



MEMBERS' HANDBOOK

Update No. 39

(Issued March 2007)

<u>Document Reference and Title</u>	<u>Instructions</u>	<u>Explanations</u>
<u>VOLUME III</u>		
Contents of Volume III	Insert revised pages (i), (ii), (iii) and (iv) and discard the replaced pages (i), (ii), (iii) and (iv)	Revised contents pages
HONG KONG STANDARDS ON AUDITING		
HKSA 210 Terms of Audit Engagements	Insert the revised pages 1, 2, 3 and 4 and discard the replaced pages 1, 2, 3 and 4	Note 1
HONG KONG STANDARDS ON REVIEW ENGAGEMENTS		
HKSRE 2400 Engagements to Review Financial Statements	Insert revised pages 1 to 17 and discard the replaced pages 1 to 16	Note 1 and Note 2(b)
HKSRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity (New Standard)	Insert these pages after HKSRE 2400	Note 2(a)
STATEMENTS OF AUDITING STANDARDS		
SAS 700 Engagements to review interim financial reports	Insert the revised pages 1, 2, 11 and 12 and discard the replaced pages 1, 2, 11 and 12	Note 2(c)

Notes:

- 1 HKSRE 2410 (New Standard) gave rise to conforming amendments to HKSA 210 and HKSRE 2400. These amendments are effective for periods beginning on or after 15 December 2006 and have been marked up in the text of HKSA 210 and HKSRE 2400 respectively.
- 2(a) The scope of HKSRE 2410 is limited to a review of interim financial information performed by the independent auditor of the financial statements of the entity, effective for reviews of interim financial information for periods beginning on or after 15 December 2006. HKSRE 2410 replaces SAS 700.

2(b) A practitioner who is engaged to perform a review of interim financial information for periods beginning on or after 15 December 2006, and who is not the auditor of the entity, performs the review in accordance with HKSRE 2400 and not HKSRE 2410.

2(c) SAS 700 is applicable for reviews of interim financial information for periods beginning before 15 December 2006.

March 2007



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Effective for audits of financial statements
for periods beginning on or after 15 December 2004*

Hong Kong Standard on Auditing 210

Terms of Audit Engagements

- *(a) HKSA 700, "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements" issued in October 2006 and effective for auditor's reports dated on or after 31 December 2006 gave rise to conforming amendments to HKSA 210. Implementation of these amendments in ISA 210 "Terms of Audit Engagements" (HKSA 210 equivalent) has been deferred by the IAASB (effective date yet to be determined). The conforming amendments are included in Appendix 3 of this HKSA for reference only.
- (b) [HKSRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued in March 2007 gave rise to a conforming amendment to HKSA 210. This amendment is effective for audits of financial statements for periods beginning on or after 15 December 2006 unless HKSRE 2410 is early adopted and has been marked-up on page 3. Early adoption of HKSRE 2410 is permissible.](#)



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

HONG KONG STANDARD ON AUDITING 210
TERMS OF AUDIT ENGAGEMENTS

(Effective for audits of financial statements
for periods beginning on or after 15 December 2004)*
(Issued June 2005, ~~and revised October 2006~~ and revised March 2007)

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Hong Kong Standard on Auditing (HKSA) 210, “Terms of Audit Engagements” should be read in the context of the “Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services” which sets out the application and authority of HKSAs.

* HKSA 700, “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements” issued in October 2006 and effective for auditor’s reports dated on or after 31 December 2006 gave rise to conforming amendments to HKSA 210. Implementation of these amendments in ISA 210 “Terms of Audit Engagements” (HKSA 210 equivalent) has been deferred by the IAASB (effective date yet to be determined). The conforming amendments are included in Appendix 3 of this HKSA for reference only.

Introduction

1. The purpose of this Hong Kong Standard on Auditing (HKSA) is to establish standards and provide guidance on:
 - (a) Agreeing the terms of the engagement with the client; and
 - (b) The auditor's response to a request by a client to change the terms of an engagement to one that provides a lower level of assurance.
2. **The auditor and the client should agree on the terms of the engagement.** The agreed terms would need to be recorded in an audit engagement letter or other suitable form of contract.
3. This HKSA is intended to assist the auditor in the preparation of engagement letters relating to audits of financial statements. The guidance is also applicable to related services. When other services such as tax, accounting, or management advisory services are to be provided, separate letters may be appropriate.
4. In some countries, the objective and scope of an audit and the auditor's obligations are established by law. Even in those situations the auditor may still find audit engagement letters informative for their clients.

Audit Engagement Letters

5. It is in the interest of both client and auditor that the auditor sends an engagement letter¹, preferably before the commencement of the engagement, to help in avoiding misunderstandings with respect to the engagement. The engagement letter documents and confirms the auditor's acceptance of the appointment, the objective and scope of the audit, the extent of the auditor's responsibilities to the client and the form of any reports.

Principal Contents

6. The form and content of audit engagement letters may vary for each client, but they would generally include reference to:
 - The objective of the audit of financial statements;
 - Management's responsibility for the financial statements²;
 - The scope of the audit, including reference to applicable legislation, regulations, or pronouncements of professional bodies to which the auditor adheres;
 - The form of any reports or other communication of results of the engagement;
 - The fact that because of the test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that even some material misstatement may remain undiscovered; ~~and~~
 - Unrestricted access to whatever records, documentation and other information requested in connection with the audit, and
 - Management's responsibility for establishing and maintaining effective internal control.*
 -

¹ Under the Corporate Practices (Registration) Rules of the HKICPA, the engagement letter for a corporate practice shall identify the director appointed by the corporate practice to be responsible for the performance of the audit engagement contemplated by the audit report.

² Under the Companies Ordinance, directors are responsible for the preparation of financial statements showing a true and fair view.

* [HKSRE 2410. "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued in March 2007 gave rise to a conforming amendment to HKSA 210. This amendment is effective for audits of financial statements for periods beginning on or after 15 December 2006 unless HKSRE 2410 is early adopted and has been shown here.](#)

7. The auditor may also wish to include the following in the letter:
 - Arrangements regarding the planning and performance of the audit.
 - Expectation of receiving from management written confirmation concerning representations made in connection with the audit.
 - Request for the client to confirm the terms of the engagement by acknowledging receipt of the engagement letter.
 - Description of any other letters or reports the auditor expects to issue to the client.
 - Basis on which fees are computed and any billing arrangements.
8. When relevant, the following points could also be made:
 - Arrangements concerning the involvement of other auditors and experts in some aspects of the audit.
 - Arrangements concerning the involvement of internal auditors and other client staff.
 - Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit.
 - Any restriction of the auditor's liability when such possibility exists.
 - A reference to any further agreements between the auditor and the client.
 - An example of an audit engagement letter is set out in the Appendix.

Audits of Components

9. When the auditor of a parent entity is also the auditor of its subsidiary, branch or division (component), the factors that influence the decision whether to send a separate engagement letter to the component include the following:
 - Who appoints the auditor of the component.
 - Whether a separate auditor's report is to be issued on the component.
 - Legal requirements.
 - The extent of any work performed by other auditors.
 - Degree of ownership by parent.
 - Degree of independence of the component's management.

Recurring Audits

10. **On recurring audits, the auditor should consider whether circumstances require the terms of the engagement to be revised and whether there is a need to remind the client of the existing terms of the engagement.**
11. The auditor may decide not to send a new engagement letter each period. However, the following factors may make it appropriate to send a new letter:
 - Any indication that the client misunderstands the objective and scope of the audit.
 - Any revised or special terms of the engagement.
 - A recent change of senior management or those charged with governance.
 - A significant change in ownership.
 - A significant change in nature or size of the client's business.
 - Legal or regulatory requirements.

Acceptance of a Change in Engagement

12. **An auditor who, before the completion of the engagement, is requested to change the engagement to one which provides a lower level of assurance, should consider the appropriateness of doing so.**
13. A request from the client for the auditor to change the engagement may result from a change in circumstances affecting the need for the service, a misunderstanding as to the nature of an audit or related service originally requested or a restriction on the scope of the engagement, whether imposed by management or caused by circumstances. The auditor would consider carefully the reason given for the request, particularly the implications of a restriction on the scope of the engagement.
14. A change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of service originally requested would ordinarily be considered a reasonable basis for requesting a change in the engagement. In contrast a change would not be considered reasonable if it appeared that the change relates to information that is incorrect, incomplete or otherwise unsatisfactory.
15. Before agreeing to change an audit engagement to a related service, an auditor who was engaged to perform an audit in accordance with HKSA's would consider, in addition to the above matters, any legal or contractual implications of the change.
16. If the auditor concludes, that there is reasonable justification to change the engagement and if the audit work performed complies with the HKSA's applicable to the changed engagement, the report issued would be that appropriate for the revised terms of engagement. In order to avoid confusing the reader, the report would not include reference to:
 - (a) The original engagement; or
 - (b) Any procedures that may have been performed in the original engagement, except where the engagement is changed to an engagement to undertake agreed-upon procedures and thus reference to the procedures performed is a normal part of the report.
17. **Where the terms of the engagement are changed, the auditor and the client should agree on the new terms.**
18. **The auditor should not agree to a change of engagement where there is no reasonable justification for doing so.** An example might be an audit engagement where the auditor is unable to obtain sufficient appropriate audit evidence regarding receivables and the client asks for the engagement to be changed to a review engagement to avoid a qualified audit opinion or a disclaimer of opinion.
19. **If the auditor is unable to agree to a change of the engagement and is not permitted to continue the original engagement, the auditor should withdraw and consider whether there is any obligation, either contractual or otherwise, to report to other parties, such as those charged with governance or shareholders, the circumstances necessitating the withdrawal.**
- 19-1. Auditor of a company incorporated under the Companies Ordinance who resigns from the office as auditor is required to comply with the requirements of section 140A of the Companies Ordinance regarding the statement to be made by him in relation to his resignation. If the auditor is removed from office, he may wish to exercise his rights under section 132(6) of the Companies Ordinance to attend and be heard at the general meeting.

Effective Date

20. This HKSA is effective for audits of financial statements for periods beginning on or after 15 December 2004.

Conformity and Compliance with International Standards on Auditing

21. As of October 2006 (date of revision), this HKSA conforms with International Standard on Auditing (ISA) 210, "Terms of Audit Engagements". Compliance with the requirements of this HKSA ensures compliance with ISA 210.
22. Additional local guidance is provided in paragraph 19-1. Additional local explanations are provided in footnotes 1 and 2. Example audit engagement letter is provided in Appendix 1 and guidance on tax engagement letter and example tax engagement letter are provided in Appendix 2.

Public Sector Perspective

1. *The purpose of the engagement letter is to inform the auditee of the nature of the engagement and to clarify the responsibilities of the parties involved. The legislation and regulations governing the operations of public sector audits generally mandate the appointment of a public sector auditor and the use of audit engagement letters may not be a widespread practice. Nevertheless, a letter setting out the nature of the engagement or recognizing an engagement not indicated in the legislative mandate may be useful to both parties. Public sector auditors have to give serious consideration to issuing audit engagements letters when undertaking an audit.*
2. *Paragraphs 12 to 19-1 of this HKSA deal with the action a private sector auditor may take when there are attempts to change an audit engagement to one which provides a lower level of assurance. In the public sector specific requirements may exist within the legislation governing the audit mandate; for example, the auditor may be required to report directly to a minister, the legislature or the public if management (including the department head) attempts to limit the scope of the audit.*

APPENDIX 1

Example of an Audit Engagement Letter

This form of letter has been drafted to apply to limited company clients which are incorporated in Hong Kong under the Companies Ordinance. It is not necessarily comprehensive or appropriate to be used in relation to every entity, and it must be tailored to specific circumstances - for example to the special reporting requirement of regulated entities.

To the directors of _____:

The purpose of this letter is to set out the basis on which we (are to)* act as auditors of the company (and its subsidiaries)* and the respective areas of responsibility of the directors and of ourselves.

Responsibilities of directors and auditors

- 1.1 As directors of the above company, you are responsible for ensuring that the company maintains proper books of account and for preparing financial statements which give a true and fair view and have been prepared in accordance with the Companies Ordinance. You are also responsible for making available to us, as and when required, all the company's books of account and all other relevant records and related information, including minutes of all management and shareholders' meetings.
- 1.2 We have a statutory responsibility to report to the members whether in our opinion the financial statements give a true and fair view and whether they have been properly prepared in accordance with the Companies Ordinance. In arriving at our opinion, we are required to consider the following matters, and to report on any in respect of which we are not satisfied:
- a. whether proper books of account have been kept by the company and proper returns adequate for our audit have been received from branches not visited by us;
 - b. whether the company's balance sheet and profit and loss account are in agreement with the books of account and returns; and
 - c. whether we have obtained all the information and explanations which we consider necessary for the purposes of our audit.

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

- 1.3 We have a professional responsibility to report if the financial statements do not comply in any material respect with applicable accounting standards, unless in our opinion the non-compliance is justified in the circumstances. In determining whether or not the departure is justified, we consider:
- a. whether the departure is required in order for the financial statements to give a true and fair view; and
 - b. whether adequate disclosure has been made concerning the departure.

Scope of audit

- 2.1 Our audit will be conducted in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants, and will include such tests of transactions and of the existence, ownership and valuation of assets and liabilities as we consider necessary. We shall obtain an understanding of the accounting and internal control systems in order to assess their adequacy as a basis for the preparation of the financial statements and to establish whether proper books of account have been maintained by the company. We shall expect to obtain such appropriate evidence as we consider sufficient to enable us to draw reasonable conclusions therefrom.
- 2.2 The nature and extent of our procedures will vary according to our assessment of the company's accounting system and, where we wish to place reliance on it, the internal control system, and may cover any aspect of the business's operations that we consider appropriate. Our audit is not designed to identify all significant weaknesses in the company's systems but, if such weaknesses come to our notice during the course of our audit which we think should be brought to your attention, we shall report them to you. Any such report may not be provided to third parties without our prior written consent. Such consent will be granted only on the basis that such reports are not prepared with the interests of anyone other than the company in mind and that we accept no duty or responsibility to any other party as concerns the reports.
- 2.3 As part of our normal audit procedures, we may request you to provide written confirmation of certain oral representations which we have received from you during the course of the audit on matters having a material effect on the financial statements. In connection with representations and the supply of information to us generally, we draw your attention to section 134 of the Companies Ordinance under which it is an offence for an officer of the company to mislead the auditors.
- 2.4 In order to assist us with the examination of your financial statements, we shall request sight of all documents or statements, including the chairman's statement, operating and financial review and the directors' report, which are due to be issued with the financial statements. We are also entitled to attend all general meetings of the company and to receive notice of all such meetings.
- 2.5 The responsibility for safeguarding the assets of the company and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with yourselves. However, we shall endeavour to plan our audit so that we have a reasonable expectation of detecting material misstatements in the financial statements or books of account (including those resulting from fraud, error or non-compliance with law or regulations), but our examination should not be relied upon to disclose all such material misstatements or frauds, errors or instances of non-compliance as may exist.
- 2.6 *(Where appropriate - Note)* We shall not be treated as having notice, for the purposes of our audit responsibilities, of information provided to members of our firm other than those engaged on the audit (for example information provided in connection with accounting, taxation and other services).
- 2.7 Once we have issued our report we have no further direct responsibility in relation to the financial statements for that period. However, we expect that you will inform us of any material event occurring between the date of our report and that of the Annual General Meeting which may affect the financial statements.

(Group accounts

3. As auditors of the holding company we are required to report, in similar terms to those outlined in paragraph 1.2 above, on the group accounts, which comprise the financial statements of the holding company and its subsidiaries. In order to express an opinion on group accounts which include the financial information of subsidiaries, joint ventures or associated companies of which we are not the auditors, it will be necessary for us to communicate directly with the other auditors concerned to satisfy ourselves that:
- a. so far as is practicable, there is uniformity within the group in the application of accounting policies;
 - b. the group accounts give the information required by the Companies Ordinance, applicable accounting standards and any other legislation or non-statutory requirements affecting the presentation of financial statements; and
 - c. all material aspects of the group accounts have been subjected to an audit examination, the nature and extent of which is adequate and reasonable, in our view, for the purpose of forming an opinion on the group accounts.)*

(Other services

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

Fees

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

Agreement of terms

- 6.1 Once it has been agreed, this letter will remain effective, from one audit appointment to another, until it is replaced. We shall be grateful if you could confirm in writing your agreement to these terms by signing and returning the enclosed copy of this letter, or let us know if they are not in accordance with your understanding of our terms of engagement.
- (6.2 Since the terms of our engagement as auditors of the subsidiaries listed in the attached appendix are the same, we will not send separate letters to the board of directors of each subsidiary. We would therefore be grateful if you would forward copies of this letter to the boards of directors of each such subsidiary and confirm that these boards have also agreed and confirmed their acceptance of this letter.)*

Yours faithfully,

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

TERMS OF AUDIT ENGAGEMENTS

We agree to the terms of this letter.

(Signed)

.....

Director, for and on behalf of the board of _____

Date

* Delete where not applicable.

Note

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

附件一

核數應聘書樣本

此應聘書格式適合在公司條例下在香港註冊成立之客戶公司之用。惟此應聘書並非全面或適合應用於所有公司，必須配合特有情況所需而作出修改，例如受管轄機構的特別報告要求。

致_____各董事：

此應聘書旨在闡釋本所出任(將出任)*為 貴公司 (及附屬公司)*核數師之基準、與及 貴董事和本所之各自職責範圍。

董事和核數師之職責

- 1.1 閣下作為上述公司董事，應負責確保公司記錄及妥善保存帳簿、編製財務報表。該等財務報表須作出真實與公平之反映，並已遵照公司條例編製。閣下亦應按照需要，負責為本所提供 貴公司之所有帳簿、記錄及有關資料，包括所有行政人員會議及股東會議記錄。
- 1.2 本所有法定責任向股東報告，根據本所之意見，該等財務報表是否已作出真實與公平之反映，及是否已遵照公司條例妥善編製。本所作出審核意見時，將考慮以下事項，並報告其中未感滿意之處：
 - i. 貴公司是否已妥善記錄及保存帳簿；與及自本所未能親身視察之 貴公司分處接獲足以使本所進行審核之適當報表；
 - ii. 貴公司之資產負債表及損益表所載，是否與帳簿及報表相符；及
 - iii. 本所是否已取得全部認為對進行核數所需之資料及解釋。

此外，本所之核數報告內可能按照實際情況所需，論及若干其他事項。例如，財務報表內未有提供董事酬金或高級職員借貸詳情，根據公司條例規定，本所須於核數報告內透露該等事項。

- 1.3 倘財務報表於任何重要事項上未有遵守適用會計準則之規定，本所有專業責任就此作出報告，除非本所認為在實際情況下有適當理由不遵守該等會計準則。在作出決定該等不遵守會計準則是否有適當理由時，本所會考慮：
 - i. 該等不遵守會計準則是否需要從而令到財務報表作出真實與公平之反映；和
 - ii. 該等不遵守會計準則是否已作出足夠之披露。

核數之範圍

- 2.1 本所將按照香港會計師公會發出之核數準則進行核數工作。倘本所認為有需要，核數工作將包括查核各項交易，和檢定資產與債務之存在、其所有權及估值等情形。本所須對會計與內部管制系統取得瞭解，目的是為評估其是否足以作為編製財務報表之根據，並為證實帳簿有否妥為記錄與保存。本所預期取得足夠有關和可靠之證據，以便從中作出合理之結論。

TERMS OF AUDIT ENGAGEMENTS

- 2.2 本所進行核數之性質與範圍，會根據本所對 貴公司會計系統與內部管制系統之評估(倘本所擬信賴內部管制系統)而作適當調整，並可能包括本所認為適合之業務經營之各方面。本所之核數工作不是為發覺 貴公司各系統之重大缺點而編排，惟本所在核數工作過程中發覺這些缺點，而認為閣下應獲得知會，本所會向 閣下報告。在未得到本所書面許可前， 閣下不可向第三者提供這些報告。只會是基於這些報告並非為 貴公司以外的任何人等之利益所編製和本所不會就這些報告而對其他人士負上任何職責或責任的原則下，本所才會給予上述的許可。
- 2.3 本所或會就對財務報表有重大影響之事項，要求 閣下為某些在核數過程中提供給本所之口頭陳詞作出書面確認，此舉乃本所進行核數之正常步驟。就 閣下之陳詞和提供之資料，本所謹此提醒 閣下注意公司條例第 134 條的條文。該條文列明若公司之高級人員誤導核數師，會構成罪行。
- 2.4 為協助本所審核 貴公司之財務報表起見，本所須要求查閱與財務報表一併發表之所有文件或報告書，其中包括主席報告書、經營和財務檢討與董事局報告書。本所亦有權出席 貴公司的股東大會，並有權收到所有該等會議之開會通告。
- 2.5 保護 貴公司之資產與防範和查明詐騙行為、錯誤和違規行為乃 閣下之責任；惟本所將盡力策劃核數工作，冀能合理地期望可察覺到財務報表或帳簿之重要錯誤陳述(包括被詐騙行為、錯誤或違規行為所引致的重要錯誤陳述)。但是此類審核工作不應被依賴用以揭發所有可能存在之詐騙行為、錯誤和違規行為。
- 2.6 (如適用一見附註)就本所之核數責任而言，對本所非負責核數工作人員提供之資料(例如：有關會計、稅務與其他服務之資料)，不得作為已對本所提供核數資料論。
- 2.7 當本所已提供核數報告後，本所對該年度之財務報表已沒有任何直接責任。惟本所仍然期望 貴公司會通知本所任何在核數報告簽發日期和股東週年大會日期之期間發生而有可能會影響財務報表之重大事件。

(集團帳目)

3. 按照上文 1.2 段列出之類似條款，本所作為控股公司之核數師須負責就 貴集團帳目作出報告，而 貴集團帳目乃由控股公司與其附屬公司各自之財務資料組成。倘本所並非 貴集團的附屬公司、合營企業或聯營公司之核數師，則本所為表達對 貴集團帳目之意見，將須直接與其他有關之核數師聯絡，令本所確信：
- 貴集團應用的會計政策在可能的情況下是一致的；
 - 貴集團帳目提供的資料符合公司條例、適用之會計準則與其他對財務報告書陳述方面有影響之法例或非法定要求；和
 - 貴集團帳目內之所有重要帳目審核，均已按本所認為足夠和合理之性質及範圍進行，以便本所能歸納對 貴集團帳目之意見。)*

(其他服務)

4. 貴公司要求本所提供其他服務，包括...。提供以上服務之條款已另函載述。)*

收費

5. 本所之收費計算標準，乃根據本所合夥人及職員在處理 貴公司事務上所花費之時間、與涉及之技巧及責任程度而定。除非另有協議，本所之收費將按照上述各主要工作種類分別徵收及包括有關之費用；帳單將於工作期間按時寄上， 貴公司於接獲帳單後應即時繳付。

條款協議

- 6.1 此應聘書一經 貴公司及本所同意，會對以後各次核數任命維持有效，直至此應聘書被取代為止。本所謹請 閣下簽署附上之文本及交回本所，以作為 閣下贊同此應聘書之條款。倘此應聘書條款與 閣下理解之委任條件不符，則請告知本所。
- (6.2 由於本所應聘為附錄內所列的附屬公司之核數師之應聘條款與此應聘書所載相同，因此本所將不再另行向各附屬公司董事局呈遞應聘書。本所謹請 閣下向 貴公司屬下各附屬公司董事局轉達此應聘書複本，並請 閣下確認各董事局均已贊同及確認接受此應聘書條款。)*

謹此

_____ 謹上

承_____董事局命，由以下董事簽署以示贊同及接受此應聘書條款。

_____ (簽署)

_____ (日期)

*若不適用，可刪除。

附註

如核數師同時提供會計、稅務或其他服務時，資料可能提供給予核數師非負責核數工作的職員。在這情況下，核數應聘書應包括這段或類似的文字以顯示核數師就核數責任而言，該等資料不得作為已對核數師提供核數資料論，以清楚地表示公司不可以避免知會核數師重大事項。

APPENDIX 2

Tax Engagement Letter

The need for a tax engagement letter

1. A tax engagement letter provides written confirmation of a member's acceptance and scope of his appointment as a client's tax representative to provide taxation services (tax practitioner). If a tax engagement letter is not sent to clients, both new and existing, there is scope for uncertainty about the precise extent of the respective obligations of the client and the tax practitioner in relation to the client's tax affairs.

