other document (except that references may be made to its existence in (i)

contracts among any of the Issuer, the Addressees and ourselves and (ii) any communications in relation to the Issue among any of the Issuer, the Addressees, the Sponsors of the Hong Kong Public Offering, the International Underwriters and ourselves), nor made available to any other party (except that copies may be included in bibles of transaction documents memorialising the Issue).

10. Nothing in Paragraphs 4, 7 or 9 shall prevent the Addressees from disclosing this arrangement letter and the Comfort Letter to the Addressees' professional advisers or as may be required by law, regulation or court order or the rules or requirements of a regulatory body or stock exchange whose requirements the Addressees are complying with, and/or referring to and/or producing the Comfort Letter for any of the purposes set out in Paragraph 4. Except as permitted in the immediately preceding sentence, the Addressees shall first obtain our prior written consent for disclosure of the Comfort Letter to third parties.
11. Other than to those who have, or before the Comfort Letter is issued shall have, validly accepted this arrangement letter, we will not accept any responsibility to any party to whom the Comfort Letter is shown or into whose hands it may come.

Work and Procedures

12. Our work will be conducted in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 400 "Comfort Letters and Due Diligence Meetings" issued by the HKICPA. Specifically, our work will enable us to report factual findings in relation to selected financial information and to enable us to provide limited assurance on subsequent changes to historical financial information included in the Offering Memorandum. [Procedures undertaken in connection with providing limited assurance on interim financial information will be conducted with reference to Hong Kong Standard on Review Engagements ("HKSRE") 2410.¹³] In other jurisdictions, standards and practices relevant to reporting accountants may be different and may not provide for reporting in the manner contemplated herein. Accordingly, the Comfort Letter should not be relied on as if it had been provided in accordance with the standards and practice of any professional body in any other jurisdiction.
13. Except as specifically stated in our comfort letter we have not performed an audit or review in respect of any financial information relating to the Issuer for any period subsequent to [date of last reported balance sheet] in accordance with Hong Kong Standards on Auditing ("HKSA") or [Hong Kong Standards on Review Engagements ("HKSREs")][HKSREs] issued by the HKICPA. The procedures we will use to perform the work set out in this arrangement letter including those in relation to subsequent changes will not constitute an audit or review made in accordance with HKSA or HKSREs issued by the HKICPA. Furthermore, they will not necessarily reveal matters of significance with respect to any material misstatement of the information referred to below.
14. We will only carry out those procedures expressly provided for in the Comfort Letter. Accordingly, we make no representations as to the sufficiency for the Addressees' purposes of the procedures provided for in the Comfort Letter and, therefore, our responsibility shall be limited to performing the work agreed upon in this arrangement letter and/or recorded in the Comfort Letter with due skill, care and attention. If we were to perform additional procedures or if we were to conduct an audit or review on the financial information of the Issuer in accordance with HKSA or HKSREs issued by the HKICPA, other matters might be reported to the Addressees in the Comfort Letter. The procedures to be performed by us in connection with the Comfort Letter should not be taken to supplant additional inquiries or procedures that may be appropriate in the performance of the Addressees' role under the proposed Issue.

¹³ In certain situations the reporting accountant may be required to perform a review of interim financial information in order to enable negative assurance to be provided on subsequent changes. This sentence should be included where such a review will be undertaken.

Example 3 – Public Offering in Hong Kong and an International Offering in reliance on Regulation S (combined approach)

(letterhead of reporting accountants)

[Date]

To: The Directors, XYZ Limited

Sponsors Limited/Lead Manager Limited

[Other Named Addressees and each of the Hong Kong and international underwriters as defined in the respective Hong Kong and International Underwriting Agreements dated [•] (the "Hong Kong and International Underwriters") that is an Addressee (as defined in Paragraph 3 below)¹⁸

Dear Sirs,

Comfort Letter and Other Assistance Relating to the Proposed Listing of XYZ Limited (the "Issuer") on the [Main Board/Growth Enterprise Market] of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and Relating to the Proposed Offering of the Ordinary Shares of the Issuer in reliance on Regulation S under the U.S. Securities Act of 1933, as amended ("the Securities Act")

Introduction

1. This arrangement letter sets out the scope and limitations of the work to be performed by us, being the reporting accountants of the Issuer, in connection with the issuance of a comfort letter[(s)] and other assistance in respect of the above transaction, namely the proposed issue in Hong Kong (the "Hong Kong Public Offering") and outside of the United States of America in reliance on Regulation S under the Securities Act (the "Regulation S Offering") of [•] (collectively the "Issue") which will involve the preparation by the Issuer, and for which the Issuer will be solely responsible, in the case of the Hong Kong Public Offering, of a prospectus in accordance with the [Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")]/[Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules")] and in the case of the Regulation S Offering, of an offering memorandum, that may be delivered to investors and utilised by them as a basis for their investment decisions (hereinafter each referred to in this letter as the "Offering Document"). This arrangement letter is written in the context of the respective roles of the directors of the Issuer, Sponsors Limited / Lead Manager Limited and the other Addressees (as defined below) and ourselves, in relation to the Issue. This arrangement letter does not apply to, and shall have no effect on, the rights and obligations of the Issuer, the Addressees or us in relation to any offering in the United States proposed to be conducted simultaneously with the Issue.

¹⁸ Named addressees of the arrangement letter and the comfort letter might include the sponsors, global coordinators, bookrunners, lead managers or other managing underwriters. These parties typically enter into the arrangement letter on behalf of the other underwriters of the Hong Kong public and Regulation S offerings. It should not be necessary to name such other underwriters in the arrangement letter, since the offering document and the Hong Kong and international underwriting agreements will clearly identify them. In certain circumstances, it may be appropriate to address a comfort letter to other parties, in which case such parties would also be appropriate parties to the arrangement letter. Typically, the sponsors and the lead and/or managing underwriters (however named in the underwriting agreements), would be the named addressees of the comfort letter.

2. The services we will provide in connection with the Issue (the “Services”) will comprise:
- provision of a comfort letter and where applicable, additional or updated comfort letter(s) [for each of the Hong Kong Public Offering and the Regulation S Offering] (addressed to the directors of the Issuer and the Addressees) in connection with the Offering Document (the “Comfort Letter”), and
 - having meetings and discussions with the Addressees and their professional advisers and responding orally or otherwise to questions raised by them in connection with their due diligence regarding the Issue and the Offering Document (the “Other Assistance”).

Addressees

3. This arrangement letter is addressed to [the Sponsor(s), the Global Coordinator(s) and the Lead Manager(s)] (the “Named Addressees”), and to each of the Hong Kong and the International Underwriters (as defined in the Offering Document) which has agreed (or after the date of this arrangement letter agrees) to participate in the Issue and which has, or prior to the issue of the Comfort Letter will have agreed to be bound by the terms of this arrangement letter, either by having validly authorised one or more of the signatories of this arrangement letter to enter into this arrangement letter on its behalf or validly ratified the entry into this arrangement letter on its behalf. The addressees of this arrangement letter (other than the Issuer) are collectively referred to herein as the “Addressees”. By signing and accepting the terms of this arrangement letter, each Named Addressee confirms that it will use reasonable endeavours to obtain prima facie authority from each of the Hong Kong and the International Underwriters authorising it to enter into this arrangement letter as representative of the relevant underwriter. However, no Named Addressee makes any representation as to whether such prima facie authority actually confers the necessary authority.

Comfort Letter

4. The Comfort Letter and the Other Assistance will be provided to the Issuer for its information only, and to the Addressees solely in the context of the due diligence procedures being undertaken or procured to be undertaken by the Addressees in connection with the offering or sale of the securities in Hong Kong and outside of the United States under Regulation S pursuant to the Offering Document, for the purpose of establishing or seeking to establish any defence in such context (“Due Diligence Defence”) that the Addressees may wish to advance in any actual or potential court or arbitration proceedings, any investigation, hearing or other proceedings by any regulatory body, or any claim or dispute in respect of the Offering Document or otherwise in connection with the Issue. Accordingly, the Comfort Letter will be addressed to the Addressees for that purpose and neither the Comfort Letter nor the Other Assistance may be relied on by the Addressees for any other purpose. The Addressees are requesting the Comfort Letter in connection with the Issue as one of a number of procedures that the Addressees may use to establish the investigation that they have conducted.
5. Each Named Addressee confirms that it is aware of the due diligence guidance included in the [Listing Rules][GEM Rules] [and in respect of the International Offering the due diligence guidance issued by [*name of framework/organization, e.g., the International Capital Market Association*]], which will be followed.
6. For the avoidance of doubt and subject to the limitations or exclusions which are contained in or referred to in Paragraphs 7, 8, 24 and 30 of this arrangement letter, nothing in this arrangement letter shall preclude any Addressee from obtaining compensation from us in respect of any liability that it may incur to an investor arising out of the Issue or the contents of the Offering Document to the extent that such liability arises because the work undertaken pursuant to this arrangement letter or the Comfort Letter was undertaken negligently, in bad faith or as a result of our fraud or wilful default, it being understood that the foregoing is without prejudice to any defence of contributory negligence that may be available to us.

7. The Comfort Letter issued pursuant to this arrangement letter will be provided in accordance with the standards of the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and will not have been provided in accordance with any other professional standards, including but not limited to those of the American Institute of Certified Public Accountants.
8. Our work and findings shall not in any way constitute advice or recommendations (and we accept no liability in relation to any advice or recommendations) regarding any commercial decisions associated with the Issue, including, in particular, but without limitation, any which may be taken by any Addressee (or any person connected to any Addressee) in the capacity of investor or in providing investment advice to their clients.
9. The Comfort Letter will be provided solely for the Addressees' private information and should not be used for any purpose other than as set out in Paragraph 4. The Comfort Letter may not be referred to in any other document (except that references may be made to its existence in (i) contracts among any of the Issuer, the Addressees and ourselves and (ii) any communications in relation to the Issue among any of the Issuer, the Addressees and ourselves), nor made available to any other party (except that copies may be included in bibles of transaction documents memorialising the Issue).
10. Nothing in Paragraphs 4, 7 or 9 shall prevent the Addressees from disclosing this arrangement letter and the Comfort Letter to the Addressees' professional advisers or as may be required by law, regulation or court order or the rules or requirements of a regulatory body or stock exchange whose requirements the Addressees are complying with, and/or referring to and/or producing the Comfort Letter for any of the purposes set out in Paragraph 4. Except as permitted in the immediately preceding sentence, the Addressees shall first obtain our prior written consent for disclosure of the Comfort Letter to third parties.
11. Other than to those who have, or before the Comfort Letter is issued shall have, validly accepted this arrangement letter, we will not accept any responsibility to any party to whom the Comfort Letter is shown or into whose hands it may come.

Work and Procedures

12. Our work will be conducted in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 400 "Comfort Letters and Due Diligence Meetings" issued by the HKICPA. Specifically, our work will enable us to report factual findings in relation to selected financial information and to enable us to provide limited assurance on subsequent changes to historical financial information included in the Offering Document. [Procedures undertaken in connection with providing limited assurance on interim financial information will be conducted with reference to Hong Kong Standard on Review Engagements ("HKSRE") 2410.¹⁹] In other jurisdictions, standards and practices relevant to reporting accountants may be different and may not provide for reporting in the manner contemplated herein. Accordingly, the Comfort Letter should not be relied on as if it had been provided in accordance with the standards and practice of any professional body in any other jurisdiction.
13. Except as specifically stated in our comfort letter we have not performed an audit or review in respect of any financial information relating to the Issuer for any period subsequent to [date of last reported balance sheet] in accordance with Hong Kong Standards on Auditing ("HKSA") or [Hong Kong Standards on Review Engagements ("HKSREs")][HKSREs] issued by the HKICPA. The procedures we will use to perform the work set out in this arrangement letter including those in relation to subsequent changes will not constitute an audit or review made in accordance with HKSA or HKSREs issued by the HKICPA. Furthermore, they will not necessarily reveal matters of significance with respect to any material misstatement of the information referred to below.

