

# MEMBERS' HANDBOOK

## Update No. 71

(Issued October 2009)

This Update contains the fourth part of the Hong Kong Clarified Pronouncements on Auditing.

### **BACKGROUND ABOUT HONG KONG CLARIFIED PRONOUNCEMENTS ON AUDITING:**

*Hong Kong Clarified Pronouncements on Auditing* are issued in response to the International Auditing and Assurance Standards Board's (IAASB) Clarity Project to improve understandability of the auditing standards. The full set of clarified standards includes 39 documents as follows:

- a new Hong Kong Standard on Auditing (HKSA) on communicating deficiencies in internal control;
- 35 clarified HKSAs;
- a clarified Hong Kong Standard on Quality Control;
- a revised Glossary of Terms; and
- a revised Preface to the Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services.

Unless otherwise specified, the clarified pronouncements are effective for audits of financial statements for periods beginning on or after 15 December 2009.

The first three parts covering 35 documents were issued in June, July and September 2009 respectively. Part 4 covers 3 documents as set out below.

The Institute's Alert 4 which sets out further details on the IAASB Clarity Project can be accessed at: [http://www.hkicpa.org.hk/professionalttechnical/financialauditing/pdf\\_file/2009/FRAA\\_04.pdf](http://www.hkicpa.org.hk/professionalttechnical/financialauditing/pdf_file/2009/FRAA_04.pdf)

Document Reference and Title	Instructions	Explanations
<b>VOLUME III</b>		
<a href="#">Contents of Volume III</a>	Discard the existing page v and replace with the new page v.	Revised contents pages
<b>HONG KONG CLARIFIED PRONOUNCEMENTS ON AUDITING</b>		
1 HKSA 800 (Clarified) <a href="#">Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks</a>	Insert these pages after HKSA 720 (Clarified).	See above and Note 1 below.

- |   |  |  |                             |
|---|--|--|-----------------------------|
| 2 | HKSA 805 (Clarified) <a href="#"><u>Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</u></a> | Insert these pages after HKSA 800 (Clarified). | - ditto -                   |
| 3 | HKSA 810 (Clarified) <a href="#"><u>Engagements to Report on Summary Financial Statements</u></a>  | Insert these pages after HKSA 805 (Clarified). | See above and Note 2 below. |

Notes:

1. Upon the issuance of HKSA 800 (Clarified) and HKSA 805 (Clarified), the existing circulars and practice notes relating to schools and social welfare remain effective until further notice:
  - Practice Note 850 *Review of Flag Day Accounts*
  - Practice Note 851 *Review of the Annual Financial Reports of Non-Governmental Organisations*
  - Practice Note 852 *Review of Lottery Accounts*
  - Circular on *Reporting on General Charitable Fund-raising Activities Covered by Public Subscription Permits issued by the Social Welfare Department (Other than Flag Days)*
  - Circular on *Reporting on the Audit of Schools*
  
2. HKSA 810 (Clarified) will supersede Practice Note 710 *The Auditors' Statement on the Summary Financial Report* on the effective date of HKSA 810 (Clarified), ie. for periods beginning on or after 15 December 2009. Practice Note 710 will no longer be applicable for the year ending 14 December 2010 onwards.

	<i>Issue/Review date</i>
HKSA 510 (Clarified)	<a href="#"><u>Initial Audit Engagements - Opening Balances</u></a> ..... 09/09
HKSA 520 (Clarified)	<a href="#"><u>Analytical Procedures</u></a> ..... 07/09
HKSA 530 (Clarified)	<a href="#"><u>Audit Sampling</u></a> ..... 07/09
HKSA 540 (Clarified)	<a href="#"><u>Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</u></a> ..... 07/09
HKSA 550 (Clarified)	<a href="#"><u>Related Parties</u></a> ..... 07/09
HKSA 560 (Clarified)	<a href="#"><u>Subsequent Events</u></a> ..... 07/09
HKSA 570 (Clarified)	<a href="#"><u>Going Concern</u></a> ..... 07/09
HKSA 580 (Clarified)	<a href="#"><u>Written Representations</u></a> ..... 07/09
HKSA 600 (Clarified)	<a href="#"><u>Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)</u></a> ..... 09/09
HKSA 610 (Clarified)	<a href="#"><u>Using the Work of Internal Auditors</u></a> ..... 07/09
HKSA 620 (Clarified)	<a href="#"><u>Using the Work of an Auditor’s Expert</u></a> ..... 07/09
HKSA 700 (Clarified)	<a href="#"><u>Forming an Opinion and Reporting on Financial Statements</u></a> ..... 09/09
HKSA 705 (Clarified)	<a href="#"><u>Modifications to the Opinion in the Independent Auditor’s Report</u></a> ..... 09/09
HKSA 706 (Clarified)	<a href="#"><u>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report</u></a> ..... 09/09
HKSA 710 (Clarified)	<a href="#"><u>Comparative Information – Corresponding Figures and Comparative Financial Statements</u></a> ..... 09/09
HKSA 720 (Clarified)	<a href="#"><u>The Auditor’s Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements</u></a> ..... 09/09
HKSA 800 (Clarified)	<a href="#"><u>Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks</u></a> ..... 10/09
HKSA 805 (Clarified)	<a href="#"><u>Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</u></a> ..... 10/09
HKSA 810 (Clarified)	<a href="#"><u>Engagements to Report on Summary Financial Statements</u></a> ..... 10/09

HKSA 800  
Issued October 2009

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

*Hong Kong Standard on Auditing 800*

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# **Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks**



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

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**HONG KONG STANDARD ON AUDITING 800**

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

(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) 800, "Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks" 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."
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## Introduction

### Scope of this HKSA

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

### Effective Date

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

### Objective

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

### Definitions

6. For purposes of the HKSAs, the following terms have the meanings attributed below:
  - (a) Special purpose financial statements – Financial statements prepared in accordance with a special purpose framework.<sup>1a</sup> (Ref: Para. A4)
  - (b) Special purpose framework – A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.<sup>2</sup> (Ref: Para. A1-A4)

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

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

<sup>2</sup> HKSA 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing,” paragraph 13(a).

7. Reference to “financial statements” in this HKSA means “a complete set of special purpose financial statements, including the related notes.” The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial statements, and what constitutes a complete set of financial statements.

## Requirements

### Considerations When Accepting the Engagement

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

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

### Considerations When Planning and Performing the Audit

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

### Forming an Opinion and Reporting Considerations

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

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

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

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

<sup>6</sup> HKSA 700, “Forming an Opinion and Reporting on Financial Statements.”



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

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

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

14. The auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose. The auditor shall include this paragraph under an appropriate heading. (Ref: Para. A14-A15)

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

15. As of October 2009 (date of issue), this HKSA conforms with International Standard on Auditing (ISA) 800 "Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks". Compliance with the requirements of this HKSA ensures compliance with ISA 800.
16. Additional local explanations and guidance are provided in footnote 1a and Appendix.

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## **Application and Other Explanatory Material**

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

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

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<sup>7</sup> HKSA 700, paragraph 15.

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

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

### **Considerations When Accepting the Engagement**

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

- A5. In the case of special purpose financial statements, the financial information needs of the intended users are a key factor in determining the acceptability of the financial reporting framework applied in the preparation of the financial statements.
- A6. The applicable financial reporting framework may encompass the financial reporting standards established by an organization that is authorized or recognized to promulgate standards for special purpose financial statements. In that case, those standards will be presumed acceptable for that purpose if the organization follows an established and transparent process involving deliberation and consideration of the views of relevant stakeholders. In some jurisdictions, law or regulation may prescribe the financial reporting framework to be used by management in the preparation of special purpose financial statements for a certain type of entity. For example, a regulator may establish financial reporting provisions to meet the requirements of that regulator. In the absence of indications to the contrary, such a financial reporting framework is presumed acceptable for special purpose financial statements prepared by such entity.

- A7. Where the financial reporting standards referred to in paragraph A6 are supplemented by legislative or regulatory requirements, HKSA 210 requires the auditor to determine whether any conflicts between the financial reporting standards and the additional requirements exist, and prescribes actions to be taken by the auditor if such conflicts exist.<sup>9</sup>
- A8. The applicable financial reporting framework may encompass the financial reporting provisions of a contract, or sources other than those described in paragraphs A6 and A7. In that case, the acceptability of the financial reporting framework in the circumstances of the engagement is determined by considering whether the framework exhibits attributes normally exhibited by acceptable financial reporting frameworks as described in Appendix 2 of HKSA 210. In the case of a special purpose framework, the relative importance to a particular engagement of each of the attributes normally exhibited by acceptable financial reporting frameworks is a matter of professional judgment. For example, for purposes of establishing the value of net assets of an entity at the date of its sale, the vendor and the purchaser may have agreed that very prudent estimates of allowances for uncollectible accounts receivable are appropriate for their needs, even though such financial information is not neutral when compared with financial information prepared in accordance with a general purpose framework.