Contents and form of a tax engagement letter

2. When a tax practitioner prepares tax returns or tax computations for a client, he is acting in an agency capacity. This has an important bearing on his responsibilities.
3. A tax practitioner ensures that every client understands that work can only be undertaken on the basis that the client will supply all relevant information. This is usually best dealt with in a tax engagement letter.
4. A member may undertake services for clients in addition to carrying out his responsibilities as auditor. Some appointments may only require the handling of client's tax affairs and/or the preparation of financial statements. It is recommended that the nature and scope of taxation services should be adequately recorded in a separate tax engagement letter rather than as an add-on to the audit engagement letter.
5. The letter should explain the respective responsibilities of the client and of the tax practitioner in connection with returns of information to the Inland Revenue Department (IRD) in relation to employees, the preparation of taxation computations and the submission of returns of the business, dealing with enquiries from the IRD and agreeing the tax liability with the IRD.

Procedures

6. The agreement of a tax engagement letter is in the interests of both the tax practitioner and the client. Therefore the contents of a tax engagement letter should be discussed and agreed with management (the sole trader, partners or directors as the case may be) before it is sent and preferably before or at the same time as he accepts his appointment.
7. A tax practitioner also considers sending a tax engagement letter to existing clients to whom no similar letter has previously been sent.
8. Where a tax practitioner is engaged by a client that has subsidiaries, it is preferable that a separate letter is sent to the board of directors of each company for which he is acting.
9. A tax practitioner cannot normally treat his client's failure to respond to a tax engagement letter as a binding acceptance of its terms. Accordingly, the letter should include a request to management that they confirm in writing their agreement to the terms of the tax engagement by counter-signing and returning a copy of the letter and every effort should be made to ensure that the client responds. It should be clearly understood that when agreed the tax engagement letter will give rise to contractual obligations and its precise content must therefore be carefully considered. In the case of a company, the tax practitioner requests that the letter of acknowledgement be signed on behalf of the board.

TERMS OF AUDIT ENGAGEMENTS

10. Once it has been agreed by the client, a tax engagement letter will, if it so provides, remain effective until it is replaced. However, the tax engagement letter should be reviewed regularly to ensure that it continues to reflect the actual circumstances of the client. If a change has taken place, including a significant change in management, which materially affects the scope or understanding of the appointment, the tax practitioner discusses the matter with management and where appropriate sends a revised tax engagement letter.
11. The following is an example of a tax engagement letter.

An example of a tax engagement letter

Below is an example of a tax engagement letter where a member has been instructed to undertake tax work in addition to his audit appointment. It is not intended to be used in relation to every client, as tax engagement letters must be tailored to specific circumstances.

To the [proprietor/partners/directors]* of

.....

The purpose of this letter is to set out the basis on which we are to act as tax representatives of the [business/partnership/company]* and the respective areas of responsibility of the [business/partners/company]* and of ourselves.

Taxation services

- 1.1 As the taxpayer, you have the primary responsibility to submit a correct and complete tax return, profits tax computation and supporting schedules. Similarly, when any additional information is provided, whether arising out of correspondence with the Inland Revenue Department or otherwise, you are ultimately responsible for ensuring that to the best of your knowledge and belief, after making appropriate enquiries, such information is correct and complete.
- 1.2 We shall be responsible for preparing on your behalf for your consideration and agreement, [your/the firm's/the company's]* tax computation and tax returns and for the proper presentation and disclosure therein of all known relevant facts. We shall then submit the computation and signed returns to the Inland Revenue Department and deal with the agreement thereof [and the allocation of the adjusted profit/loss amongst the partners]** on your behalf. In cases where additional correspondence or information is required this may result in additional fees being charged.
- 1.3 We shall base our computation on the general interpretation and application of the relevant provisions of the Inland Revenue Ordinance prevailing at the time of preparation of the returns. It must be emphasised that in some cases a position has to be taken as regards deductibility or chargeability of particular transactions. These will be fully discussed and decided with you.
- 1.4 In carrying out the above work, we must stress that we shall be dealing with your tax affairs on your behalf as your agent, and on the basis that you make full disclosure to us of all relevant information. There is no requirement for us to, and therefore we shall not, perform any audit or independent verification work on any information provided by you to us for the purposes of preparing the tax return and forwarding it to the Inland Revenue Department [except to the extent required for the statutory audit. Our responsibilities as your auditors are already clearly set out in the audit engagement letter. Our roles as your auditors and your tax representatives are different. Therefore, the appointments should be treated as separate engagements]***. You are responsible for ensuring that the accounting records faithfully reflect the nature of transactions.

[Other assignment eg. tax planning, employer's returns, etc.]**
- 1.5 We shall be pleased to advise on any other taxation matters if requested. These will be regarded as separate assignments.

TERMS OF AUDIT ENGAGEMENTS

- 1.6 The Inland Revenue Department has special procedures for the examination of business accounts. Cases which exhibit certain characteristics may trigger a field audit examination or a full investigation by the Inland Revenue Department. These examinations may not be restricted to the books and records of the business.
- 1.7 You will appreciate therefore the necessity of maintaining accurate and complete records of all your business transactions. Once a taxpayer is selected for this in-depth examination a considerable amount of information will be requested by the Inland Revenue Department which may involve us, and you, in substantial additional time and cost, unless the information is readily available.
- 1.8 We should also emphasise that the due date for the submission for your Profits Tax Returns is [1 May/31 July/31 October]**. If the returns are not submitted by this due date, penalties up to three times the tax unpaid may be charged. Therefore, we urge that [the books and records of the business, duly completed to include all transactions of the accounting year/draft financial statements/audited financial statements]*, be made available to us at least months [period to be agreed with the client]** before this due date.

Fees

2. Our fees are computed on the basis of the time spent on your affairs by the partners and our staff, and on the levels of skill and responsibility involved plus out-of-pocket expenses. Unless otherwise agreed, our fees will be charged separately for the basic taxation services described above and any other assignments [each of the main classes of work described above]**, will be billed at appropriate intervals during the course of the year and will be due on presentation.

Agreement of terms

3. Once it has been agreed, this letter will remain effective, from one tax year to another, until it is replaced. We shall be grateful if you could confirm in writing your agreement to the terms of this letter by signing and returning the attached copy, or let us know if they are not in accordance with your understanding of our terms of appointment.

Yours faithfully,

_____ (signed)

Agreed and accepted by

_____ (signed)
_____ (Date)

Footnotes:

* Delete as appropriate.

** Insert as appropriate.

*** Only applicable where the member acts as both auditor and tax representative.

稅務應聘書樣本

以下為一間會計師事務所受客戶委託核數任命外，並負責處理稅務工作時的稅務應聘書樣本。由於稅務應聘書必須配合特有情況所需，因此並不擬用於所有客戶。

致_____ (公司東主／合夥人／董事)*：

此應聘書旨在闡釋本會計師事務所(以下簡稱“本所”)出任為 貴(商行／合夥公司／公司)*稅務代表的基準，與及 貴(商行／合夥公司／公司)*和本所各自的職責範圍。

稅務服務

- 1.1 作為納稅人， 貴公司的基本責任是向稅務局呈報一份正確及完整的報稅表、利得稅的計算表及有關附表。同時，倘呈報後因稅務局要求或其他原因，還需提交補充資料， 貴公司有絕對責任根據所知所信及查證，確保此等資料是正確和完整的。
- 1.2 本所將以 貴公司的稅務代表身份，負責編製(閣下／貴商號／貴公司)*的應課稅計算表及報稅表，並將一切所知的有關事實在該等計算表及報稅表內適當地列報及披露，以供 貴公司參詳和確定。然後本所將代表 貴公司把該計算表和已簽署的報稅表呈交稅務局，並代表 貴公司處理有關往後與稅務局商討應課稅溢利或虧損(及按經調整後的溢利／虧損分配給各合夥人)**的計算事宜。倘在此過程中需提供額外資料，或導致本所需提供額外服務，本所可能需要收取額外的費用。
- 1.3 在編製報稅表和計算稅項時，本所將依據當時稅務條例的一般解釋及應用準則來辦理。本所必須強調，在某些情況下， 貴公司需就某些交易是否可獲稅務減免或需要課稅採取立場，本所會就這些事項與 貴公司詳細討論及決定。
- 1.4 本所必須指出，在進行上述工作時，本所是以 貴公司的代理人身份處理 貴公司的稅務事宜，以及在 貴公司向本所提供一切有關的資料的基礎上進行。對於任何由 貴公司提供而用作報稅的資料，本所無須進行任何核數或獨立的審查工作(屬於法定核數範圍者除外，本所作為核數師的責任已詳列於核數應聘書內。核數師和稅務代表各有職責，故此聘任的程序需分別進行)***。貴公司是有責任確保 貴公司的會計記錄能如實反映各項交易的狀況。
(其他聘任工作，如稅務策劃、僱主填報的報稅表等。)**
- 1.5 如有需要，本所樂意為 貴公司提供其他有關稅務的服務，但這服務需視為另外聘任的工作。
- 1.6 稅務局有特別的程序去審查企業的帳目。過去的事例顯示，某些特別的徵象是會導致稅務局向企業進行實地審查或全面的稅務調查。這些審查的範圍可能並不局限於調查企業的帳簿及記錄。
- 1.7 由此可見，為 貴公司的所有商業交易編製正確和完整的記錄是必須的。納稅人一旦被稅務局選中作深入審查時，該公司便要提供相當詳盡的資料。除非資料已準備妥當，否則可能會耗用 貴公司及本所頗多時間和費用。
- 1.8 本所必須同時指出， 貴公司最後呈交利得稅報稅表的日期為(五月一日／七月三十一日／十月三十一日)*。如到期仍未呈報，稅務局便可以徵收高達應繳稅款三倍的罰款。因此，本所敦促 貴公司及早完成編製(企業的帳簿及紀錄，包括本會計年度的全部交易／財務報表草稿／已審核的財務報表)*，並需於呈交限期前的____個月(與客戶議定)**交給本所辦理。

收費

2. 本所的收費是根據本所的合夥人及職員在處理 貴公司稅務上所花費的時間、與涉及的技巧及責任程度來釐定。除非另有協議，本所的收費將按照上述基本稅務服務和其他聘任的工作(其他聘任服務的類別如上所述)** 分別徵收及包括有關之費用，帳單於年內寄上， 貴公司於接獲帳單後應即時繳付。

條款協議

3. 此應聘書一經 貴公司及本所同意，即為聘任本所為每課稅年度的稅務代表，直至此聘任書被取代為止。本所謹請 閣下簽署附上的文本及交回本所，以作為 貴公司贊同此應聘書的條款。倘此應聘書條款與 貴公司理解的聘任條件不符，則請告知本所。

謹此

_____ 謹上

贊同及接受此應聘書條款：

_____ (簽署)

_____ (日期)

備註：

* 請將不適用的部份刪去。

** 祇於適當時載入此應聘書內。

*** 祇適用於兼任核數師的稅務代表。

Appendix 3

HKSA 210 Amended as a Result of HKSA 700—Effective Date to be Determined

HKSA 700, “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements” issued in October 2006 and effective for auditor’s reports dated on or after 31 December 2006 gave rise to conforming amendments to HKSA 210. Implementation of these amendments in ISA 210 “Terms of Audit Engagements (HKSA 210 equivalent) has been deferred by the IAASB (effective date yet to be determined) pending the revision of ISA 800 “The Independent Auditor’s Report on Special Purpose Audit Engagements”. It is shown below for reference and will be issued as a revised standard with illustrative Hong Kong examples when effective.

Introduction

1. *The purpose of this Hong Kong Standard on Auditing (HKSA) is to establish standards and provide guidance on:*
 - (a) *Agreeing the terms of the engagement with the client; and*
 - (b) *The auditor’s response to a request by a client to change the terms of an engagement to one that provides a lower level of assurance.*
2. **The auditor and the client should agree on the terms of the engagement.** *The agreed terms would need to be recorded in an audit engagement letter or other suitable form of contract.*
3. *This HKSA is intended to assist the auditor in the preparation of engagement letters relating to audits of financial statements.*
4. *In some countries, the objective and scope of an audit and the auditor’s obligations are established by law. Even in those situations the auditor may still find audit engagement letters informative for their clients.*

Audit Engagement Letters

5. *It is in the interest of both client and auditor that the auditor sends an engagement letter, preferably before the commencement of the engagement, to help in avoiding misunderstandings with respect to the engagement. The engagement letter documents and confirms the auditor’s acceptance of the appointment, the objective and scope of the audit, the extent of the auditor’s responsibilities to the client and the form of any reports.*

Principal Contents

6. *The form and content of audit engagement letters may vary for each client, but they would generally include reference to:*
 - *The objective of the audit of financial statements.*
 - *Management’s responsibility for the financial statements as described in HKSA 200 (Revised), “Objective and General Principles Governing an Audit of Financial Statements.”*
 - *The financial reporting framework adopted by management in preparing the financial statements, i.e., the applicable financial reporting framework.*
 - *The scope of the audit, including reference to applicable legislation, regulations, or pronouncements of professional bodies to which the auditor adheres.*
 - *The form of any reports or other communication of results of the engagement.*
 - *The fact that because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatement may remain undiscovered.*
 - *Unrestricted access to whatever records, documentation and other information requested in connection with the audit.*

7. *The auditor may also wish to include in the letter:*
- *Arrangements regarding the planning of the audit.*
 - *Expectation of receiving from management written confirmation concerning representations made in connection with the audit.*
 - *Request for the client to confirm the terms of the engagement by acknowledging receipt of the engagement letter.*
 - *Description of any other letters or reports the auditor expects to issue to the client.*
 - *Basis on which fees are computed and any billing arrangements.*
8. *When relevant, the following points could also be made:*
- *Arrangements concerning the involvement of other auditors and experts in some aspects of the audit.*
 - *Arrangements concerning the involvement of internal auditors and other client staff.*
 - *Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit.*
 - *Any restriction of the auditor's liability when such possibility exists.*
 - *A reference to any further agreements between the auditor and the client.*
- An example of an audit engagement letter is set out in the Appendix.*

Audits of Components

9. *When the auditor of a parent entity is also the auditor of its subsidiary, branch or division (component), the factors that influence the decision whether to send a separate engagement letter to the component include the following:*
- *Who appoints the auditor of the component.*
 - *Whether a separate auditor's report is to be issued on the component.*
 - *Legal requirements.*
 - *The extent of any work performed by other auditors.*
 - *Degree of ownership by parent.*
 - *Degree of independence of the component's management.*

Agreement on the Applicable Financial Reporting Framework

10. ***The terms of the engagement should identify the applicable financial reporting framework.***
11. *As stated in HKSA 200 (Revised) the acceptability of the financial reporting framework adopted by management in preparing the financial statements will depend on the nature of the entity and on the objective of the financial statements. In some cases, the objective of the financial statements will be to meet the common information needs of a wide range of users; in others, to meet the needs of specific users.*
12. *HKSA 200 (Revised) describes the financial reporting frameworks that are presumed to be acceptable for general purpose financial statements. Legislative and regulatory requirements often identify the applicable financial reporting framework for general purpose financial statements. In most cases, the applicable financial reporting framework will be established by a standards setting organization that is authorized or recognized to promulgate standards in the jurisdiction in which the entity is registered or operates.*
13. ***The auditor should accept an engagement for an audit of financial statements only when the auditor concludes that the financial reporting framework adopted by management is acceptable or when it is required by law or regulation. When law or regulation requires use of a financial reporting framework for general purpose financial statements that the***

auditor considers to be unacceptable, the auditor should accept the engagement only if the deficiencies in the framework can be adequately explained to avoid misleading users.

14. Without an acceptable financial reporting framework management does not have an appropriate basis for preparing the financial statements and the auditor does not have suitable criteria for evaluating the entity's financial statements. In these circumstances, unless use of the financial reporting framework is required by law or regulation, the auditor encourages management to address the deficiencies in the financial reporting framework or to adopt another financial reporting framework that is acceptable. When the financial reporting framework is required by law or regulation and management has no choice but to adopt this framework, the auditor accepts the engagement only if the deficiencies can be adequately explained to avoid misleading users, see HKSA 701, "Modifications to the Independent Auditor's Report," paragraph 5 and, unless required by law or regulation to do so, does not express the opinion on the financial statements using the terms "give a true and fair view" or "are presented fairly, in all material respects," in accordance with the applicable financial reporting framework.
15. When the auditor accepts an engagement involving an applicable financial reporting framework that is not established by an organization that is authorized or recognized to promulgate standards for general purpose financial statements of certain types of entities, the auditor may encounter deficiencies in that framework that were not anticipated when the engagement was initially accepted and that indicate that the framework is not acceptable for general purpose financial statements. In these circumstances, the auditor discusses the deficiencies with management and the ways in which such deficiencies may be addressed. If the deficiencies result in financial statements that are misleading and there is agreement that management will adopt another financial reporting framework that is acceptable, the auditor refers to the change in the financial reporting framework in a new engagement letter. If management refuses to adopt another financial reporting framework, the auditor considers the impact of the deficiencies on the auditor's report, see HKSA 701.

Recurring Audits

16. **On recurring audits, the auditor should consider whether circumstances require the terms of the engagement to be revised and whether there is a need to remind the client of the existing terms of the engagement.**
17. The auditor may decide not to send a new engagement letter each period. However, the following factors may make it appropriate to send a new letter:
 - Any indication that the client misunderstands the objective and scope of the audit.
 - Any revised or special terms of the engagement.
 - A recent change of senior management, board of directors or ownership.
 - A significant change in nature or size of the client's business.
 - Legal requirements.
 - A change in the financial reporting framework adopted by management in preparing the financial statements (as discussed in paragraph 15).