¹⁹ In certain situations the reporting accountant may be required to perform a review of interim financial information in order to enable negative assurance to be provided on subsequent changes. This sentence should be included where such a review will be undertaken.

Example 4 – Debt Offering in reliance on Regulation S

(letterhead of Independent accountants)

[Date]

To: The Directors, XYZ Limited [and ABC Limited]

Lead Manager Limited

[Other Named Addressees and each of the other joint lead managers and managers as defined in the Subscription Agreement dated [•] (the "Managers") that is an Addressee (as defined in Paragraph 3 below)²⁴]

Dear Sirs,

Comfort Letter and Other Assistance Relating to the Proposed Offering of [x] (the "Notes") of XYZ Limited (the "Company") [guaranteed by ABC Limited (the "Guarantor")] in reliance on Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act")

Introduction

1. This arrangement letter sets out the scope and limitations of the work to be performed by us, in connection with the issuance of a comfort letter and other assistance in respect of the above transaction, namely the proposed international offering outside of the United States of America in reliance on Regulation S under the Securities Act (the "Regulation S Offering") of the Notes (the "Issue") which will involve the preparation by the Company, and for which the Company will be solely responsible, of an offering circular, [in accordance with the Listing Rules of [relevant] Stock Exchange or other Listing Authority] (the "Offering Circular"). This arrangement letter is written in the context of the respective roles of the directors of the Company,[the directors of the Guarantor,] Lead Manager Limited (the "Lead Manager") and the other Addressees (as defined below) and ourselves, in relation to the Issue. This arrangement letter does not apply to, and shall have no effect on, the rights and obligations of the Company, [the Guarantor,] the Addressees or us in relation to any offering in the United States not otherwise pursuant to the Regulation S Offering.
2. The services we will provide in connection with the Issue (the "Services") will comprise:
 - provision of a comfort letter and where applicable, additional or updated comfort letter(s) (addressed to the directors of the Company,[the directors of the Guarantor] and the Addressees) in connection with the Offering Circular (the "Comfort Letter"), and
 - having meetings and discussions with the Addressees and their professional advisers and responding orally or otherwise to questions raised by them in connection with their due diligence regarding the Issue and the Offering Circular (the "Other Assistance").

²⁴ Named addressees of the arrangement letter and the comfort letter might include the global coordinators, bookrunners, lead managers or other underwriters. These parties typically enter into the arrangement letter on behalf of the other underwriters of the Regulation S offering. It should not be necessary to name such other underwriters in the arrangement letter, since the offering circular and the subscription agreement will clearly identify them. In certain circumstances, it may be appropriate to address a comfort letter to other parties, in which case such parties would also be appropriate parties to the arrangement letter. Typically, the lead and/or other underwriters (however named in the subscription agreement), would be the named addressees of the comfort letter.

Addressees

3. This arrangement letter is addressed to [the Global Coordinator(s) and the Lead Manager(s)] (the “Named Addressees”), and to each of the other Managers (as defined in the Offering Circular) which has agreed (or after the date of this arrangement letter agrees) to participate in the Issue and which has, or prior to the issue of the Comfort Letter will have agreed to be bound by the terms of this arrangement letter, either by having validly authorised one or more of the signatories of this arrangement letter to enter into this arrangement letter on its behalf or validly ratified the entry into this arrangement letter on its behalf. The addressees of this arrangement letter (other than the Company [and the Guarantor]) are collectively referred to herein as the “Addressees”. By signing and accepting the terms of this arrangement letter, each Named Addressee confirms that it will use reasonable endeavours to obtain prima facie authority from each of the other Managers authorising it to enter into this arrangement letter as representative of the relevant Manager. However, no Named Addressee makes any representation as to whether such prima facie authority actually confers the necessary authority.

Comfort Letter

4. The Comfort Letter and the Other Assistance will be provided to the Company [and the Guarantor] for [its/their] information only, and to the Addressees solely in the context of the due diligence procedures being undertaken or procured to be undertaken by the Addressees in connection with the offering or sale of the securities outside of the United States under Regulation S pursuant to the Offering Circular, for the purpose of establishing or seeking to establish any defence in such context (“Due Diligence Defence”) that the Addressees may wish to advance in any actual or potential court or arbitration proceedings, any investigation, hearing or other proceedings by any regulatory body, or any claim or dispute in respect of the Offering Circular or otherwise in connection with the Issue. Accordingly, the Comfort Letter will be addressed to the Addressees for that purpose and neither the Comfort Letter nor the Other Assistance may be relied on by the Addressees for any other purpose. The Addressees are requesting the Comfort Letter in connection with the Issue as one of a number of procedures that the Addressees may use to establish the investigation that they have conducted.
5. Each Named Addressee confirms that it is aware of the guidance related to due diligence issued by the International Capital Market Association, which will be followed.
6. For the avoidance of doubt and subject to the limitations or exclusions which are contained in or referred to in Paragraphs 7, 8, 24 and 30 of this arrangement letter, nothing in this arrangement letter shall preclude any Addressee from obtaining compensation from us in respect of any liability that it may incur to an investor arising out of the Issue or the contents of the Offering Circular to the extent that such liability arises because the work undertaken pursuant to this arrangement letter or the Comfort Letter was undertaken negligently, in bad faith or as a result of our fraud or wilful default, it being understood that the foregoing is without prejudice to any defence of contributory negligence that may be available to us.
7. The Comfort Letter issued pursuant to this arrangement letter will be provided in accordance with the standards of the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and will not have been provided in accordance with any other professional standards, including but not limited to those of the American Institute of Certified Public Accountants.
8. Our work and findings shall not in any way constitute advice or recommendations (and we accept no liability in relation to any advice or recommendations) regarding any commercial decisions associated with the Issue, including, in particular, but without limitation, any which may be taken by any Addressee (or any person connected to any Addressee) in the capacity of investor or in providing investment advice to their clients.
9. The Comfort Letter will be provided solely for the Addressees' private information and should not be used for any purpose other than as set out in Paragraph 4. The Comfort Letter may not be referred to in any other document (except that references may be made to its existence in (i) contracts among any of the Company [and the Guarantor], the Addressees and ourselves and (ii) any communications in relation to the Issue among any of the Company[, the Guarantor], the Addressees, the Managers and ourselves), nor made available to any other party (except that

copies may be included in bibles of transaction documents memorialising the Issue).

10. Nothing in Paragraphs 4, 7 or 9 shall prevent the Addressees from disclosing this arrangement letter and the Comfort Letter to the Addressees' professional advisers or as may be required by law, regulation or court order or the rules or requirements of a regulatory body or stock exchange whose requirements the Addressees are complying with, and/or referring to and/or producing the Comfort Letter for any of the purposes set out in Paragraph 4. Except as permitted in the immediately preceding sentence, the Addressees shall first obtain our prior written consent for disclosure of the Comfort Letter to third parties.
11. Other than to those who have, or before the Comfort Letter is issued shall have, validly accepted this arrangement letter, we will not accept any responsibility to any party to whom the Comfort Letter is shown or into whose hands it may come.

Work and Procedures

12. Our work will be conducted in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 400 "Comfort Letters and Due Diligence Meetings" issued by the HKICPA. Specifically, our work will enable us to report factual findings in relation to selected financial information and to enable us to provide limited assurance on subsequent changes to historical financial information included in the Offering Circular. [Procedures undertaken in connection with providing limited assurance on interim financial statements will be conducted with reference to Hong Kong Standard on Review Engagements ("HKSRE") 2410.²⁵] In other jurisdictions, standards and practices relevant to our work may be different and may not provide for reporting in the manner contemplated herein. Accordingly, the Comfort Letter should not be relied on as if it had been provided in accordance with the standards and practice of any professional body in any other jurisdiction.
13. Except as specifically stated in our comfort letter we have not performed an audit or review in respect of any financial statements relating to the [Company/Guarantor] for any period subsequent to [date of last reported balance sheet] in accordance with Hong Kong Standards on Auditing ("HKSA") or [Hong Kong Standards on Review Engagements ("HKSREs")][HKSREs] issued by the HKICPA. The procedures we will use to perform the work set out in this arrangement letter including those in relation to subsequent changes will not constitute an audit or review made in accordance with HKSA or HKSREs issued by the HKICPA. Furthermore, they will not necessarily reveal matters of significance with respect to any material misstatement of the information referred to below.
14. We will only carry out those procedures expressly provided for in the Comfort Letter. Accordingly, we make no representations as to the sufficiency for the Addressees' purposes of the procedures provided for in the Comfort Letter and, therefore, our responsibility shall be limited to performing the work agreed upon in this arrangement letter and/or recorded in the Comfort Letter with due skill, care and attention. If we were to perform additional procedures or if we were to conduct an audit or review on the financial statements of the [Company/Guarantor] in accordance with HKSA or HKSREs issued by the HKICPA, other matters might be reported to the Addressees in the Comfort Letter. The procedures to be performed by us in connection with the Comfort Letter should not be taken to supplant additional inquiries or procedures that may be appropriate in the performance of the Addressees' role under the proposed Issue.
15. In relation to the contents of the Offering Circular, we will address ourselves solely to such financial and other information in the Offering Circular as is identified in the Comfort Letter and we will make no representations as to the adequacy of disclosure in the Offering Circular or as to whether any material facts have been omitted by the Company. Further, we make no representations regarding any questions of legal interpretation.
16. The procedures that we plan to conduct have been determined by the Named Addressees and agreed by the parties to this arrangement letter, and will be recorded in the Comfort Letter. In carrying out our work pursuant to this arrangement letter, we will rely

²⁵ In certain situations independent accountants may be required to perform a review of interim financial statements in order to enable negative assurance to be provided on subsequent changes. This sentence should be included where such a review will be undertaken.

on the accuracy and completeness of certain information and explanations provided to us during the course of our work and will further request the directors of the [Company/Guarantor] to provide us with written representations concerning the accuracy and completeness of certain information and explanations provided to us for the purpose of our work. The Addressees will therefore understand that the procedures to be carried out by us are not designed to, and are not likely to, reveal fraud, withholding, concealment or misrepresentation by the management of the [Company or its subsidiaries (the Company and its subsidiaries are collectively referred to herein as "the Group")] [Company, the Guarantor or its subsidiaries (the Guarantor and its subsidiaries are collectively referred to herein as "the Group")]. Notwithstanding the preceding three sentences, if in carrying out the procedures agreed under this arrangement letter, and solely as a result of information provided to us which we are required to consider or do consider, we conclude that there has been fraud, withholding, concealment or misrepresentation (or otherwise we conclude that any such information contains an inconsistency which clearly indicates that there may have been such a fraud, withholding, concealment or misrepresentation), we will (and are hereby authorised by the Company [and the Guarantor] to), as soon as practicable, notify the Company[, the Guarantor] and the Named Addressees of this and discuss with them whether further procedures can be designed to seek to resolve the matter. Where such procedures are agreed between us, we will carry them out and amend the Comfort Letter accordingly.

17. Any opinions expressed on financial information outside the context of this arrangement letter were or are expressed solely in the context of the specific terms and conditions governing their preparation. In particular, the terms of this arrangement letter and any action pursuant to it shall be additional to and shall not detract from or change in any way any legal rights which any party to this arrangement letter may otherwise have acquired, whether in contract or in tort, in connection with our reporting on the historical financial information of the [Company/Guarantor].
18. Save as may be expressly recorded in the Comfort Letter, we do not accept any responsibility for any other reports or letters beyond any responsibility that we owed to those to whom our reports or letters were addressed at the date of their issue.