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

- A9. HKSA 200 requires the auditor to comply with (a) relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements, and (b) all HKSAs relevant to the audit. It also requires the auditor to comply with each requirement of an HKSA unless, in the circumstances of the audit, the entire HKSA is not relevant or the requirement is not relevant because it is conditional and the condition does not exist. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an HKSA by performing alternative audit procedures to achieve the aim of that requirement.<sup>10</sup>
- A10. Application of some of the requirements of the HKSAs in an audit of special purpose financial statements may require special consideration by the auditor. For example, in HKSA 320, judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group.<sup>11</sup> In the case of an audit of special purpose financial statements, however, those judgments are based on a consideration of the financial information needs of the intended users.
- A11. In the case of special purpose financial statements, such as those prepared in accordance with the requirements of a contract, management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold does not relieve the auditor from the requirement to determine materiality in accordance with HKSA 320 for purposes of planning and performing the audit of the special purpose financial statements.
- A12. Communication with those charged with governance in accordance with HKSAs is based on the relationship between those charged with governance and the financial statements subject to audit, in particular, whether those charged with governance are responsible for overseeing the preparation of those financial statements. In the case of special purpose financial statements, those charged with governance may not have such a responsibility; for example, when the financial information is prepared solely for management's use. In such cases, the requirements

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<sup>9</sup> HKSA 210, paragraph 18.

<sup>10</sup> HKSA 200, paragraphs 14, 18 and 22-23.

<sup>11</sup> HKSA 320, "Materiality in Planning and Performing an Audit," paragraph 2.

of HKSA 260<sup>12</sup> may not be relevant to the audit of the special purpose financial statements, except when the auditor is also responsible for the audit of the entity's general purpose financial statements or, for example, has agreed with those charged with governance of the entity to communicate to them relevant matters identified during the audit of the special purpose financial statements.

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

A13. The Appendix to this HKSA contains illustrations of auditors' reports on special purpose financial statements.

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

A14. The special purpose financial statements may be used for purposes other than those for which they were intended. For example, a regulator may require certain entities to place the special purpose financial statements on public record. To avoid misunderstandings, the auditor alerts users of the auditor's report 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* (Ref: Para. 14)

A15. In addition to the alert required by paragraph 14, the auditor may consider it appropriate to indicate that the auditor's report is intended solely for the specific users. Depending on the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the auditor's report. In these circumstances, the paragraph referred to in paragraph 14 may be expanded to include these other matters, and the heading modified accordingly.

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<sup>12</sup> HKSA 260, "Communication with Those Charged with Governance."

## Appendix

(Ref: Para. A13)

### Illustrations of Auditors' Reports on Special Purpose Financial Statements

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

**Illustration 1:**

**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 that contract. Management does not have a choice of financial reporting frameworks.**
- **The applicable financial reporting framework is a compliance framework.**
- **The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in HKSA 210.**
- **Distribution and use of the auditor’s report are restricted.**

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

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]<sup>12a</sup> as at 31 December 20X1, and the [income statement][statement of comprehensive income]<sup>12a</sup>, statement of changes in equity and [cash flow statement][statement of cash flows]<sup>12a</sup> 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 the Company based on the financial reporting provisions of Section Z of the contract dated 1 January 20X1 between the Company and DEF Company (“the contract”).

**Management’s<sup>13</sup> 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.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by 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 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. An audit also includes evaluating the appropriateness of accounting policies used and

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<sup>12a</sup> Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

<sup>13</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

the reasonableness of accounting estimates made by management, 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 of the Company for the year ended 31 December 20X1 are prepared, in all material respects, in accordance with the financial reporting provisions of Section Z of the contract.

### **Basis of Accounting and Restriction on Distribution and Use**

Without modifying our opinion, we draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Company to 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 the Company and DEF Company and should not be distributed to or used by parties other than the Company or DEF Company<sup>13a</sup>.

XYZ & Co.

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

[Auditor's address]

[Date of the auditor's report]

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<sup>13a</sup> Auditor may consider it appropriate to clarify to whom he/ she is 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 2:**

**Circumstances include the following:**

- **The financial statements have been prepared by management of a partnership in accordance with the tax basis of accounting in Jurisdiction X (that is, a special purpose framework) to assist the partners in preparing their individual income tax returns. Management does not have a choice of financial reporting frameworks.**
- **The applicable financial reporting framework is a compliance framework.**
- **The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in HKSA 210.**
- **Distribution of the auditor’s report is restricted.**

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

We have audited the financial statements of ABC Partnership (“the Partnership”) set out on pages ..... to ....., which comprise the [balance sheet][statement of financial position]<sup>13b</sup> as at 31 December 20X1 and the [income statement][statement of comprehensive income]<sup>13b</sup> for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management using the tax basis of accounting in Jurisdiction X.

**Management’s<sup>14</sup> Responsibility for the Financial Statements**

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

**Auditor’s Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by 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 partnership’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 partnership’s internal control. An audit also includes evaluating the

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<sup>13b</sup> Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

<sup>14</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.



appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 of the Partnership for the year ended 31 December 20X1 are prepared, in all material respects, in accordance with [describe the applicable income tax law] of Jurisdiction X.

### **Basis of Accounting and Restriction on Distribution**

Without modifying our opinion, we draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the partners of the Partnership in preparing their individual income tax returns. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Partnership and its partners and should not be distributed to parties other than the Partnership or its partners <sup>14a</sup>.

XYZ & Co.

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

[Auditor's address]

[Date of the auditor's report]

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<sup>14a</sup> Auditor may consider it appropriate to clarify to whom he/ she is 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 3:**

**Circumstances include the following:**

- **The financial statements have been prepared by management of the entity in accordance with the financial reporting provisions established by a regulator (that is, a special purpose framework) to meet the requirements of that regulator. Management does not have a choice of financial reporting frameworks.**
- **The applicable financial reporting framework is a fair presentation framework.**
- **The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in HKSA 210.**
- **Distribution or use of the auditor’s report is not restricted.**
- **The Other Matter paragraph refers to the fact that the auditor has also issued an auditor’s report on financial statements prepared by ABC Limited for the same period in accordance with a general purpose framework.**

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

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]<sup>14b</sup> as at 31 December 20X1, and the [income statement][statement of comprehensive income]<sup>14b</sup>, statement of changes in equity and [cash flow statement][statement of cash flows]<sup>14b</sup> for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management based on the financial reporting provisions of Section Y of Regulation Z.

**Management’s<sup>15</sup> Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Section Y of Regulation Z,<sup>16</sup> and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by 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.

<sup>14b</sup> Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

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

<sup>16</sup> Where management’s responsibility is to prepare financial statements that give a true and fair view, this may read: “Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting provisions of section Y of Regulation Z, and for such ...”

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 and fair presentation<sup>17</sup> 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.<sup>18</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at 31 December 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with the financial reporting provisions of Section Y of Regulation Z.

### Basis of Accounting

Without modifying our opinion, we draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Company to meet the requirements of Regulator DEF. As a result, the financial statements may not be suitable for another purpose<sup>18a</sup>.

### Other Matter

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

XYZ & Co.

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

[Auditor's address]

[Date of the auditor's report]

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<sup>17</sup> In the case of footnote 16, this may read: "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."

<sup>18</sup> 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 and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 16, this may read: "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."

<sup>18a</sup> Auditor may consider it appropriate to clarify to whom he/ she is 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".

HKSA 805  
Issued October 2009

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Effective for audits for periods  
beginning on or after 15 December 2009

*Hong Kong Standard on Auditing 805*

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# **Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement**



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

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## HONG KONG STANDARD ON AUDITING 805

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

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

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

## Introduction

### Scope of this HKSA

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

### Effective Date

4. This HKSA is effective for audits of single financial statements or of specific elements, accounts or items for periods beginning on or after 15 December 2009. In the case of audits of single financial statements or of specific elements, accounts or items of a financial statement prepared as at a specific date, this HKSA is effective for audits of such information prepared as at a date on or after 14 December 2010.

### Objective

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

### Definitions

6. For purposes of this HKSA, reference to:
  - (a) “Element of a financial statement” or “element” means an “element, account or item of a financial statement;”
  - (b) “Hong Kong Financial Reporting Standards” means the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants; and

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<sup>1</sup> HKSA 800, “Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks.”

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

- (c) A single financial statement or to a specific element of a financial statement includes the related notes. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information relevant to the financial statement or to the element.

## Requirements

### Considerations When Accepting the Engagement

#### *Application of HKSAs*

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

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

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

#### *Form of Opinion*

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

### Considerations When Planning and Performing the Audit

10. HKSA 200 states that HKSAs are written in the context of an audit of financial statements; they are to be adapted as necessary in the circumstances when applied to audits of other historical financial information.<sup>6 7</sup> In planning and performing the audit of a single financial statement or of a specific element of a financial statement, the auditor shall adapt all HKSAs relevant to the audit as necessary in the circumstances of the engagement. (Ref: Para. A10-A14)

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

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

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

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

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



## Forming an Opinion and Reporting Considerations

11. When forming an opinion and reporting on a single financial statement or on a specific element of a financial statement, the auditor shall apply the requirements in HKSA 700,<sup>8</sup> adapted as necessary in the circumstances of the engagement. (Ref: Para. A15-A16)

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

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

### Modified Opinion, Emphasis of Matter Paragraph or Other Matter Paragraph in the Auditor's Report on the Entity's Complete Set of Financial Statements

14. If the opinion in the auditor's report on an entity's complete set of financial statements is modified, or that report includes an Emphasis of Matter paragraph or an Other Matter paragraph, the auditor shall determine the effect that this may have on the auditor's report on a single financial statement or on a specific element of those financial statements. When deemed appropriate, the auditor shall modify the opinion on the single financial statement or on the specific element of a financial statement, or include an Emphasis of Matter paragraph or an Other Matter paragraph in the auditor's report, accordingly. (Ref: Para. A17)
15. If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole, HKSA 705 does not permit the auditor to include in the same auditor's report an unmodified opinion on a single financial statement that forms part of those financial statements or on a specific element that forms part of those financial statements.<sup>9</sup> This is because such an unmodified opinion would contradict the adverse opinion or disclaimer of opinion on the entity's complete set of financial statements as a whole. (Ref: Para. A18)
16. If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole but, in the context of a separate audit of a specific element that is included in those financial statements, the auditor nevertheless considers it appropriate to express an unmodified opinion on that element, the auditor shall only do so if:

- (a) The auditor is not prohibited by law or regulation from doing so;

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<sup>8</sup> HKSA 700, "Forming an Opinion and Reporting on Financial Statements."