Acceptance of a Change in Engagement

18. **An auditor who, before the completion of the engagement, is requested to change the engagement to one which provides a lower level of assurance, should consider the appropriateness of doing so.**

19. *A request from the client for the auditor to change the engagement may result from a change in circumstances affecting the need for the service, a misunderstanding as to the nature of an audit or related service originally requested or a restriction on the scope of the engagement, whether imposed by management or caused by circumstances. The auditor would consider carefully the reason given for the request, particularly the implications of a restriction on the scope of the engagement.*
20. *A change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of service originally requested would ordinarily be considered a reasonable basis for requesting a change in the engagement. In contrast a change would not be considered reasonable if it appeared that the change relates to information that is incorrect, incomplete or otherwise unsatisfactory.*
21. *Before agreeing to change an audit engagement to a related service, an auditor who was engaged to perform an audit in accordance with the HKSA's would consider, in addition to the above matters, any legal or contractual implications of the change.*
22. *If the auditor concludes that there is reasonable justification to change the engagement and if the audit work performed complies with the HKSA's applicable to the changed engagement, the report issued would be that appropriate for the revised terms of engagement. In order to avoid confusing the reader, the report would not include reference to:*
 - (a) *The original engagement; or*
 - (b) *Any procedures that may have been performed in the original engagement, except where the engagement is changed to an engagement to undertake agreed-upon procedures and thus reference to the procedures performed is a normal part of the report.*
23. ***Where the terms of the engagement are changed, the auditor and the client should agree on the new terms.***
24. ***The auditor should not agree to a change of engagement where there is no reasonable justification for doing so. An example might be an audit engagement where the auditor is unable to obtain sufficient appropriate audit evidence regarding receivables and the client asks for the engagement to be changed to a review engagement to avoid a qualified audit opinion or a disclaimer of opinion.***
25. ***If the auditor is unable to agree to a change of the engagement and is not permitted to continue the original engagement, the auditor should withdraw and consider whether there is any obligation, either contractual or otherwise, to report to other parties, such as the board of directors or shareholders, the circumstances necessitating the withdrawal.***

Effective Date

26. *This HKSA is effective for audits of financial statements for periods beginning on or after [date].*

Public Sector Perspective

1. *The purpose of the engagement letter is to inform the auditee of the nature of the engagement and to clarify the responsibilities of the parties involved. The legislation and regulations governing the operations of public sector audits generally mandate the appointment of a public sector auditor and the use of audit engagement letters may not be a widespread practice. Nevertheless, a letter setting out the nature of the engagement or recognizing an engagement not indicated in the legislative mandate may be useful to both parties. Public sector auditors have to give serious consideration to issuing audit engagement letters when undertaking an audit.*
2. *Paragraphs 18-25 of this HKSA deal with the action a private sector auditor may take when there are attempts to change an audit engagement to one which provides a lower level of assurance. In the public sector specific requirements may exist within the legislation governing the audit mandate; for example, the auditor may be required to report directly to a minister, the legislature or the public if management (including the department head) attempts to limit the scope of the audit.*

Appendix: Example of an Engagement Letter

The following is an example of an engagement letter for an audit of general purpose financial statements prepared in accordance with Hong Kong Financial Reporting Standards. This letter is to be used as a guide in conjunction with the considerations outlined in this HKSA and will need to be varied according to individual requirements and circumstances.

To the Board of Directors or the appropriate representative of senior management:

You have requested that we audit the financial statements of, which comprise the balance sheet as at, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the financial statements.

We will conduct our audit in accordance with Hong Kong Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatements may remain undiscovered.

*In making our risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we expect to provide you with a separate letter concerning any material weaknesses in the design or implementation of internal control over financial reporting that come to our attention during the audit of the financial statements.**

We remind you that the responsibility for the preparation of financial statements that present fairly the financial position, financial performance and cash flows of the company in accordance with Hong Kong Financial Reporting Standards is that of the management of the company. Our auditors' report will explain that management is responsible for the preparation and the fair presentation of the financial statements in accordance with the applicable financial reporting framework and this responsibility includes:

- *Designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from misstatement, whether due to fraud or error;*
- *Selecting and applying appropriate accounting policies; and*
- *Making accounting estimates that are appropriate in the circumstances.*

As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our audit.

[Insert additional information here regarding fee arrangements and billings, as appropriate.]

* In some jurisdictions, the auditor may have responsibilities to report separately on the entity's internal control. In such circumstances, the auditor reports on that responsibility as required in that jurisdiction. The reference in the auditor's report on the financial statements to the fact that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control may not be appropriate in such circumstances.

TERMS OF AUDIT ENGAGEMENTS

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our audit of the financial statements.

XYZ & Co.

Acknowledged on behalf of ABC Company by

(signed)

.....

Name and Title

Date

Hong Kong Standard on Review Engagements 2400

Engagements to Review Financial Statements

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

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



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

HONG KONG STANDARD ON REVIEW ENGAGEMENTS 2400
ENGAGEMENTS TO REVIEW FINANCIAL STATEMENTS

(Effective upon issue [and revised March 2007](#))

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Hong Kong Standard on Review Engagements (HKSRE) 2400, “Engagements to Review Financial Statements” should be read in the context of the “Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services” which sets out the application and authority of HKSREs.

Introduction

1. The purpose of this Hong Kong Standard on Review Engagements (HKSRE) is to establish standards and provide guidance on the ~~auditor's⁴ practitioner's~~ professional responsibilities when ~~a practitioner, who is not the auditor of an entity, undertakes~~ an engagement to review financial statements ~~is undertaken~~ and on the form and content of the report that the ~~auditor practitioner~~ issues in connection with such a review. ~~A practitioner, who is the auditor of the entity, engaged to perform a review of interim financial information performs such a review in accordance with HKSRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".~~
2. This HKSRE is directed towards the review of financial statements. However, it is to be applied to the extent practicable to engagements to review financial or other information. This HKSRE is to be read in conjunction with the "Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services". Guidance in other HKSREs may be useful to the ~~auditor~~practitioner in applying this HKSRE.

Objective of a Review Engagement

3. The objective of a review of financial statements is to enable an ~~auditor~~practitioner to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to the ~~auditor~~practitioner's attention that causes the ~~auditor~~practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with an identified financial reporting framework (negative assurance).

General Principles of a Review Engagement

4. The ~~auditor~~practitioner should comply with the HKICPA Statements of Professional Ethics/*Code of Ethics for Professional Accountants*. Ethical principles governing the ~~auditor~~practitioner's professional responsibilities are:
 - (a) Independence;
 - (b) Integrity;
 - (c) Objectivity;
 - (d) Professional competence and due care;
 - (e) Confidentiality;
 - (f) Professional behaviour; and
 - (g) Technical standards.
5. The ~~auditor~~practitioner should conduct a review in accordance with this HKSRE.
6. The ~~auditor~~practitioner should plan and perform the review with an attitude of professional skepticism recognizing that circumstances may exist which cause the financial statements to be materially misstated.
7. For the purpose of expressing negative assurance in the review report, the ~~auditor~~practitioner should obtain sufficient appropriate evidence primarily through inquiry and analytical procedures to be able to draw conclusions.

Scope of a Review

8. The term "scope of a review" refers to the review procedures deemed necessary in the circumstances to achieve the objective of the review. **The procedures required to conduct a review of financial statements should be determined by the ~~auditor~~practitioner having regard to the requirements of this HKSRE, relevant professional bodies,**

⁴~~The term auditor is used when describing both auditing and related services which may be performed. Such reference is not intended to imply that a person performing related services need be the auditor of the entity's financial statements.~~

legislation, regulation and, where appropriate, the terms of the review engagement and reporting requirements.

Moderate Assurance

9. A review engagement provides a moderate level of assurance that the information subject to review is free of material misstatement, this is expressed in the form of negative assurance.

Terms of Engagement

10. **The auditorpractitioner and the client should agree on the terms of the engagement.** The agreed terms would be recorded in an engagement letter or other suitable form such as a contract.
11. An engagement letter will be of assistance in planning the review work. It is in the interests of both the auditorpractitioner and the client that the auditorpractitioner sends an engagement letter documenting the key terms of the appointment. An engagement letter confirms the auditorpractitioner's acceptance of the appointment and helps avoid misunderstanding regarding such matters as the objectives and scope of the engagement, the extent of the auditorpractitioner's responsibilities and the form of reports to be issued.
12. Matters that would be included in the engagement letter include the following:
 - The objective of the service being performed.
 - Management's responsibility for the financial statements.
 - The scope of the review, including reference to this HKSRE.
 - Unrestricted access to whatever records, documentation and other information requested in connection with the review.
 - A sample of the report expected to be rendered.
 - The fact that the engagement cannot be relied upon to disclose errors, illegal acts or other irregularities, for example, fraud or defalcations that may exist.
 - A statement that an audit is not being performed and that an audit opinion will not be expressed. To emphasize this point and to avoid confusion, the auditorpractitioner may also consider pointing out that a review engagement will not satisfy any statutory or third party requirements for an audit.

An example of an engagement letter for a review of financial statements appears in Appendix 1 to this HKSRE.

Planning

13. **The auditorpractitioner should plan the work so that an effective engagement will be performed.**
14. **In planning a review of financial statements, the auditorpractitioner should obtain or update the knowledge of the business including consideration of the entity's organization, accounting systems, operating characteristics and the nature of its assets, liabilities, revenues and expenses.**
15. The auditorpractitioner needs to possess an understanding of such matters and other matters relevant to the financial statements, for example, a knowledge of the entity's production and distribution methods, product lines, operating locations and related parties. The auditorpractitioner requires this understanding to be able to make relevant inquiries and to design appropriate procedures, as well as to assess the responses and other information obtained.

Work Performed by Others

16. When using work performed by another **auditorpractitioner** or an expert, the **auditorpractitioner** should be satisfied that such work is adequate for the purposes of the review.

Documentation

17. The **auditorpractitioner** should document matters which are important in providing evidence to support the review report, and evidence that the review was carried out in accordance with this HKSRE.

Procedures and Evidence

18. The **auditorpractitioner** should apply judgment in determining the specific nature, timing and extent of review procedures. The **auditorpractitioner** will be guided by such matters as the following:
- Any knowledge acquired by carrying out audits or reviews of the financial statements for prior periods.
 - The **auditorpractitioner**'s knowledge of the business including knowledge of the accounting principles and practices of the industry in which the entity operates.
 - The entity's accounting systems.
 - The extent to which a particular item is affected by management judgment.
 - The materiality of transactions and account balances.
19. The **auditorpractitioner** should apply the same materiality considerations as would be applied if an audit opinion on the financial statements were being given. Although there is a greater risk that misstatements will not be detected in a review than in an audit, the judgment as to what is material is made by reference to the information on which the **auditorpractitioner** is reporting and the needs of those relying on that information, not to the level of assurance provided.
20. Procedures for the review of financial statements will ordinarily include the following:
- Obtaining an understanding of the entity's business and the industry in which it operates.
 - Inquiries concerning the entity's accounting principles and practices.
 - Inquiries concerning the entity's procedures for recording, classifying and summarizing transactions, accumulating information for disclosure in the financial statements and preparing financial statements.
 - Inquiries concerning all material assertions in the financial statements.
 - Analytical procedures designed to identify relationships and individual items that appear unusual. Such procedures would include:
 - Comparison of the financial statements with statements for prior periods.
 - Comparison of the financial statements with anticipated results and financial position.
 - Study of the relationships of the elements of the financial statements that would be expected to conform to a predictable pattern based on the entity's experience or industry norm.
- In applying these procedures, the **auditorpractitioner** would consider the types of matters that required accounting adjustments in prior periods.
- Inquiries concerning actions taken at meetings of shareholders, the board of directors, committees of the board of directors and other meetings that may affect the financial statements.

- Reading the financial statements to consider, on the basis of information coming to the **auditor/practitioner**'s attention, whether the financial statements appear to conform with the basis of accounting indicated.
- Obtaining reports from other **auditor/practitioners**, if any and if considered necessary, who have been engaged to audit or review the financial statements of components of the entity.
- Inquiries of persons having responsibility for financial and accounting matters concerning, for example:
 - Whether all transactions have been recorded.
 - Whether the financial statements have been prepared in accordance with the basis of accounting indicated.
 - Changes in the entity's business activities and accounting principles and practices.
 - Matters as to which questions have arisen in the course of applying the foregoing procedures.
 - Obtaining written representations from management when considered appropriate.

Appendix 2 to this HKSRE provides an illustrative list of procedures which are often used. The list is not exhaustive, nor is it intended that all the procedures suggested apply to every review engagement.

21. **The **auditor/practitioner** should inquire about events subsequent to the date of the financial statements that may require adjustment of or disclosure in the financial statements.** The **auditor/practitioner** does not have any responsibility to perform procedures to identify events occurring after the date of the review report.
22. **If the **auditor/practitioner** has reason to believe that the information subject to review may be materially misstated, the **auditor/practitioner** should carry out additional or more extensive procedures as are necessary to be able to express negative assurance or to confirm that a modified report is required.**

Conclusions and Reporting

23. **The review report should contain a clear written expression of negative assurance. The **auditor/practitioner** should review and assess the conclusions drawn from the evidence obtained as the basis for the expression of negative assurance.**
24. **Based on the work performed, the **auditor/practitioner** should assess whether any information obtained during the review indicates that the financial statements do not give a true and fair view (or are not presented fairly, in all material respects) in accordance with the identified financial reporting framework.**
25. The report on a review of financial statements describes the scope of the engagement to enable the reader to understand the nature of the work performed and make it clear that an audit was not performed and, therefore, that an audit opinion is not expressed.
26. **The report on a review of financial statements should contain the following basic elements, ordinarily in the following layout:**
 - (a) **Title ;²**
 - (b) **Addressee;**
 - (c) **Opening or introductory paragraph including:**
 - (i) **Identification of the financial statements on which the review has been performed; and**

² It may be appropriate to use the term "Independent" in the title to distinguish the **auditor/practitioner**'s report from reports that might be issued by others, such as officers of the entity, or from the reports of other **auditor/practitioners** who may not have to abide by the same ethical requirements as an independent **auditor/practitioner**.

- (ii) A statement of the responsibility of the entity's management and the responsibility of the **auditor/practitioner**;
- (d) Scope paragraph, describing the nature of a review, including:
 - (i) A reference to this HKSRE;
 - (ii) A statement that a review is limited primarily to inquiries and analytical procedures; and
 - (iii) A statement that an audit has not been performed, that the procedures undertaken provide less assurance than an audit and that an audit opinion is not expressed;
- (e) Statement of negative assurance;
- (f) Date of the report;
- (g) **Auditor/Practitioner**'s address; and
- (h) **Auditor/Practitioner**'s signature.

Appendices 3 and 4 to this HKSRE contain illustrations of review reports.

27. The review report should:

- (a) State that nothing has come to the **auditor/practitioner**'s attention based on the review that causes the **auditor/practitioner** to believe the financial statements do not give a true and fair view (or are not presented fairly, in all material respects) in accordance with the identified financial reporting framework (negative assurance); or
- (b) If matters have come to the **auditor/practitioner**'s attention, describe those matters that impair a true and fair view (or a fair presentation, in all material respects) in accordance with the identified financial reporting framework, including, unless impracticable, a quantification of the possible effect(s) on the financial statements, and either:
 - (i) Express a qualification of the negative assurance provided; or
 - (ii) When the effect of the matter is so material and pervasive to the financial statements that the **auditor/practitioner** concludes that a qualification is not adequate to disclose the misleading or incomplete nature of the financial statements, give an adverse statement that the financial statements do not give a true and fair view (or are not presented fairly, in all material respects) in accordance with the identified financial reporting framework; or
- (c) If there has been a material scope limitation, describe the limitation and either:
 - (i) Express a qualification of the negative assurance provided regarding the possible adjustments to the financial statements that might have been determined to be necessary had the limitation not existed; or
 - (ii) When the possible effect of the limitation is so significant and pervasive that the **auditor/practitioner** concludes that no level of assurance can be provided, not provide any assurance.

28. The **auditor/practitioner** should date the review report as of the date the review is completed, which includes performing procedures relating to events occurring up to the date of the report. However, since the **auditor/practitioner**'s responsibility is to report on the financial statements as prepared and presented by management, the **auditor/practitioner** should not date the review report earlier than the date on which the financial statements were approved by management.

Effective Date

29. This HKSRE is effective upon issue.

Conformity and Compliance with International Standards on Review Engagements

30. As of June 2005 (date of issue), this HKSRE conforms with International Standard on Review Engagements (ISRE) 2400, “Engagements to Review Financial Statements” except that a reference to IFAC Code of Ethics for Professional Accountants is replaced by HKICPA Statements of Professional Ethics/*Code of Ethics for Professional Accountants*. With the exception of the foregoing difference, compliance with the requirements of this HKSRE ensures compliance with ISRE 2400.
31. Additional local guidance is provided in footnote 3a of Appendix 1.

Appendix 1

Example of an Engagement Letter for a Review of Financial Statements

The following letter is for use as a guide in conjunction with the consideration outlined in paragraph 10 of this HKSRE and will need to be varied according to individual requirements and circumstances^{3a}.

To the Board of Directors (or the appropriate representative of senior management):

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following services:

We will review the balance sheet of XYZ Company as of 31 December 20XX, and the related statements of income and cash flows for the year then ended, in accordance with Hong Kong Standard on Review Engagements (HKSRE) 2400 “Engagements to Review Financial Statements” issued by the Hong Kong Institute of Certified Public Accountants. We will not perform an audit of such financial statements and, accordingly, we will not express an audit opinion on them. Accordingly, we expect to report on the financial statements as follows:

(see Appendix 3 to this HKSRE)

Responsibility for the financial statements, including adequate disclosure, is that of the management of the company. This includes the maintenance of adequate accounting records and internal controls and the selection and application of accounting policies. (As part of our review process, we will request written representations from management concerning assertions made in connection with the review³.)

This letter will be effective for future years unless it is terminated, amended or superseded (if applicable).

Our engagement cannot be relied upon to disclose whether fraud or errors, or illegal acts exist. However, we will inform you of any material matters that come to our attention.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our review of the financial statements.

ABC & Co

Acknowledged on behalf of XYZ Company by

(signed)

.....

Name and Title

Date

³ This sentence should be used at the discretion of the [auditor/practitioner](#).

^{3a} The [auditor/practitioner](#) may consider it appropriate to include a limitation of liability clause in accordance with his firm's risk management policies.

Appendix 2**Illustrative Detailed Procedures That May be Performed in an Engagement to Review Financial Statements**

1. The inquiry and analytical review procedures carried out in a review of financial statements are determined by the auditor/practitioner's judgment. The procedures listed below are for illustrative purposes only. It is not intended that all the procedures suggested apply to every review engagement. This Appendix is not intended to serve as a program or checklist in the conduct of a review.

General

2. Discuss terms and scope of the engagement with the client and the engagement team.
3. Prepare an engagement letter setting forth the terms and scope of the engagement.
4. Obtain an understanding of the entity's business activities and the system for recording financial information and preparing financial statements.
5. Inquire whether all financial information is recorded:
 - (a) Completely;
 - (b) Promptly; and
 - (c) After the necessary authorization.
6. Obtain the trial balance and determine whether it agrees with the general ledger and the financial statements.
7. Consider the results of previous audits and review engagements, including accounting adjustments required.
8. Inquire whether there have been any significant changes in the entity from the previous year (e.g., changes in ownership or changes in capital structure).
9. Inquire about the accounting policies and consider whether:
 - (a) They comply with local or international standards;
 - (b) They have been applied appropriately; and
 - (c) They have been applied consistently and, if not, consider whether disclosure has been made of any changes in the accounting policies.
10. Read the minutes of meetings of shareholders, the board of directors and other appropriate committees in order to identify matters that could be important to the review.
11. Inquire if actions taken at shareholder, board of directors or comparable meetings that affect the financial statements have been appropriately reflected therein.
12. Inquire about the existence of transactions with related parties, how such transactions have been accounted for and whether related parties have been properly disclosed.
13. Inquire about contingencies and commitments.
14. Inquire about plans to dispose of major assets or business segments.
15. Obtain the financial statements and discuss them with management.
16. Consider the adequacy of disclosure in the financial statements and their suitability as to classification and presentation.
17. Compare the results shown in the current period financial statements with those shown in financial statements for comparable prior periods and, if available, with budgets and forecasts.

18. Obtain explanations from management for any unusual fluctuations or inconsistencies in the financial statements.
19. Consider the effect of any unadjusted errors – individually and in aggregate. Bring the errors to the attention of management and determine how the unadjusted errors will influence the report on the review.
20. Consider obtaining a representation letter from management.

Cash

21. Obtain the bank reconciliations. Inquire about any old or unusual reconciling items with client personnel.
22. Inquire about transfers between cash accounts for the period before and after the review date.
23. Inquire whether there are any restrictions on cash accounts.

Receivables

24. Inquire about the accounting policies for initially recording trade receivables and determine whether any allowances are given on such transactions.
25. Obtain a schedule of receivables and determine whether the total agrees with the trial balance.
26. Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.
27. Obtain an aged analysis of the trade receivables. Inquire about the reason for unusually large accounts, credit balances on accounts or any other unusual balances and inquire about the collectibility of receivables.
28. Discuss with management the classification of receivables, including noncurrent balances, net credit balances and amounts due from shareholders, directors and other related parties in the financial statements.
29. Inquire about the method for identifying “slow payment” accounts and setting allowances for doubtful accounts and consider it for reasonableness.
30. Inquire whether receivables have been pledged, factored or discounted.
31. Inquire about procedures applied to ensure that a proper cutoff of sales transactions and sales returns has been achieved.
32. Inquire whether accounts represent goods shipped on consignment and, if so, whether adjustments have been made to reverse these transactions and include the goods in inventory.
33. Inquire whether any large credits relating to revenue recorded have been issued after the balance sheet date and whether provision has been made for such amounts.

Inventories

34. Obtain the inventory list and determine whether:
 - (a) The total agrees with the balance in the trial balance; and
 - (b) The list is based on a physical count of inventory.
35. Inquire about the method for counting inventory.
36. Where a physical count was not carried out on the balance sheet date, inquire whether:
 - (a) A perpetual inventory system is used and whether periodic comparisons are made with actual quantities on hand; and
 - (b) An integrated cost system is used and whether it has produced reliable information in the past.