Contents of the Comfort Letter

19. We will prepare and expect to issue the Comfort Letter addressed to the Company [, the Guarantor] and the Addressees on the basis described above. Based upon our present understanding of the Addressees' requirements, we expect to be able to provide the Addressees with the Comfort Letter substantially in the form contained in the Appendix to this arrangement letter, setting out the procedures that we expect to carry out prior to issuing the Comfort Letter.²⁶ Execution of this arrangement letter by the Named Addressees will constitute the Addressees' agreement to the scope and extent of such procedures.
20. We would be grateful if the Named Addressees would review the draft comfort letter that we expect to be able to provide the Addressees with and let us have any amendments the Named Addressees propose to the procedures as soon as possible, so that we can provide the Named Addressees with a revised draft for further consideration and approval.
21. Once an advanced draft of the Offering Circular is available and the Named Addressees have identified, and we have agreed, the detailed financial information whose extraction or calculation the Named Addressees require to be covered in the Comfort Letter, we will provide the Named Addressees with a further revised draft of the Comfort Letter for approval of its scope prior to finalisation.

²⁶ Where a draft comfort letter is not appended, briefly explain the procedures to be performed.

22. For the avoidance of doubt, we will not comment on, or otherwise give comfort in relation to, the [Company's/Guarantor's] prospects or trading position or, save as expressly stated in the Comfort Letter, comment on or provide any opinion or other conclusion as to the current overall financial position of the [Company/Guarantor].²⁷

Drafts

23. During the course of the arrangement we may show drafts of, or report orally on, the Comfort Letter to the Named Addressees. In so far as any such draft or oral report is inconsistent with the subsequent final Comfort Letter, it will be deemed to be superseded by such final Comfort Letter.

Meetings

24. It will be necessary for us to receive copies of the draft Offering Circular as it is produced and it may be necessary for us to attend meetings (including, but not limited to, meetings with the Company[, the Guarantor] and [its/their] directors and/or employees and the Addressees and their employees, advisers or agents) at which the Offering Circular is discussed and drafted or at which other related matters are discussed. We shall answer queries raised at such meetings on an informal basis but the Addressees should neither act nor refrain from acting on the basis of such informal answers unless and until they are confirmed in writing by us, whether in the final Comfort Letter or otherwise. In the absence of such written confirmation we shall have no liability to the Addressees in contract or in tort (including negligence) for our answers other than for an oral statement known to be false or misleading when made and made with intent to deceive.²⁸ Subject to the above, nothing in this paragraph shall prejudice the Addressees' ability to rely on a non-recourse basis (meaning without any liability on our part except for oral statements known to be false or misleading when made and made with intent to deceive) on any comments we may provide orally, either in the context of establishing or seeking to establish any Due Diligence Defence in connection with any court, arbitral, regulatory or administrative proceedings or otherwise for the purposes of resolving either actual or potential proceedings, investigations, claims or disputes in respect of the Offering Circular or otherwise in connection with the Issue.
25. Unless otherwise specifically agreed between the Company[, the Guarantor], the Named Addressees and us, we are authorised by the Company [and the Guarantor] to speak to the Addressees and other professional advisers advising on the proposed Issue. In connection with our work pursuant to this arrangement letter, we may release to the Addressees and such other professional advisers any information relating to the Company [and the Guarantor] or the Issue, whether confidential or not, and whether obtained during the course of our work or otherwise, and shall not be liable to the Company [or the Guarantor] for any use subsequently made of that information. Our partners and staff working on this arrangement shall not be required, expected or deemed to have knowledge of any information known to other partners or staff of our firm but which is not known to those on this arrangement. In addition we shall not be required to make use of or disclose to the Addressees any information which is confidential to another client of our firm.

Timetable

26. Our work will depend upon receiving without undue delay full co-operation from all relevant officials of the Company[, the Guarantor] and the Group and their disclosure to us of all accounting records of the Group and all other records and related information (including certain representations) we may need for the purposes of our work. We will endeavour to carry out our work in accordance with a timetable to be agreed between all parties that will satisfy the requirements of the Issue. We intend to provide the Company[, the Guarantor] and the Addressees with (1) the Comfort Letter dated the date of the Offering Circular relating to the Issue, (2) an additional or updating Comfort Letter on and dated the date of the closing of the

²⁷ If specific procedures and appropriate terms (e.g. as to timing) are agreed between all parties, the independent accountants may undertake additional work in accordance with HKSIR 400.

²⁸ If specific matters are discussed which the Addressees wish to be able to rely upon in accordance with this arrangement letter, the Issuer and the Named Addressees should arrange for them to be confirmed in writing by the independent accountants. If the independent accountants are willing to confirm such matters in writing, further work and an extension of the terms of the arrangement are likely to be required.

Issue (to be delivered at closing of the Issue) and (3) where appropriate, an additional or updating Comfort Letter on and dated the over-allotment option closing date.²⁹ In connection with the delivery of any new or updating Comfort Letter, we will bring down our work to an agreed cut-off date. We will discuss with the Named Addressees any difficulties we encounter with this arrangement or with meeting the timetable as soon as any problems arise.

Applicable Law and Jurisdiction

27. This arrangement letter shall be governed by, and construed in accordance with, Hong Kong law. The Courts of Hong Kong shall have exclusive jurisdiction in relation to any claim, dispute or difference concerning this arrangement letter, the Comfort Letter or any matter arising from them.

Staffing

28. [Name] will be the partner in charge of the services we will provide. [Name] will act as manager, with the help of [name], calling upon specialist staff as appropriate. We shall use reasonable endeavours to ensure that they are so involved but we may substitute those identified with others of equal or similar skills.

Fees and Certain Other Matters

29. Details of our fees and proposed billing arrangements have been set out in a separate agreement with the Company [and the Guarantor], who will bear the sole responsibility for the payment thereof. Such agreement also sets out certain other matters in relation to the respective rights and responsibilities of the Company[, the Guarantor] and us in connection with the services to be performed by us in connection with the issuance of the Comfort Letter.

Other Terms and Conditions

30. In no circumstances shall we be liable, other than in the event of our fraud, bad faith or wilful default, for any loss or damage, of whatsoever nature, arising from information material to our work being withheld or concealed from us or misrepresented to us by the directors, employees, or agents of the Company[, the Guarantor] or any other person of whom we may make inquiries unless, if in carrying out the procedures agreed under this arrangement letter, and solely as a result of information provided to us which we are required to consider or do consider, we conclude that there has been fraud, withholding, concealment or misrepresentation (or otherwise we conclude that any such information contains an inconsistency which clearly indicates that there may have been such a fraud, withholding, concealment or misrepresentation), and we fail to notify the Company[, the Guarantor] and the Named Addressees of such conclusion.
31. In the course of providing the Services we, [Accountants] Hong Kong, may, at our discretion, draw on the resource of other entities (whether or not incorporated) which carry on business under a name which includes all or part of the [Accountants] name or is otherwise within (or associated or connected with an entity) or is a correspondent firm of the worldwide network of [Accountants] ("other [Accountants] Firms") and their partners and employees as we deem appropriate, but provision of the Services will remain our responsibility alone.
32. The Addressees agree that the Addressees will not bring any claim (whether in contract, tort (including negligence) or otherwise) against any other [Accountants] Firm or its personnel in respect of the Services. Any partner or employee of any other [Accountants] Firm who deals with the Addressees in connection with the Services does so solely on our behalf and we are liable for their activities as if they were in all respects our partners or staff.
33. The Addressees will not bring any claim (whether in contract, tort (including negligence) or otherwise) arising out of or in connection with the Services against any of our employees personally, but this will not limit or exclude any liability we may have for their acts or omissions.

²⁹ In exceptional circumstances, it may also be appropriate to bring down the Comfort Letter to another date. Such arrangements should be discussed on a case-by-case basis.

34. The provisions of paragraphs 31 to 33 of this arrangement letter have been stipulated expressly for the benefit of our employees, and other [Accountants] Firms and their partners and employees (together "Beneficiaries"). The Addressees agree that, each of the Beneficiaries has the right to rely on paragraphs 31 to 34 of this arrangement letter as if they were parties to this arrangement letter. Each of the other [Accountants] Firms which agrees to assist in the provision of the Services does so in reliance on the protections afforded to it by paragraphs 31 to 34 of this arrangement letter, the benefit of which we formally accept on its behalf.

Prohibition on Assignment

35. No party may assign any of its rights in relation to this arrangement letter without the prior written consent of the others against whom the rights may be asserted, save that any Addressee and we may assign any of such rights, or such rights may pass by operation of law, to any successor to all or part of its business without such consent, provided that notice is given to the other signatories to this arrangement letter prior to any step being taken to enforce any rights hereunder.
36. Other than as set out in paragraph 34 above, this arrangement letter shall not create or give rise to, nor shall it be intended to create or give rise to, any third party rights and no third party shall have any right to enforce or rely on any provision of this arrangement letter. For the avoidance of doubt, the Addressees are not regarded as third parties.

Termination

37. Any party to this arrangement letter may at any time terminate this arrangement letter for whatever reason upon written notice to the other parties. In the case of termination by us, notice to the Company[, the Guarantor] and the Named Addressees shall be sufficient notice.
38. Termination of this arrangement letter shall be without prejudice to any accrued rights of the parties to this arrangement letter. The provisions of this arrangement letter which expressly or by implication are intended to survive its termination or expiry will survive and continue to bind each party to this arrangement letter.

Internet communication

39. In connection with the Services the parties to this arrangement letter may from time to time communicate with each other electronically. However, the electronic transmission of information cannot be guaranteed to be secure or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use. Accordingly each party to this arrangement letter accepts the limitations of electronic communication, and will use reasonable procedures to check for the then most commonly known viruses before sending information electronically.

Miscellaneous

40. Other than as set out in paragraph 29 above, this arrangement letter and the Appendix to it constitute the entire agreement for the provision of the Services between us to the exclusion of any other express or implied terms, whether expressed orally or in writing, including any conditions, warranties and representations and shall supersede all previous proposals, understandings, contracts, letters of engagement, undertakings, agreements and correspondence regarding the Services. Save as provided in this arrangement letter, no change in the terms of our arrangement with respect to the Services will be effective unless agreed in writing and signed by all parties to this arrangement letter.
41. This arrangement letter may be executed in any number of counterparts, and by the parties on separate counterparts, but shall not be effective until each party has executed and delivered at least one counterpart. Each counterpart shall constitute an original of this arrangement letter, but all the counterparts shall together constitute one and the same instrument.
42. If any term or terms of this arrangement letter shall be held to be invalid, illegal or unenforceable, such term or terms shall be deemed not to form part of this arrangement letter without prejudice to the enforceability of the remaining terms of this arrangement letter, provided always that if any such deletion substantially affects or alters the commercial basis of this arrangement letter, the

parties to this arrangement letter will negotiate in good faith to amend and modify them as may be necessary or desirable in the circumstances.

43. Please acknowledge acceptance of the terms of our arrangement by signing and returning the enclosed copy of this arrangement letter.
44. If the Company[, the Guarantor] or the Addressees have any questions regarding this arrangement letter please do not hesitate to contact us.