<sup>9</sup> HKSA 705, "Modifications to the Opinion in the Independent Auditor's Report," paragraph 15.

- (b) That opinion is expressed in an auditor’s report that is not published together with the auditor’s report containing the adverse opinion or disclaimer of opinion; and
  - (c) The specific element does not constitute a major portion of the entity’s complete set of financial statements.
17. The auditor shall not express an unmodified opinion on a single financial statement of a complete set of financial statements if the auditor has expressed an adverse opinion or disclaimed an opinion on the complete set of financial statements as a whole. This is the case even if the auditor’s report on the single financial statement is not published together with the auditor’s report containing the adverse opinion or disclaimer of opinion. This is because a single financial statement is deemed to constitute a major portion of those financial statements.

## Conformity and Compliance with International Standards on Auditing

18. As of October 2009 (date of issue), this HKSA conforms with International Standard on Auditing (ISA) 805 “Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement”. Compliance with the requirements of this HKSA ensures compliance with ISA 805.
19. Additional local guidance is provided in Appendix 2.

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## Application and Other Explanatory Material

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

- A1. HKSA 200 defines the term “historical financial information” as information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.<sup>10</sup>
- A2. HKSA 200 defines the term “financial statements” as a structured representation of historical financial information, including related notes, intended to communicate an entity’s economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The term ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework.<sup>11</sup>
- A3. HKSAs are written in the context of an audit of financial statements;<sup>12</sup> they are to be adapted as necessary in the circumstances when applied to an audit of other historical financial information, such as a single financial statement or a specific element of a financial statement. This HKSA assists in this regard. (Appendix 1 lists examples of such other historical financial information.)
- A4. A reasonable assurance engagement other than an audit of historical financial information is performed in accordance with Hong Kong Standard on Assurance Engagements (HKSAE) 3000.<sup>13</sup>

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<sup>10</sup> HKSA 200, paragraph 13(g).

<sup>11</sup> HKSA 200, paragraph 13(f).

<sup>12</sup> HKSA 200, paragraph 2.

<sup>13</sup> HKSAE 3000, “Assurance Engagements Other than Audits or Reviews of Historical Financial Information.”

## Considerations When Accepting the Engagement

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

- A5. HKSA 200 requires the auditor to comply with (a) relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements, and (b) all HKSAs relevant to the audit. It also requires the auditor to comply with each requirement of an HKSA unless, in the circumstances of the audit, the entire HKSA is not relevant or the requirement is not relevant because it is conditional and the condition does not exist. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an HKSA by performing alternative audit procedures to achieve the aim of that requirement.<sup>14</sup>
- A6. Compliance with the requirements of HKSAs relevant to the audit of a single financial statement or of a specific element of a financial statement may not be practicable when the auditor is not also engaged to audit the entity's complete set of financial statements. In such cases, the auditor often does not have the same understanding of the entity and its environment, including its internal control, as an auditor who also audits the entity's complete set of financial statements. The auditor also does not have the audit evidence about the general quality of the accounting records or other accounting information that would be acquired in an audit of the entity's complete set of financial statements. Accordingly, the auditor may need further evidence to corroborate audit evidence acquired from the accounting records. In the case of an audit of a specific element of a financial statement, certain HKSAs require audit work that may be disproportionate to the element being audited. For example, although the requirements of HKSA 570<sup>15</sup> are likely to be relevant in the circumstances of an audit of a schedule of accounts receivable, complying with those requirements may not be practicable because of the audit effort required. If the auditor concludes that an audit of a single financial statement or of a specific element of a financial statement in accordance with HKSAs may not be practicable, the auditor may discuss with management whether another type of engagement might be more practicable.

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

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

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

<sup>15</sup> HKSA 570, "Going Concern."

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

A8. The form of opinion to be expressed by the auditor depends on the applicable financial reporting framework and any applicable laws or regulations.<sup>16</sup> In accordance with HKSA 700:<sup>17</sup>

- (a) When expressing an unmodified opinion on a complete set of financial statements prepared in accordance with a fair presentation framework, the auditor's opinion, unless otherwise required by law or regulation, uses one of the following phrases: (i) the financial statements present fairly, in all material respects, in accordance with [the applicable financial reporting framework]; or (ii) the financial statements give a true and fair view in accordance with [the applicable financial reporting framework]; and
- (b) When expressing an unmodified opinion on a complete set of financial statements prepared in accordance with a compliance framework, the auditor's opinion states that the financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework].

A9. In the case of a single financial statement or of a specific element of a financial statement, the applicable financial reporting framework may not explicitly address the presentation of the financial statement or of the element. This may be the case when the applicable financial reporting framework is based on a financial reporting framework established by an authorized or recognized standards setting organization for the preparation of a complete set of financial statements (for example, Hong Kong Financial Reporting Standards). The auditor therefore considers whether the expected form of opinion is appropriate in the light of the applicable financial reporting framework. Factors that may affect the auditor's consideration as to whether to use the phrases "presents fairly, in all material respects," or "gives a true and fair view" in the auditor's opinion include:

- Whether the applicable financial reporting framework is explicitly or implicitly restricted to the preparation of a complete set of financial statements.
- Whether the single financial statement or the specific element of a financial statement will:
  - Comply fully with each of those requirements of the framework relevant to the particular financial statement or the particular element, and the presentation of the financial statement or the element include the related notes.
  - If necessary to achieve fair presentation, provide disclosures beyond those specifically required by the framework or, in exceptional circumstances, depart from a requirement of the framework.

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

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<sup>16</sup> HKSA 200, paragraph 8.

<sup>17</sup> HKSA 700, paragraphs 35-36.

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

- A10. The relevance of each of the HKSAs requires careful consideration. Even when only a specific element of a financial statement is the subject of the audit, HKSAs such as HKSA 240,<sup>18</sup> HKSA 550<sup>19</sup> and HKSA 570 are, in principle, relevant. This is because the element could be misstated as a result of fraud, the effect of related party transactions, or the incorrect application of the going concern assumption under the applicable financial reporting framework.
- A11. Furthermore, HKSAs are written in the context of an audit of financial statements; they are to be adapted as necessary in the circumstances when applied to the audit of a single financial statement or of a specific element of a financial statement.<sup>20</sup> For example, written representations from management about the complete set of financial statements would be replaced by written representations about the presentation of the financial statement or the element in accordance with the applicable financial reporting framework.
- A12. When auditing a single financial statement or a specific element of a financial statement in conjunction with the audit of the entity's complete set of financial statements, the auditor may be able to use audit evidence obtained as part of the audit of the entity's complete set of financial statements in the audit of the financial statement or the element. HKSAs, however, require the auditor to plan and perform the audit of the financial statement or element to obtain sufficient appropriate audit evidence on which to base the opinion on the financial statement or on the element.
- A13. The individual financial statements that comprise a complete set of financial statements, and many of the elements of those financial statements, including their related notes, are interrelated. Accordingly, when auditing a single financial statement or a specific element of a financial statement, the auditor may not be able to consider the financial statement or the element in isolation. Consequently, the auditor may need to perform procedures in relation to the interrelated items to meet the objective of the audit.
- A14. Furthermore, the materiality determined for a single financial statement or for a specific element of a financial statement may be lower than the materiality determined for the entity's complete set of financial statements; this will affect the nature, timing and extent of the audit procedures and the evaluation of uncorrected misstatements.

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

- A15. HKSA 700 requires the auditor, in forming an opinion, to evaluate whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements.<sup>21</sup> In the case of a single financial statement or of a specific element of a financial statement, it is important that the financial statement or the element, including the related notes, in view of the requirements of the applicable financial reporting framework, provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the element, and the effect of material transactions and events on the information conveyed in the financial statement or the element.

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<sup>18</sup> HKSA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements."

<sup>19</sup> HKSA 550, "Related Parties."

<sup>20</sup> HKSA 200, paragraph 2.

<sup>21</sup> HKSA 700, paragraph 13(e).

- A16. Appendix 2 of this HKSA contains illustrations of auditors' reports on a single financial statement and on a specific element of a financial statement.