37. Discuss adjustments made resulting from the last physical inventory count.
38. Inquire about procedures applied to control cutoff and any inventory movements.
39. Inquire about the basis used in valuing each category of the inventory and, in particular, regarding the elimination of inter-branch profits. Inquire whether inventory is valued at the lower of cost and net realizable value.
40. Consider the consistency with which inventory valuation methods have been applied, including factors such as material, labour and overhead.
41. Compare amounts of major inventory categories with those of prior periods and with those anticipated for the current period. Inquire about major fluctuations and differences.
42. Compare inventory turnover with that in previous periods.
43. Inquire about the method used for identifying slow moving and obsolete inventory and whether such inventory has been accounted for at net realizable value.
44. Inquire whether any of the inventory has been consigned to the entity and, if so, whether adjustments have been made to exclude such goods from inventory.
45. Inquire whether any inventory is pledged, stored at other locations or on consignment to others and consider whether such transactions have been accounted for appropriately.

Investments (Including Associated Companies and Marketable Securities)

46. Obtain a schedule of the investments at the balance sheet date and determine whether it agrees with the trial balance.
47. Inquire about the accounting policy applied to investments.
48. Inquire from management about the carrying values of investments. Consider whether there are any realization problems.
49. Consider whether there has been proper accounting for gains and losses and investment income.
50. Inquire about the classification of long-term and short-term investments.

Property and Depreciation

51. Obtain a schedule of the property indicating the cost and accumulated depreciation and determine whether it agrees with the trial balance.
52. Inquire about the accounting policy applied regarding the provision for depreciation and distinguishing between capital and maintenance items. Consider whether the property has suffered a material, permanent impairment in value.
53. Discuss with management the additions and deletions to property accounts and accounting for gains and losses on sales or retirements. Inquire whether all such transactions have been accounted for.
54. Inquire about the consistency with which the depreciation method and rates have been applied and compare depreciation provisions with prior years.
55. Inquire whether there are any liens on the property.
56. Discuss whether lease agreements have been properly reflected in the financial statements in conformity with current accounting pronouncements.

Prepaid Expenses, Intangibles and Other Assets

57. Obtain schedules identifying the nature of these accounts and discuss with management the recoverability thereof.
58. Inquire about the basis for recording these accounts and the amortization methods used.

59. Compare balances of related expense accounts with those of prior periods and discuss significant variations with management.
60. Discuss the classification between long-term and short-term accounts with management.

Loans Payable

61. Obtain from management a schedule of loans payable and determine whether the total agrees with the trial balance.
62. Inquire whether there are any loans where management has not complied with the provisions of the loan agreement and, if so, inquire as to management's actions and whether appropriate adjustments have been made in the financial statements.
63. Consider the reasonableness of interest expense in relation to loan balances.
64. Inquire whether loans payable are secured.
65. Inquire whether loans payable have been classified between noncurrent and current.

Trade Payables

66. Inquire about the accounting policies for initially recording trade payables and whether the entity is entitled to any allowances given on such transactions.
67. Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.
68. Obtain a schedule of trade payables and determine whether the total agrees with the trial balance.
69. Inquire whether balances are reconciled with the creditors' statements and compare with prior period balances. Compare turnover with prior periods.
70. Consider whether there could be material unrecorded liabilities.
71. Inquire whether payables to shareholders, directors and other related parties are separately disclosed.

Accrued and Contingent Liabilities

72. Obtain a schedule of the accrued liabilities and determine whether the total agrees with the trial balance.
73. Compare major balances of related expense accounts with similar accounts for prior periods.
74. Inquire about approvals for such accruals, terms of payment, compliance with terms, collateral and classification.
75. Inquire about the method for determining accrued liabilities.
76. Inquire as to the nature of amounts included in contingent liabilities and commitments.
77. Inquire whether any actual or contingent liabilities exist which have not been recorded in the accounts. If so, discuss with management whether provisions need to be made in the accounts or whether disclosure should be made in the notes to the financial statements.

Income and Other Taxes

78. Inquire from management if there were any events, including disputes with taxation authorities, which could have a significant effect on the taxes payable by the entity.
79. Consider the tax expense in relation to the entity's income for the period.
80. Inquire from management as to the adequacy of the recorded deferred and current tax liabilities including provisions in respect of prior periods.

Subsequent Events

81. Obtain from management the latest interim financial statements and compare them with the financial statements being reviewed or with those for comparable periods from the preceding year.
82. Inquire about events after the balance sheet date that would have a material effect on the financial statements under review and, in particular, inquire whether:
 - (a) Any substantial commitments or uncertainties have arisen subsequent to the balance sheet date;
 - (b) Any significant changes in the share capital, long-term debt or working capital have occurred up to the date of inquiry; and
 - (c) Any unusual adjustments have been made during the period between the balance sheet date and the date of inquiry.

Consider the need for adjustments or disclosure in the financial statements.

83. Obtain and read the minutes of meetings of shareholders, directors and appropriate committees subsequent to the balance sheet date.

Litigation

84. Inquire from management whether the entity is the subject of any legal actions-threatened, pending or in process. Consider the effect thereof on the financial statements.

Equity

85. Obtain and consider a schedule of the transactions in the equity accounts, including new issues, retirements and dividends.
86. Inquire whether there are any restrictions on retained earnings or other equity accounts.

Operations

87. Compare results with those of prior periods and those expected for the current period. Discuss significant variations with management.
88. Discuss whether the recognition of major sales and expenses have taken place in the appropriate periods.
89. Consider extraordinary and unusual items.
90. Consider and discuss with management the relationship between related items in the revenue account and assess the reasonableness thereof in the context of similar relationships for prior periods and other information available to the ~~auditor~~[practitioner](#).

Form of Unqualified Review Report

REVIEW REPORT TO ...

We have reviewed the accompanying balance sheet of XYZ Company at 31 December 20XX, and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2400 "Engagements to Review Financial Statements" issued by the Hong Kong Institute of Certified Public Accountants. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements do not give a true and fair view (or are not presented fairly, in all material respects) in accordance with Hong Kong Financial Reporting Standards⁴.

~~AUDITOR~~PRACTITIONER

Date
Address

⁴ or indicate International Financial Reporting Standards.

Examples of Review Reports Other Than Unqualified

Qualification for a Departure From Hong Kong Financial Reporting Standards

REVIEW REPORT TO ...

We have reviewed the accompanying balance sheet of XYZ Company at 31 December 20XX, and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2400 "Engagements to Review Financial Statements" issued by the Hong Kong Institute of Certified Public Accountants. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit, and, accordingly, we do not express an audit opinion.

Management has informed us that inventory has been stated at its cost which is in excess of its net realizable value. Management's computation, which we have reviewed, shows that inventory, if valued at the lower of cost and net realizable value as required by Hong Kong Financial Reporting Standards⁵, would have been decreased by \$X, and net income and shareholders' equity would have been decreased by \$Y.

Based on our review, except for the effects of the overstatement of inventory described in the previous paragraph, nothing has come to our attention that causes us to believe that the accompanying financial statements do not give a true and fair view (or are not presented fairly, in all material respects) in accordance with Hong Kong Financial Reporting Standards⁵.

~~AUDITOR~~PRACTITIONER

Date
Address

⁵ See footnote 4.

Adverse Report for a Departure From Hong Kong Financial Reporting Standards

REVIEW REPORT TO

We have reviewed the balance sheet of XYZ Company at 31 December 20XX, and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2400 "Engagements to Review Financial Statements" issued by the Hong Kong Institute of Certified Public Accountants. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

As noted in footnote X, these financial statements do not reflect the consolidation of the financial statements of subsidiary companies, the investment in which is accounted for on a cost basis. Under Hong Kong Financial Reporting Standards⁶, the financial statements of the subsidiaries are required to be consolidated.

Based on our review, because of the pervasive effect on the financial statements of the matter discussed in the preceding paragraph, the accompanying financial statements do not give a true and fair view (or are not presented fairly, in all material respects) in accordance with Hong Kong Financial Reporting Standards⁶.

~~AUDITOR~~PRACTITIONER

Date
Address

⁶ See footnote 4.

Effective for reviews of interim financial information
for periods beginning on or after 15 December 2006

Hong Kong Standard on Review Engagements 2410

Review of Interim Financial Information Performed by the Independent Auditor of the Entity

1. The scope of this HKSRE is limited to a review of interim financial information performed by the independent auditor of the financial statements of the entity, effective for reviews of interim financial information for periods beginning on or after 15 December 2006.
2. A practitioner who is engaged to perform a review of interim financial information for periods beginning on or after 15 December 2006, and who is not the auditor of the entity, performs the review in accordance with HKSRE 2400, “Engagements to Review Financial Statements” and not this HKSRE.
3. SAS 700 “Engagements to review interim financial reports” is applicable for reviews of interim financial information for periods beginning before 15 December 2006. However, practitioners are to note that early adoption of this HKSRE is permissible.



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

HONG KONG STANDARD ON REVIEW ENGAGEMENTS 2410
REVIEW OF INTERIM FINANCIAL INFORMATION
PERFORMED BY THE INDEPENDENT AUDITOR OF THE ENTITY

(Effective for reviews of interim financial information for periods
beginning on or after 15 December 2006.
Earlier adoption is permissible)*

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Hong Kong Standard on Review Engagements (HKSRE) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" should be read in the context of the "Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services" which sets out the application and authority of HKSREs.

* HKSRE 2410 gave rise to a conforming amendment to HKSA 210 "Terms of Audit Engagements" that are effective for audits of financial statements for periods beginning on or after 15 December 2006. It also gave rise to conforming amendments to HKSRE 2400 "Engagements to Review Financial Statements" that are effective for reviews of financial statements for periods beginning on or after 15 December 2006. These amendments are highlighted in the appendices to HKSA 210 and HKSRE 2400. Early adoption of HKSRE 2410 requires early adoption of the conforming amendments to HKSA 210 and HKSRE 2400.

Introduction

1. The purpose of this Hong Kong Standard on Review Engagements (HKSRE) is to establish standards and provide guidance on the auditor's professional responsibilities when the auditor undertakes an engagement to review interim financial information of an audit client, and on the form and content of the report. The term "auditor" is used throughout this HKSRE, not because the auditor is performing an audit function but because the scope of this HKSRE is limited to a review of interim financial information performed by the independent auditor of the financial statements of the entity.
2. For purposes of this HKSRE, interim financial information is financial information that is prepared and presented in accordance with an applicable financial reporting framework¹ and comprises either a complete or a condensed^{1a} set of financial statements for a period that is shorter than the entity's financial year.
3. **The auditor who is engaged to perform a review of interim financial information should perform the review in accordance with this HKSRE.** Through performing the audit of the annual financial statements, the auditor obtains an understanding of the entity and its environment, including its internal control. When the auditor is engaged to review the interim financial information, this understanding is updated through inquiries made in the course of the review, and assists the auditor in focusing the inquiries to be made and the analytical and other review procedures to be applied. A practitioner who is engaged to perform a review of interim financial information, and who is not the auditor of the entity, performs the review in accordance with HKSRE 2400, "Engagements to Review Financial Statements." As the practitioner does not ordinarily have the same understanding of the entity and its environment, including its internal control, as the auditor of the entity, the practitioner needs to carry out different inquiries and procedures to meet the objective of the review^{1b}.

General Principles of a Review of Interim Financial Information

4. **The auditor should comply with the ethical requirements relevant to the audit of the annual financial statements of the entity.** These ethical requirements govern the auditor's professional responsibilities in the following areas: independence, integrity, objectivity, professional competence and due care, confidentiality, professional behavior, and technical standards.
5. **The auditor should implement quality control procedures that are applicable to the individual engagement.** The elements of quality control that are relevant to an individual engagement include leadership responsibilities for quality on the engagement, ethical requirements, acceptance and continuance of client relationships and specific engagements, assignment of engagement teams, engagement performance, and monitoring.
6. **The auditor should plan and perform the review with an attitude of professional skepticism, recognizing that circumstances may exist that cause the interim financial information to require a material adjustment for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.** An attitude of professional skepticism means that the auditor makes a critical assessment, with a questioning

¹ For example, Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

^{1a} In Hong Kong, the Main Board Listing Rules and GEM Listing Rules require a listed issuer to prepare an interim report or a half-year report in respect of the first six months of its financial year.

A listed issuer that prepares its annual financial statements in accordance with Hong Kong Financial Reporting Standards is required to comply with Hong Kong Accounting Standard (HKAS) 34 "Interim Financial Reporting" in respect of its interim report or its half-year report. As HKAS 34 allows an entity to provide "condensed" financial statements in its interim financial report or comprehensive information in a complete set of financial statements (as described in HKAS 1 "Presentation of Financial Statements"), listed issuers in Hong Kong normally prepare "condensed" financial statements.

For reporting on "condensed" financial statements, paragraph 43(j) of this HKSRE is applicable instead of paragraph 43(i).

^{1b} For reporting purposes under the Main Board Listing Rules and GEM Listing Rules, practitioners who are not the auditor of the entity and are performing a review in accordance with HKSRE 2400 may refer to the example review reports set out in this HKSRE.

mind, of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents or representations by management of the entity.

Objective of an Engagement to Review Interim Financial Information

7. The objective of an engagement to review interim financial information is to enable the auditor to express a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with an applicable financial reporting framework. The auditor makes inquiries, and performs analytical and other review procedures in order to reduce to a moderate level the risk of expressing an inappropriate conclusion when the interim financial information is materially misstated.
8. The objective of a review of interim financial information differs significantly from that of an audit conducted in accordance with Hong Kong Standards on Auditing (HKSA). A review of interim financial information does not provide a basis for expressing an opinion whether the financial information gives a true and fair view, or is presented fairly, in all material respects, in accordance with an applicable financial reporting framework.
9. A review, in contrast to an audit, is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review may bring significant matters affecting the interim financial information to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

Agreeing the Terms of the Engagement

10. **The auditor and the client should agree on the terms of the engagement.**
11. The agreed terms of the engagement are ordinarily recorded in an engagement letter. Such a communication helps to avoid misunderstandings regarding the nature of the engagement and, in particular, the objective and scope of the review, management's responsibilities, the extent of the auditor's responsibilities, the assurance obtained, and the nature and form of the report. The communication ordinarily covers the following matters:
 - The objective of a review of interim financial information.
 - The scope of the review.
 - Management's responsibility for the interim financial information.
 - Management's responsibility for establishing and maintaining effective internal control relevant to the preparation of interim financial information.
 - Management's responsibility for making all financial records and related information available to the auditor.
 - Management's agreement to provide written representations to the auditor to confirm representations made orally during the review, as well as representations that are implicit in the entity's records.
 - The anticipated form and content of the report to be issued, including the identity of the addressee of the report.
 - Management's agreement that where any document containing interim financial information indicates that the interim financial information has been reviewed by the entity's auditor, the review report will also be included in the document.

An illustrative engagement letter is set out in Appendix 1 to this HKSRE. The terms of engagement to review interim financial information can also be combined with the terms of engagement to audit the annual financial statements.

Procedures for a Review of Interim Financial Information

Understanding the Entity and its Environment, Including its Internal Control

12. **The auditor should have an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both annual and interim financial information, sufficient to plan and conduct the engagement so as to be able to:**
 - (a) **Identify the types of potential material misstatement and consider the likelihood of their occurrence; and**
 - (b) **Select the inquiries, analytical and other review procedures that will provide the auditor with a basis for reporting whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.**
13. As required by HKSA 315, "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement," the auditor who has audited the entity's financial statements for one or more annual periods has obtained an understanding of the entity and its environment, including its internal control, as it relates to the preparation of annual financial information that was sufficient to conduct the audit. In planning a review of interim financial information, the auditor updates this understanding. The auditor also obtains a sufficient understanding of internal control as it relates to the preparation of interim financial information as it may differ from internal control as it relates to annual financial information.
14. The auditor uses the understanding of the entity and its environment, including its internal control, to determine the inquiries to be made and the analytical and other review procedures to be applied, and to identify the particular events, transactions or assertions to which inquiries may be directed or analytical or other review procedures applied.
15. The procedures performed by the auditor to update the understanding of the entity and its environment, including its internal control, ordinarily include the following:
 - Reading the documentation, to the extent necessary, of the preceding year's audit and reviews of prior interim period(s) of the current year and corresponding interim period(s) of the prior year, to enable the auditor to identify matters that may affect the current-period interim financial information.
 - Considering any significant risks, including the risk of management override of controls, that were identified in the audit of the prior year's financial statements.
 - Reading the most recent annual and comparable prior period interim financial information.
 - Considering materiality with reference to the applicable financial reporting framework as it relates to interim financial information to assist in determining the nature and extent of the procedures to be performed and evaluating the effect of misstatements.
 - Considering the nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's financial statements.
 - Considering significant financial accounting and reporting matters that may be of continuing significance such as material weaknesses in internal control.
 - Considering the results of any audit procedures performed with respect to the current year's financial statements.
 - Considering the results of any internal audit performed and the subsequent actions taken by management.
 - Inquiring of management about the results of management's assessment of the risk that the interim financial information may be materially misstated as a result of fraud.
 - Inquiring of management about the effect of changes in the entity's business activities.
 - Inquiring of management about any significant changes in internal control and the potential effect of any such changes on the preparation of interim financial information.

- Inquiring of management of the process by which the interim financial information has been prepared and the reliability of the underlying accounting records to which the interim financial information is agreed or reconciled.
16. The auditor determines the nature of the review procedures, if any, to be performed for components and, where applicable, communicates these matters to other auditors involved in the review. Factors to be considered include the materiality of, and risk of misstatement in, the interim financial information of components, and the auditor's understanding of the extent to which internal control over the preparation of such information is centralized or decentralized.
 17. **In order to plan and conduct a review of interim financial information, a recently appointed auditor, who has not yet performed an audit of the annual financial statements in accordance with HKSA's, should obtain an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both annual and interim financial information.**
 18. This understanding enables the auditor to focus the inquiries made, and the analytical and other review procedures applied in performing a review of interim financial information in accordance with this HKSRE. As part of obtaining this understanding, the auditor ordinarily makes inquiries of the predecessor auditor and, where practicable, reviews the predecessor auditor's documentation for the preceding annual audit, and for any prior interim periods in the current year that have been reviewed by the predecessor auditor. In doing so, the auditor considers the nature of any corrected misstatements, and any uncorrected misstatements aggregated by the predecessor auditor, any significant risks, including the risk of management override of controls, and significant accounting and any reporting matters that may be of continuing significance, such as material weaknesses in internal control.

Inquiries, Analytical and Other Review Procedures

19. **The auditor should make inquiries, primarily of persons responsible for financial and accounting matters, and perform analytical and other review procedures to enable the auditor to conclude whether, on the basis of the procedures performed, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.**
20. A review ordinarily does not require tests of the accounting records through inspection, observation or confirmation. Procedures for performing a review of interim financial information are ordinarily limited to making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures, rather than corroborating information obtained concerning significant accounting matters relating to the interim financial information. The auditor's understanding of the entity and its environment, including its internal control, the results of the risk assessments relating to the preceding audit and the auditor's consideration of materiality as it relates to the interim financial information, affects the nature and extent of the inquiries made, and analytical and other review procedures applied.
21. The auditor ordinarily performs the following procedures:
 - Reading the minutes of the meetings of shareholders, those charged with governance, and other appropriate committees to identify matters that may affect the interim financial information, and inquiring about matters dealt with at meetings for which minutes are not available that may affect the interim financial information.
 - Considering the effect, if any, of matters giving rise to a modification of the audit or review report, accounting adjustments or unadjusted misstatements, at the time of the previous audit or reviews.
 - Communicating, where appropriate, with other auditors who are performing a review of the interim financial information of the reporting entity's significant components.
 - Inquiring of members of management responsible for financial and accounting matters, and others as appropriate about the following:
 - Whether the interim financial information has been prepared and presented in accordance with the applicable financial reporting framework.

- Whether there have been any changes in accounting principles or in the methods of applying them.
 - Whether any new transactions have necessitated the application of a new accounting principle.
 - Whether the interim financial information contains any known uncorrected misstatements.
 - Unusual or complex situations that may have affected the interim financial information, such as a business combination or disposal of a segment of the business.
 - Significant assumptions that are relevant to the fair value measurement or disclosures and management's intention and ability to carry out specific courses of action on behalf of the entity.
 - Whether related party transactions have been appropriately accounted for and disclosed in the interim financial information.
 - Significant changes in commitments and contractual obligations.
 - Significant changes in contingent liabilities including litigation or claims.
 - Compliance with debt covenants.
 - Matters about which questions have arisen in the course of applying the review procedures.
 - Significant transactions occurring in the last several days of the interim period or the first several days of the next interim period.
 - Knowledge of any fraud or suspected fraud affecting the entity involving:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the interim financial information.
 - Knowledge of any allegations of fraud, or suspected fraud, affecting the entity's interim financial information communicated by employees, former employees, analysts, regulators, or others.
 - Knowledge of any actual or possible noncompliance with laws and regulations that could have a material effect on the interim financial information.
 - Applying analytical procedures to the interim financial information designed to identify relationships and individual items that appear to be unusual and that may reflect a material misstatement in the interim financial information. Analytical procedures may include ratio analysis and statistical techniques such as trend analysis or regression analysis and may be performed manually or with the use of computer-assisted techniques. Appendix 2 to this HKSRE contains examples of analytical procedures the auditor may consider when performing a review of interim financial information.
 - Reading the interim financial information, and considering whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.
22. The auditor may perform many of the review procedures before or simultaneously with the entity's preparation of the interim financial information. For example, it may be practicable to update the understanding of the entity and its environment, including its internal control, and begin reading applicable minutes before the end of the interim period. Performing some of the review procedures earlier in the interim period also permits early identification and consideration of significant accounting matters affecting the interim financial information.