Yours faithfully,

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

Acknowledgement and Acceptance

We acknowledge receipt of this arrangement letter and agree with the terms of your arrangement set out therein:

Director
for and on behalf of
the board of XYZ Limited [and ABC Limited]

Director
for and on behalf of
Lead Manager Limited/ [Named Addressee]
(on its own behalf and as representative
of each of the other Managers)

Example 1 – Hong Kong Public Equity Offering

(letterhead of reporting accountants)

Date

To: The Directors, XYZ Limited
[Address]

Sponsors Limited
[Address]

[Other Named Addressee]³⁰
[Address]

[and each of the Hong Kong Underwriters as defined in the Hong Kong Underwriting Agreement dated [•] (the "Hong Kong Underwriters") identified below as an Addressee]³⁰

Dear Sirs,

Proposed Listing of [XYZ Limited] (the "Issuer") on the [Main Board/Growth Enterprise Market] of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange")

This letter is written to you pursuant to the terms agreed between us in our arrangement letter dated [date] (the "Arrangement Letter"). Our engagement to prepare this letter has been performed in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 400 "Comfort Letters and Due Diligence Meetings" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

This letter is addressed to [insert the names of each Named Addressee] and to each of the Hong Kong Underwriters that is an "Addressee" as defined in paragraph 3 of the Arrangement Letter and to the directors of the Issuer. Other than to those who have validly accepted the Arrangement Letter, we will not accept any responsibility to any party to whom this letter is shown or into whose hands it may come.

We confirm that we are independent with respect to the Issuer in accordance with the requirements of the Code of Ethics for Professional Accountants issued by the HKICPA.

Selected Financial Information

For the purposes of this letter, we have read the items that you have identified as indicated on the attached extract of the prospectus (attached as Appendix 1) of the Issuer and have performed the following procedures, which were applied as indicated by the letters explained below:³¹

- A Compared the amount or percentage to, or recalculated the amount and/or percentage from, the corresponding amount or percentage appearing in the historical financial information of the Issuer [and its subsidiaries ("the Group")] for the years ended 31 December 20X2, 31 December 20X3 and 31 December 20X4 and [periods ended [insert stub period balance sheet date] and [insert comparative stub period balance sheet date] as set out on pages [] to [] of the prospectus (the "Historical Financial Information"), as applicable, and found them to be in agreement.

³⁰ Refer to Example 1, footnote 6, in Appendix 1 to this HKSIR.

³¹ The purpose of the procedures described in this section is to compare amounts and to state whether such amounts are found to be in agreement or to recompute calculations and to state whether or not these were found to be arithmetically accurate.

- B Compared the amount or percentage to the corresponding amount or percentage appearing on a schedule prepared by the management of the Issuer and found the amount or percentage to be in agreement. Management of the Issuer has represented to us that the information on the schedule was derived from the regularly maintained accounting records of the [Issuer][Group] and was subject to the [Issuer's][Group's] internal controls over financial reporting. [We compared the amounts shown on the schedule prepared by the management of the Issuer with the accounting records and found such amounts to be in agreement.]
- C Recalculated the amount, percentage or ratio based on the information in the same sentence, paragraph or table and found them to be arithmetically accurate.
- D Recalculated the [United States dollar] amount based on the corresponding [*reporting currency*] amount and the rate of US\$[x] to [x] as specified on page [x] in the prospectus and found them to be arithmetically accurate. However, we make no comment as to the appropriateness of such rate or whether the [*reporting currency*] could have been, or could be, converted into [United States dollars] at that rate.
- E [Recalculated the amounts under "As Adjusted" in the "Capitalization [and Indebtedness]" section of the Offering memorandum based on the assumptions specified on page [x] of the Offering Memorandum and found them to be arithmetically accurate. However, we make no comment as to the reasonableness or appropriateness of those assumptions or as to the ultimate amount or use of proceeds or the appropriateness of the financial reporting presentation.³²]

For the purposes of reporting our findings, in those instances in which one or more of the compared or recalculated amounts (including percentages and ratios) stated were rounded to some degree, we have nevertheless stated that we found the compared or recalculated amounts to be in agreement or arithmetically accurate if differences are attributable to rounding.

We make no representations regarding questions of legal interpretation or regarding the sufficiency for your purposes of the aforementioned procedures; also, such procedures do not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing ("HKSAAs"), Hong Kong Standards on Review Engagements ("HKSREs"), Hong Kong Standards on Assurance Engagements [or other Hong Kong Standards on Investment Circular Reporting Engagements] issued by the HKICPA, and therefore would not necessarily reveal any material misstatement of the amounts, percentages or ratios identified above. Further, we have addressed ourselves solely to the foregoing data in the prospectus and we make no representations regarding the adequacy of disclosures or regarding whether any material facts have been omitted.

³² This procedure is only applicable for an international equity offering (hence the reference to an "Offering Memorandum" as opposed to a prospectus) and should only be performed and reported on if all of the information required to recalculate the amounts under "As Adjusted" are set out on the specified page in the Offering Memorandum. In an actual comfort letter in respect of an international equity offering, other conforming changes to the introductory paragraphs and other parts of the letter would be required reflecting, for example, the different terminology used for an international offering.

Changes in Financial Position^{33,34}

For the purpose of this letter, we have [also] performed the following limited procedures:

- (1) We have:
- (a) read the minutes of meetings of shareholders and the board of directors of the Issuer [and its subsidiaries] held since [31 December 20X4 or such later reported stub period balance sheet date included in the prospectus], as set out in minute books at 22 May 20X5 (the "Cut-off Date") [(together with/excluding³⁵ the papers referred to in the minutes)], which the directors have advised us are complete; and
 - (b) read the unaudited management accounts of the [Issuer/Group] for the [four] month[s] ended 30 April 20X5 (the "April 20X5 Management Accounts") [(which the directors have advised us are the most recent management accounts available)] [(as agreed with you)³⁶] and the corresponding unaudited management accounts for the previous year (the "April 20X4 Management Accounts").

Our objective in reading the documents referred to in paragraphs 1(a) and (b) above is to identify those matters which in our view, might, *prima facie*, be expected to impact the figures and changes set out in paragraph (3) below.

- (2) We have made inquiries of [certain officials of the Issuer/*name of officials*] with responsibility for financial and accounting matters (the "Persons Responsible for Financial and Accounting Matters") as to whether:

³³ For the purpose of this example comfort letter limited assurance is provided in respect to the changes in financial position, rather than reporting accountant reporting in the form of agreed-upon-procedures. Should the form of agreed-upon-procedures be adopted, paragraphs (5) and (7) would be revised by reporting the factual findings obtained, for example the final sentence of paragraph (7) may be deleted and paragraph (5) may be revised to read:

We enquired of the Persons Responsible for Financial and Accounting Matters whether:

- (a) at 30 April 20X5 there were any decreases in [the issued share capital, cash and cash equivalents, net current assets or total current assets or increases in long-term debt or total current liabilities] of the [Group] as compared with the corresponding amounts as at [31 December 20X4 or such later reported stub period balance sheet date included in the prospectus] in the Historical Financial Information; and
- (b) in the period from [1 January] 20X5 to 30 April 20X5 there were any decreases in [turnover or profit before taxation or increases in net interest expense, or depreciation of fixed assets] of the Group, as compared to the corresponding period in the preceding year as shown in the April 20X4 Management Accounts.

Those Persons Responsible for Financial and Accounting Matters stated that there was no such increase or decrease except that the April 20X5 Management Accounts showed a [decrease/increase] in [insert line items] as compared with [31 December 20X4 or such later reported stub period balance sheet date included in the prospectus] and a [decrease/increase] in [insert line items] as compared with the [4] months ended 30 April 20X4, as set out in Appendix 2.

³⁴ Where the reporting accountants agree to perform a review of subsequent interim financial information not included in the prospectus for the purpose of providing limited assurance on subsequent changes, this may be referred to in the section headed "Changes in Financial Position" and any other corresponding changes made to the comfort letter as applicable. For example, the following language may be added to record the fact that the review was performed and the conclusion arising from that review:

For the purposes of this letter, with respect to the three-month period ended 31 March 20X5, we have performed procedures with reference to HKSRE 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", on the unaudited condensed statement of financial position of the Group as of 31 March 20X5, and the related unaudited condensed statements of comprehensive income, changes in equity and cash flows for the three-month period ended 31 March 20X5, attached to this comfort letter as Appendix 3.

Nothing came to our attention as a result of the foregoing procedures that caused us to believe that any material modification should be made to the unaudited condensed financial information described in the paragraph above and attached to this comfort letter as appendix 3, for them to be in conformity with [Hong Kong][International] Accounting Standard 34 "Interim Financial Reporting".

³⁵ Where practicable, on appropriate terms and provided sufficient time is available, the accountants may agree to review the papers referred to in the minutes.

³⁶ This wording would apply in circumstances where the Reporting Accountants and the Sponsors are aware of the date of the latest management accounts, but it is agreed that management accounts as of and for an earlier period are to be referred to in this letter.

- (a) those matters identified by us in the course of the work undertaken pursuant to paragraph (1) above have been reflected in the April 20X5 Management Accounts upon which the amounts and changes referred to in paragraph (3) below are based; and
- (b) the April 20X5 Management Accounts have been prepared and presented on a basis consistent with the accounting policies normally adopted by the Group and applied in preparing the Historical Financial Information.
- (3) We have compared the amounts shown in the schedule included in Appendix 2 to this letter prepared by the management of the Issuer (the "Schedule"), relating to [turnover, profit before taxation, net interest expense, depreciation of fixed assets, issued share capital, borrowings due after more than one year ("long-term debt"), cash and cash equivalents, net current assets, total current assets and total current liabilities], to the April 20X5 Management Accounts, April 20X4 Management Accounts or the Historical Financial Information as appropriate and found them to be in agreement. We have recalculated the changes set out in the Schedule and found them to be arithmetically accurate.
- (4) The procedures described in paragraphs (1) to (3) above do not constitute an audit [or review] in accordance with HKSAAs [or HKSREs] issued by the HKICPA. Nor do they provide any assurance that the April 20X5 Management Accounts have been prepared on a basis consistent with the April 20X4 Management Accounts, that such management accounts have been prepared in a reliable manner or that either have been prepared on a basis consistent with the Historical Financial Information. Consequently, our procedures would not necessarily reveal matters of significance with respect to the comments made in the following paragraphs and we make no representations as to the sufficiency for your purposes of any such procedures.
- (5) In respect of the foregoing procedures nothing has come to our attention that causes us to believe that:
- (a) at 30 April 20X5 there were any decreases in [the issued share capital, cash and cash equivalents, net current assets or total current assets] or [increases in long-term debt or total current liabilities] of the [Group] as compared with the corresponding amounts as at [31 December 20X4 or such later reported stub period balance sheet date included in the prospectus] in the Historical Financial Information; and
- (b) in the period from [1 January] 20X5 to 30 April 20X5 there were any decreases in [turnover or profit before taxation or increases in net interest expense, or depreciation of fixed assets] of the Group, as compared to the corresponding period in the preceding year as shown in the April 20X4 Management Accounts.
- except that the April 20X5 Management Accounts showed a [decrease/increase] in [insert line items] as compared with [31 December 20X4 or such later reported stub period balance sheet date included in the prospectus] and a [decrease/increase] in [insert line items] as compared with the [4] months ended 30 April 20X5, as set out in Appendix 2.³⁷
- (6) Since [the directors have advised us that no management accounts have been prepared up to any date subsequent to 30 April 20X5][we have agreed with you to read the unaudited management accounts for the [four] month[s] ended 30 April 20X5], the procedures carried out by us with respect to changes in financial statement items³⁸ of the [Issuer/Group] after 30 April 20X5 have of necessity been even more limited than those carried out for the period up to that date. Up to the Cut-off Date (our work did not extend to the period from the Cut-off Date to the date of this letter), we have made inquiries of the Persons Responsible for Financial and Accounting Matters as to:

³⁷ Line items described as exceptions here should not be listed in 5(a) or (b).

³⁸ Reporting accountants should consider the guidance in paragraph 45 in determining the appropriateness of which specific line items to provide comfort.