*Modified Opinion, Emphasis of Matter Paragraph or Other Matter Paragraph in the Auditor's Report on the Entity's Complete Set of Financial Statements (Ref: Para. 14-15)*

- A17. Even when the modified opinion on the entity's complete set of financial statements, Emphasis of Matter paragraph or Other Matter paragraph does not relate to the audited financial statement or the audited element, the auditor may still deem it appropriate to refer to the modification in an Other Matter paragraph in an auditor's report on the financial statement or on the element because the auditor judges it to be relevant to the users' understanding of the audited financial statement or the audited element or the related auditor's report (see HKSA 706).<sup>22</sup>
- A18. In the auditor's report on an entity's complete set of financial statements, the expression of a disclaimer of opinion regarding the results of operations and cash flows, where relevant, and an unmodified opinion regarding the financial position is permitted since the disclaimer of opinion is being issued in respect of the results of operations and cash flows only and not in respect of the financial statements as a whole.<sup>23</sup>

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<sup>22</sup> HKSA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report," paragraph 6.

<sup>23</sup> HKSA 510, "Initial Audit Engagements—Opening Balances," paragraph A8, and HKSA 705, paragraph A16.

## **Appendix 1**

(Ref: Para. A3)

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

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

## Appendix 2

(Ref: Para. A16)

### **Illustrations of Auditors' Reports on a Single Financial Statement and on a Specific Element of a Financial Statement**

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



**Illustration 1:**

**Circumstances include the following:**

- **Audit of a balance sheet (that is, a single financial statement).**
- **The balance sheet has been prepared by management of the entity in accordance with the requirements of the Financial Reporting Framework in Jurisdiction X relevant to preparing a balance sheet.**
- **The applicable financial reporting framework is a fair presentation framework designed to meet the common financial information needs of a wide range of users.**
- **The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in HKSA 210.**
- **The auditor has determined that it is appropriate to use the phrase “presents fairly, in all material respects,” in the auditor’s opinion.**

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

We have audited the accompanying [balance sheet][statement of financial position]<sup>23a</sup> of ABC Limited (“the Company”) as at 31 December 20X1 and a summary of significant accounting policies and other explanatory information (together “the financial statement”).

**Management’s<sup>24</sup> Responsibility for the Financial Statement**

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

**Auditor’s Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit<sup>24a</sup>. 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statement in order to design audit procedures that

<sup>23a</sup> Delete as appropriate, different term may be used as long as it is consistent with the title of the corresponding statement.

<sup>24</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

<sup>24a</sup> Auditor may consider it appropriate to clarify to whom he/ she is 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”.

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

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.<sup>25</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the financial statement.

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

XYZ & Co.

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

[Auditor's address]

[Date of the auditor's report]

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<sup>25</sup> 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 statement, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances."

**Illustration 2:**

**Circumstances include the following:**

- **Audit of a statement of cash receipts and disbursements (that is, a single financial statement).**
- **The financial statement has been prepared by management of the entity in accordance with the cash receipts and disbursements basis of accounting to respond to a request for cash flow information received from a creditor. Management has a choice of financial reporting frameworks.**
- **The applicable financial reporting framework is a fair presentation framework designed to meet the financial information needs of specific users.<sup>26</sup>**
- **The auditor has determined that it is appropriate to use the phrase “presents fairly, in all material respects,” in the auditor’s opinion.**
- **Distribution or use of the auditor’s report is not restricted.**

**INDEPENDENT AUDITOR’S REPORT**

[Appropriate Addressee]

We have audited the accompanying statement of cash receipts and disbursements of ABC Limited (“the 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 using the cash receipts and disbursements basis of accounting described in Note X.

**Management’s<sup>27</sup> 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; this includes determining that the cash receipts and disbursements basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances, and for such internal control as management determines is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit. 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 statement is free from material misstatement.

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<sup>26</sup> HKSA 800 contains requirements and guidance on the form and content of financial statements prepared in accordance with a special purpose framework.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the financial statement.

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

### **Basis of Accounting**

Without modifying our opinion, we draw attention to Note X to the financial statement, which describes the basis of accounting. The financial statement is prepared to provide information to XYZ Creditor. As a result, the statement may not be suitable for another purpose<sup>27a</sup>.

XYZ & Co.

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

[Auditor's address]

[Date of the auditor's report]

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<sup>27a</sup> Auditor may consider it appropriate to clarify to whom he/ she is 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 3:**

**Circumstances include the following:**

- **Audit of the liability for “incurred but not reported” claims in an insurance portfolio (that is, element, account or item of a financial statement).**
- **The financial information has been prepared by management of the entity in accordance with the financial reporting provisions established by a regulator to meet the requirements of that regulator. Management does not have a choice of financial reporting frameworks.**
- **The applicable financial reporting framework is a compliance framework designed to meet the financial information needs of specific users.<sup>28</sup>**
- **The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in HKSA 210.**
- **Distribution of the auditor’s report is restricted.**

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

We have audited the accompanying schedule of the liability for “incurred but not reported” claims of ABC Insurance Company (“the Company”) as at 31 December 20X1 (“the schedule”). The schedule has been prepared by management based on [describe the financial reporting provisions established by the regulator].

**Management’s<sup>29</sup> Responsibility for the Schedule**

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

**Auditor’s Responsibility**

Our responsibility is to express an opinion on the schedule based on our audit. 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 schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of the schedule in order to design audit procedures that are appropriate in the

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<sup>28</sup> HKSA 800 contains requirements and guidance on the form and content of financial statements prepared in accordance with a special purpose framework.

<sup>29</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the schedule.

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 information in the schedule of the liability for "incurred but not reported" claims of the Company as at 31 December 20X1 is prepared, in all material respects, in accordance with [describe the financial reporting provisions established by the regulator].

### **Basis of Accounting and Restriction on Distribution**

Without modifying our opinion, we draw attention to Note X to the schedule, which describes the basis of accounting. The schedule is prepared to assist the Company to meet the requirements of Regulator DEF. As a result, the schedule may not be suitable for another purpose. Our report is intended solely for the Company and Regulator DEF and should not be distributed to parties other than the Company or Regulator DEF <sup>29a</sup>.

XYZ & Co.

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

[Auditor's address]

[Date of the auditor's report]

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<sup>29a</sup> Auditor may consider it appropriate to clarify to whom he/ she is 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".

HKSA 810  
Issued October 2009

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Effective for engagements  
for periods beginning on or after 15 December 2009

*Hong Kong Standard on Auditing 810*

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# Engagements to Report on Summary Financial Statements



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

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

(Effective for engagements for periods beginning on or after 15 December 2009)

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

## Introduction

### Scope of this HKSA

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

### Effective Date

2. This HKSA is effective for engagements for periods beginning on or after 15 December 2009.

### Objectives

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

### Definitions

4. For purposes of this HKSA, the following terms have the meanings attributed below:
  - (a) Applied criteria – The criteria applied by management in the preparation of the summary financial statements.
  - (b) Audited financial statements – Financial statements<sup>1</sup> audited by the auditor in accordance with HKSAs, and from which the summary financial statements are derived.
  - (c) Summary financial statements – Historical financial information that is derived from financial statements but that contains less detail than the financial statements, while still providing a structured representation consistent with that provided by the financial statements of the entity's economic resources or obligations at a point in time or the changes therein for a period of time.<sup>2</sup> Different jurisdictions may use different terminology to describe such historical financial information.<sup>2a</sup>

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<sup>1</sup> HKSA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing," paragraph 13(f), defines the term "financial statements."

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

<sup>2a</sup> In Hong Kong, the Companies Ordinance permits a listed company incorporated in Hong Kong to send to an entitled person of the company a summary financial report in place of the full set of the annual report in certain circumstances and subject to certain conditions. The form and contents of a summary financial report are set out in section 141CF of the Companies Ordinance and section 5 of the Companies (Summary Financial Reports of Listed Companies) Regulation. Refer to Appendix 2 for details.

## Requirements

### Engagement Acceptance

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

### Nature of Procedures

8. The auditor shall perform the following procedures, and any other procedures that the auditor may consider necessary, as the basis for the auditor's opinion on the summary financial statements:

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<sup>2b</sup> For reporting under footnote 2a, when planning the audit of the annual accounts of a listed company, the auditor ascertains whether a summary financial report will be prepared and whether the other information will be issued to accompany the summary financial report. For definitions of "annual accounts" and "other information", refer to paragraph 6 in Appendix 2.

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

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

**Form of Opinion**

- 9. When the auditor has concluded that an unmodified opinion on the summary financial statements is appropriate, the auditor’s opinion shall, unless otherwise required by law or regulation <sup>2d</sup>, use one of the following phrases: (Ref: Para. A9)
  - (a) The summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with [the applied criteria]; or
  - (b) The summary financial statements are a fair summary of the audited financial statements, in accordance with [the applied criteria].
- 10. If law or regulation prescribes the wording of the opinion on summary financial statements in terms that are different from those described in paragraph 9, the auditor shall:
  - (a) Apply the procedures described in paragraph 8 and any further procedures necessary to enable the auditor to express the prescribed opinion; and
  - (b) Evaluate whether users of the summary financial statements might misunderstand the auditor’s opinion on the summary financial statements and, if so, whether additional

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<sup>2d</sup> For reporting under footnote 2a, refer to paragraph 7 in Appendix 2.

explanation in the auditor's report on the summary financial statements can mitigate possible misunderstanding.

11. If, in the case of paragraph 10(b), the auditor concludes that additional explanation in the auditor's report on the summary financial statements cannot mitigate possible misunderstanding, the auditor shall not accept the engagement, unless required by law or regulation to do so. An engagement conducted in accordance with such law or regulation does not comply with this HKSA. Accordingly, the auditor's report on the summary financial statements shall not indicate that the engagement was conducted in accordance with this HKSA.