23. The auditor performing the review of interim financial information is also engaged to perform an audit of the annual financial statements of the entity. For convenience and efficiency, the auditor may decide to perform certain audit procedures concurrently with the review of interim financial information. For example, information gained from reading the minutes of meetings of the board of directors in connection with the review of the interim financial information also may be used for the annual audit. The auditor may also decide to perform, at the time of the interim review, auditing procedures that would need to be performed for the purpose of the audit of the annual financial statements, for example, performing audit procedures on significant or unusual transactions that occurred during the period, such as business combinations, restructurings, or significant revenue transactions.
24. A review of interim financial information ordinarily does not require corroborating the inquiries about litigation or claims. It is, therefore, ordinarily not necessary to send an inquiry letter to the entity's lawyer. Direct communication with the entity's lawyer with respect to litigation or claims may, however, be appropriate if a matter comes to the auditor's attention that causes the auditor to question whether the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework, and the auditor believes the entity's lawyer may have pertinent information.
25. **The auditor should obtain evidence that the interim financial information agrees or reconciles with the underlying accounting records.** The auditor may obtain evidence that the interim financial information agrees or reconciles with the underlying accounting records by tracing the interim financial information to:
- (a) The accounting records, such as the general ledger, or a consolidating schedule that agrees or reconciles with the accounting records; and
 - (b) Other supporting data in the entity's records as necessary.
26. **The auditor should inquire whether management has identified all events up to the date of the review report that may require adjustment to or disclosure in the interim financial information.** It is not necessary for the auditor to perform other procedures to identify events occurring after the date of the review report.
27. **The auditor should inquire whether management has changed its assessment of the entity's ability to continue as a going concern. When, as a result of this inquiry or other review procedures, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor should:**
- (a) **Inquire of management as to its plans for future actions based on its going concern assessment, the feasibility of these plans, and whether management believes that the outcome of these plans will improve the situation; and**
 - (b) **Consider the adequacy of the disclosure about such matters in the interim financial information.**
28. Events or conditions which may cast significant doubt on the entity's ability to continue as a going concern may have existed at the date of the annual financial statements or may be identified as a result of inquiries of management or in the course of performing other review procedures. When such events or conditions come to the auditor's attention, the auditor inquires of management as to its plans for future action, such as its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital. The auditor also inquires as to the feasibility of management's plans and whether management believes that the outcome of these plans will improve the situation. However, it is not ordinarily necessary for the auditor to corroborate the feasibility of management's plans and whether the outcome of these plans will improve the situation.
29. **When a matter comes to the auditor's attention that leads the auditor to question whether a material adjustment should be made for the interim financial information to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor should make additional inquiries or perform other procedures to enable the auditor to express a conclusion in the review report.** For example, if the auditor's review procedures lead the auditor to question whether a significant sales transaction is recorded in accordance with the applicable financial reporting framework, the auditor performs additional procedures sufficient to resolve the auditor's questions, such as

discussing the terms of the transaction with senior marketing and accounting personnel, or reading the sales contract.

Evaluation of Misstatements

30. **The auditor should evaluate, individually and in the aggregate, whether uncorrected misstatements that have come to the auditor's attention are material to the interim financial information.**
31. A review of interim financial information, in contrast to an audit engagement, is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement. However, misstatements which come to the auditor's attention, including inadequate disclosures, are evaluated individually and in the aggregate to determine whether a material adjustment is required to be made to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.
32. The auditor exercises professional judgment in evaluating the materiality of any misstatements that the entity has not corrected. The auditor considers matters such as the nature, cause and amount of the misstatements, whether the misstatements originated in the preceding year or interim period of the current year, and the potential effect of the misstatements on future interim or annual periods.
33. The auditor may designate an amount below which misstatements need not be aggregated, because the auditor expects that the aggregation of such amounts clearly would not have a material effect on the interim financial information. In so doing, the auditor considers the fact that the determination of materiality involves quantitative as well as qualitative considerations, and that misstatements of a relatively small amount could nevertheless have a material effect on the interim financial information.

Management Representations

34. **The auditor should obtain written representation from management that:**
 - (a) **It acknowledges its responsibility for the design and implementation of internal control to prevent and detect fraud and error;**
 - (b) **The interim financial information is prepared and presented in accordance with the applicable financial reporting framework;**
 - (c) **It believes the effect of those uncorrected misstatements aggregated by the auditor during the review are immaterial, both individually and in the aggregate, to the interim financial information taken as a whole. A summary of such items is included in or attached to the written representations;**
 - (d) **It has disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to management that may have affected the entity;**
 - (e) **It has disclosed to the auditor the results of its assessment of the risks that the interim financial information may be materially misstated as a result of fraud;²**
 - (f) **It has disclosed to the auditor all known actual or possible noncompliance with laws and regulations whose effects are to be considered when preparing the interim financial information; and**
 - (g) **It has disclosed to the auditor all significant events that have occurred subsequent to the balance sheet date and through to the date of the review report that may require adjustment to or disclosure in the interim financial information.**
35. The auditor obtains additional representations as are appropriate related to matters specific to the entity's business or industry. An illustrative management representation letter is set out in Appendix 3 to this HKSRE.

² Paragraph 35 of HKSA 240, "The Auditor's Responsibilities to Consider Fraud in an Audit of Financial Statements" explains that the nature, extent and frequency of such an assessment vary from entity to entity and that management may make a detailed assessment on an annual basis or as part of continuous monitoring. Accordingly, this representation, insofar as it relates to the interim financial information, is tailored to the entity's specific circumstances.

Auditor's Responsibility for Accompanying Information

36. **The auditor should read the other information that accompanies the interim financial information to consider whether any such information is materially inconsistent with the interim financial information.** If the auditor identifies a material inconsistency, the auditor considers whether the interim financial information or the other information needs to be amended. If an amendment is necessary in the interim financial information and management refuses to make the amendment, the auditor considers the implications for the review report. If an amendment is necessary in the other information and management refuses to make the amendment, the auditor considers including in the review report an additional paragraph describing the material inconsistency, or taking other actions, such as withholding the issuance of the review report or withdrawing from the engagement. For example, management may present alternative measures of earnings that more positively portray financial performance than the interim financial information, and such alternative measures are given excessive prominence, are not clearly defined, or not clearly reconciled to the interim financial information such that they are confusing and potentially misleading.
37. **If a matter comes to the auditor's attention that causes the auditor to believe that the other information appears to include a material misstatement of fact, the auditor should discuss the matter with the entity's management.** While reading the other information for the purpose of identifying material inconsistencies, an apparent material misstatement of fact may come to the auditor's attention (i.e., information, not related to matters appearing in the interim financial information, that is incorrectly stated or presented). When discussing the matter with the entity's management, the auditor considers the validity of the other information and management's responses to the auditor's inquiries, whether valid differences of judgment or opinion exist and whether to request management to consult with a qualified third party to resolve the apparent misstatement of fact. If an amendment is necessary to correct a material misstatement of fact and management refuses to make the amendment, the auditor considers taking further action as appropriate, such as notifying those charged with governance and obtaining legal advice.

Communication

38. **When, as a result of performing the review of interim financial information, a matter comes to the auditor's attention that causes the auditor to believe that it is necessary to make a material adjustment to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor should communicate this matter as soon as practicable to the appropriate level of management.**
39. **When, in the auditor's judgment, management does not respond appropriately within a reasonable period of time, the auditor should inform those charged with governance.** The communication is made as soon as practicable, either orally or in writing. The auditor's decision whether to communicate orally or in writing is affected by factors such as the nature, sensitivity and significance of the matter to be communicated and the timing of such communications. If the information is communicated orally, the auditor documents the communication.
40. **When, in the auditor's judgment, those charged with governance do not respond appropriately within a reasonable period of time, the auditor should consider:**
- (a) **Whether to modify the report; or**
 - (b) **The possibility of withdrawing from the engagement; and**
 - (c) **The possibility of resigning from the appointment to audit the annual financial statements.**
41. **When, as a result of performing the review of interim financial information, a matter comes to the auditor's attention that causes the auditor to believe in the existence of fraud or noncompliance by the entity with laws and regulations the auditor should communicate the matter as soon as practicable to the appropriate level of management.** The determination of which level of management is the appropriate one is affected by the likelihood of collusion or the involvement of a member of management. The auditor also considers the need to report such matters to those charged with governance and considers the implication for the review.

42. **The auditor should communicate relevant matters of governance interest arising from the review of interim financial information to those charged with governance.** As a result of performing the review of the interim financial information, the auditor may become aware of matters that in the opinion of the auditor are both important and relevant to those charged with governance in overseeing the financial reporting and disclosure process. The auditor communicates such matters to those charged with governance.

Reporting the Nature, Extent and Results of the Review of Interim Financial Information

43. **The auditor should issue a written report that contains the following:**
- (a) **An appropriate title.**
 - (b) **An addressee, as required by the circumstances of the engagement.**
 - (c) **Identification of the interim financial information reviewed, including identification of the title of each of the statements contained in the complete or condensed set of financial statements and the date and period covered by the interim financial information.**
 - (d) **If the interim financial information comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a statement that management is responsible for the preparation and fair presentation of the interim financial information in accordance with the applicable financial reporting framework.**
 - (e) **In other circumstances, a statement that management is responsible for the preparation and presentation of the interim financial information in accordance with the applicable financial reporting framework.**
 - (f) **A statement that the auditor is responsible for expressing a conclusion on the interim financial information based on the review.**
 - (g) **A statement that the review of the interim financial information was conducted in accordance with Hong Kong Standard on Review Engagements (HKSRE) 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity,” and a statement that such a review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.**
 - (h) **A statement that a review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit and that accordingly no audit opinion is expressed.**
 - (i) **If the interim financial information comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a conclusion as to whether anything has come to the auditor’s attention that causes the auditor to believe that the interim financial information does not give a true and fair view, or does not present fairly, in all material respects, in accordance with the applicable financial reporting framework (including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not Hong Kong Financial Reporting Standards or International Financial Reporting Standards); or**
 - (j) **In other circumstances, a conclusion as to whether anything has come to the auditor’s attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework (including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not Hong Kong Financial Reporting Standards or International Financial Reporting Standards).**
 - (k) **The date of the report.**

- (l) **The location in the country or jurisdiction where the auditor practices.**
- (m) **The auditor's signature.**

Illustrative review reports are set out in Appendix 4 to this HKSRE.

44. In some jurisdictions, law or regulation governing the review of interim financial information may prescribe wording for the auditor's conclusion that is different from the wording described in paragraph 43(i) or (j). Although the auditor may be obliged to use the prescribed wording, the auditor's responsibilities as described in this HKSRE for coming to the conclusion remain the same.

Departure from the Applicable Financial Reporting Framework

45. **The auditor should express a qualified or adverse conclusion when a matter has come to the auditor's attention that causes the auditor to believe that a material adjustment should be made to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.**
46. If matters have come to the auditor's attention that cause the auditor to believe that the interim financial information is or may be materially affected by a departure from the applicable financial reporting framework, and management does not correct the interim financial information, the auditor modifies the review report. The modification describes the nature of the departure and, if practicable, states the effects on the interim financial information. If the information that the auditor believes is necessary for adequate disclosure is not included in the interim financial information, the auditor modifies the review report and, if practicable, includes the necessary information in the review report. The modification to the review report is ordinarily accomplished by adding an explanatory paragraph to the review report, and qualifying the conclusion. Illustrative review reports with a qualified conclusion are set out in Appendix 5 to this HKSRE.
47. When the effect of the departure is so material and pervasive to the interim financial information that the auditor concludes a qualified conclusion is not adequate to disclose the misleading or incomplete nature of the interim financial information, the auditor expresses an adverse conclusion. Illustrative review reports with an adverse conclusion are set out in Appendix 7 to this HKSRE.

Limitation on Scope

48. A limitation on scope ordinarily prevents the auditor from completing the review.
49. **When the auditor is unable to complete the review, the auditor should communicate, in writing, to the appropriate level of management and to those charged with governance the reason why the review cannot be completed, and consider whether it is appropriate to issue a report.**

Limitation on Scope Imposed by Management

50. The auditor does not accept an engagement to review the interim financial information if the auditor's preliminary knowledge of the engagement circumstances indicates that the auditor would be unable to complete the review because there will be a limitation on the scope of the auditor's review imposed by management of the entity.
51. If, after accepting the engagement, management imposes a limitation on the scope of the review, the auditor requests the removal of that limitation. If management refuses to do so, the auditor is unable to complete the review and express a conclusion. In such cases, the auditor communicates, in writing, to the appropriate level of management and those charged with governance the reason why the review cannot be completed. Nevertheless, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the interim financial information is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor communicates such matters in accordance with the guidance in paragraphs 38-40.
52. The auditor also considers the legal and regulatory responsibilities, including whether there is a requirement for the auditor to issue a report. If there is such a requirement, the auditor disclaims a conclusion, and provides in the review report the reason why the review cannot be completed. However, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the interim financial information is necessary for it to be

prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor also communicates such a matter in the report.

Other Limitations on Scope

53. A limitation on scope may occur due to circumstances other than a limitation on scope imposed by management. In such circumstances, the auditor is ordinarily unable to complete the review and express a conclusion and is guided by paragraphs 51-52. There may be, however, some rare circumstances where the limitation on the scope of the auditor's work is clearly confined to one or more specific matters that, while material, are not in the auditor's judgment pervasive to the interim financial information. In such circumstances, the auditor modifies the review report by indicating that, except for the matter which is described in an explanatory paragraph to the review report, the review was conducted in accordance with this HKSRE, and by qualifying the conclusion. Illustrative review reports with a qualified conclusion are set out in Appendix 6 to this HKSRE.
54. The auditor may have expressed a qualified opinion on the audit of the latest annual financial statements because of a limitation on the scope of that audit. The auditor considers whether that limitation on scope still exists and, if so, the implications for the review report.

Going Concern and Significant Uncertainties

55. In certain circumstances, an emphasis of matter paragraph may be added to a review report, without affecting the auditor's conclusion, to highlight a matter that is included in a note to the interim financial information that more extensively discusses the matter. The paragraph would preferably be included after the conclusion paragraph and ordinarily refers to the fact that the conclusion is not qualified in this respect.
56. **If adequate disclosure is made in the interim financial information, the auditor should add an emphasis of matter paragraph to the review report to highlight a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern.**
57. The auditor may have modified a prior audit or review report by adding an emphasis of matter paragraph to highlight a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern. If the material uncertainty still exists and adequate disclosure is made in the interim financial information, the auditor modifies the review report on the current interim financial information by adding a paragraph to highlight the continued material uncertainty.
58. If, as a result of inquiries or other review procedures, a material uncertainty relating to an event or condition comes to the auditor's attention that may cast significant doubt on the entity's ability to continue as a going concern, and adequate disclosure is made in the interim financial information the auditor modifies the review report by adding an emphasis of matter paragraph.
59. **If a material uncertainty that casts significant doubt about the entity's ability to continue as a going concern is not adequately disclosed in the interim financial information, the auditor should express a qualified or adverse conclusion, as appropriate. The report should include specific reference to the fact that there is such a material uncertainty.**
60. **The auditor should consider modifying the review report by adding a paragraph to highlight a significant uncertainty (other than a going concern problem) that came to the auditor's attention, the resolution of which is dependent upon future events and which may affect the interim financial information.**

Other Considerations

61. The terms of the engagement include management's agreement that where any document containing interim financial information indicates that such information has been reviewed by the entity's auditor, the review report will also be included in the document. If management has not included the review report in the document, the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances.
62. If the auditor has issued a modified review report and management issues the interim financial information without including the modified review report in the document containing the interim financial information, the auditor considers seeking legal advice to assist in determining the

appropriate course of action in the circumstances, and the possibility of resigning from the appointment to audit the annual financial statements.

63. Interim financial information consisting of a condensed set of financial statements does not necessarily include all the information that would be included in a complete set of financial statements, but may rather present an explanation of the events and changes that are significant to an understanding of the changes in the financial position and performance of the entity since the annual reporting date. This is because it is presumed that the users of the interim financial information will have access to the latest audited financial statements, such as is the case with listed entities. In other circumstances, the auditor discusses with management the need for such interim financial information to include a statement that it is to be read in conjunction with the latest audited financial statements. In the absence of such a statement, the auditor considers whether, without a reference to the latest audited financial statements, the interim financial information is misleading in the circumstances, and the implications for the review report.

Documentation

64. **The auditor should prepare review documentation that is sufficient and appropriate to provide a basis for the auditor's conclusion and to provide evidence that the review was performed in accordance with this HKSRE and applicable legal and regulatory requirements.** The documentation enables an experienced auditor having no previous connection with the engagement to understand the nature, timing and extent of the inquiries made, and analytical and other review procedures applied, information obtained, and any significant matters considered during the performance of the review, including the disposition of such matters.

Effective Date

65. This HKSRE is effective for reviews of interim financial information for periods beginning on or after 15 December 2006. Earlier adoption of the HKSRE is permissible.

Conformity and Compliance with International Standards on Review Engagements

66. As of March 2007 (date of issue), this HKSRE conforms with International Standard on Review Engagements (ISRE) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".
67. Additional local guidance is provided in footnotes 1a, 1b, 2a, 3a, 3b, 4a, 5a, 5b, 6a, 7a, 7b, 8a, 9a, 9b, 10a and Appendices 1, 4, 5, 6, 7 and 8.

Public Sector Perspective

1. *Paragraph 10 requires that the auditor and the client agree on the terms of engagement. Paragraph 11 explains that an engagement letter helps to avoid misunderstandings regarding the nature of the engagement and, in particular, the objective and scope of the review, management's responsibilities, the extent of the auditor's responsibilities, the assurance obtained, and the nature and form of the report. Law or regulation governing review engagements in the public sector ordinarily mandates the appointment of the auditor. Consequently, engagement letters may not be a widespread practice in the public sector. Nevertheless, an engagement letter setting out the matters referred to in paragraph 11 may be useful to both the public sector auditor and the client. Public sector auditors, therefore, consider agreeing with the client the terms of a review engagement by way of an engagement letter.*
2. *In the public sector, the auditor's statutory audit obligation may extend to other work, such as a review of interim financial information. Where this is the case, the public sector auditor cannot avoid such an obligation and, consequently, may not be in a position not to accept (see paragraph 50) or to withdraw from a review engagement (see paragraphs 36 and 40(b)). The public sector auditor also may not be in the position to resign from the appointment to audit the annual financial statements (see paragraphs 40(c) and 62).*
3. *Paragraph 41 discusses the auditor's responsibility when a matter comes to the auditor's attention that causes the auditor to believe in the existence of fraud or noncompliance by the entity with laws and regulations. In the public sector, the auditor may be subject to statutory or other regulatory requirements to report such a matter to regulatory or other public authorities.*

Appendix 1

Example of an Engagement Letter for a Review of Interim Financial Information

The following letter is to be used as a guide in conjunction with the consideration outlined in paragraph 10 of this HKSRE and will need to be adapted according to individual requirements and circumstances.*

To the Board of Directors (or the appropriate representative of senior management)

We are providing this letter to confirm our understanding of the terms and objectives of our engagement to review the entity's interim balance sheet as at 31 March 200X and the related statements of income, changes in equity and cash flows for the six-month period then ended.

Our review will be conducted in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants with the objective of providing us with a basis for reporting whether anything has come to our attention that causes us to believe that the interim financial [statements][information]** is not prepared, in all material respects, in accordance with the [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting when the financial reporting framework used is not Hong Kong Financial Reporting Standards or International Financial Reporting Standards]. Such a review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures and does not, ordinarily, require corroboration of the information obtained. The scope of a review of interim financial [statements][information]** is substantially less than the scope of an audit conducted in accordance with Hong Kong Standards on Auditing whose objective is the expression of an opinion regarding the financial statements and, accordingly, we shall express no such opinion.

We expect to report on the interim financial [statements][information]** as follows:

[Include text of sample report]

Responsibility for the interim financial [statements][information]**, including adequate disclosure, is that of management of the entity. [As directors of the entity, you are responsible under the Hong Kong Companies Ordinance for keeping proper accounting records. The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants/International Accounting Standard 34 "Interim Financial Reporting" and the relevant provisions thereof.]** This includes designing, implementing and maintaining internal control relevant to the preparation and presentation of interim financial [statements][information]** that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. As part of our review, we will request written representations from management concerning assertions made in connection with the review. We will also request that where any document containing interim financial [statements][information]** indicates that the interim financial [statements][information]** has been reviewed, our report will also be included in the document.

* Auditors may consider it appropriate to clarify to whom they are responsible here in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No.2 "Auditors duty of Care to Third Parties and The Audit Report".

** Delete where not applicable.

A review of interim financial [statements][information]** does not provide assurance that we will become aware of all significant matters that might be identified in an audit. Further, our engagement cannot be relied upon to disclose whether fraud or errors, or illegal acts exist. However, we will inform you of any material matters that come to our attention.

We look forward to full cooperation with your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our review.