- (a) whether there has been any decrease in [issued share capital, cash and cash equivalents, net current assets or total current assets] or increase in [long term debt or total current liabilities] of the [Group] at the Cut-off Date as compared with the corresponding amounts shown at [31 December 20X4 or such later reported stub period balance sheet date included in the prospectus] in the Historical Financial Information; and
- (b) whether for the period from [1 January 20X5] up to the Cut-off Date there have been any decreases in [turnover or profit before taxation], or increases in [net interest expense or depreciation of fixed assets] of the [Group] as compared with the corresponding period in the preceding year.
- (7) The persons responsible for financial and accounting matters advised us that they were not aware of any increase in [long term debt, total current liabilities, net interest expense or depreciation of fixed assets] or decrease in any of the other listed items described in paragraph (6)(a) or (b) above except that [as at the Cut-off Date as compared with [31 December 20X4 or such later reported stub period balance sheet date included in the prospectus] [there was an [increase][decrease] in [*state line items*]]/[for the period from 1 [January 20X5] to the Cut-off Date as compared with the corresponding period in the previous year there was an [increase][decrease] in [*state line items*]]. On the basis of the responses to these inquiries and our reading of the minutes as described in paragraph (1) above, [except for all instances of increases or decreases advised by the Persons Responsible for Financial and Accounting Matters as set out above], nothing has come to our attention that causes us to believe that there was any such increase or decrease.
- (8) We have not performed an audit in respect of any historical financial information of the Issuer or the Group as of any date or for any period subsequent to [31 December 20X4 or such later reported stub period balance sheet date included in the prospectus] in accordance with HKSAs issued by the HKICPA. Therefore we are unable to and do not express any opinion on the financial position, results of operations or cash flows of the Issuer [or the Group] as of any date or for any period subsequent to [31 December 20X4 or such later reported stub period balance sheet date included in the prospectus].

This letter is solely for your information and to assist the Addressees in conducting and documenting their due diligence investigation of the affairs of the [Issuer/Group] in connection with the issue of new shares covered by the prospectus and except as permitted in the Arrangement Letter, it is not to be used, circulated, quoted, or otherwise referred to for any other purpose, nor is to be filed with or referred to in whole or in part in the prospectus or any other document.

Yours faithfully,

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

Enclosures: Appendix 1 - Extract of prospectus
Appendix 2 - Schedule prepared by the Issuer's management
[Appendix 3 – Unaudited condensed consolidated financial statements for the period ended [*insert interim balance sheet date reviewed*] and [*insert corresponding date in prior year*]

Example 2 – Debt Offering in reliance on Regulation S

(letterhead of independent accountants)

Date

To: The Directors, [XYZ Limited and ABC Limited]
[Address]

[Lead Manager Limited]
[Address]

[Other Named Addressee]³⁹
[Address]

[and each of the joint lead managers and managers as defined in the Subscription Agreement dated [x] (the "Managers") identified below as an Addressee]³⁹

Dear Sirs,

Proposed Issue (the "Issue") of [x] (the "Notes") by [XYZ Limited] (the "Company") [and guaranteed by [ABC Limited] (the "Guarantor")]

This letter is written to you pursuant to the terms agreed between us in our arrangement letter dated [date] (the "Arrangement Letter"). Our engagement to prepare this letter has been performed in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 400 "Comfort Letters and Due Diligence Meetings" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

This letter is addressed to [insert the names of each Named Addressee] and to each of the Managers that is an "Addressee" as defined in paragraph 3 of the Arrangement Letter and to the directors of the Company [and the Guarantor]. Other than to those who have validly accepted the Arrangement Letter, we will not accept any responsibility to any party to whom this letter is shown or into whose hands it may come.

We confirm that we are independent with respect to the Company [and the Guarantor] in accordance with the requirements of the Code of Ethics for Professional Accountants issued by the HKICPA.

On pages [x to x], the offering circular of the Company with respect to the Notes dated 20[x] (the "Offering Circular") sets out certain financial statements as at and for the [three] years ended 31 December 20X2, 20X3 and 20X4 (the "Historical Financial Statements") [and the [six] months ended 30 June 20X4 and 20X5] (the "Interim Financial Statements") of the [Company/Guarantor] and its subsidiaries (the "Group"). We have read this information and have compared it with that shown in the published audited consolidated financial statements as at and for the [three] years ended 31 December 20X2, 20X3 and 20X4 [and the published unaudited consolidated interim financial statements as at and for the [six] months ended 30 June 20X4 and 20X5] of the [Company/Guarantor]. We confirm that these financial statements have been found to be in agreement with the published audited consolidated financial statements for the relevant years [or, as the case may be, the published unaudited consolidated interim financial statements for such period]. [We did not conduct a review of such interim financial statements in accordance with the standards and guidance issued by the [HKICPA] or any professional body in any other jurisdiction].

³⁹ Refer to Example 4, footnote 24, in Appendix 1 to this HKSIR.

Selected Financial Information

For the purposes of this letter, we have read the items that you have identified as indicated on the attached extract of the Offering Circular (attached as Appendix 1) and have performed the following procedures, which were applied as indicated by the letters explained below⁴⁰:

- A Compared the amount or percentage to, or recalculated the amount and/or percentage from, the corresponding amount or percentage appearing in the Historical Financial Statements [or the Interim Financial Statements] as set out in the Offering Circular, as applicable, and found them to be in agreement.
- B Compared the amount or percentage to the corresponding amount or percentage appearing on a schedule prepared by the management of the [Company/Guarantor] and found the amount or percentage to be in agreement. The management of the [Company/Guarantor] has represented to us that the information in the schedule was derived from the regularly maintained accounting records of the Group and was subject to the [Company's/Guarantor's] internal controls over financial reporting. [We compared the amounts shown on the schedule prepared by the management of the [Company/Guarantor] with the accounting records of the Group and found such amounts to be in agreement.]
- C Recalculated the amount, percentage or ratio based on the information in the same sentence, paragraph or table and found them to be arithmetically accurate.
- D Recalculated the [United States dollar] amount based on the corresponding [*reporting currency*] amount and the rate of US\$[x] to [x] as specified on page [] in the Offering Circular and found them to be arithmetically accurate. However, we make no comment as to the appropriateness of such rate or whether the [*reporting currency*] could have been, or could be, converted into [United States dollars] at that rate.
- E Recalculated the amounts under "As Adjusted" in the "Capitalization [and Indebtedness]" section of the Offering Circular based on the assumptions specified on page [x] of the Offering Circular and found them to be arithmetically accurate. However, we make no comment as to the reasonableness or appropriateness of those assumptions or as to the ultimate amount or use of proceeds or the appropriateness of the financial reporting presentation.⁴¹

For the purposes of reporting our findings, in those instances in which one or more of the compared or recalculated amounts (including percentages and ratios) stated were rounded to some degree, we have nevertheless stated that we found the compared or recalculated amounts to be in agreement or arithmetically accurate if differences are attributable to rounding.

We make no representations regarding questions of legal interpretation or regarding the sufficiency for your purposes of the aforementioned procedures; also, such procedures do not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing ("HKSAAs"), Hong Kong Standards on Review Engagements ("HKSRs"), Hong Kong Standards on Assurance Engagements [or other Hong Kong Standards on Investment Circular Reporting Engagements] issued by the HKICPA, and therefore would not necessarily reveal any material misstatement of the amounts, percentages or ratios identified above. Further, we have addressed ourselves solely to the foregoing data in the Offering Circular and we make no representations regarding the adequacy of disclosures or regarding whether any material facts have been omitted.

⁴⁰ The purpose of the procedures described in this section is to compare amounts and to state whether such amounts are found to be in agreement or to recompute calculations and to state whether or not these were found to be arithmetically accurate.

⁴¹ This procedure should only be performed and reported on if all of the information required to recalculate the amounts under "As Adjusted" are set out on the specified page in the Offering Circular.

Changes in Financial Position^{42, 43}

For the purpose of this letter, we have [also] performed the following limited procedures:

- (1) We have:
- (a) read the minutes of meetings of shareholders and the board of directors of the [Company/Guarantor] [and its subsidiaries] held since 31 December 20X4, as set out in minute books at 22 July 20X5 (the "Cut-off Date") [(together with/excluding⁴⁴ the papers referred to in the minutes)], which the directors have advised us are complete; and
 - (b) read the unaudited consolidated management accounts of the [Company/Guarantor] for the [one/seven] months ended 31 July 20X5 (the "July 20X5 Management Accounts") [(which the directors have advised us are the most recent management accounts available)][(as agreed with you)⁴⁵] and the corresponding unaudited consolidated management accounts for the previous year (the "July 20X4 Management Accounts").

Our objective in reading the documents referred to in paragraphs 1(a) and (b) above is to identify those matters which in our view, might, *prima facie*, be expected to impact the figures and changes set out in paragraph (3) below.

- (2) We have made inquiries of [certain officials of the Company/Guarantor/*name of officials*] with responsibility for financial and accounting matters (the "Persons Responsible for Financial and

⁴² For the purpose of this example comfort letter limited assurance is provided in respect to the changes in financial position, rather than reporting in the form of agreed-upon-procedures. Should the form of agreed-upon-procedures be adopted, paragraphs (5) and (7) would be revised by reporting the factual findings obtained, for example the final sentence of paragraph (7) may be deleted and paragraph (5) may be revised to read:

We enquired of the Persons Responsible for Financial and Accounting Matters whether:

- (a) at 31 July 20X5 there were any decreases in [the issued share capital, cash and cash equivalents, net current assets or total current assets or increases in long-term debt or total current liabilities] of the [Group] as compared with the corresponding amounts as at [31 December 20X4/30 June 20X5] in the [Historical Financial Statements/Interim Financial Statements] included in the Offering Circular; and
- (b) in the period from 1 [January/July] 20X5 to 31 July 20X5 there were any decreases in [turnover or profit before taxation or increases in net interest expense, or depreciation of fixed assets] of the [Group], as compared to the corresponding period in the preceding year as shown in the July 20X4 Management Accounts.

Those Persons Responsible for Financial and Accounting Matters stated that there was no such increase or decrease except that the July 20X5 Management Accounts showed a [decrease/increase] in [insert line items] as compared with [31 December 20X4/30 June 20X5] in the [Historical Financial Statements/Interim Financial Statements] included in the Offering Circular and a [decrease/increase] in [insert line items] as compared with the [1/7] months ended 31 July 20X4, as set out in Appendix 2.

⁴³ Where the independent accountants agree to perform a review of Interim Financial Statements included in the Offering Circular, or subsequent interim financial information not included in the Offering Circular for the purpose of providing limited assurance on subsequent changes, this may be referred to in the section headed "Changes in Financial Position" and any other corresponding changes made to the comfort letter as applicable. For example, the following language may be added to record the fact that the review was performed and the conclusion arising from that review:

For the purposes of this letter, with respect to the six-month period ended 30 June 20X5, we have performed procedures with reference to HKSRE 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", on the unaudited condensed consolidated statement of financial position of the Group as of 30 June 20X5, and the related unaudited condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period ended 30 June 20X5[, attached as Appendix 3 to this comfort letter].

Nothing came to our attention as a result of the foregoing procedures that caused us to believe that any material modification should be made to the unaudited condensed consolidated financial statements described in the paragraph above and attached to this comfort letter as Appendix 3, for them to be in conformity with [Hong Kong][International] Accounting Standard 34 "Interim Financial Reporting".

⁴⁴ Where practicable, on appropriate terms and provided sufficient time is available, the independent accountants may agree to review the papers referred to in the minutes.

⁴⁵ This wording would apply in circumstances where the independent accountants and the Lead Managers are aware of the date of the latest management accounts, but it is agreed that management accounts as of and for an earlier period are to be referred to in this letter.