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

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

### **Auditor's Report on Summary Financial Statements**

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

14. The auditor's report on summary financial statements shall include the following elements:<sup>4</sup> (Ref: Para. A15)
  - (a) A title clearly indicating it as the report of an independent auditor. (Ref: Para. A11)
  - (b) An addressee. (Ref: Para. A12)
  - (c) An introductory paragraph that:
    - (i) Identifies the summary financial statements on which the auditor is reporting, including the title of each statement included in the summary financial statements; (Ref: Para. A13)
    - (ii) Identifies the audited financial statements;

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

<sup>3</sup> HKSA 560, "Subsequent Events."

<sup>4</sup> Paragraphs 17-18, which deal with circumstances where the auditor's report on the audited financial statements has been modified, require additional elements to those listed in this paragraph.

- (iii) Refers to the auditor's report on the audited financial statements, the date of that report, and, subject to paragraphs 17-18, the fact that an unmodified opinion is expressed on the audited financial statements;
  - (iv) If the date of the auditor's report on the summary financial statements is later than the date of the auditor's report on the audited financial statements, states that the summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements; and
  - (v) A statement indicating that the summary financial statements do not contain all the disclosures required by the financial reporting framework applied in the preparation of the audited financial statements, and that reading the summary financial statements is not a substitute for reading the audited financial statements.<sup>4a</sup>
- (d) A description of management's<sup>5</sup> responsibility for the summary financial statements, explaining that management<sup>6</sup> is responsible for the preparation of the summary financial statements in accordance with the applied criteria.
  - (e) A statement that the auditor is responsible for expressing an opinion on the summary financial statements based on the procedures required by this HKSA.
  - (f) A paragraph clearly expressing an opinion (see paragraphs 9-11).
  - (g) The auditor's signature.
  - (h) The date of the auditor's report. (Ref: Para. A14)
  - (i) The auditor's address.
15. If the addressee of the summary financial statements is not the same as the addressee of the auditor's report on the audited financial statements, the auditor shall evaluate the appropriateness of using a different addressee. (Ref: Para. A12)
16. The auditor shall date the auditor's report on the summary financial statements no earlier than: (Ref: Para. A14)
- (a) The date on which the auditor has obtained sufficient appropriate evidence on which to base the opinion, including evidence that the summary financial statements have been prepared and those with the recognized authority have asserted that they have taken responsibility for them,<sup>6a</sup> and
  - (b) The date of the auditor's report on the audited financial statements.

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<sup>4a</sup> For reporting under footnote 2a, refer to section 5(3)(i) of the Companies (Summary Financial Reports of Listed Companies) Regulation as set out in Appendix 3.

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

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

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

*Modifications to the Opinion, Emphasis of Matter Paragraph or Other Matter Paragraph in the Auditor's Report on the Audited Financial Statements (Ref: Para. A15)*<sup>6b</sup>

17. When the auditor's report on the audited financial statements contains a qualified opinion, an Emphasis of Matter paragraph, or an Other Matter paragraph, but the auditor is satisfied that the summary financial statements are consistent, in all material respects, with or are a fair summary of the audited financial statements, in accordance with the applied criteria, the auditor's report on the summary financial statements shall, in addition to the elements in paragraph 14:
  - (a) State that the auditor's report on the audited financial statements contains a qualified opinion, an Emphasis of Matter paragraph, or an Other Matter paragraph; and
  - (b) Describe:
    - (i) The basis for the qualified opinion on the audited financial statements, and that qualified opinion; or the Emphasis of Matter or the Other Matter paragraph in the auditor's report on the audited financial statements; and
    - (ii) The effect thereof on the summary financial statements, if any.
  
18. When the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, the auditor's report on the summary financial statements shall, in addition to the elements in paragraph 14:
  - (a) State that the auditor's report on the audited financial statements contains an adverse opinion or disclaimer of opinion;
  - (b) Describe the basis for that adverse opinion or disclaimer of opinion; and
  - (c) State that, as a result of the adverse opinion or disclaimer of opinion, it is inappropriate to express an opinion on the summary financial statements.

*Modified Opinion on the Summary Financial Statements*<sup>6c</sup>

19. If the summary financial statements are not consistent, in all material respects, with or are not a fair summary of the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, the auditor shall express an adverse opinion on the summary financial statements. (Ref: Para. A15)

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

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

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<sup>6b</sup> Section 5(3)(c) of the Companies (Summary Financial Reports of Listed Companies) Regulation states that a summary financial report of a listed company shall contain a statement from the company's auditor as to whether the auditor's report concerned is qualified or otherwise modified, and (if the auditor's report is qualified or otherwise modified) set out the full auditor's report and any further material necessary for the understanding of the qualification or other modification. Refer to Illustration 6 in Appendix 1 and paragraph 11 in Appendix 2.

<sup>6c</sup> For reporting under footnote 2a, refer to paragraphs 9 and 12 in Appendix 2.



**Comparatives**

21. If the audited financial statements contain comparatives, but the summary financial statements do not, the auditor shall determine whether such omission is reasonable in the circumstances of the engagement. The auditor shall determine the effect of an unreasonable omission on the auditor's report on the summary financial statements. (Ref: Para. A16)
22. If the summary financial statements contain comparatives that were reported on by another auditor, the auditor's report on the summary financial statements shall also contain the matters that HKSA 710) requires the auditor to include in the auditor's report on the audited financial statements.<sup>7</sup> (Ref: Para. A17)

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

23. The auditor shall evaluate whether any unaudited supplementary information presented with the summary financial statements is clearly differentiated from the summary financial statements. If the auditor concludes that the entity's presentation of the unaudited supplementary information is not clearly differentiated from the summary financial statements, the auditor shall ask management to change the presentation of the unaudited supplementary information. If management refuses to do so, the auditor shall explain in the auditor's report on the summary financial statements that such information is not covered by that report. (Ref: Para. A18)

**Other Information in Documents Containing Summary Financial Statements**

24. The auditor shall read other information included in a document containing the summary financial statements and related auditor's report to identify material inconsistencies, if any, with the summary financial statements. If, on reading the other information, the auditor identifies a material inconsistency, the auditor shall determine whether the summary financial statements or the other information needs to be revised. If, on reading the other information, the auditor becomes aware of an apparent material misstatement of fact, the auditor shall discuss the matter with management. (Ref: Para. A19)

**Auditor Association**

25. If the auditor becomes aware that the entity plans to state that the auditor has reported on summary financial statements in a document containing the summary financial statements, but does not plan to include the related auditor's report, the auditor shall request management to include the auditor's report in the document. If management does not do so, the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately associating the auditor with the summary financial statements in that document. (Ref: Para. A20)
26. The auditor may be engaged to report on the financial statements of an entity, while not engaged to report on the summary financial statements. If, in this case, the auditor becomes aware that the entity plans to make a statement in a document that refers to the auditor and the fact that summary financial statements are derived from the financial statements audited by the auditor, the auditor shall be satisfied that:
  - (a) The reference to the auditor is made in the context of the auditor's report on the audited financial statements; and
  - (b) The statement does not give the impression that the auditor has reported on the summary financial statements.

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<sup>7</sup> HKSA 710, "Comparative Information—Corresponding Figures and Comparative Financial Statements."

If (a) or (b) are not met, the auditor shall request management to change the statement to meet them, or not to refer to the auditor in the document. Alternatively, the entity may engage the auditor to report on the summary financial statements and include the related auditor's report in the document. If management does not change the statement, delete the reference to the auditor, or include an auditor's report on the summary financial statements in the document containing the summary financial statements, the auditor shall advise management that the auditor disagrees with the reference to the auditor, and the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately referring to the auditor. (Ref: Para. A20)

## Conformity and Compliance with International Standards on Auditing

27. As of October 2009 (date of issue), this HKSA conforms with International Standard on Auditing (ISA) 810 "Engagements to Report on Summary Financial Statements". Compliance with the requirements of this HKSA ensures compliance with ISA 810.
28. Additional local explanations and guidance are provided in footnotes 2a, 2b, 2c, 2d, 2e, 4a, 6a, 6b, 6c and the Appendices 1, 2 and 3.

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## Application and Other Explanatory Material

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

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

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

- A3. The preparation of summary financial statements requires management to determine the information that needs to be reflected in the summary financial statements so that they are consistent, in all material respects, with or represent a fair summary of the audited financial statements. Because summary financial statements by their nature contain aggregated information and limited disclosure, there is an increased risk that they may not contain the information necessary so as not to be misleading in the circumstances. This risk increases when established criteria for the preparation of summary financial statements do not exist.
- A4. Factors that may affect the auditor's determination of the acceptability of the applied criteria include:
  - The nature of the entity;
  - The purpose of the summary financial statements;
  - The information needs of the intended users of the summary financial statements; and
  - Whether the applied criteria will result in summary financial statements that are not misleading in the circumstances.

