



MEMBERS' HANDBOOK

Update No. 95

(Issued 27 October 2010)

Changes to Illustrative examples in HKSAs

1. Appendix 1 of HKSA 210 (Clarified) *Agreeing the Terms of Audit Engagements* is revised to align with the example in ISA 210. Accordingly, the Chinese translated engagement letter has been amended and is available at http://www.hkicpa.org.hk/file/media/section6_standards/standards/Audit-n-assurance/example-auditors/2010/hksa-210-engagement-letter.pdf.
2. Illustration 5 and Illustration 6 have been included in HKSA 700 (Clarified) *Forming an Opinion and Reporting on Financial Statements* as a result of the issuance of the Hong Kong Financial Reporting Standard for Private Entities. Chinese translated unmodified auditor's reports for audits of financial statements prepared in accordance with HKFRS, SME-FRS and HKFRS for Private Entities are available at http://www.hkicpa.org.hk/file/media/section6_standards/standards/Audit-n-assurance/example-auditors/2010/auditors-reports.pdf.

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HKSA 700 (Clarified) <u><i>Forming an Opinion and Reporting on Financial Statements</i></u>	Replace cover page and page 21 with revised cover page and page 21.	Note 2
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Insert pages 30 – 33.



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HKSA 210
Issued June 2009; revised July, October 2010

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



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

HONG KONG STANDARD ON AUDITING 210
AGREEING THE TERMS OF AUDIT ENGAGEMENTS

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

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Hong Kong Standard on Auditing (HKSA) 210, "Agreeing the Terms of Audit Engagements" should be read in conjunction with HKSA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing."

Appendix 1

Example of an Audit Engagement Letter

The following is an example of an audit engagement letter for an audit of general purpose financial statements of limited company clients which are incorporated in Hong Kong under the Companies Ordinance. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this HKSA. It will need to be varied according to individual requirements and circumstances, for example to the special reporting requirements of regulated entities. It may be appropriate to seek legal advice that any proposed letter is suitable.

To the directors of _____:

Objective of services

- 1.1 You have requested that we audit the financial statements of [ABC Company Limited]. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the financial statements.

Responsibilities of directors

- 2.1 Our audit will be conducted on the basis that you acknowledge and understand that you have responsibility:
- a. To maintain proper books of account of the company;
 - b. For the preparation of financial statements which give a true and fair view in accordance with [*insert applicable financial reporting framework*] [*Hong Kong Financial Reporting Standards*][*Hong Kong Financial Reporting Standard for Private Entities*] and have been prepared in accordance with the Companies Ordinance;
 - c. For such internal control as you determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
 - d. To provide us with:
 - (i) Access to all information of which you are aware that is relevant to the preparation of the financial statements such as company's books of account and all other relevant records and documentation, including minutes of all management and shareholders' meetings and other matters;
 - (ii) Additional information that we may request from you for the purpose of the audit; and
 - (iii) Unrestricted access to persons within the company from whom we determine it necessary to obtain audit evidence.

Responsibilities of the auditor

- 3.1 We have a statutory responsibility to report to the members whether in our opinion the financial statements give a true and fair view and whether they have been properly prepared in accordance with the Companies Ordinance. In arriving at our opinion, we are required to consider the following matters, and to report on any in respect of which we are not satisfied:

- a. whether proper books of account have been kept by the company and proper returns adequate for our audit have been received from branches not visited by us;
- b. whether the company's balance sheet and profit and loss account are in agreement with the books of account and returns; and
- c. whether we have obtained all the information and explanations which we consider necessary for the purposes of our audit.

In addition, there are certain other matters which, according to the circumstances, may need to be dealt with in our report. For example, where the financial statements do not give details of directors' remuneration or of loans to officers, the Companies Ordinance requires us to disclose such matters in our report.

- 3.2 We have a professional responsibility to report if the financial statements do not comply in any material respect with [*insert applicable financial reporting framework*] [*Hong Kong Financial Reporting Standards*][*Hong Kong Financial Reporting Standard for Private Entities*], unless in our opinion the noncompliance is justified in the circumstances. In determining whether or not the departure is justified, we consider:
 - a. whether the departure is required in order for the financial statements to give a true and fair view; and
 - b. whether adequate disclosure has been made concerning the departure.

Scope of audit

- 4.1 Our audit will be conducted in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by you, as well as evaluating the overall presentation of the financial statements.
- 4.2 Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with HKSAs.
- 4.3 In making our risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit. Any such report may not be provided to third parties without our prior written consent. Such consent will be granted only on the basis that such reports are not prepared with the interests of anyone other than the company in mind and that we accept no duty or responsibility to any other party as concerns the reports.
- 4.4 As part of our audit procedures, we will request you to provide written confirmation concerning representations which we have received from you during the course of the audit on matters having a material effect on the financial statements. In connection with representations and the supply of information to us generally, we draw your attention to section 134 of the

Companies Ordinance under which it is an offence for an officer of the company to mislead the auditor.