Accounting Matters”) as to whether:

- (a) those matters identified by us in the course of the work undertaken pursuant to paragraph (1) above have been reflected in the July 20X5 Management Accounts upon which the amounts and changes referred to in paragraph (3) below are based; and
 - (b) the July 20X5 Management Accounts have been prepared and presented on a basis consistent with the accounting policies normally adopted by the Group and applied in preparing the 31 December 20X4 audited consolidated financial statements.
- (3) We have compared the amounts shown in the schedule included in Appendix 2 to this letter prepared by the management of the [Company/Guarantor] (the “Schedule”), relating to [turnover, profit before taxation, net interest expense, depreciation of fixed assets, issued share capital, borrowings due after more than one year (“long-term debt”), cash and cash equivalents net current assets, total current assets and total current liabilities], to the July 20X5 Management Accounts, July 20X4 Management Accounts or the 31 December 20X4 audited consolidated financial statements as appropriate and found them to be in agreement. We have recalculated the changes set out in the Schedule and found them to be arithmetically accurate.
- (4) The procedures described in paragraphs (1) to (3) above do not constitute an audit [or review] in accordance with HKSAAs [or HKSREs] issued by the HKICPA. Nor do they provide any assurance that the July 20X5 Management Accounts have been prepared on a basis consistent with the July 20X4 Management Accounts, that such management accounts have been prepared in a reliable manner or that either have been prepared on a basis consistent with the 31 December 20X4 audited consolidated financial statements. Consequently, our procedures would not necessarily reveal matters of significance with respect to the comments made in the following paragraphs and we make no representations as to the sufficiency for your purposes of any such procedures.
- (5) In respect of the foregoing procedures nothing has come to our attention that causes us to believe that:
- (a) at 31 July 20X5 there were any decreases in [the issued share capital, cash and cash equivalents, net current assets or total current assets] or increases in [long-term debt or total current liabilities] of the [Group] as compared with the corresponding amounts as at [31 December 20X4/30 June 20X5] in the [Historical Financial Statements/Interim Financial Statements] included in the Offering Circular; and
 - (b) in the period from 1 [January/July] 20X5 to 31 July 20X5 there were any decreases in [turnover or profit before taxation] or increases in [net interest expense, or depreciation of fixed assets] of the [Group], as compared to the corresponding period in the preceding year as shown in the July 20X4 Management Accounts;

except that the July 20X5 Management Accounts showed a [decrease/increase] in [*insert line items*] as compared with [31 December 20X4/30 June 20X5] and a [decrease/increase] in [*insert line items*] as compared with the [one/seven] months ended 31 July 20X5, as set out in Appendix 2.⁴⁶

- (6) Since [the directors have advised us that no management accounts have been prepared up to any date subsequent to 31 July 20X5][we have agreed with you to read the unaudited management accounts for the [one/seven] months ended 31 July 20X5], the procedures carried out by us with respect to changes in financial statement items⁴⁷ of the [Company/Guarantor] after 31 July 20X5 have of necessity been even more limited than those carried out for the period up to that date. Up to the Cut-off Date (our work did not extend to the period from the Cut-off Date to the date of this letter), we have made inquiries of the Persons Responsible for

⁴⁶ Line items described as exceptions here should not be listed in 5(a) or (b).

⁴⁷ Independent accountants should consider the guidance in paragraph 45 in determining the appropriateness of which specific line items to provide comfort.

Financial and Accounting Matters as to:

- (a) whether there have been any decreases in [issued share capital, cash and cash equivalents, net current assets or total current assets] or increases in [long term debt or total current liabilities] of the [Group] at the Cut-off Date as compared with the corresponding amounts shown at [31 December 20X4/30 June 20X5] in the [Historical Financial Statements/Interim Financial Statements] included in the Offering Circular; and
 - (b) whether for the period from 1 [January/July] 20X5 up to the Cut-off Date there have been any decreases in [turnover or profit before taxation], or increases in [net interest expense or depreciation of fixed assets] of the [Group] as compared with the corresponding period in the preceding year.
- (7) The Persons Responsible for Financial and Accounting Matters advised us that they were not aware of any increase in [long term debt, total current liabilities, net interest expense or depreciation of fixed assets] or decrease in any of the other listed items described in paragraph (6)(a) or (b) above except that [as at the Cut-off Date as compared with [31 December 20X4/30 June 20X5] [there was an [increase][decrease] in [*state line items*]]/[for the period from 1 [January/July] to the Cut-off Date as compared with the corresponding period in the previous year there was an [increase][decrease] in [*state line items*]]. On the basis of the responses to these inquiries and our reading of the minutes as described in paragraph (1) above, [except for all instances of increases or decreases advised by the Persons Responsible for Financial and Accounting Matters as set out above] nothing has come to our attention that causes us to believe that there was any such increase or decrease.
- (8) We have not performed an audit in respect of any historical financial statements of the [Company/Guarantor] or the Group as of any date or for any period subsequent to 31 December 20X4 in accordance with HKSA's issued by the HKICPA or the standards of any other professional body in any other jurisdiction. Therefore, we are unable to and do not express any opinion on the financial position, results of operations or cash flows of the [Company/Guarantor] or the Group as of any date or for any period subsequent to 31 December 20X4.

This letter is solely for your information and to assist the Addressees in conducting and documenting their due diligence investigation of the affairs of the [Company/Group] in connection with the Issue covered by the Offering Circular and except as permitted in the Arrangement Letter, it is not to be used, circulated, quoted, or otherwise referred to for any other purpose, nor is to be filed with or referred to in whole or in part in the Offering Circular or any other document.

Yours faithfully,

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

Enclosures: Appendix 1 – Extract of Offering Circular
Appendix 2 - Schedule prepared by the [Company's/Guarantor's] management
[Appendix 3 – Unaudited condensed consolidated financial statements for the period ended [*insert interim balance sheet date reviewed*] and [*insert corresponding date in prior year*]

Appendix 3

Example Bring-down Letter

The following example bring-down letter (that can be used for either a debt or equity offering as appropriate) is provided for illustrative purposes only. It is intended to be used only as a guide to the possible form and content of a bring-down letter that reporting accountants may wish to provide, and is not intended to suggest standard wording to be used in any particular set of circumstances. The contents of the bring-down letter will vary according to the nature of the information in the investment circular, and the procedures agreed between reporting accountants, sponsors, and the issuer. When preparing a bring-down letter, reporting accountants will need to ensure that the letter meets the requirements of this HKSIR.

Date

To: The Directors, [XYZ Limited and ABC Limited]

[Sponsors Limited/Lead Managers]
[Address]

[Other Named Addressee]⁴⁸
[Address]

[Each of the [Hong Kong underwriters/Managers] identified below as an Addressee]⁴⁸

Dear Sirs:

We refer to our letter of [*date of previous comfort letter*] relating to the [prospectus/Offering Circular] of XYZ Limited (the (“Company”/“Issuer”) dated [*date*] prepared in connection with the [public] offering of [*description of security*] of the [Company/Issuer]. We reaffirm as of the date hereof (and as though made on the date hereof) all statements made in that letter except that, for purposes of this letter:

1. the reading of minutes described in item 1(a) of that letter has been carried out through [x] 20X5 (the “New Cut-off Date”);
2. the references to the unaudited management accounts for the [x] months ended [*date*] 20X5 and April 20X4, in items 1(b), 2, and 3 and paragraph 4 of that letter are changed to the unaudited management accounts for the [x] months ended [*date*] 20X5 and [*month*] 20X4 respectively. [The Directors of the [Company/Issuer] have advised us that no such financial statements as of any date or for any period subsequent to [*date*] 20X5 were available];
3. the references to [*date*] 20X5, the period from [*date*] 20X5 to [*date*] 20X5 and [*date*] 20X4 in item 5 of that letter are changed to [*date*] 20X5, the period from [*date*] 20X5 to [*date*] 20X5 and [*month*] 20X4 respectively; and
4. the references to [*date*] 20X5 and the cut-off date in item 6 of that letter are changed to [*date*] 20X5, and the New Cut-Off date respectively.

[Or where no management accounts have been prepared since those referred to in the Comfort Letter, item 2 is replaced as follows and items 3 and 4 deleted :

2. the inquiries covered in item 6 of that letter have been carried out to the New Cut-Off date.]

⁴⁸ Refer to Appendix 1.

5. Our work did not extend to the period from [date] 20X5 to [the closing date] inclusive.

This letter is addressed to [*insert the names of each Named Addressee*] and to each of the [Hong Kong underwriters/Managers] that is an “Addressee” as defined in paragraph 3 of the Arrangement Letter and to the directors of the Company [and the Guarantor]. Other than to those who have validly accepted the Arrangement Letter, we will not accept any responsibility to any party to whom this letter is shown or into whose hands it may come.

This letter is solely for your information and to assist the Addressees in conducting and documenting their due diligence investigation of the affairs of the [Issuer][Group] in connection with the [*describe offering*] covered by the [prospectus/Offering Circular] and except as permitted in the Arrangement Letter it is not to be used, circulated, quoted, or otherwise referred to for any other purpose, nor is to be filed, with or referred to in whole or in part in the [prospectus/Offering Circular] or any other document.

Yours faithfully,

ABC & Co
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

Appendix 4

Example Issuer's Representation Letter on Subsequent Changes

The following example representation letter is provided for illustrative purposes only. It is intended to be used only as a guide to the possible form and content of a representation letter, and is not intended to suggest standard wording to be used in any particular set of circumstances.

Where a bring-down letter is provided on subsequent changes, the Issuers representations in respect to matters covered in that letter should also be obtained⁴⁹.

(letterhead of the Issuer)

Date

To [Name of reporting accountants]

Dear Sirs

Proposed Listing of XYZ Limited on the [Main Board/Growth Enterprise Market] of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange")

In connection with the proposed listing of XYZ Limited, we certify to the best of our knowledge and belief that during the period from 31 December 20X4 to date, no events have occurred which have a material effect on the historical financial information or which should be disclosed in order to keep those information from being misleading^{50, 51}.

With respect to the unaudited management accounts as at 30 April 20X5 and 20X4 and for the four-month periods ended 30 April 20X5 and 20X4, we certify to the best of our knowledge and belief that:

- a. such management accounts were prepared in accordance with accounting policies and practices consistent in all material respects with those followed in the preparation of the historical financial information contained in the Prospectus, except as set forth in the Prospectus;
- b. such management accounts present fairly the information purported to be shown thereby;
- c. no material adjustment of such management accounts is required and no adjustments other than those necessary for fair presentation of the results for those periods have been reflected therein.

Also to the best of our knowledge and belief, except in all instances for changes that the Prospectus discloses have occurred or may occur:

- d. at 22 May 20X5 there has been no decrease in the issued share capital, net current assets or total current assets or increase in long-term debt or total current liabilities of the Group, as compared with amounts shown in the 31 December 20X4 balance sheet of the historical financial information;

⁴⁹ Not illustrated in this HKSIR.

⁵⁰ Any exception should be spelled out in the letter

⁵¹ Where the reporting accountants perform a review of interim financial information in order to provide negative assurance on subsequent changes, representations in respect of the interim financial information are also obtained. These representations are not illustrated in this example letter.

COMFORT LETTERS AND DUE DILIGENCE MEETINGS

- e. for the period 1 January 20X5 to 22 May 20X5 there has been no decrease, as compared with the corresponding period in the preceding year, in turnover, profit before taxation or increase in net interest expense or depreciation of fixed assets.