- A5. The criteria for the preparation of summary financial statements may be established by an authorized or recognized standards setting organization or by law or regulation. Similar to the case of financial statements, as explained in HKSA 210,<sup>8</sup> in many such cases, the auditor may presume that such criteria are acceptable.
- A6. Where established criteria for the preparation of summary financial statements do not exist, criteria may be developed by management, for example, based on practice in a particular industry. Criteria that are acceptable in the circumstances will result in summary financial statements that:
- (a) Adequately disclose their summarized nature and identify the audited financial statements;
  - (b) Clearly describe from whom or where the audited financial statements are available or, if law or regulation provides that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements, that law or regulation;
  - (c) Adequately disclose the applied criteria;
  - (d) Agree with or can be recalculated from the related information in the audited financial statements; and
  - (e) In view of the purpose of the summary financial statements, contain the information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.
- A7. Adequate disclosure of the summarized nature of the summary financial statements and the identity of the audited financial statements, as referred to in paragraph A6(a), may, for example, be provided by a title such as “Summary Financial Statements Prepared from the Audited Financial Statements for the Year Ended 31 December 20X1.”

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

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

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

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

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<sup>8</sup> HKSA 210, “Agreeing the Terms of Audit Engagements,” paragraphs A3 and A8-A9.

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

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

**Auditor's Report on Summary Financial Statements**

*Elements of the Auditor's Report*

Title (Ref: Para. 14(a))

A11. A title indicating the report is the report of an independent auditor, for example, "Report of the Independent Auditor," affirms that the auditor has met all of the relevant ethical requirements regarding independence. This distinguishes the report of the independent auditor from reports issued by others.

Addressee (Ref: Para. 14(b), 15)

A12. Factors that may affect the auditor's evaluation of the appropriateness of the addressee of the summary financial statements include the terms of the engagement, the nature of the entity, and the purpose of the summary financial statements.

Introductory Paragraph (Ref: Para. 14(c)(i))

A13. When the auditor is aware that the summary financial statements will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the summary financial statements are presented. This helps readers to identify the summary financial statements to which the auditor's report relates.

Date of the Auditor's Report (Ref: Para. 14(h), 16)

A14. The person or persons with recognized authority to conclude that the summary financial statements have been prepared and take responsibility for them depend on the terms of the engagement, the nature of the entity, and the purpose of the summary financial statements.

Illustrations (Ref: Para.14. 17-18,19)

A15. The Appendix to this HKSA contains illustrations of auditors' reports on summary financial statements that:

- (a) Contain unmodified opinions;
- (b) Are derived from audited financial statements on which the auditor issued modified opinions; and
- (c) Contain a modified opinion.

**Comparatives** (Ref: Para. 21-22)

- A16. If the audited financial statements contain comparatives, there is a presumption that the summary financial statements also would contain comparatives. Comparatives in the audited financial statements may be regarded as corresponding figures or as comparative financial information. HKSA 710 describes how this difference affects the auditor's report on the financial statements, including, in particular, reference to other auditors who audited the financial statements for the prior period.
- A17. Circumstances that may affect the auditor's determination whether an omission of comparatives is reasonable include the nature and objective of the summary financial statements, the applied criteria, and the information needs of the intended users of the summary financial statements.

**Unaudited Supplementary Information Presented with Summary Financial Statements** (Ref: Para. 23)

- A18. HKSA 700<sup>9</sup> contains requirements and guidance to be applied when unaudited supplementary information is presented with audited financial statements that, adapted as necessary in the circumstances, may be helpful in applying the requirement in paragraph 23.

**Other Information in Documents Containing Summary Financial Statements** (Ref: Para. 24)

- A19. HKSA 720<sup>10</sup> contains requirements and guidance relating to reading other information included in a document containing the audited financial statements and related auditor's report, and responding to material inconsistencies and material misstatements of fact. Adapted as necessary in the circumstances, they may be helpful in applying the requirement in paragraph 24.

**Auditor Association** (Ref: Para. 25-26)

- A20. Other appropriate actions the auditor may take when management does not take the requested action may include informing the intended users and other known third-party users of the inappropriate reference to the auditor. The auditor's course of action depends on the auditor's legal rights and obligations. Consequently, the auditor may consider it appropriate to seek legal advice.

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<sup>9</sup> HKSA 700, "Forming an Opinion and Reporting on Financial Statements," paragraphs 46-47.

<sup>10</sup> HKSA 720, "The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements."

**Appendix 1**

(Ref: Para. A15)

**Illustrations of Reports on Summary Financial Statements**

- Illustration 1: An auditor's report on summary financial report prepared in accordance with section 141CF(1) of the Hong Kong Companies Ordinance and complies with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation. An unmodified opinion is expressed on the audited financial statements. The auditor's report on the summary financial report is dated later than the date of the auditor's report on the financial statements from which summary financial statements are derived.
- Illustration 2: An auditor's report on summary financial statements prepared in accordance with criteria developed by management and adequately disclosed in the summary financial statements. The auditor has determined that the applied criteria are acceptable in the circumstances. An unmodified opinion is expressed on the audited financial statements.
- Illustration 3: An auditor's report on summary financial statements prepared in accordance with criteria developed by management and adequately disclosed in the summary financial statements. The auditor has determined that the applied criteria are acceptable in the circumstances. A qualified opinion is expressed on the audited financial statements.
- Illustration 4: An auditor's report on summary financial statements prepared in accordance with criteria developed by management and adequately disclosed in the summary financial statements. The auditor has determined that the applied criteria are acceptable in the circumstances. An adverse opinion is expressed on the audited financial statements.
- Illustration 5: An auditor's report on summary financial report prepared in accordance with section 141CF(1) of the Hong Kong Companies Ordinance and complies with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation. An unmodified opinion is expressed on the audited financial statements. The auditor concludes that it is not possible to express an unmodified opinion on the summary financial report.
- Illustration 6: An auditor's report on summary financial report prepared in accordance with section 141CF(1) of the Hong Kong Companies Ordinance and complies with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation. A qualified opinion is expressed on the audited financial statements.

**Illustration 1:**

**Circumstances include the following:**

- **An unmodified opinion is expressed on the audited financial statements.**
- **The summary financial report is prepared in accordance with section 141CF(1) of the Hong Kong Companies Ordinance and complies with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation.**
- **The auditor’s report on the summary financial statements is dated later than the date of the auditor’s report on the financial statements from which the summary financial statements are derived.**

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL REPORT

TO THE SHAREHOLDERS OF ABC LIMITED

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

The summary financial report of ABC Limited (“the Company”) set out on pages ... to ..., which comprises the summary [balance sheet][statement of financial position]<sup>10b</sup> as at 31 December 20X1[,][ and]<sup>10c</sup> the summary [income statement][statement of comprehensive income]<sup>10b</sup>[, summary statement of changes in equity and summary [cash flow statement][statement of cash flows]<sup>10b</sup>] for the year then ended, and related notes, are derived from the audited financial statements of the Company for the year ended 31 December 20X1. We expressed an unmodified audit opinion on those financial statements in our report dated 15 February 20X2. Those financial statements, and the summary financial report, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial report does not contain all the disclosures required by Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. Reading the summary financial report, therefore, is not a substitute for reading the audited financial statements of the Company.

**Directors’<sup>11</sup> Responsibility for the Summary Financial Report**

Under the Hong Kong Companies Ordinance, the directors are responsible for the preparation of a summary financial report in accordance with section 141CF(1) of the Hong Kong Companies Ordinance. In preparing the summary financial report, section 141CF(1) of the Hong Kong Companies Ordinance requires that the summary financial report be derived from the annual financial statements and the auditor’s report thereon and the directors’ report for the year ended 31 December 20X1, be in such form and contain such information and particulars as specified in section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and be approved by the board of directors.

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

<sup>10b</sup> Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

<sup>10c</sup> Section 5(3)(1) and (2) of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation states that a summary financial report of a listed company shall contain all the information and particulars included in the company’s balance sheet and profit and loss account as they appear in the relevant documents; or the company’s consolidated balance sheet and consolidated profit and loss account if the company is presenting group financial statements.

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

### **Auditor's Responsibility**

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

### **Opinion**

In our opinion, the summary financial report on pages ... to ...:

- a. is consistent with the annual financial statements and the auditor's report thereon and the directors' report of the Company for the year ended 31 December 20X1 from which it is derived; and
- b. complies with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation.

XYZ & Co.

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

[Auditor's address]

[Date of the auditor's report]



**Illustration 2:**

**Circumstances include the following:**

- **An unmodified opinion is expressed on the audited financial statements.**
- **Criteria are developed by management and adequately disclosed in Note X. The auditor has determined that the criteria are acceptable in the circumstances.**

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF ABC LIMITED

(incorporated in [Hong Kong] with limited liability)<sup>11a</sup>

The summary financial statements of ABC Limited (“the Company”) set out on pages ... to ..., which comprise the summary [balance sheet][statement of financial position]<sup>11b</sup> as at 31 December 20X1, the summary [income statement][statement of comprehensive income]<sup>11b</sup>, summary statement of changes in equity and summary [cash flow statement][statement of cash flows]<sup>11b</sup> for the year then ended, and related notes, are derived from the audited financial statements of the Company for the year ended 31 December 20X1. We expressed an unmodified audit opinion on those financial statements in our report dated 15 February 20X2.<sup>12</sup>

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

**Management’s<sup>13</sup> Responsibility for the Summary Financial Statements**

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

**Auditor’s Responsibility**

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Hong Kong Standard on Auditing (HKSA) 810, “Engagements to Report on Summary Financial Statements” issued by the Hong Kong Institute of Certified Public Accountants.