[Insert additional information here regarding fee arrangements and billings, as appropriate.]

This letter will be effective for future years unless it is terminated, amended or superseded (if applicable).

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our review of the financial [statements][information]**.

Yours faithfully,

XYZ & Co.

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

We agree to the terms of this letter.

(signed)

.....

Director, for and on behalf of the Board of ABC Entity

Date

Appendix 2**Analytical Procedures the Auditor May Consider When Performing a Review of Interim Financial Information**

Examples of analytical procedures the auditor may consider when performing a review of interim financial statements/information include the following:

- Comparing the interim financial statements/information with the interim financial statements/information of the immediately preceding interim period, with the interim financial statements/information of the corresponding interim period of the preceding financial year, with the interim financial statements/information that was expected by management for the current period, and with the most recent audited annual financial statements.
- Comparing current interim financial statements/information with anticipated results, such as budgets or forecasts (for example, comparing tax balances and the relationship between the provision for income taxes to pretax income in the current interim financial statements/information with corresponding information in (a) budgets, using expected rates, and (b) financial statements/information for prior periods).
- Comparing current interim financial statements/information with relevant non-financial information.
- Comparing the recorded amounts, or ratios developed from recorded amounts, to expectations developed by the auditor. The auditor develops such expectations by identifying and applying relationships that are reasonably expected to exist based on the auditor's understanding of the entity and of the industry in which the entity operates.
- Comparing ratios and indicators for the current interim period with those of entities in the same industry.
- Comparing relationships among elements in the current interim financial statements/information with corresponding relationships in the interim financial statements/information of prior periods, for example, expense by type as a percentage of sales, assets by type as a percentage of total assets, and percentage of change in sales to percentage of change in receivables.
- Comparing disaggregated data. The following are examples of how data may be disaggregated:
 - By period, for example, revenue or expense items disaggregated into quarterly, monthly, or weekly amounts.
 - By product line or source of revenue.
 - By location, for example, by component.
 - By attributes of the transaction, for example, revenue generated by designers, architects, or craftsmen.
 - By several attributes of the transaction, for example, sales by product and month.

Appendix 3

Example of a Management Representation Letter

The following letter is not intended to be a standard letter. Representations by management will vary from entity to entity and from one interim period to the next.

(Entity Letterhead)

(To Auditor)

(Date)

Opening paragraphs if interim financial information comprises condensed financial information:

This representation letter is provided in connection with your review of the condensed balance sheet of ABC Entity as of 31 March 200X and the related condensed statements of income, changes in equity and cash flows for the six-month period then ended for the purposes of expressing a conclusion whether anything has come to your attention that causes you to believe that the interim financial information is not prepared, in all material respects, in accordance with [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not Hong Kong Financial Reporting Standards or International Financial Reporting Standards].

We acknowledge our responsibility for the preparation and presentation of the interim financial information in accordance with [indicate applicable financial reporting framework].

Opening paragraphs if interim financial information comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation:

This representation letter is provided in connection with your review of the balance sheet of ABC Entity as of 31 March 200X and the related statements of income, changes in equity and cash flows for the six-month period then ended and a summary of the significant accounting policies and other explanatory notes for the purposes of expressing a conclusion whether anything has come to your attention that causes you to believe that the interim financial statements do not give a true and fair view of (or “do not present fairly, in all material respects,”) the financial position of ABC Entity as at 31 March 200X, and of its financial performance and its cash flows in accordance with [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not Hong Kong Financial Reporting Standards or International Financial Reporting Standards].

We acknowledge our responsibility for the fair presentation of the interim financial statements in accordance with [indicate applicable financial reporting framework].

We confirm, to the best of our knowledge and belief, the following representations:

- The interim financial [statements][information]* referred to above has been prepared and presented in accordance with [indicate applicable financial reporting framework].
- We have made available to you all books of account and supporting documentation, and all minutes of meetings of shareholders and the board of directors (namely those held on [insert applicable dates]).
- There are no material transactions that have not been properly recorded in the accounting records underlying the interim financial [statements][information]*.
- There has been no known actual or possible noncompliance with laws and regulations that could have a material effect on the interim financial [statements][information]* in the event of noncompliance.
- We acknowledge responsibility for the design and implementation of internal control to prevent and detect fraud and error.
- We have disclosed to you all significant facts relating to any known frauds or suspected frauds that may have affected the entity.

- We have disclosed to you the results of our assessment of the risk that the interim financial [statements][information]* may be materially misstated as the result of fraud.
- We believe the effects of uncorrected misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the interim financial [statements][information]* taken as a whole.
- We confirm the completeness of the information provided to you regarding the identification of related parties.
- The following have been properly recorded and, when appropriate, adequately disclosed in the interim financial [statements][information]*:
 - Related party transactions, including sales, purchases, loans, transfers, leasing arrangements and guarantees, and amounts receivable from or payable to related parties;
 - Guarantees, whether written or oral, under which the entity is contingently liable; and
 - Agreements and options to buy back assets previously sold.
- The presentation and disclosure of the fair value measurements of assets and liabilities are in accordance with [indicate applicable financial reporting framework]. The assumptions used reflect our intent and ability to carry specific courses of action on behalf of the entity, where relevant to the fair value measurements or disclosure.
- We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the interim financial [statements][information]*.
- We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of realizable value.
- The entity has satisfactory title to all assets and there are no liens or encumbrances on the entity's assets.
- We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.
- [Add any additional representations related to new accounting standards that are being implemented for the first time and consider any additional representations required by a new Hong Kong Standard on Auditing that are relevant to interim financial statements/information.]

To the best of our knowledge and belief, no events have occurred subsequent to the balance sheet date and through the date of this letter that may require adjustment to or disclosure in the aforementioned interim financial [statements][information]*.

(Senior Executive Officer)^{2a}

(Senior Financial Officer)^{2a}

^{2a} In Hong Kong, the management representation letter is normally signed by the managing director and the finance director.

* Delete where not applicable.

Appendix 4

Examples of Review Reports on Interim Financial Information

Complete Set of General Purpose Financial Statements Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation (see paragraph 43(i))

Report on Review of Interim Financial Information

(Appropriate addressee)

Introduction

We have reviewed the interim financial statements set out on pages to, which comprise the balance sheet of ABC Entity as of 31 March 200X and the related statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes³. [The (Main Board Listing Rules or GEM Listing Rules) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants/International Accounting Standard 34 "Interim Financial Reporting"]*. The directors are responsible for the preparation and fair presentation of this interim financial statements in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial statements based on our review^{3a}.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements does not give a true and fair view of (*or "does not present fairly, in all material respects,"*) the financial position of the entity as at 31 March 200X, and of its financial performance and its cash flows for the six-month period then ended in accordance with [applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not Hong Kong Financial Reporting Standards or International Financial Reporting Standards].

AUDITOR

Date

Address

³ The auditor may wish to specify the regulatory authority or equivalent with whom the interim financial information is filed.

* Delete where not applicable.

^{3a} Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

Other Interim Financial Information (see paragraph 43(j))^{3b}

Report on Review of Interim Financial Information

(Appropriate addressee)

Introduction

We have reviewed the interim financial information set out on pages to which comprise the [condensed] balance sheet of ABC Entity as of 31 March 200X and the related [condensed] statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes⁴. [The (Main Board Listing Rules or GEM Listing Rules) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants/International Accounting Standard 34 "Interim Financial Reporting"]⁵. The directors are responsible for the preparation and presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review^{4a}.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with [applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not Hong Kong Financial Reporting Standards or International Financial Reporting Standards].

AUDITOR

Date

Address

^{3b} This includes condensed interim financial report. See footnote 1a.

⁴ The auditor may wish to specify the regulatory authority or equivalent with whom the interim financial information is filed.

* Delete where not applicable.

^{4a} Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

Appendix 5

Examples of Review Reports with a Qualified Conclusion for a Departure from the Applicable Financial Reporting Framework

Complete Set of General Purpose Financial Statements Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation (see paragraph 43(i))

Report on Review of Interim Financial Information

(Appropriate addressee)

Introduction

We have reviewed the interim financial statements set out on pages to, which comprise the balance sheet of ABC Entity as of 31 March 200X and the related statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes⁵. [The (Main Board Listing Rules or GEM Listing Rules) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants/International Accounting Standard 34 "Interim Financial Reporting"]*. The directors are responsible for the preparation and fair presentation of this interim financial statements in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial statements based on our review^{5a}.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

Based on information provided to us by the directors, ABC Entity has excluded from property and long-term debt certain lease obligations that we believe should be capitalized to conform with [indicate applicable financial reporting framework]. This information indicates that if these lease obligations were capitalized at 31 March 200X, property would be increased by \$_____, long-term debt by \$_____, and net income and earnings per share (basic and diluted) would be increased (decreased) by \$_____, \$_____, and \$_____, respectively, for the six-month period then ended.

⁵ The auditor may wish to specify the regulatory authority or equivalent with whom the interim financial information is filed.

* Delete where not applicable.

^{5a} Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

Qualified Conclusion

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the interim financial statements does not give a true and fair view of *(or “does not present fairly, in all material respects,”)* the financial position of the entity as at 31 March 200X, and of its financial performance and its cash flows for the six-month period then ended in accordance with [indicate applicable financial reporting framework, including the reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not Hong Kong Financial Reporting Standards or International Financial Reporting Standards].

AUDITOR

Date
Address

Other Interim Financial Information (see paragraph 43(j))^{5b}

Report on Review of Interim Financial Information

(Appropriate addressee)

Introduction

We have reviewed the interim financial information set out on pages to which comprise the [condensed] balance sheet of ABC Entity as of 31 March 200X and the related [condensed] statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes⁶. [The (Main Board Listing Rules or GEM Listing Rules) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants/International Accounting Standard 34 "Interim Financial Reporting"]*. The directors are responsible for the preparation and presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review^{6a}.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

Based on information provided to us by the directors, ABC Entity has excluded from property and long-term debt certain lease obligations that we believe should be capitalized to conform with [indicate applicable financial reporting framework]. This information indicates that if these lease obligations were capitalized at 31 March 200X, property would be increased by \$_____, long-term debt by \$_____, and net income and earnings per share (basic and diluted) would be increased (decreased) by \$_____, \$_____, and \$_____, respectively, for the six-month period then ended.

Qualified Conclusion

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not Hong Kong Financial Reporting Standards or International Financial Reporting Standards].

AUDITOR

Date
Address

^{5b} This includes condensed interim financial report. See footnote 1a.

⁶ The auditor may wish to specify the regulatory authority or equivalent with whom the interim financial information is filed.

* Delete where not applicable.

^{6a} Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

Appendix 6

Examples of Review Reports with a Qualified Conclusion for a Limitation on Scope Not Imposed By Management

Complete Set of General Purpose Financial Statements Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation (see paragraph 43(i))

Report on Review of Interim Financial Information

(Appropriate addressee)

Introduction

We have reviewed the interim financial statements set out on pages to, which comprise the balance sheet of ABC Entity as of 31 March 200X and the related statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes⁷. [The (Main Board Listing Rules or GEM Listing Rules) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants/International Accounting Standard 34 "Interim Financial Reporting"]*. The directors are responsible for the preparation and fair presentation of this interim financial statements in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial statements based on our review^{7a}.

Scope of Review

Except as explained in the following paragraph, we conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As a result of a fire in a branch office on (date) that destroyed its accounts receivable records, we were unable to complete our review of accounts receivable totalling \$_____ included in the interim financial statements. The entity is in the process of reconstructing these records and is uncertain as to whether these records will support the amount shown above and the related allowance for uncollectible accounts. Had we been able to complete our review of accounts receivable, matters might have come to our attention indicating that adjustments might be necessary to the interim financial statements.

⁷ The auditor may wish to specify the regulatory authority or equivalent with whom the interim financial information is filed.

* Delete where not applicable.

^{7a} Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

Qualified Conclusion

Except for the adjustments to the interim financial statements that we might have become aware of had it not been for the situation described above, based on our review, nothing has come to our attention that causes us to believe that the interim financial statements does not give a true and fair view of (or “does not present fairly, in all material respects,”) the financial position of the entity as at 31 March 200X, and of its financial performance and its cash flows for the six-month period then ended in accordance with [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not Hong Kong Financial Reporting Standards or International Financial Reporting Standards].

AUDITOR

Date

Address

Other Interim Financial Information (see paragraph 43(j))^{7b}

Report on Review of Interim Financial Information

(Appropriate addressee)

Introduction

We have reviewed the interim financial information set out on pages to which comprise the [condensed] balance sheet of ABC Entity as of 31 March 200X and the related [condensed] statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policy and other explanatory notes⁸. [The (Main Board Listing Rules or GEM Listing Rules) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants/International Accounting Standard 34 "Interim Financial Reporting"']. The directors are responsible for the preparation and presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review^{8a}.

Scope of Review

Except as explained in the following paragraph, we conducted our review in accordance with Hong Kong Standards on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As a result of a fire in a branch office on (date) that destroyed its accounts receivable records, we were unable to complete our review of accounts receivable totalling \$_____ included in the interim financial information. The entity is in the process of reconstructing these records and is uncertain as to whether these records will support the amount shown above and the related allowance for uncollectible accounts. Had we been able to complete our review of accounts receivable, matters might have come to our attention indicating that adjustments might be necessary to the interim financial information.

Qualified Conclusion

Except for the adjustments to the interim financial information that we might have become aware of had it not been for the situation described above, based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not Hong Kong Financial Reporting Standards or International Financial Reporting Standards].

AUDITOR

Date

Address

^{7b} This includes condensed interim financial report. See footnote 1a.

⁸ The auditor may wish to specify the regulatory authority or equivalent with whom the interim financial information is filed.

* Delete where not applicable.

^{8a} Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

Appendix 7

Examples of Review Reports with an Adverse Conclusion for a Departure from the Applicable Financial Reporting Framework

Complete Set of General Purpose Financial Statements Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation (see paragraph 43(i))

Report on Review of Interim Financial Information

(Appropriate addressee)

Introduction

We have reviewed the interim financial statements set out on pages to, which comprise the balance sheet of ABC Entity as of 31 March 200X and the related statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes⁹. [The (Main Board Listing Rules or GEM Listing Rules) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants/International Accounting Standard 34 "Interim Financial Reporting"]*. The directors are responsible for the preparation and fair presentation of this interim financial statements in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial statements based on our review^{9a}.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Adverse Conclusion

Commencing this period, the directors of the entity ceased to consolidate the financial statements of its subsidiary companies since the directors consider consolidation to be inappropriate because of the existence of new substantial non-controlling interests. This is not in accordance with [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not Hong Kong Financial Reporting Standards or International Financial Reporting Standards]. Had consolidated financial statements been prepared, virtually every account in the interim financial statements would have been materially different.

⁹ The auditor may wish to specify the regulatory authority or equivalent with whom the interim financial information is filed.

* Delete where not applicable.

^{9a} Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

Adverse Conclusion

Our review indicates that, because the entity's investment in subsidiary companies is not accounted for on a consolidated basis, as described in the preceding paragraph, this interim financial statements does not give a true and fair view of (or "does not present fairly, in all material respects,") the financial position of the entity as at 31 March 200X, and of its financial performance and its cash flows for the six-month period then ended in accordance with [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not Hong Kong Financial Reporting Standards or International Financial Reporting Standards].

AUDITOR

Date
Address

Other Interim Financial Information (see paragraph 43(j))^{9b}

Report on Review of Interim Financial Information

(Appropriate addressee)

Introduction

We have reviewed the interim financial information set out on pages to which comprise the [condensed] balance sheet of ABC Entity as of 31 March 200X and the related [condensed] statements of income, changes in equity and cash flows for the six-month period then ended, a summary of significant accounting policies and other explanatory notes¹⁰. [The (Main Board Listing Rules or GEM Listing Rules) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants/International Accounting Standard 34 "Interim Financial Reporting"]*. The directors are responsible for the preparation and presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review^{10a}.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Adverse Conclusion

Commencing this period, the directors of the entity ceased to consolidate the financial statements of its subsidiary companies since the directors consider consolidation to be inappropriate because of the existence of new substantial non-controlling interests. This is not in accordance with [indicate applicable financial reporting framework, including the reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not Hong Kong Financial Reporting Standards or International Financial Reporting Standards]. Had consolidated financial statements been prepared, virtually every account in the interim financial information would have been materially different.

Adverse Conclusion

Our review indicates that, because the entity's investment in subsidiary companies is not accounted for on a consolidated basis, as described in the preceding paragraph, this interim financial information is not prepared, in all material respects, in accordance with [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting framework when the financial reporting framework used is not Hong Kong Financial Reporting Standards or International Financial Reporting Standards].

AUDITOR

Date

Address

^{9b} This includes condensed interim financial report. See footnote 1a.

¹⁰ The auditor may wish to specify the regulatory authority or equivalent with whom the interim financial information is filed.

* Delete where not applicable.

^{10a} Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

Appendix 8**Local Guidance**

1. The Main Board Listing Rules and GEM Listing Rules require that a listed issuer prepares a report on interim financial information in respect of the first six months of its financial year. The interim financial information shall include, at a minimum, the following components:
 - a. a balance sheet;
 - b. an income statement;
 - c. a cash flow statement;
 - d. a statement of changes in equity;
 - e. comparative figures for the statements referred to in (a) to (d) above; and
 - f. accounting policies and explanatory notes.

The Listing Rules do not require a report on interim financial information to be reviewed by the auditors. If the auditors are engaged to conduct a review of the interim financial information, they should follow the requirements of this HKSRE.

2. The Listing Rules require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.
3. The Listing Rules and Hong Kong Accounting Standard 34 "Interim Financial Reporting"/ International Accounting Standard 34 "Interim Financial Reporting" require that comparative figures are given in the interim financial information. Users of reports on interim financial information are likely to assume that the interim comparative figures have been subject to the same review procedures as current report on interim financial information.
4. Where a review is to be performed for the first time and auditors are unable to perform a review of the interim comparative figures in accordance with this HKSRE, they modify their review report to indicate that the interim comparative figures were not reviewed.
5. Under the Listing Rules, a listed issuer's audit committee must review the report on interim financial information.
6. Report on interim financial information is a financial report within the interim report containing a complete set of financial statements (as described in Hong Kong Accounting Standard 1 "Presentation of Financial Statements") or a set of condensed financial information (as described in Hong Kong Accounting Standard 34 "Interim Financial Reporting" or International Accounting Standard 34 "Interim Financial Reporting") for an interim period, identified by reference to page numbers, which auditors agree with directors will be reviewed by them in accordance with this HKSRE. See footnote 1a for further details.
7. In some cases, the directors, or the audit committee acting on behalf of the board, may ask the auditors to carry out specific agreed-upon procedures on the report on interim financial information as an alternative to a review of the report on interim financial information in accordance with this HKSRE, or they may approach the auditors for advice and guidance on specific financial issues in their preparation of the report on interim financial information such as the policies relating to asset impairment or the useful life of goodwill. In such circumstances the auditors first agree the procedures to be carried out with the directors, or the audit committee, and then report within that context. Such engagements are outside the scope of this HKSRE.
8. Where auditors are engaged to perform any work in relation to the report on interim financial information which is less than the scope of this HKSRE, they are to communicate to the directors in the engagement letters and reports that they have not carried out a review of the report on interim financial information as contemplated in this HKSRE.
9. For a quarterly review under GEM Listing Rules, auditors who are requested to carry out a review by their clients should use this HKSRE. Auditors engaged to perform a quarterly review and who are not the auditors of the entity should use HKSRE 2400, "Engagements to Review Financial Statements" and not this HKSRE.

**STATEMENT OF AUDITING STANDARDS
700
ENGAGEMENTS TO REVIEW INTERIM FINANCIAL REPORTS**

(Issued July 2000; revised August 2001, September 2004 (name change) and revised March 2007)

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Auditors are required to comply with the requirements of this SAS in respect of reviews of interim financial reports for interim periods ended on or after 1 July 2000 and beginning before 15 December 2006 unless HKSRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" is early adopted. SAS 700 is replaced by HKSRE 2410 which is effective for reviews of interim financial information for periods beginning on or after 15 December 2006. Early adoption of HKSRE 2410 is permissible.

STATEMENT OF AUDITING STANDARDS
700
ENGAGEMENTS TO REVIEW INTERIM FINANCIAL REPORTS

*Statements of Auditing Standards (SASs) are to be read in the light of SAS 010 "The scope and authority of auditing pronouncements". In particular, they contain basic principles and essential procedures, (auditing standards), indicated by paragraphs in **bold italic type**, with which auditors are required to comply in the conduct of any audit including those of companies applying section 141D of the Companies Ordinance. SASs also include explanatory and other material which is designed to assist auditors in interpreting and applying auditing standards.*

This SAS is not applicable to an audit of financial statements.

Introduction

1. The purpose of this Statement of Auditing Standards (SAS) is to establish standards and provide guidance on auditors' professional responsibilities when an engagement to review an interim financial report is undertaken and on the form and content of the review report that auditors issue in connection with such an engagement. Guidance in other SASs may be useful to auditors in applying this SAS.
2. As explained in SAS 010 "The scope and authority of auditing pronouncements", as well as the audit of financial statements, auditors may be required to provide other audits and related services involving other financial information or non-financial information. Accordingly, references to auditors are not intended to imply that an audit is being or has been undertaken or that an audit opinion is expressed.