Further, we confirm that:

- f. no audited financial statements of the Group are available as at any date or for any period subsequent to 31 December 20X4, and no management accounts are available as at any date or for any period subsequent to 30 April 20X5;
- g. the minutes of all meetings of the shareholders and the board of directors are entered up to 15 May 20X5 in the minute books, and no such meetings have been held since that date.
- h. We confirm that we are solely responsible for the information in the schedules referred to in tick mark B under the section heading "Selected Financial Information" of your comfort letter dated [Letter Date], with respect to the Prospectus, and that the information was derived from the Group's regularly maintained accounting records and subject to the Group's internal controls over financial reporting.

Yours faithfully

For and on behalf of XYZ Limited

[name]
Managing Director

[name]
Finance Director

Appendix 5

Examples of Questions Commonly Asked in Due Diligence Meetings and Comments on the Reporting Accountant's Response

The following examples are to be read in conjunction with paragraphs 59 – 64 of HKSIR 400.

Usually, the reporting accountant's response to questions asked by the sponsor in a due diligence meeting can be brief. The comments on the questions cited below are more detailed than the responses that would usually be required, and are intended as general guidance about matters the reporting accountant would normally consider in determining a response. The comments are not intended as illustrations of the answer that would be appropriate in every situation.

- A. Questions the reporting accountant is usually able to answer (A1-A13)
- B. Questions to which the reporting accountant is unable to respond in the terms in which they are asked (B1-B5)
- C. Questions properly addressed to management (C1-C3)

A. Questions the reporting accountant is usually able to answer (A1-A13)

Following are a number of questions to which the reporting accountant is usually able to respond, with comments as to the response that might be appropriate.

Question A1 **How long have you (or your firm) been the reporting accountant (or auditor) of the issuer?**

Response considerations This question demands a factual answer.

Question A2 **Describe the nature and scope of your examination of the issuer's historical financial information included in the investment circular. Were any limitations imposed upon the scope of your examination by management of the issuer or others?**

Response considerations The reporting accountant would make it clear that the examination covered only the historical financial information for the dates and periods referred to in the accountants' report.

The scope of an examination is set out in the accountants' report:

- An examination is conducted in accordance with [Hong Kong Standard on Investment Circular Reporting Engagements 200 (HKSIR 200)], which requires that the reporting accountant plan and perform the examination to obtain reasonable assurance whether the historical financial information is free of material misstatement.
- An examination includes examining, on a test basis, evidence supporting the amounts and disclosures in the historical financial information.
- An examination also includes assessing the accounting policies used and significant estimates made by management.

In the normal case, the scope of the examination would enable the reporting accountant to express an opinion without reservation on the historical financial information. If there was any limitation imposed on the scope of the examination, the matter would be dealt with in the accountants' report.

The reporting accountant might be willing to describe the examination procedures performed on certain financial information elements in forming an opinion on the historical financial information as a whole; however, the reporting accountant would make it clear that no assurance is provided on these specific items beyond that conveyed by the historical financial information.

Question A3 **Management has provided us with a list of pending litigation, commitments, contingent liabilities, guarantees, and any indebtedness or other off-balance sheet items (a list would be provided to the reporting accountant). In the course of your examination, did you discuss with management or otherwise identify any other items of the same type not included on this list that exceed (an amount provided by the sponsor)?**

Response considerations The reporting accountant could reply that, based on the procedures performed, including discussions with management, no other items of the types mentioned were identified, or discuss any such items that were so identified. The reporting accountant may wish to point out that reporting accountants must rely to a large extent on management, and sometimes on legal counsel, in identifying outstanding contingencies.

If the reporting accountant wishes to ensure that the sponsor understands the procedures reporting accountants apply to contingencies, commitments and other such items, the procedures that are performed in gathering evidence to determine whether any such contingent items require accrual or disclosure in the historical financial information could be outlined, such as:

- review of the issuer’s written summary of known and threatened claims;
- discussion with management of contingencies, commitments, and other obligations;
- discussion with the issuer’s general counsel of all litigation and threatened litigation of which the issuer is aware, including litigation and claims or threatened claims covered by insurance;
- search for unrecorded liabilities by a review of disbursements subsequent to period-end and open invoices;
- receipt of written confirmation of obligations from third parties such as banks and lenders;
- receipt of written representations from management;
- review of events which have occurred between the date of the historical financial information and the date of the accountants’ report; and
- review of accounting treatment and disclosure in the historical financial information.

Question A4 **Management has informed us that it does not plan to change any of the significant accounting policies as set forth in note 1 to the historical financial information of the issuer. Has management informed you, or had any discussions with you, regarding any change in the accounting policies?**

Response considerations The reporting accountant may properly respond to these questions. If the reporting accountant is aware of any recent or pending changes in accounting standards or regulatory requirements that would make a change in the issuer’s accounting policies necessary or desirable in the future, attention would be drawn to such recommendations or requirements.

Question A5 **Management has informed us that it does not plan to have any material potential write-downs in the current year. Has management informed you, or had any discussions with you, regarding any potential write-downs in connection with the examination of historical financial information?**

Response considerations Normally the reporting accountant can answer this question without difficulty. The reporting accountant may wish to convey to the sponsor that reporting accountants and management usually have an ongoing dialogue with respect to potential future issues, and may choose to identify some of the accounting matters on which discussions have taken place.

The reporting accountant may also wish to refer the sponsor to any measurement uncertainty disclosures in the historical financial information, in particular any disclosures regarding historical financial information items where there is a reasonable possibility that the recognized amount of the historical financial information item could change by a material amount in the near term.

Question A6 **Management has informed us that it is not aware of any facts that would give rise to any unusual items appearing in the issuer's historical financial information. Has management informed you, or had any discussions with you, regarding any such items?**

Response considerations The reporting accountant can answer this question without difficulty. However, unusual items do not have a precise meaning in accounting terms. To avoid misunderstanding, it is therefore important that the sponsor define what is meant by "unusual" items.

Question A7 **How often do you meet with the issuer's audit committee or board of directors, and what are the procedures at and nature of such meetings?**

Response considerations The reporting accountant would describe the frequency of meetings with the audit committee and, if applicable, the board of directors.

Meetings with the audit committee would generally encompass a review and approval by the committee of the reporting accountant's examination plan and discussion of accounting and financial presentation issues. The committee would generally meet to review the historical financial information and recommend its approval by the board of directors. The reporting accountant would indicate whether meetings of the committee were held at the request of the committee or the reporting accountant.

Meetings with the board are likely to be less common, and would generally be related to a special assignment undertaken by the reporting accountant, such as delivering a special report, or discussing financing alternatives.

Question A8 **Do you have full and open access to all materials which you consider necessary to enable you to perform your examination?**

Response considerations It would be expected that the reporting accountant would have full and open access to all necessary materials.

Question A9 **Discuss your relationship with the issuer's management. Have you had any disagreements with management that have not been resolved to your satisfaction?**

Response considerations Generally the reporting accountant would be in a position to state that management was cooperative, and provided all of the information and explanations that the reporting accountant required. The reporting accountant may choose to point out that in the course of normal communications with the issuer, the reporting accountant frequently meets with management to discuss emerging accounting issues, and has always been able to resolve the issues with senior management satisfactorily. Otherwise, the reporting accountant would have included a reservation in the accountants' report.

Question A10 **Have there been any significant weaknesses in internal control that you have identified during the course of your examination of the historical financial information that were communicated to the audit committee or management committee that, to the best of your knowledge, have not been acted upon by management?**

Response considerations The reporting accountant would state whether or not significant weaknesses in internal control have been reported to the issuer, and might identify the areas of weakness. In the course of the engagement related to the investment circular, the reporting accountant will have updated knowledge of the internal controls, and may be in a position to comment on changes that have been effected since the time when the weaknesses were reported. However, the question of management's actions would properly be addressed to, and answered by, management. The reporting accountant is not normally in a position to comment

on the effectiveness of any action that has been taken by management to address the internal control weaknesses that have been reported.

In responding to this question, the reporting accountant may also wish to outline the limited nature of the review of internal controls in connection with the examination of the historical financial information, to ensure that there is no misunderstanding by the sponsor of the nature and extent of the reporting accountant's review of internal controls and the type of weakness that the reporting accountant would consider to be "significant".

Question A11 **Other than as disclosed in the investment circular, are you aware of any related party transactions involving the issuer that require disclosure in the historical financial information under HKFRSs?**

Response considerations The reporting accountant will likely be able to answer this question in the negative, but should be concerned about any possible related party transactions subsequent to the most recent balance sheet date that would require financial statement disclosure in the track record period.

If the reporting accountant wishes to be sure that the sponsor understands the procedures reporting accountants apply to identify significant related party transactions, the procedures applied may be outlined, such as the following:

- preparation of a list of directors, officers and related entities, to be consulted by audit staff when they are reviewing the issuer's transactions;
- receipt of written representations from management regarding related party transactions; and
- review of material contracts entered into during the track record period.

Question A12 **Please discuss the most significant areas of audit risk you have encountered in respect of the issuer and how you gained comfort in these areas.**

Response considerations The reporting accountant might identify the most critical audit areas and issues discussed with the audit committee in the years and periods covered by the historical financial information. However, it is important that the reporting accountant explains that the assessment of audit risk is concerned with the fairness of presentation of the historical financial information in accordance with generally accepted accounting principles, and should not be taken to provide comfort on individual elements within the historical financial information, or on the absence of other significant business risks which, because of their nature, were not considered by the reporting accountant to constitute areas of significant audit risk.

Question A13 **Is there anything of which you are aware that would inhibit your delivery, in accordance with HKSIRs, and the terms of your engagement, of an unqualified report on the historical financial information, consent letters, and the comfort letter to the sponsor?**

Response considerations The reporting accountant would be careful to explain any development (such as a delay in the issuer's providing necessary information, or an unresolved problem regarding disclosure in the investment circular) which might delay the completion of the reporting accountant's work.

B. Questions to which the reporting accountant is unable to respond in the terms in which they are asked (B1-B5)

The sponsor may ask questions to which the reporting accountant is unable to respond in the terms in which they are asked. In such circumstances, the reporting accountant may wish to respond by explaining the reasons why he or she is unable to provide the information requested. Some examples of these types of questions, together with a commentary on how the reporting accountant might respond to the question, are set out below.

Question B1 **Based on your reading of the prospectus, do you have any reason to believe that it is not fairly presented? (Or, Are you aware of any other matters that should be disclosed in the prospectus? Or, Are there any other questions that we should have asked in completing our due diligence investigation?)**

Response considerations There is no accepted standard by which the reporting accountant can judge whether a prospectus is fairly presented. Professional standards require that the reporting accountants read the prospectus with a view to assessing the overall impression given by the document, having regard to the purposes for which it has been prepared, as well as considering whether there are any inconsistencies between his or her report and the information in the rest of the document.

These procedures would not necessarily disclose material misstatements or omissions in the information included in the investment circular. Accordingly, except for the historical financial information included in the prospectus, the reporting accountant is not in a position to make any representations as to completeness or adequacy of disclosures in the prospectus.

The sponsor applies many other considerations in forming an opinion as to what constitutes a fair presentation, but the reporting accountant has no way of knowing what would be of interest to the sponsor. As well, a great deal of the information in a prospectus (and, perhaps, significant omissions) is outside of the knowledge of the reporting accountant.

Question B2 **Are you aware of any matters that may directly or indirectly affect the value of the securities offered under the prospectus?**

Response considerations The reporting accountant is not competent to express a view as to matters that may affect the value of securities. This subject is within the province of a securities dealer such as an underwriter.

Question B3 **Are provisions for losses (e.g., bad debts, inventory obsolescence) adequate?**

Response considerations An examination is designed to assess the presentation of the historical financial information as a whole, and not to provide assurance on individual financial information items. The reporting accountant determines materiality by reference to the historical financial information taken as a whole. The only appropriate answer to the question is that the reporting accountant would not have given an opinion without reservation if in the reporting accountant's opinion the historical financial information did not give a true and fair view. The reporting accountant may be willing to describe the examination procedures performed in order to conclude on the adequacy of loss provisions in the context of the examination of the historical financial information as a whole.