- 4.5 In order to assist us with the examination of your financial statements, we shall request sight of all documents or statements, including the chairman's statement, operating and financial review and the directors' report, which are due to be issued with the financial statements. We are also entitled to attend all general meetings of the company and to receive notice of all such meetings.
- 4.6 The responsibility for safeguarding the assets of the company and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with you. However, we shall endeavour to plan our audit so that we have a reasonable expectation of detecting material misstatements in the financial statements or books of account (including those resulting from fraud, error or non-compliance with law or regulations), but our examination should not be relied upon to disclose all such material misstatements or frauds, errors or instances of non-compliance as may exist.
- 4.7 (Where appropriate - Note) We shall not be treated as having notice, for the purposes of our audit responsibilities, of information provided to members of our firm other than those engaged on the audit (for example information provided in connection with accounting, taxation and other services).
- 4.8 Once we have issued our report we have no further direct responsibility in relation to the financial statements for that period. However, we expect that you will inform us of any material event occurring between the date of our report and that of the Annual General Meeting which may affect the financial statements.

(Consolidated financial statements)

5. As the auditor of the holding company we are required to report, in similar terms to those outlined in paragraph 3.1 above, on the group's consolidated financial statements, which comprise the financial statements of the holding company and its subsidiaries. In order to express an opinion on group's consolidated financial statements which include the financial information of subsidiaries, joint ventures or associated companies of which we are not the auditor, it will be necessary for us to communicate directly with the other auditor(s) concerned to satisfy ourselves that:
- a. so far as is practicable, there is uniformity within the group in the application of accounting policies;
 - b. the consolidated financial statements give the information required by the Companies Ordinance, applicable accounting standards and any other legislation or non-statutory requirements affecting the presentation of financial statements; and
 - c. all material aspects of the consolidated financial statements have been subjected to an audit examination, the nature and extent of which is adequate and reasonable, in our view, for the purpose of forming an opinion on the group's consolidated financial statements.)*

Reporting

- 6.1 *[Insert appropriate reference to the expected form and content of the auditor's report.]*
- 6.2 The form and content of our report may need to be amended in the light of our audit findings.

(Other services

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

Fees

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

Agreement of terms

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

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

Yours faithfully,

ABC & Co.

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

Date

We agree to the terms of this letter.

(Signed)

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

Date

* Delete where not applicable.

Note

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

Appendix 2

(Ref: Para. A10)

Determining the Acceptability of General Purpose Frameworks

Jurisdictions that Do Not Have Authorized or Recognized Standards Setting Organizations or Financial Reporting Frameworks Prescribed by Law or Regulation

1. As explained in paragraph A10 of this HKSA, when an entity is registered or operating in a jurisdiction that does not have an authorized or recognized standards setting organization, or where use of the financial reporting framework is not prescribed by law or regulation, management identifies an applicable financial reporting framework. Practice in such jurisdictions is often to use the financial reporting standards established by one of the organizations described in paragraph A8 of this HKSA.
2. Alternatively, there may be established accounting conventions in a particular jurisdiction that are generally recognized as the financial reporting framework for general purpose financial statements prepared by certain specified entities operating in that jurisdiction. When such a financial reporting framework is adopted, the auditor is required by paragraph 6(a) of this HKSA to determine whether the accounting conventions collectively can be considered to constitute an acceptable financial reporting framework for general purpose financial statements. When the accounting conventions are widely used in a particular jurisdiction, the accounting profession in that jurisdiction may have considered the acceptability of the financial reporting framework on behalf of the auditors. Alternatively, the auditor may make this determination by considering whether the accounting conventions exhibit attributes normally exhibited by acceptable financial reporting frameworks (see paragraph 3 below), or by comparing the accounting conventions to the requirements of an existing financial reporting framework considered to be acceptable (see paragraph 4 below).
3. Acceptable financial reporting frameworks normally exhibit the following attributes that result in information provided in financial statements that is useful to the intended users:
 - (a) Relevance, in that the information provided in the financial statements is relevant to the nature of the entity and the purpose of the financial statements. For example, in the case of a business enterprise that prepares general purpose financial statements, relevance is assessed in terms of the information necessary to meet the common financial information needs of a wide range of users in making economic decisions. These needs are ordinarily met by presenting the financial position, financial performance and cash flows of the business enterprise.
 - (b) Completeness, in that transactions and events, account balances and disclosures that could affect conclusions based on the financial statements are not omitted.
 - (c) Reliability, in that the information provided in the financial statements:
 - (i) Where applicable, reflects the economic substance of events and transactions and not merely their legal form; and
 - (ii) Results in reasonably consistent evaluation, measurement, presentation and disclosure, when used in similar circumstances.
 - (d) Neutrality, in that it contributes to information in the financial statements that is free from bias.