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

3. The Listing Rules (Appendix 16) require that a listed issuer prepares an interim report in respect of the first six months of its financial year. The interim report shall include, at a minimum, the following components:
 - a. a balance sheet;
 - b. an income statement;
 - c. a cash flow statement;
 - d. a statement of movements in equity other than those arising from capital transactions with shareholders and distributions to shareholders;
 - e. comparative figures for the statements referred to in (a) to (c) above; and
 - f. accounting policies and explanatory notes.
4. Under the Listing Rules, a listed issuer's audit committee must review the interim report. Where an audit committee has not been formed, the listed issuer's auditors shall review the interim report.

Definitions

5. The following terms are used in this SAS with the meanings specified:
 - a. *Interim period* is a financial reporting period shorter than a full financial year.
 - b. *Interim report* is a report issued by an entity for an interim period containing financial and non-financial information.

- c. *Interim financial report* is a financial report within the interim report containing a complete set of financial statements (as described in SSAP 1 "Presentation of financial statements") or a set of condensed financial statements (as described in SSAP 25 "Interim financial reporting" or International Accounting Standard 34 "Interim financial reporting") for an interim period, identified by reference to page numbers, which auditors agree with directors will be reviewed by them in accordance with this SAS.

Continuing auditors

6. The review procedures outlined in this SAS assume that the auditors have audited the latest annual financial statements and have reviewed the corresponding interim financial report in the preceding year (interim comparatives). Where this is not the case, additional review procedures are likely to be necessary. These additional procedures are outlined in paragraphs 29, 44 and 45 below.

Other assistance provided

7. In some cases, the directors, or the audit committee acting on behalf of the board, may ask the auditors to carry out specific agreed-upon procedures on the interim financial report as an alternative to a review of the interim financial report in accordance with this SAS, or they may approach the auditors for advice and guidance on specific financial issues in their preparation of the interim financial report such as the policies relating to asset impairment or the useful life of goodwill. In such circumstances the auditors first agree the procedures to be carried out with the directors, or the audit committee, and then report within that context. Such engagements are outside the scope of this SAS.
8. *Where auditors are engaged to perform any work in relation to the interim financial report which is less than the scope of this SAS, they should communicate to the directors in the engagement letters and reports that they have not carried out a review of the interim financial report as contemplated in this SAS. (SAS 700.1)*

Objective of a review engagement

9. *The objective of a review of an interim financial report is to enable auditors to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to the auditors' attention that causes the auditors to believe that material modifications should be made to the interim financial report. (SAS 700.2)*
10. An engagement to review an interim financial report provides a moderate level of assurance that the information subject to review is free of material misstatement. For the purpose of this SAS, this is expressed in the form of negative assurance.

General principles of a review engagement

11. *Auditors should comply with the Statements of Professional Ethics issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). (SAS 700.3)*
12. Ethical principles governing auditors' professional responsibilities are:
 - a. independence;
 - b. integrity;
 - c. objectivity;
 - d. professional competence and due care;
 - e. confidentiality;
 - f. professional behaviour; and
 - g. technical standards.
13. *Auditors should conduct a review of an interim financial report in accordance with this SAS. (SAS 700.4)*

14. *Auditors should plan and perform the review of an interim financial report with an attitude of professional scepticism recognising that circumstances may exist which cause the interim financial report to be materially misstated. (SAS 700.5)*
15. *For the purpose of expressing negative assurance in the review report on an interim financial report, auditors should obtain sufficient appropriate evidence primarily through enquiries and analytical procedures to be able to draw conclusions. (SAS 700.6)*

Scope of a review

16. *Auditors should determine the procedures required to conduct a review of an interim financial report having regard to the requirements of this SAS, legislation, regulations and, where appropriate, the terms of the review engagement and reporting requirements. (SAS 700.7)*
17. The term "scope of a review" refers to the review procedures deemed necessary in the circumstances to achieve the objective of the review.
18. While reviews involve the application of audit skills and techniques, they do not usually involve many of the procedures ordinarily performed during an audit. In an audit, because the auditors' objective is to provide a high, but not absolute, level of assurance on the reliability of the financial statements, auditors will use more extensive audit procedures than in a review.
19. Reviews involve limited procedures comprising enquiries of company personnel and analytical procedures applied to financial or non-financial information. Reviews of interim financial reports do not ordinarily involve:
 - a. a study and evaluation of internal accounting controls;
 - b. tests of accounting records; and
 - c. tests of responses to enquiries by obtaining corroborating evidence through:
 - i. inspection;
 - ii. observation; and
 - iii. confirmation.

Auditors may, however, decide that additional information is required from management and/or additional procedures are necessary to obtain sufficient appropriate evidence on aspects of the interim financial report subject to a review (for example when auditors have doubts as to the completeness and accuracy of the interim financial report). The acquisition of information in this way does not convert the engagement to an audit engagement. A review engagement may bring to the auditors' attention significant matters affecting the interim financial report, but it provides less assurance than would be provided by an audit where the auditors would become aware of all significant matters.

20. Although the procedures to be performed in a review will be less extensive than those necessary in an audit, the scope of the auditors' work remains the responsibility of the auditors and not that of the client. It is necessary for the auditors to consider, for example, whether any restrictions in the scope of the auditors' work imposed by the client are of such significance that a moderate level of assurance could not be provided. Where the proposed terms of a review engagement include a scope limitation such that the auditors believe that they are unable to reach a review conclusion, they would normally not accept such a limited scope engagement. Where such limitations are imposed during the course of a review engagement, the auditors would consider the need to modify their review report or, in extreme cases, withdraw from the engagement and consider whether there is an obligation to report the circumstances necessitating the withdrawal to third parties.

Terms of engagement

21. *Auditors should agree the terms of the engagement of a review of an interim financial report with the client. (SAS 700.8)*
22. The agreed terms would be recorded in an engagement letter or other suitable form such as a contract.

23. An engagement letter will be of assistance in planning the review work. It is in the interests of both the auditors and the client that the auditors send an engagement letter documenting the key terms of the appointment. An engagement letter confirms the auditors' acceptance of the appointment and helps avoid misunderstanding regarding such matters as the objectives and scope of the engagement, the extent of the auditors' responsibilities and the form of reports to be issued.
24. Matters that would be included in the engagement letter include:
 - a. the objective of the review;
 - b. an explanation that the interim financial report is the responsibility of the entity's directors;
 - c. the scope of the review, including reference to this SAS;
 - d. unrestricted access to whatever records, documentation and other information requested in connection with the review;
 - e. a sample or a description of the form of the review report expected to be rendered;
 - f. the fact that the review cannot be relied upon to disclose errors, illegal acts or other irregularities, for example, fraud or defalcations that may exist; and
 - g. a statement that an audit will not be performed and that an audit opinion will not be expressed. To emphasise this point and to avoid confusion, the auditors may also consider pointing out that a review engagement will not satisfy any statutory or third party requirements for an audit.
25. An example of an engagement letter for a review of an interim financial report appears in Appendix 1.

Planning

26. *Auditors should plan the work so that an effective review of an interim financial report will be performed. (SAS 700.9)*
27. *In planning a review of an interim financial report, auditors should obtain or update the knowledge of the business including consideration of the entity's organisation, accounting systems, operating characteristics and the nature of its assets, liabilities, revenues and expenses. (SAS 700.10)*
28. Auditors need to possess an understanding of such matters and other matters relevant to the interim financial report, for example, a knowledge of the entity's production and distribution methods, product lines, operating locations and related parties. Auditors require this understanding to be able to make relevant enquiries and to design appropriate procedures, as well as to assess the responses and other information obtained.
29. The knowledge and understanding of the entity required would have been acquired by auditors who have carried out audits of the entity's financial statements or reviews of interim financial reports in recent previous periods. Where a review engagement is undertaken by auditors who do not have the knowledge acquired from recent previous periods, those auditors need to be satisfied that sufficient knowledge and understanding are obtained. The auditors would consider the need to increase the extent and/or broaden the nature of the procedures to be performed during the review engagement. In the case of auditors who have knowledge acquired from recent previous periods, procedures would be performed to update that knowledge and identify significant changes.
30. The knowledge of the business would include an understanding of the internal control structure as it relates to the preparation of the interim financial report. This helps to ensure that appropriate attention is given to the impact of the internal control structure on the risk of occurrence of material misstatements.

Work performed by others

31. *When using work performed by another auditor or an expert, auditors should be satisfied that such work is adequate for the purposes of the review of an interim financial report. (SAS 700.11)*

32. When auditors are reporting on the interim financial report of a group, the auditors would need to establish the scope of the review work required, if any, for each division, subsidiary, associate and jointly controlled entity. If this requires the involvement of other auditors, the review programme is tailored to take this into account. The principal auditors would advise the other auditors of the nature and extent of work required, the report required and the reporting timetable. Further guidance is included in SAS 510 "Principal auditors and other auditors".
33. Guidance on using the work of experts is included in SAS 520 "Using the work of an expert".

Documentation

34. *Auditors should document matters which are important in providing evidence to support the conclusion in the review report, and evidence that the review of an interim financial report was carried out in accordance with this SAS. (SAS 700.12)*

Procedures and evidence

35. *Auditors should apply professional judgement in determining the specific nature, timing and extent of procedures for a review of an interim financial report. (SAS 700.13)*
36. Auditors will be guided by such matters as:
 - a. any knowledge acquired by carrying out audits of the financial statements or reviews of interim financial reports for prior periods;
 - b. the auditors' knowledge of the business including knowledge of the accounting principles and practices of the industry in which the entity operates;
 - c. the entity's accounting systems;
 - d. the extent to which a particular item is affected by management judgement;
 - e. the materiality of transactions and account balances; and
 - f. management's own assessment of the risks underlying the interim financial report and the monitoring and other controls established to mitigate those risks.
37. *Auditors should apply the same materiality considerations as would be applied if an audit opinion on the interim financial report were being given. (SAS 700.14)*
38. Although there is a greater risk that misstatements will not be detected in a review than in an audit, the judgement as to what is material is made by reference to the information on which auditors are reporting and the needs of those relying on that information, not to the level of assurance provided. SSAP 25 "Interim financial reporting" requires that in deciding how to recognise, measure, classify or disclose an item for interim financial reporting purposes, materiality should be assessed in relation to the interim period financial data. It also states that in making assessments of materiality, it should be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.
39. Procedures for the review of an interim financial report will ordinarily include:
 - a. obtaining an understanding of the entity's business and the industry in which it operates;
 - b. enquiries concerning the entity's accounting principles and practices;
 - c. enquiries concerning the entity's procedures for recording, classifying and summarising transactions, accumulating information for disclosure in the interim financial report and preparing the interim financial report;
 - d. enquiries concerning all material assertions in the interim financial report;
 - e. analytical procedures designed to identify relationships and individual items that appear unusual. Such procedures would include:
 - i. comparison of the interim financial report with those for prior periods;

- ii. comparison of the interim financial report with anticipated results and financial position; and
- iii. study of the relationships of the elements of the interim financial report that would be expected to conform to a predictable pattern based on the entity's experience or industry norm.

In applying these procedures, the auditors would consider the types of matters that required accounting adjustments in prior periods;

- f. enquiries concerning actions taken at meetings of shareholders, the board of directors, audit committees and other committees of the board of directors and other meetings that may affect the interim financial report;
 - g. reading the interim financial report to consider, on the basis of information coming to the auditors' attention, whether the interim financial report appears to conform with the basis of accounting indicated;
 - h. obtaining review reports from other auditors, if any and if considered necessary, who have been engaged to review the interim financial report of components of the entity; and
 - i. enquiries of persons having responsibility for financial and accounting matters concerning, for example:
 - i. whether all transactions have been recorded;
 - ii. whether the interim financial report has been prepared in accordance with the basis of accounting indicated;
 - iii. changes in the entity's business activities and accounting principles and practices; and
 - iv. matters as to which questions have arisen in the course of applying the foregoing procedures.
40. Appendix 2 provides an illustrative list of procedures which are often used. The list is not exhaustive, nor is it intended that all the procedures suggested apply to every engagement to review an interim financial report.
41. ***Auditors should enquire about events subsequent to the date of the interim financial report that may require adjustment of or disclosure in the interim financial report. (SAS 700.15)***
42. Auditors do not have a duty to search for evidence of events occurring after the date of their review report.
43. ***If auditors have reason to believe that the information subject to review may be materially misstated, auditors should carry out additional or more extensive procedures as are necessary to be able to issue an unmodified review report or to confirm that a modified review report is required. (SAS 700.16)***

Changes in auditor appointment

44. Where the auditors did not audit the latest annual financial statements, additional procedures will be necessary before the incoming auditors have sufficient evidence on which to base their review conclusion. Incoming auditors are required to:
- a. obtain a knowledge of the business, sufficient to enable them to identify and understand issues that may have a significant effect on the financial statements, and consider the appropriateness of accounting policies and financial statement disclosures;
 - b. assess inherent risk in relation to financial statement assertions about material account balances and classes of transactions;
 - c. obtain an understanding of, and where appropriate test, accounting and internal control systems;

- d. obtain sufficient appropriate evidence that opening balances have been appropriately brought forward and that the accounting policies used for the comparatives are consistent with those of the current period.
45. Auditors are unlikely to be able to issue a review report on an interim financial report until the procedures outlined in paragraph 44 have been performed.

Management representations

46. In the course of a review of an interim financial report, auditors may make enquiries of directors and senior management in order to obtain information and explanations concerning particular matters contained in that report. The possibility of misunderstandings concerning relevant information and explanations obtained in oral responses to such enquiries may be reduced by obtaining confirmation in writing. The auditors may also wish to confirm in writing more general matters such as the completeness of relevant information made available to them for the purpose of their review. The auditors obtain from the directors such written representations as they consider necessary in the circumstances. Such representations by the directors normally include:
- a. acknowledgement by the directors that the auditors' review is substantially less in scope than an audit performed in accordance with SASs and that the auditors do not express an audit opinion;
 - b. acknowledgement of the directors' responsibility for the interim financial report and for the consistency of accounting policies and presentation with those applied in the preceding annual financial statements, save where they are to be changed in the subsequent annual financial statements;
 - c. acknowledgement of the directors' responsibility for the completeness of the financial records and of the minutes (and summaries of meetings for which minutes have not been prepared) that were made available to the auditors for the purpose of their review;
 - d. confirmation that the directors have updated their assessment of going concern made for the purposes of preparing the preceding annual financial statements and whether any significant factors identified at that date have changed so as to affect the appropriateness of the going concern assumption in the preparation of the interim financial report;
 - e. confirmation that the directors are not aware of any material amounts, transactions, agreements or contingencies not fairly described and properly recorded in the accounting records underlying the interim financial report;
 - f. notification of any subsequent events that would require adjustment of, or disclosure in, the interim financial report;
 - g. other matters, if any, for which the auditors consider written representations are appropriate in the circumstances. Such matters might include the substance of significant assertions, estimates or judgements or interpretations of facts by the directors, that have a significant effect on the interim financial report.
47. An illustrative management representation letter is given in Appendix 5. The auditors request a management representation letter to meet the specific circumstances of the review engagement.

Discussion of findings with the board of directors and the audit committee

48. Before issuing their review report, auditors would generally communicate the results of their findings from the review of an interim financial report to the board of directors and the audit committee. Matters which may result in discussion and reporting include the following:
- a. the scope and the results of the procedures undertaken;
 - b. the process by which the interim financial report has been prepared and in particular the process used by management in formulating accounting estimates and the basis for the auditors' conclusions regarding the reasonableness of those estimates;
 - c. changes to accounting policies and presentation, the reasons for them and whether comparatives for the prior year and prior interim period have been restated; and

- d. issues which have been discussed with management such as:
 - i. matters that cause the auditors to believe that the interim financial report may be materially misstated;
 - ii. any significant adjustments resulting from the review;
 - iii. any changes of accounting policy or presentation applied in preparing the interim financial report from those applied to the preceding annual financial statements.

Conclusions and reporting

- 49. *The report on a review of an interim financial report should contain a clear written expression of negative assurance. Auditors should review and assess the conclusions drawn from the evidence obtained as the basis for the expression of negative assurance. (SAS 700.17)*
- 50. *Based on the work performed, auditors should assess whether any information obtained during the review indicates that material modifications should be made to the interim financial report. (SAS 700.18)*
- 51. The report on a review of an interim financial report describes the scope of the engagement to enable the reader to understand the nature of the work performed and make it clear that an audit was not performed and, therefore, that an audit opinion is not expressed.
- 52. *The report on a review of an interim financial report should contain the following basic elements, ordinarily in the following layout:*
 - a. *title;*
 - b. *addressee;*
 - c. *an introductory paragraph identifying the interim financial report reviewed;*
 - d. *a statement that the interim financial report is the responsibility of, and has been approved by, the directors and in the case of a listed issuer, a further statement that the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with [SSAP 25 "Interim financial reporting" issued by the HKICPA] / [International Accounting Standard 34 "Interim financial reporting"] and the relevant provisions thereof;*
 - e. *a statement that the review was carried out in accordance with this SAS;*
 - f. *a description of the work performed in undertaking the review;*
 - g. *a review conclusion;*
 - h. *date of the review report;*
 - i. *location of the auditors' office; and*
 - j. *auditors' signature. (SAS 700.19)*
- 53. It may be appropriate to use the term "Independent" in the title to distinguish the review report on an interim financial report from reports that might be issued by others, such as officers of the entity, or from the reports of other auditors who may not have to abide by the same ethical requirements as an independent auditor.
- 54. *An unmodified review report on an interim financial report should state that, based on the review, nothing has come to the auditors' attention that causes the auditors to believe that material modifications should be made to the interim financial report. (SAS 700.20)*
- 55. Appendix 3 illustrates an unmodified review report.

Modification of the review report

56. *The review report should be modified if, based on their review, the auditors consider that a material modification is required to the interim financial report or, the other information in the interim report contains an apparent misstatement or material inconsistency with the interim financial report. (SAS 700.21)*
57. *If there has been a limitation in the scope of the auditors' work that prevents them from obtaining sufficient evidence to provide an unmodified review report, the review report should describe the limitation and indicate that the report is modified as to the possible adjustments to the interim financial report that might have been determined to be necessary had the limitation not existed. (SAS 700.22)*
58. *In rare cases when there has been a limitation in the scope of the auditors' work which the auditors believe to be so significant that they conclude that no assurance can be given, the auditors should state that they are unable to reach a review conclusion and consider the implications for their appointment. (SAS 700.23)*
59. A modification to the interim financial report may be required where, amongst other things:
- a. an accounting policy or the presentation applied is materially inconsistent with that used in the preceding annual financial statements and the changes, and reasons for them, are not adequately disclosed;
 - b. the interim financial report has not been adjusted for a known accounting policy change to be made in the subsequent annual financial statements, no estimate of the effect of the change has been made, and no statement of explanation has been made;
 - c. a new accounting policy has not been adopted where required by Accounting Standards or otherwise;
 - d. an inappropriate accounting policy has been applied; or
 - e. there is inadequate disclosure of a fundamental uncertainty, i.e. an uncertainty, the resolution of which is dependent on future events and whose potential effect on the interim financial report is unusually great.
60. If the auditors have reason to believe that there is a fundamental uncertainty, for example a significant level of concern about the entity's ability to continue as a going concern, or a significant level of concern in respect of litigation, the auditors would include an explanatory paragraph in the review report, drawing attention to the fundamental uncertainty, provided that the interim financial report appropriately discloses the matter. The explanatory paragraph is to be placed before the "Review conclusion" of the review report.
61. When the auditors decide to add a paragraph describing a fundamental uncertainty in their review report, this will normally adequately serve readers of the interim financial report. However in extreme cases, such as situations involving multiple uncertainties that are fundamental to the interim financial report, the auditors may consider it appropriate to state that they are unable to reach a review conclusion.
62. Guidance on the auditors' consideration of the other information in the interim report is set out in paragraphs 67 - 70 below.
63. A modification to the review report describes the nature of the matter identified and, if practicable, states the effects on the interim financial report. Appendix 4 illustrates four examples of such modified review reports.

Interim comparatives not reviewed

64. The Listing Rules and SSAP 25 "Interim financial reporting" require that comparatives are given in the interim financial report. Users of interim reports are likely to assume that the interim comparatives have been subject to the same review procedures as current interim financial report. Where a review is to be performed for the first time and auditors are unable to perform a review of the interim comparatives in accordance with this SAS, they modify their review report to indicate that the interim comparatives were not reviewed.

Prior period modifications

65. If the prior period review report on the interim comparatives or the audit report on the preceding annual financial statements was modified, and the matter that gave rise to the modification has not been resolved, the review report refers to the modification, and discusses the current status of the matter giving rise to the modification and the implications for the information presented in the interim financial report.