**Opinion**

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

<sup>11a</sup> In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>11b</sup> Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

<sup>12</sup> When the auditor’s report on the summary financial statements is dated later than the date of the auditor’s report on the audited financial statements from which it is derived, the following sentence is added to this paragraph: “Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.”

<sup>13</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

ENGAGEMENTS TO REPORT ON SUMMARY FINANCIAL STATEMENTS

XYZ & Co.

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

[Auditor's address]

[Date of the auditor's report]

**Illustration 3:**

**Circumstances include the following:**

- **A qualified opinion is expressed on the audited financial statements.**
- **Criteria are developed by management and adequately disclosed in Note X. The auditor has determined that the criteria are acceptable in the circumstances.**

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF ABC LIMITED

(incorporated in [Hong Kong] with limited liability)<sup>13a</sup>

The summary financial statements of ABC Limited (“the Company”) set out on pages ... to ..., which comprise the summary [balance sheet][statement of financial position]<sup>13b</sup> as at 31 December 20X1, the summary [income statement][statement of comprehensive income]<sup>13b</sup>, summary statement of changes in equity and summary [cash flow statement][statement of cash flows]<sup>13b</sup> for the year then ended, and related notes, are derived from the audited financial statements of the Company for the year ended 31 December 20X1.<sup>14</sup> We expressed a qualified audit opinion on those financial statements in our report dated 15 February 20X2 (see below).

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

**Management’s<sup>15</sup> Responsibility for the Summary Financial Statements**

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

**Auditor’s Responsibility**

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Hong Kong Standard on Auditing (HKSA) 810, “Engagements to Report on Summary Financial Statements” issued by the Hong Kong Institute of Certified Public Accountants.

**Opinion**

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

<sup>13a</sup> In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>13b</sup> Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

<sup>14</sup> When the auditor’s report on the summary financial statements is dated later than the date of the auditor’s report on the audited financial statements from which it is derived, the following sentence is added to this paragraph: “Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.”

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

financial statements are misstated to the equivalent extent as the audited financial statements of the Company for the year ended 31 December 20X1.

The misstatement of the audited financial statements is described in our qualified audit opinion in our report dated 15 February 20X2. Our qualified audit opinion is based on the fact that the Company's inventories are carried in the [balance sheet][statement of financial position]<sup>13a</sup> in those financial statements 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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. The Company's records indicate that had management stated the inventories at the lower of cost and net realizable value, an amount of xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by xxx, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively. Our qualified audit opinion states that, except for the effects of the described matter, those financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at 31 December 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

XYZ & Co.

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

[Auditor's address]

[Date of the auditor's report]

**Illustration 4:**

**Circumstances include the following:**

- **An adverse opinion is expressed on the audited financial statements.**
- **Criteria are developed by management and adequately disclosed in Note X. The auditor has determined that the criteria are acceptable in the circumstances.**

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF ABC LIMITED

(incorporated in [Hong Kong] with limited liability)<sup>15a</sup>

The summary financial statements of ABC Limited (“the Company”) set out on pages ... to ..., which comprise the summary [balance sheet][statement of financial position]<sup>15b</sup> as at 31 December 20X1, the summary [income statement][statement of comprehensive income]<sup>15b</sup>, summary statement of changes in equity and summary [cash flow statement][statement of cash flows]<sup>15b</sup> for the year then ended, and related notes, are derived from the audited financial statements of the Company for the year ended 31 December 20X1.<sup>16</sup>

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

**Management’s<sup>17</sup> Responsibility for the Summary Financial Statements**

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

**Auditor’s Responsibility**

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Hong Kong Standard on Auditing (HKSA) 810, “Engagements to Report on Summary Financial Statements” issued by the Hong Kong Institute of Certified Public Accountants.

**Denial of Opinion**

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

<sup>15a</sup> In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>15b</sup> Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

<sup>16</sup> When the auditor’s report on the summary financial statements is dated later than the date of the auditor’s report on the audited financial statements from which it is derived, the following sentence is added to this paragraph: “Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.”

<sup>17</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

ENGAGEMENTS TO REPORT ON SUMMARY FINANCIAL STATEMENTS

Because of the significance of the matter discussed above, it is inappropriate to express an opinion on the summary financial statements of the Company for the year ended 31 December 20X1.

XYZ & Co.

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

[Auditor's address]

[Date of the auditor's report]

**Illustration 5:**

**Circumstances include the following:**

- **An unmodified opinion is expressed on the audited financial statements.**
- **The summary financial report is prepared in accordance with section 141CF(1) of the Hong Kong Companies Ordinance and complies with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation.**
- **The auditor concludes that it is not possible to express an unmodified opinion on the summary financial statements.**

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL REPORT

TO THE SHAREHOLDERS OF ABC LIMITED

(incorporated in [Hong Kong] with limited liability)<sup>17a</sup>

The summary financial report of ABC Limited (“the Company”) set out on pages ... to ..., which comprises the summary [balance sheet][statement of financial position]<sup>17b</sup> as at 31 December 20X1[,][ and]<sup>17c</sup> the summary [income statement][statement of comprehensive income]<sup>17b</sup>[, summary statement of changes in equity and summary [cash flow statement][statement of cash flows]<sup>17b</sup>] for the year then ended, and related notes, are derived from the audited financial statements of the Company for the year ended 31 December 20X1. We expressed an unmodified audit opinion on those financial statements in our report dated 15 February 20X2.<sup>18</sup>

The summary financial report does not contain all the disclosures required by the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. Reading the summary financial report, therefore, is not a substitute for reading the audited financial statements of the Company.

**Directors’<sup>19</sup> Responsibility for the Summary Audited Financial Report**

Under the Hong Kong Companies Ordinance, the directors are responsible for the preparation of a summary financial report in accordance with section 141CF(1) of the Hong Kong Companies Ordinance. In preparing the summary financial report, section 141CF(1) of the Hong Kong Companies Ordinance requires that the summary financial report be derived from the annual financial statements and the auditor’s report thereon and the directors’ report for the year ended 31 December

<sup>17a</sup> In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>17b</sup> Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

<sup>17c</sup> Section 5(3)(1) and (2) of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation states that a summary financial report of a listed company shall contain all the information and particulars included in the company’s balance sheet and profit and loss account as they appear in the relevant documents; or the company’s consolidated balance sheet and consolidated profit and loss account if the company is presenting group financial statements.

<sup>18</sup> When the auditor’s report on the summary financial report is dated later than the date of the auditor’s report on the audited financial statements from which it is derived, the following sentence is added to this paragraph: “Those financial statements, and the summary financial report, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.”

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

20X1, be in such form and contain such information and particulars as specified in section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and be approved by the board of directors.

### **Auditor's Responsibility**

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

### **Basis for Adverse Opinion**

[Describe matter that caused the summary financial report not to be consistent, in all material respects, with (or a *fair summary of*) the audited financial statements, in accordance with section 141CF(1) of the Hong Kong Companies Ordinance and section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation.]

### **Adverse Opinion**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the summary financial report referred to above:

- a. is not consistent with the annual financial statements and the auditor's report thereon and the directors' report of the Company for the year ended 31 December 20X1 from which it is derived; and
- b. does not comply with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation.

XYZ & Co.

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

[Auditor's address]

[Date of the auditor's report]



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

- **A qualified opinion is expressed on the audited financial statements.**
- **The summary financial report is prepared in accordance with section 141CF(1) of the Hong Kong Companies Ordinance and complies with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation.**

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

## TO THE SHAREHOLDERS OF ABC LIMITED

(incorporated in [Hong Kong] with limited liability)<sup>20</sup>

The summary financial report of ABC Limited (“the Company”) set out on pages ... to ..., which comprises the summary [balance sheet][statement of financial position]<sup>21</sup> as at 31 December 20X1[,][ and]<sup>22</sup> the summary [income statement][statement of comprehensive income]<sup>21</sup>, summary statement of changes in equity and summary [cash flow statement][statement of cash flows]<sup>21</sup> for the year then ended, and related notes, are derived from the audited financial statements of the Company for the year ended 31 December 20X1. We expressed a qualified audit opinion on those financial statements in our report dated 15 February 20X2 (see below). A copy of the qualified auditor’s report [and the further material necessary for the understanding of the qualification]<sup>23</sup> [has/ have] been set out on pages ... to ... of the summary financial report.<sup>24</sup>

The summary financial report does not contain all the disclosures required by the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. Reading the summary financial report, therefore, is not a substitute for reading the audited financial statements of the Company.

**Directors’<sup>25</sup> Responsibility for the Summary Financial Report**

Under the Hong Kong Companies Ordinance, the directors are responsible for the preparation of a summary financial report in accordance with section 141CF(1) of the Hong Kong Companies Ordinance. In preparing the summary financial report, section 141CF(1) of the Hong Kong

<sup>20</sup> In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>21</sup> Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

<sup>22</sup> Section 5(3)(1) and (2) of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation stated that a summary financial report of a listed company shall contain all the information and particulars included in the company’s balance sheet and profit and loss account as they appear in the relevant documents; or the company’s consolidated balance sheet and consolidated profit and loss account if the company is presenting group financial statements.

<sup>23</sup> Section 5(3)(c) of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation stated that a summary financial report of a listed company shall contain a statement from the company’s auditors as to whether the auditors’ report concerned is qualified or otherwise modified, and (if the auditors’ report is qualified or otherwise modified) set out the full auditors’ report and any further material necessary for the understanding of the qualification or other modification.