Question B4 **Are the accounting policies and methods used by the issuer appropriate? Please comment on the general fairness (adequacy) of the issuer's accounting policies and the presentation of its historical financial information. Are these accounting policies consistent with the majority of enterprises in the same business as the issuer? Would you describe the financial reporting policies of the issuer as conservative/liberal relative to other companies in the industry?**

Response considerations Assuming that the reporting accountant has expressed an opinion without reservation on the issuer's historical financial information, it would ordinarily be possible to confirm that the accounting policies and methods used by the issuer are appropriate.

The reporting accountant would advise the sponsor that management has the responsibility for the accurate recording of transactions and the preparation of historical financial information in accordance with generally accepted accounting principles. This responsibility includes the selection and application of accounting policies. An examination of the historical financial information does not relieve management of its responsibilities. The reporting accountant may make suggestions as to the form or content of the historical financial information, and ensure that the accounting principles and policies are in accordance with generally accepted accounting principles; however, the reporting accountant is not required to assess the preferability of an accounting principle or method when acceptable alternatives exist. The reporting accountant would also consider discussing the alternative accounting policies available under generally accepted accounting principles, generally, and in the issuer's industry.

From time to time, the reporting accountant may discuss with the audit committee the quality of various accounting policies, and express a view as to the relative merits of differing methods. The reporting accountant may wish to refer to these discussions. However, in dealing with a third party such as a sponsor, the reporting accountant would be very cautious about answering any question about the relative conservatism of the issuer's accounting policies, as any answer is likely to be based on the reporting accountant's personal experience, and not on any generally accepted criteria.

Question B5 **What was the extent of your involvement in the preparation of the historical financial information and the other financial information in the investment circular?**

Response considerations The responsibility for the preparation of historical financial information, and also of investment circulars, rests with management of the entity. It is the reporting accountant's responsibility to perform an examination of the historical financial information prepared by management.

C. Questions properly addressed to management (C1-C3)

The sponsor may ask questions that are properly addressed to management, rather than the reporting accountant.

Question C1 **Is the historical financial information for the periods contained in the prospectus of the issuer accurate in all material respects?**

Response considerations The reporting accountant would remind the sponsor that the historical financial information is the responsibility of the issuer's management and that this question is best answered by management. The reporting accountant would explain that the responsibility as reporting accountant is to express an opinion on the historical financial information based on an examination. As noted in the accountants' report, it is the reporting accountant's opinion that the historical financial information included in the investment circular gives a true and fair view of the financial position of the company as at (dates) and the results of its operations and its cash flows for the years then ended.

Question C2 What is the reason for the increase / decrease in (certain historical financial information items) in 20X5 as compared to 20X4?

Response considerations

The reporting accountant's responsibility is to form an opinion as to whether the historical financial information gives a true and fair view. A change in the recorded amount of an asset, liability, revenue or expense item from period to period is normally the result of numerous transactions. Management has the responsibility of operating the business, has first-hand knowledge of these transactions, and is in a position to analyse changes. Therefore, any questions as to the reasons for a change in a historical financial information item would be addressed to management, and responded to by management. The reporting accountant could comment on management's response only if a separate assurance engagement was carried out on the matters in question.

Question C3 Please provide us with an assessment (comment on the adequacy) of the Company's internal control systems. Are you satisfied that internal controls are in place to prepare adequate financial information? Have you relied upon internal controls in performing your examination?

Response considerations

The reporting accountant would advise the sponsor that this question can only be answered by the issuer's management, because responsibility for ensuring the adequacy of internal control is part of the issuer's management's overall responsibility.

The reporting accountant may respond by stating that management's internal control objectives go beyond financial information objectives. Internal controls relevant to the examination comprise those policies and procedures established and maintained by management that relate to specific financial information assertions.

The reporting accountant would explain that a reporting accountant has a responsibility to obtain a sufficient understanding of internal control to plan the examination. This understanding includes knowledge about the design of policies and procedures and whether they have been implemented, but does not extend to evaluating the operating effectiveness of these policies and procedures. The reporting accountant only evaluates, and tests, those internal controls on which it is planned to rely on during the examination. Accordingly, an opinion in an accountants' report provides no assurance as to the efficiency or effectiveness with which operations, including internal controls, have been conducted.

The reporting accountant may then wish to discuss the approach adopted in performing the examination including reliance on internal controls. The reporting accountant may also wish to point out that these controls would not normally include all of the controls over the preparation of the historical financial information; accordingly, the reporting accountant is not in a position to provide any assurance regarding such controls.

Notwithstanding this, the reporting accountant would consider informing the sponsor as to any significant weaknesses in the issuer's internal control structure which were reported to management.

HKAPG 1000
Issued July 2012; revised December 2012

Effective upon issue

Hong Kong Auditing Practice Guidance 1000

Special Considerations in Auditing Financial Instruments



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

Assignment of Authority and Responsibility

Investment and Valuation Policies

6. Providing direction, through clearly stated policies approved by those charged with governance for the purchase, sale, and holding of financial instruments enables management to establish an effective approach to taking and managing business risks. These policies are most clear when they state the entity's objectives with regard to its risk management activities, and the investment and hedging alternatives available to meet these objectives, and reflect the:
 - (a) Level of management's expertise;
 - (b) Sophistication of the entity's internal control and monitoring systems;
 - (c) Entity's asset/liability structure;
 - (d) Entity's capacity to maintain liquidity and absorb losses of capital;
 - (e) Types of financial instruments that management believes will meet its objectives; and
 - (f) Uses of financial instruments that management believes will meet its objectives, for example, whether derivatives may be used for speculative purposes or only for hedging purposes.
7. Management may design policies aligned with its valuation capabilities and may establish controls to ensure that these policies are adhered to by those employees responsible for the entity's valuation. These may include:
 - (a) Processes for the design and validation of methodologies used to produce valuations, including how measurement uncertainty is addressed; and
 - (b) Policies regarding maximizing the use of observable inputs and the types of information to be gathered to support valuations of financial instruments.
8. In smaller entities, dealing in financial instruments may be rare and management's knowledge and experience limited. Nevertheless, establishing policies over financial instruments helps an entity to determine its risk appetite and consider whether investing in particular financial instruments achieves a stated objective.

Human Resource Policies and Practices

9. Entities may establish policies requiring key employees, both front office and back office, to take mandatory time off from their duties. This type of control is used as a means of preventing and detecting fraud, in particular if those engaged in trading activities are creating false trades or inaccurately recording transactions.

Use of Service Organizations

10. Entities may also use service organizations (for example asset managers) to initiate the purchase or sale of financial instruments, to maintain records of transactions for the entity or to value financial instruments. Some entities may be dependent on these service organizations to provide the basis of reporting for the financial instruments held. However, if management does not have an understanding about the controls in place at a service organization, the auditor may not be able to obtain sufficient appropriate audit evidence to rely on controls at that service organization. See HKSA 402¹, which establishes requirements for the auditor to obtain sufficient appropriate audit evidence when an entity uses the services of one or more service organizations.

¹ HKSA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

11. The use of service organizations may strengthen or weaken the control environment for financial instruments. For example, a service organization's personnel may have more experience with financial instruments than the entity's management or may have more robust internal control over financial reporting. The use of the service organization also may allow for greater segregation of duties. On the other hand, the service organization may have a poor control environment.

The Entity's Risk Assessment Process

12. An entity's risk assessment process exists to establish how management identifies business risks that derive from its use of financial instruments, including how management estimates the significance of the risks, assesses the likelihood of their occurrence and decides upon actions to manage them.
13. The entity's risk assessment process forms the basis for how management determines the risks to be managed. Risk assessment processes exist with the objective of ensuring that management:
 - (a) Understands the risks inherent in a financial instrument before management enters into it, including the objective of entering into the transaction and its structure (for example, the economics and business purpose of the entity's financial instrument activities);
 - (b) Performs adequate due diligence commensurate with the risks associated with particular financial instruments;
 - (c) Monitors the entity's outstanding positions to understand how market conditions are affecting their exposures;
 - (d) Has procedures in place to reduce or change risk exposure if necessary and for managing reputational risk; and
 - (e) Subjects these processes to rigorous supervision and review.
14. The structure implemented to monitor and manage exposure to risks should:
 - (a) Be appropriate and consistent with the entity's attitude toward risk as determined by those charged with governance;
 - (b) Specify the approval levels for the authorization of different types of financial instruments and transactions that may be entered into and for what purposes. The permitted instruments and approval levels should reflect the expertise of those involved in financial instrument activities, demonstrating management's commitment to competence;
 - (c) Set appropriate limits for the maximum allowable exposure to each type of risk (including approved counterparties). Levels of allowable exposure may vary depending on the type of risk, or counterparty;
 - (d) Provide for the objective and timely monitoring of the financial risks and control activities;
 - (e) Provide for the objective and timely reporting of exposures, risks and the results of financial instrument activities in managing risk; and
 - (f) Evaluate management's track record for assessing the risks of particular financial instruments.

28. A feature of some entities' internal control is an independent price verification (IPV) function. This department is responsible for separately verifying the price of some financial instruments, and may use alternative data sources, methodologies and assumptions. The IPV provides an objective look at the pricing that has been developed in another part of the entity.
29. Ordinarily, the middle or back office is responsible for establishing policies on valuation and ensuring adherence to the policy. Entities with a greater use of financial instruments may perform daily valuations of their financial instrument portfolio and examine the contribution to profit or loss of individual financial instrument valuations as a test of the reasonableness of valuations.

Completeness, Accuracy, and Existence

30. Regular reconciliation of the entity's records to external banks' and custodians' records enables the entity to ensure transactions are properly recorded. Appropriate segregation of duties between those transacting the trades and those reconciling them is important, as is a rigorous process for reviewing reconciliations and clearing reconciling items.
31. Controls may also be established that require traders to identify whether a complex financial instrument may have unique features, for example embedded derivatives. In such circumstances, there may be a separate function that evaluates complex financial instrument transactions at their initiation (which may be known as a product control group), working in connection with an accounting policy group to ensure the transaction is accurately recorded. While smaller entities may not have product control groups, an entity may have a process in place relating to the review of complex financial instrument contracts at the point of origination in order to ensure they are accounted for appropriately in accordance with the applicable financial reporting framework.

Monitoring of Controls

32. The entity's ongoing monitoring activities are designed to detect and correct any deficiencies in the effectiveness of controls over transactions for financial instruments and their valuation. It is important that there is adequate supervision and review of financial instrument activity within the entity. This includes:
 - (a) All controls being subject to review, for example, the monitoring of operational statistics such as the number of reconciling items or the difference between internal pricing and external pricing sources;
 - (b) The need for robust information technology (IT) controls and monitoring and validating their application; and
 - (c) The need to ensure that information resulting from different processes and systems is adequately reconciled. For example, there is little benefit in a valuation process if the output from it is not reconciled properly into the general ledger.
33. In larger entities, sophisticated computer information systems generally keep track of financial instrument activities, and are designed to ensure that settlements occur when due. More complex computer systems may generate automatic postings to clearing accounts to monitor cash movements, and controls over processing are put in place with the objective of ensuring that financial instrument activities are correctly reflected in the entity's records. Computer systems may be designed to produce exception reports to alert management to situations where financial instruments have not been used within authorized limits or where transactions undertaken were not within the limits established for the chosen counterparties. However, even a sophisticated computer system may not ensure the completeness of the recording of financial instrument transactions. Accordingly, management frequently puts additional procedures in place to increase the likelihood that all transactions will be recorded.