Dating of review report

66. *Auditors should date the review report on an interim financial report as of the date the review is completed, which includes performing procedures relating to events occurring up to the date of the report. However, since the auditors' responsibility is to report on the interim financial report as prepared and presented by the board of directors, auditors should not date the review report earlier than the date on which the interim financial report is approved by the board of directors. (SAS 700.24)*

Other information in the interim report

67. Other information that may accompany an interim financial report in the interim report includes a separate statement containing a discussion and analysis of the performance during the period and the material factors underlying the results and financial position; it may also include, for example, performance summaries and prospective information. For the purpose of this SAS, these additional statements/information are collectively referred to as "the other information".
68. To indicate that the auditors are neither responsible for nor reporting on the other information, the auditors would be specific as to the interim financial report on which they are reporting by identifying the page numbers containing the interim financial report as follows:
- "We have been instructed by the company to review the interim financial report set out on pages ... to"
69. Although the auditors are not responsible for the other information, there could be a belief on the part of the reader that the auditors have in fact satisfied themselves that the other information is accurate or at least not misleading. The auditors would therefore consider whether the other information is materially inconsistent with the matters covered by their review report, or misleading. If the auditors become aware of any apparent misstatements or material inconsistencies with the matters covered by their review report, they seek to resolve them through discussions with the directors and the audit committee if applicable.
70. If the auditors conclude that the other information contains any apparent misstatements or material inconsistencies with the matters covered by their review report and they are unable to resolve them through discussion with the directors, they may need to seek legal advice on appropriate action, and may, after consulting their lawyers, decide to make reference to the misstatements or inconsistencies in their review report. Further guidance is included in [SAS 160 "Other information in documents containing audited financial statements"].

Requests to discontinue an engagement to review an interim financial report

71. There may be rare circumstances in which the auditors indicate in advance to the directors that their review report may be modified for one or more of the reasons set out in paragraphs 56 to 63 above. In these cases the directors may choose to request the auditors to discontinue the review engagement rather than accept a modified review report. The auditors would inform the audit committee of this situation as soon as possible. If information is communicated orally, the auditors would subsequently document the communication as appropriate.

Compliance with International Standards on Auditing

72. Compliance with the auditing standards contained in this SAS ensures compliance in all material respects with the basic principles and essential procedures in International Standard on Auditing 910 "Engagements to Review Financial Statements".

Effective date

73. Auditors are required to comply with the requirements of this SAS in respect of reviews of interim financial reports for interim periods ended on or after 1 July 2000 and beginning before 15 December 2006 unless HKSRE 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” is early adopted.

APPENDIX 1

Example of an engagement letter for a review of an interim financial report

The following letter is for use as a guide in conjunction with the considerations outlined in paragraph 24 of this SAS and will need to be varied according to individual requirements and circumstances.

Board of Directors
XYZ Company

Dear Sirs,

XYZ COMPANY INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED []

This letter is to confirm our understanding of the terms and objective of our engagement to review the company's above interim financial report and the nature and limitations of such a review.

Objective of our review

The objective of our review is to enable us to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to our attention that causes us to believe that material modifications should be made to the above interim financial report.

Directors' responsibility

As directors of XYZ Company, you are responsible under [the Companies Ordinance] for keeping proper accounting records. [The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with [SSAP 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants] / [International Accounting Standard 34 "Interim financial reporting"] and the relevant provisions thereof.]* You are also responsible for the interim financial report, including its adequate disclosure. This includes the maintenance of adequate accounting records and internal controls and the selection and application of appropriate accounting policies.

For the purpose of our review you will make available to us, as and when required, all of the company's books of account and all other relevant records and related information, including minutes of all management and shareholders' meetings, that we consider necessary.

Scope and limitations of our review

We will review the interim financial report of the company (group)* for the [period] ended [date] in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. We will not perform an audit of the interim financial report and, accordingly, we will not express an audit opinion on it. We advise that this review engagement will not satisfy any statutory or third party requirements for an audit. Accordingly, we expect to report on the interim financial report as follows:

(see Appendix 3 to this SAS)

The responsibility for safeguarding the assets of the company (group)* and for the prevention and detection of fraud, errors and non-compliance with law or regulations rests with yourselves. Our engagement cannot be relied upon to disclose whether fraud or errors, or illegal acts exist. However, we will inform you of any material matters that come to our attention.

Representations by management

As part of our review process, we may request written representations from you concerning assertions made in connection with the review.

(Other auditors

In carrying out the engagement it will be necessary for us to communicate directly with the auditors of the company's divisions, subsidiaries, associates and jointly controlled entities to the extent which we consider necessary for the purposes of making our report.)*

Fees

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

Agreement of terms

Once it has been agreed, this letter will remain effective, from one review of interim financial report appointment to another, until replaced. We shall be grateful if you could confirm in writing your agreement to these terms by signing and returning the enclosed copy of this letter, or let us know if they are not in accordance with your understanding of the arrangements for our review of the interim financial report.

Yours faithfully,

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

We agree to the terms of this letter.

(signed)
.....
Director, for and on behalf of the Board of XYZ Company
Date

* Delete where not applicable.

APPENDIX 2**Illustrative detailed procedures that may be performed in an engagement to review an interim financial report**

1. The enquiries and analytical review procedures carried out in a review of an interim financial report are determined by the auditors' professional judgement. The procedures listed below are not exhaustive, and are for illustrative purposes only. It is not intended that all the procedures suggested apply to every review engagement. This Appendix is not intended to serve as a program or checklist in the conduct of a review.

General

2. Discuss terms and scope of the engagement with the client and the engagement team.
3. Prepare an engagement letter setting forth the terms and scope of the engagement.
4. Obtain an understanding of the entity's business activities and the system for recording financial information and preparing the interim financial report.
5. Enquire whether all financial information is recorded:
 - a. completely;
 - b. accurately;
 - c. promptly; and
 - d. after the necessary authorisation.
6. Obtain the trial balance and determine whether it agrees with the general ledger and the interim financial report.
7. Consider the results of previous audits and review engagements, including accounting adjustments required.
8. Enquire whether there have been any significant changes in the entity from the previous year (e.g. changes in ownership or changes in capital structure).
9. Enquire about the accounting policies and consider whether:
 - a. they comply with the identified financial reporting framework;
 - b. they have been applied appropriately; and
 - c. they have been applied consistently and, if not, consider whether disclosure has been made of any changes in the accounting policies.
10. Read the minutes of meetings of shareholders, the board of directors, audit committee and other appropriate committees in order to identify matters that could be important to the review.
11. Enquire if actions taken at shareholder, board of directors or comparable meetings that affect the interim financial report have been appropriately reflected therein.
12. Enquire about the existence of transactions with related parties, how such transactions have been accounted for and whether related parties have been properly disclosed.
13. Enquire about contingencies and commitments.
14. Enquire about plans to dispose of major assets or business segments.
15. Obtain the interim financial report and discuss it with management.
16. Consider the adequacy of disclosure in the interim financial report and its suitability as to classification and presentation.

17. Compare the results shown in the current period interim financial report with those shown in interim financial reports for comparable prior periods and, if available, with budgets and forecasts.
18. Obtain explanations from management for any unusual fluctuation or inconsistencies in the interim financial report.
19. Consider the effect of any unadjusted errors - individually and in aggregate. Bring the errors to the attention of management and determine how the unadjusted errors will influence the auditors' review report.
20. Consider obtaining a representation letter from management. An example of a management representation letter in respect of a review of an interim financial report appears in Appendix 5 to this SAS.
21. Consider the appropriateness of the going concern basis in the preparation of the interim financial report.

Cash

22. Obtain the bank reconciliations. Enquire about any old or unusual reconciling items with client personnel.
23. Enquire about transfers between cash accounts for the period before and after the balance sheet date.
24. Enquire whether there are any restrictions on cash accounts.

Receivables

25. Enquire about the accounting policies for recording trade receivables.
26. Obtain a schedule of receivables and determine whether the total agrees with the trial balance.
27. Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.
28. Obtain an aged analysis of the trade receivables. Enquire about the reason for unusually large accounts, credit balances on accounts or any other unusual balances and enquire about the collectibility of receivables.
29. Discuss with management the classification of receivables, including non-current balances, net credit balances and amounts due from shareholders, directors and other related parties in the interim financial report.
30. Enquire about the method for identifying "slow payment" accounts and making provisions for doubtful accounts and consider it for reasonableness.
31. Enquire whether receivables have been pledged, factored or discounted.
32. Enquire about procedures applied to ensure that a proper cutoff of sales transactions and sales returns has been achieved.
33. Enquire whether accounts represent goods shipped on consignment and, if so, whether adjustments have been made to reverse these transactions and include the goods in inventory in accordance with the identified financial reporting framework.
34. Enquire whether any large credit notes relating to revenue recorded have been issued after the balance sheet date and whether provision has been made for such amounts.

Inventories

35. Obtain the inventory list and determine whether:
 - a. the total agrees with the balance in the trial balance; and
 - b. the list is based on a physical count of inventory.
36. Enquire about the method for counting inventory.

37. Where a physical count was not carried out on the balance sheet date, enquire whether:
 - a. a perpetual inventory system is used and whether periodic comparisons are made with actual quantities on hand; and
 - b. an integrated cost system is used and whether it has produced reliable information in the past.
38. Discuss adjustments made resulting from the last physical inventory count.
39. Enquire about procedures applied to control cutoff and any inventory movements.
40. Enquire about the basis used in valuing each category of the inventory and, in particular, regarding the elimination of inter-branch profits. Enquire whether inventory is valued in accordance with the identified financial reporting framework.
41. Consider the consistency with which inventory valuation methods have been applied, including factors such as material, labour and overhead.
42. Compare amounts of major inventory categories with those of prior periods and with those anticipated for the current period. Enquire about major fluctuations and differences.
43. Compare inventory turnover with that in previous periods.
44. Enquire about the method used for identifying slow moving and obsolete inventory and whether such inventory has been accounted for at net realisable value.
45. Enquire whether any of the inventory has been consigned to the entity and, if so, whether adjustments have been made to exclude such goods from inventory in accordance with the identified financial reporting framework.
46. Enquire whether any inventory is pledged, stored at other locations or on consignment to others and consider whether such transactions have been accounted for appropriately.

Investments (including associates, and debt and equity securities)

47. Obtain a schedule of the investments and determine whether it agrees with the trial balance.
48. Discuss with management the classification of investments.
49. Enquire about the accounting policies applied to investments.
50. Discuss with management as to whether there has been any impairment of investments.
51. Consider whether there has been proper accounting for changes in fair value, impairment losses, gains and losses on disposal, and investment income.

Properties, plant and equipment and depreciation

52. Obtain a schedule of the properties, plant and equipment and determine whether it agrees with the trial balance.
53. Enquire about the accounting policies applied to investment properties, other properties, plant and equipment, including the policies regarding the provisions for depreciation. Consider whether the properties, plant and equipment have suffered a material permanent impairment in value or, for properties, plant and equipment carried at valuation, a material change in fair value.
54. Discuss with management the additions and deletions to property, plant and equipment accounts and accounting for gains and losses on sales or retirements, or surpluses and deficits on revaluation.

Enquire whether all such transactions have been properly accounted for.
55. Enquire about the consistency with which the depreciation method and rates have been applied and compare depreciation provisions with prior years.
56. Enquire whether there are any liens on the properties, plant and equipment.
57. Discuss whether lease agreements have been properly reflected in the interim financial report in conformity with the identified financial reporting framework.

58. Discuss the method of financing acquisitions of properties, plant and equipment such as the use of options, sale and leaseback and joint ventures and consider whether they have been properly accounted for in accordance with the identified financial reporting framework.
59. Discuss the policy relating to capitalisation of interest and consider whether it is in accordance with the identified financial reporting framework.

Prepaid expenses, intangibles and other assets

60. Obtain schedules identifying the nature of these accounts and discuss with management the recoverability thereof.
61. Enquire about the basis for recording these accounts and the amortisation methods used.
62. Compare balances of related expense accounts with those of prior periods and discuss significant variations with management.
63. Discuss the classification between non-current and current accounts with management.

Loans payable

64. Obtain from management a schedule of loans payable and determine whether the total agrees with the trial balance.
65. Enquire whether there are any loans where management has not complied with the provisions of the loan agreement and, if so, enquire as to management's actions and whether appropriate adjustments have been made in the interim financial report.
66. Consider the reasonableness of interest expense in relation to loan balances.
67. Enquire whether loans payable are secured.
68. Enquire whether loans payable have been classified between non-current and current.
69. Enquire as to arrangements for the continuing provision of finance facilities.

Trade payables

70. Enquire about the accounting policies for recording trade payables.
71. Obtain and consider explanations for significant variations in account balances from previous periods or from those anticipated.
72. Obtain a schedule of trade payables and determine whether the total agrees with the trial balance.
73. Enquire whether balances are reconciled with the creditors' statements and compare with prior period balances. Compare turnover with prior periods.
74. Consider whether there could be material unrecorded liabilities.
75. Consider whether payables to shareholders, directors and other related parties are adequately disclosed.

Accrued and contingent liabilities

76. Obtain a schedule of the accrued liabilities and determine whether the total agrees with the trial balance.
77. Compare major balances of related expense accounts with similar accounts for prior periods.
78. Enquire about approvals for such accruals, terms of payment, compliance with terms, collateral and classification.
79. Enquire about the method for determining accrued liabilities.
80. Enquire as to the nature of amounts included in contingent liabilities and commitments.
81. Enquire whether any actual or contingent liabilities exist which have not been recorded in the interim financial report. If so, discuss with management whether provisions or disclosure need to be made in the interim financial report.

Profits and other taxes

82. Enquire from management if there were any events, including disputes with the Inland Revenue Department, which could have a significant effect on the taxes payable by the entity.
83. Consider the tax expense in relation to the entity's income for the period.
84. Enquire from management as to the adequacy of the recorded deferred and current tax liabilities including provisions in respect of prior periods.

Subsequent events

85. Obtain from management the latest management accounts and compare them with the interim financial report being reviewed or with those for comparable periods from the preceding year.
86. Enquire about events after the balance sheet date that would have a material effect on the interim financial report under review and, in particular, enquire whether:
 - a. any substantial commitments or uncertainties have arisen subsequent to the balance sheet date;
 - b. any significant changes in the share capital, long-term debt or working capital have occurred up to the date of enquiry; and
 - c. any unusual adjustments have been made during the period between the balance sheet date and the date of enquiry.

Consider the need for adjustments or disclosure in the interim financial report.

87. Obtain and read the minutes of meetings of shareholders, directors and appropriate committees subsequent to the balance sheet date.

Litigation

88. Enquire from management whether the entity is the subject of any legal actions - threatened, pending or in process. Consider the effect thereof on the interim financial report.

Equity

89. Obtain and consider a schedule of the transactions in the equity accounts, including new issues, redemptions and dividends.
90. Enquire whether there are any restrictions on retained earnings or other equity accounts.

Operations (revenues and expenses)

91. Enquire about the accounting policies applied for the recognition and recording of revenues and expenses.
92. Compare revenues, expenses and operating results with those of prior periods and those expected for the current period. Discuss significant variations with management.
93. Discuss whether the recognition of revenues and expenses has taken place in the appropriate periods.
94. Consider extraordinary and unusual items.
95. Consider and discuss with management the relationship between related items in the income statement and assess the reasonableness thereof in the context of similar relationships for prior periods, current period budgets and other information available to the auditors.
96. Consider and discuss with management the relationship between the income statement and the balance sheet and assess the reasonableness thereof in the context of similar relationships for prior periods, the current period budget and other information available to the auditors.
97. Review the calculation of the earnings per share amounts.

Journals

98. Consider unusual journal entries and those of material amounts and discuss with management.

APPENDIX 3

Example of an unmodified review report

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF XYZ COMPANY

Introduction

We have been instructed by the company to review the interim financial report set out on pages x to y.

Directors' responsibilities

[The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with [SSAP 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants] / [International Accounting Standard 34 "Interim financial reporting"] and the relevant provisions thereof.]* The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of [group] management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended [].

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

* Applicable only where the auditors are engaged by a listed issuer to review its interim financial report in accordance with SAS 700.

APPENDIX 4

Example 1 - Review report with a modified review conclusion - Disagreement

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF XYZ COMPANY

Introduction

We have been instructed by the company to review the interim financial report set out on pages x to y.

Directors' responsibilities

[The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with [SSAP 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants] / [International Accounting Standard 34 "Interim financial reporting"] and the relevant provisions thereof.]* The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of [group] management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Modified review conclusion arising from disagreement about accounting treatment

Included in debtors shown on the balance sheet is an amount of \$X due from a company which has ceased trading. XYZ Company has no security for this debt. In our view XYZ Company is unlikely to receive any payment and full provision of \$X should have been made, reducing profit before tax by that amount and net assets by \$Y.

On the basis of our review which does not constitute an audit, with the exception of the matter described in the preceding paragraph, we are not aware of any material modifications that should be made to the interim financial report for the six months ended [].

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

* Applicable only where the auditors are engaged by a listed issuer to review its interim financial report in accordance with SAS 700.

Example 2 - Review report with a modified review conclusion - Limitation of review scope**INDEPENDENT REVIEW REPORT
TO THE BOARD OF DIRECTORS OF XYZ COMPANY****Introduction**

We have been instructed by the company to review the interim financial report set out on pages x to y.

Directors' responsibilities

[The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with [SSAP 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants] / [International Accounting Standard 34 "Interim financial reporting"] and the relevant provisions thereof.]* The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our review was limited as explained below.

A review consists principally of making enquiries of [group] management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

The scope of our review was limited in respect of the investment in ABC Company which is shown in the balance sheet at a valuation of \$250,000 comprising investment in share capital of \$200,000 and unsecured loans of \$50,000 net of amounts written off of \$100,000. Subsequent to [interim period end] the company has made further loans of \$175,000 to ABC Company. The latest available financial statements of ABC Company were made up to [] and showed net liabilities at that date of \$150,000. No further financial statements or other financial information have been made available to us. Consequently we are unable to determine whether the investment in ABC Company is fairly stated as at [interim period end].

Modified review conclusion arising from limitation of review scope

On the basis of our review which does not constitute an audit, with the exception of the possible adjustments that might have been determined to be necessary had the above limitation not existed, we are not aware of any material modifications that should be made to the interim financial report for the six months ended [].

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

* Applicable only where the auditors are engaged by a listed issuer to review its interim financial report in accordance with SAS 700.

Example 3 - Review report - Inability to reach a review conclusion**INDEPENDENT REVIEW REPORT
TO THE BOARD OF DIRECTORS OF XYZ COMPANY****Introduction**

We have been instructed by the company to review the interim financial report set out on pages x to y.

Directors' responsibilities

[The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with [SSAP 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants] / [International Accounting Standard 34 "Interim financial reporting"] and the relevant provisions thereof.]* The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our review was limited as explained below.

A review consists principally of making enquiries of [group] management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

The scope of our review was limited because as stated in Note [] to the interim financial report, a fire at the company's computer centre destroyed many of the accounting records. The interim financial report consequently contains significant amounts based on estimates. In these circumstances we were unable to carry out all the review procedures, or obtain all the information and explanations we considered necessary.

Inability to reach a review conclusion

Because of the significance of the possible effect of the limitation in evidence available to us, we are unable to reach a review conclusion as to whether material modifications should be made to the interim financial report for the six months ended [].

ABC & Co.

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

Hong Kong

Date

* Applicable only where the auditors are engaged by a listed issuer to review its interim financial report in accordance with SAS 700.

Example 4 - Review report with a paragraph describing a fundamental uncertainty**INDEPENDENT REVIEW REPORT
TO THE BOARD OF DIRECTORS OF XYZ COMPANY****Introduction**

We have been instructed by the company to review the interim financial report set out on pages x to y.

Directors' responsibilities

[The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with [SSAP 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants] / [International Accounting Standard 34 "Interim financial reporting"] and the relevant provisions thereof.]* The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of [group] management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Fundamental uncertainty

In arriving at our review conclusion, we have considered the adequacy of disclosures made in the interim financial report concerning the possible outcome of litigation against B Limited, a subsidiary of the company, for an alleged breach of environmental regulations. The future settlement of this litigation could result in additional liabilities and the closure of B's business, whose net assets included in the consolidated balance sheet total \$Y and whose profit before tax for the six month period is \$Z. Details of the circumstances relating to this fundamental uncertainty are described in note [] to the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended [].

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

* Applicable only where the auditors are engaged by a listed issuer to review its interim financial report in accordance with SAS 700

APPENDIX 5

**Example management representation letter
in connection with a review of an interim financial report**

The following letter is not intended to be a standard letter and is for reference only. Representations by management will vary from one entity to another and from one period to the next. Further guidance is included in SAS 440 "Representations by management".

Entity Letterhead

(To auditors)

(Date)

Dear Sirs

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other directors and officials of the company, the following representations given to you in connection with your review of the interim financial report of the company for the [period] ended [date]:

1. We acknowledge that your review was substantially less in scope than an audit and that accordingly you do not express an audit opinion on the interim financial report.
2. We acknowledge our responsibility for the preparation of the interim financial report and confirm that the interim financial report has been prepared in accordance with [Statements of Standard Accounting Practice issued by the Hong Kong Institute of Certified Public Accountants]*, and in particular that the interim financial report has been prepared using accounting policies consistent with those adopted by the company in its financial statements for the year ended [date]#.
3. We confirm that we have performed such assessment as we considered necessary to enable us to conclude that the going concern basis continues to be appropriate.
4. All minutes of meetings of shareholders, the board of directors, audit committee and other committees of directors (and summaries of meetings for which minutes have not been prepared) have been made available for your review.
5. We are not aware of any material amounts, transactions, agreements or contingencies not fairly described and properly recorded in the accounting records underlying the interim financial report.
6. Events since [date]:
 - a. have been fully taken into account in so far as they have a bearing on the amounts attributable to assets and/or liabilities at that date; and
 - b. have not made the present financial position substantially different from that shown in the interim financial report.

Yours faithfully,

(Managing Director)

(Finance Director)

* To be substituted by "Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants" where the interim financial report contains a condensed set of interim financial statements.

To be modified where there was a change in accounting policies in the interim period.