<sup>24</sup> When the auditor’s report on the summary financial report is dated later than the date of the auditor’s report on the audited financial statements from which it is derived, the following sentence is added to this paragraph: “Those financial statements, and the summary financial report, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.”

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

Companies Ordinance requires that the summary financial report be derived from the annual financial statements and the auditor's report thereon and the directors' report for the year ended 31 December 20X1, be in such form and contain such information and particulars as specified in section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and be approved by the board of directors.

### **Auditor's Responsibility**

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

### **Opinion**

In our opinion, the summary financial report on pages ... to ...:

- b. is consistent with the annual financial statements and the auditor's report thereon and the directors' report of the Company for the year ended 31 December 20X1 from which it is derived; and
- b. complies with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation.

However, the summary financial report is misstated to the equivalent extent as the audited financial statements of the Company for the year ended 31 December 20X1.

The misstatement of the audited financial statements is described in our qualified audit opinion in our report dated 15 February 20X2. Our qualified audit opinion is based on the fact that the Company's inventories are carried in the [balance sheet][statement of financial position]<sup>21</sup> in those financial statements at xxx. The directors have not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. The Company's records indicate that had the directors stated the inventories at the lower of cost and net realizable value, an amount of xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by xxx, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively. Our qualified audit opinion states that, except for the effects of the described matter, those financial statements give a true and fair view of the 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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and have been properly prepared in accordance with [the Hong Kong Companies Ordinance][the disclosure requirements of the Hong Kong Companies Ordinance].

XYZ & Co.

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

[Auditor's address]

[Date of the auditor's report]

**Appendix 2**

(Ref: Para. 4(c))

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

1. The Companies Ordinance (CO) was amended by the Companies (Amendment) Ordinance 2001 which was enacted on 8 November 2001 and commenced operation on 4 January 2002. As a result, a listed company incorporated in Hong Kong is permitted to send to an entitled person of the company (i.e. a member, a debenture holder or any other person who is entitled to receive notices of general meetings) a summary financial report in place of the full set of the annual report in certain circumstances and subject to certain conditions. An extract of the relevant provisions of the law on the form and contents of the summary financial report is set out in Appendix 3.

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

2. The Listing Agreement (Appendix 7 to the Listing Rules) states that a listed issuer may send a copy of its summary financial report to a member and a holder of its listed securities in place of a copy of its annual report and accounts, provided that it complies with the relevant provisions set out in the CO and the Companies (Summary Financial Reports of Listed Companies) Regulation (the Regulation) or, in the case of overseas issuers, with provisions no less onerous than the aforementioned provisions for listed issuers incorporated in Hong Kong.
3. The Listing Rules (Chapter 1) define a summary financial report as one which complies with section 141CF(1) of the CO.

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

4. The GEM Listing Rules (Chapters 18 and 31) state that a listed issuer may send a copy of its summary financial report to a member and a holder of its listed securities in place of a copy of its annual report and accounts, provided that it complies with the relevant provisions set out in the CO and the Regulation or, in the case of overseas issuers, with provisions no less onerous than the aforementioned provisions for listed issuers incorporated in Hong Kong.
5. The GEM Listing Rules (Chapter 1) define a summary financial report as one which complies with section 141CF(1) of the CO.

**Definitions**

6. For the purpose of this appendix, the following definitions apply:
  - a. annual accounts - a complete set of financial statements for a financial year, the components of which are:
    - i. balance sheet / statement of financial position;
    - ii. income statement / statement of comprehensive income;
    - iii. statement of movements in equity / statement of changes in equity;
    - iv. cash flow statement / statement of cash flows; and
    - v. accounting policies and explanatory notes; and

- b. other information - financial and non-financial information, in addition to that legally required to be included in the summary financial report under section 141CF(1) of the CO, which is issued by the directors to accompany the summary financial report.

### **The Scope of the Auditor's Work**

- 7. Section 5(3)(d) of the Regulation requires that the auditor forms an opinion as to whether the summary financial report is consistent with the relevant financial documents (defined by section 2 of the CO as the documents required to be sent under section 129G(1) of the CO in respect of the company, meaning the annual accounts, directors' report and the auditor's report) from which it is derived and whether it complies with the requirements of section 5 of the Regulation.

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

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

### **Compliance with Section 5 of the Regulation**

- 10. In order to give the opinion required by section 5(3)(d) of the Regulation (paragraph 7 above), the auditor gives consideration to the specific and detailed requirements of section 5 of the Regulation. The auditor includes within the scope of his/ her examination all matters required to be included in the summary financial report by section 5 of the Regulation.
- 11. Under section 5(3)(c) of the Regulation, the summary financial report is required to contain a statement from the auditor as to whether the auditor's report on the annual accounts from which the summary financial report is derived is qualified or otherwise modified, and if it is, the auditor's report on the annual accounts and any further material necessary for the understanding of the qualification or other modification are required to be set out in the summary financial report. Therefore, where such a qualification or other modification includes a reference to a note to the annual accounts but does not reproduce the relevant information contained in that note, that information is also reproduced in the summary financial report to accompany the auditor's report on the annual accounts.
- 12. An inconsistency between the summary financial report and the annual accounts, directors' report and auditor's report also means that the summary financial report is not properly derived from them and does not comply with the Regulation, it therefore leads to a qualification of the auditor's report on the summary financial report on the grounds of non-compliance with the requirements of section 5 of the Regulation as well as on the grounds of the inconsistency.

**Appendix 3**

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

**Section 141CF of the Companies Ordinance - Form and contents, etc. of summary financial reports**

- (1) A summary financial report in relation to a general meeting of a listed company shall be -
  - a. derived from the relevant financial documents required to be laid before the company in that meeting;
  - b. in such form and contain such information and particulars as specified in regulations made under section 359A(2); and
  - c. approved by the board of directors of the company.
- (2) Nothing in subsection (1) shall be construed as prohibiting a listed company from including in a summary financial report any other information or particulars which –
  - a. the company considers appropriate; and
  - b. is not inconsistent with the relevant financial documents from which the summary financial report is derived.
- (3) If a document, purporting to be a summary financial report of a listed company, does not comply with subsection (1) and is circulated, issued or published by the company to any other person, unless there is reasonable excuse -
  - a. the company shall be guilty of an offence and liable to a fine; and
  - b. every officer of the company shall be guilty of an offence and liable to a fine and imprisonment.

**Section 5 of the Companies (Summary Financial Reports of Listed Companies) Regulation - Form and contents of summary financial reports**

- (1) A summary financial report of a listed company shall contain all the information and particulars included in the company's balance sheet and profit and loss account as they appear in the relevant financial documents.
- (2) The balance sheet and profit and loss account referred to in subsection (1) of a listed company shall be the company's consolidated balance sheet and consolidated profit and loss account if the company is presenting group accounts.
- (3) In addition, a summary financial report of a listed company shall -
  - a. contain such information and particulars as included in the directors' report of the company and specified in section 129D(3) of the Ordinance;

- b. if the auditors' report of the company contains any of the following statements -
- i. a statement that proper books of account have not been kept by the company;
  - ii. a statement that proper returns adequate for the auditors' audit have not been received from branches of the company not visited by the auditors;
  - iii. a statement that the company's balance sheet and (unless it is framed as a consolidated profit and loss account) profit and loss account referred to in subsection (1) are not in agreement with the books of account and returns;
  - iv. a statement that the auditors failed to obtain all the information and explanations which, to the best of their knowledge and belief, are necessary for the purposes of their audit,
- set out that statement;
- c. contain a statement from the company's auditors as to whether the auditors' report concerned is qualified or otherwise modified, and (if the auditors' report is qualified or otherwise modified) set out the full auditors' report and any further material necessary for the understanding of the qualification or other modification;
- d. contain an opinion from the company's auditors as to whether the summary financial report is consistent with the relevant financial documents from which it is derived and whether it complies with the requirements of this section;
- e. include a fair review of the development of the business of the company and its subsidiaries (if any) during the financial year concerned and of the position at the end of that year;
- f. include particulars of all important events which have occurred since the end of the financial year concerned and affected the company and (if applicable) the group of companies to which the company belongs;
- g. indicate the likely future developments of the business of the company;
- h. include particulars specified under sections 161, 161A and 161B of the Ordinance;
- i. contain in a prominent position -
- i. on the front cover of the report;
  - ii. (if there is more than one cover purporting to be the front cover) on every such cover;
  - iii. (if the report has no cover or no front cover) on the first page of the report; or
  - iv. (if the report has no cover and there is more than one page purporting to be the front page) on every such page,
- a statement to the effect that the summary financial report only gives a summary of the information and particulars contained in the company's relevant financial documents from which it is derived and an entitled person of the company may obtain free of charge a copy of those relevant financial documents;
- j. contain in a prominent position in the report a statement as to how an entitled person of the company may obtain free of charge a copy of the company's relevant financial documents from which the report is derived;

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- k. contain in a prominent position in the report a statement as to the manner in which the person may in future notify the company of his wishes in relation to the sending to the person a copy of a summary financial report in place of a copy of the relevant financial documents from which it is derived; and
  - l. state the names of the directors who have signed the report on behalf of the board of directors of the company.
- (4) Subject to the provisions of this Regulation, a listed company may specify such other requirements in relation to the form of its summary financial report as the company thinks fit.