- (e) Understandability, in that the information in the financial statements is clear and comprehensive and not subject to significantly different interpretation.
4. The auditor may decide to compare the accounting conventions to the requirements of an existing financial reporting framework considered to be acceptable. For example, the auditor may compare the accounting conventions to HKFRSs. For an audit of a small entity, the auditor may decide to compare the accounting conventions to a financial reporting framework specifically developed for such entities by an authorized or recognized standards setting organization. When the auditor makes such a comparison and differences are identified, the decision as to whether the accounting conventions adopted in the preparation of the financial statements constitute an acceptable financial reporting framework includes considering the reasons for the differences and whether application of the accounting conventions, or the description of the financial reporting framework in the financial statements, could result in financial statements that are misleading.
 5. A conglomeration of accounting conventions devised to suit individual preferences is not an acceptable financial reporting framework for general purpose financial statements. Similarly, a compliance framework will not be an acceptable financial reporting framework, unless it is generally accepted in the particular jurisdictions by preparers and users.

HKSA 700
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Effective for audits of financial statements
for periods beginning on or after 15 December 2009

Hong Kong Standard on Auditing 700

Forming an Opinion and Reporting on Financial Statements



Hong Kong Institute of
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Appendix

(Ref: Para. A14)

Illustrations of Auditors' Reports on Financial Statements

- Illustration 1: An auditor's report for a company incorporated in Hong Kong.
- Illustration 2: An auditor's report on financial statements prepared in accordance with a compliance framework designed to meet the common financial information needs of a wide range of users.
- Illustration 3: An auditor's report for a company incorporated in Hong Kong submitting group financial statements.
- Illustration 4: An auditor's report for a company incorporated overseas and reporting in Hong Kong.
- Illustration 5: An auditor's report for a company incorporated in Hong Kong and where the financial statements are prepared in accordance with Hong Kong Financial Reporting Standards for Private Entities.
- Illustration 6: An auditor's report for a company incorporated in Hong Kong submitting group financial statements and where the consolidated financial statements are prepared in accordance with Hong Kong Financial Reporting Standards for Private Entities.

Illustration 5:

Circumstances include the following:

- **Audit of a complete set of financial statements.**
- **The financial statements are prepared for a general purpose by directors of the entity in accordance with the Hong Kong Financial Reporting Standard for Private Entities.**
- **The terms of the audit engagement reflect the description of directors' responsibility for the financial statements in HKSA 210.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law in addition to the Hong Kong Companies Ordinance.**

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ABC LIMITED

(incorporated in Hong Kong with limited liability)²¹

[Report on the Financial Statements]²²

We have audited the financial statements of ABC Limited ("the Company") set out on pages to, which comprise the [balance sheet][statement of financial position]²³ as at 31 December 20X1, and the [[income statement][statement of comprehensive income]²³, statement of changes in equity][statement of income and retained earnings²⁴] and [cash flow statement][statement of cash flows]²³ for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors'²⁵ Responsibility for the Financial Statements

The directors are 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 issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

²¹ In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

²² 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.

²³ Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

²⁴ According to paragraph 3.18 of the HKFRS for Private Entities, the entity may present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity.

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit ²⁶. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.²⁷ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 20X1, and of its [profit][loss] and cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standard for Private Entities and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

[Report on Other Legal and Regulatory Requirements]

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]²²

XYZ & Co.

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

[Auditor's address]

Date of the auditor's report

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

²⁷ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

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

- **Audit of consolidated financial statements prepared for a general purpose by directors of the parent in accordance with the Hong Kong Financial Reporting Standard for Private Entities.**
- **The terms of the group audit engagement reflect the description of directors' responsibility for the financial statements in HKSA 210.**
- **In addition to the audit of the group financial statements, the auditor has other reporting responsibilities required under local law in addition to the Hong Kong Companies Ordinance.**

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ABC LIMITED

(incorporated in Hong Kong with limited liability)²⁸

[Report on the Consolidated Financial Statements]²⁹

We have audited the consolidated financial statements of ABC Limited ("the Company") and its subsidiaries (together "the Group") set out on pages to, which comprise the consolidated and company [balance sheets][statements of financial position]³⁰ as at 31 December 20X1, and the consolidated [[income statement][statement of comprehensive income]³⁰, the consolidated statement of changes in equity][statement of income and retained earnings]³¹ and the consolidated [cash flow statement][statement of cash flows]³⁰ for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors'³² Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the Hong Kong Financial Reporting Standard for Private Entities issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

²⁸ In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

²⁹ 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.

³⁰ Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

³¹ According to paragraph 3.18 of the HKFRS for Private Entities, the entity may present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity.

³² Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit³³. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.³⁴ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 20X1, and of the Group's [profit][loss] and cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standard for Private Entities and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

[Report on Other Legal and Regulatory Requirements]

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]²⁹

AAA & Co.

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

[Auditor's address]

[Date of the auditor's report]

³³ Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditor's Duty of Care To Third Parties and The Audit Report".

³⁴ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."