

**STATEMENT OF AUDITING STANDARDS**  
**450**  
**OPENING BALANCES AND COMPARATIVES**

*(Effective for audits of financial statements for periods beginning before 15 December 2004)\**

<i>Contents</i>	<i>Paragraphs</i>
<b>Introduction</b>	<b>1 - 6</b>
<b>Opening balances</b>	<b>7 - 20</b>
<b>Comparatives</b>	<b>21 - 32</b>
<b>Compliance with International Standards on Auditing</b>	<b>33</b>
<b>Effective date</b>	<b>34</b>
<b>Appendix - Examples of auditors' reports on financial statements</b>	

---

\* HKSA 510 “Initial Engagements – Opening Balances” is effective for audits of financial statements for periods beginning on or after 15 December 2004.

HKSA 710 “Comparatives” is effective for audits of financial statements for periods beginning on or after 15 December 2004.

**STATEMENT OF AUDITING STANDARDS**  
**450**  
**OPENING BALANCES AND COMPARATIVES**

*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.*

### **Introduction**

1. The purpose of this Statement of Auditing Standards (SAS) is to establish standards and provide guidance regarding auditors' consideration of opening balances taken from the preceding period's financial statements, and on the auditors' responsibilities regarding comparatives.
2. "Opening balances" means those account balances which exist at the beginning of the current period. Opening balances are based upon the closing balances of the preceding period and reflect the effects of transactions of preceding periods and accounting policies applied in the preceding period.
3. "Comparatives" are corresponding amounts and other disclosures for the preceding period presented in the current period's financial statements for comparative purposes.
  - a. SSAP 1 "Presentation of financial statements" requires that unless a SSAP permits or requires otherwise, comparative information should be disclosed in respect of the previous period for all numerical information in the financial statements. Comparative information for narrative and descriptive information would also be included when it is relevant to an understanding of the current period's financial statements.
  - b. SSAP 15 "Cash flow statements" requires that comparative figures should be given for all items in the cash flow statement and such notes thereto as are required by that SSAP.
  - c. Financial statements of companies incorporated under the provisions of the Companies Ordinance are required to disclose corresponding amounts for most items in a company's balance sheet and profit and loss account. Paragraphs 12(16) and 17(5) of the Tenth Schedule to the Companies Ordinance require that corresponding amounts should be disclosed in respect of every item shown in a company's balance sheet (other than for the movements in fixed assets and reserves) and profit and loss account for the financial year immediately preceding that to which the balance sheet or profit and loss account relates.
  - d. Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Ltd. requires financial statements of listed issuers to include comparative figures for the balance sheet, income statement and cash flow statement for the corresponding previous period.
4. "Continuing auditors" means the auditors who audited and reported on the preceding period's financial statements and continue as the auditors for the current period.
5. "Incoming auditors" means the auditors for the current period who did not audit the preceding period's financial statements.
6. "Outgoing auditors" means the auditors who were previously the auditors of an entity and who have been replaced by other (incoming) auditors.

## Opening balances

7. *Auditors should obtain sufficient appropriate audit evidence that:*
  - a. *opening balances do not contain misstatements which materially affect the current period's financial statements;*
  - b. *preceding period's closing balances have been correctly brought forward as opening balances, or, when appropriate, have been restated; and*
  - c. *appropriate accounting policies are consistently applied or changes in accounting policies have been properly accounted for and adequately disclosed. (SAS 450.1)*
8. In the event that auditors are unable to obtain sufficient appropriate audit evidence, they consider the implications for their report in accordance with SAS 600 "Auditors' reports on financial statements" as discussed in paragraphs 14 to 20 below.

### Continuing auditors

9. If the auditors issued an unqualified auditors' report on the preceding period's financial statements and the audit of the current period's financial statements has not revealed any matters which cast doubt on those financial statements, the procedures regarding opening balances need not extend beyond ensuring that opening balances have been appropriately brought forward and that current accounting policies have been consistently applied.
10. If a qualified auditors' report was issued on the preceding period's financial statements the auditors, in addition to carrying out the procedures in paragraph 9 above, consider whether the matter which gave rise to the qualification has been resolved and properly dealt with in the current period's financial statements.

### Incoming auditors

11. The sufficiency and appropriateness of the audit evidence required by incoming auditors concerning opening balances depends on such matters as:
  - a. the accounting policies followed by the entity;
  - b. whether the preceding period's financial statements were audited and, if so, whether the auditors' report was modified;
  - c. the nature of opening balances, including the risk of their misstatement; and
  - d. the materiality of opening balances relative to the current period's financial statements.
12. Incoming auditors perform the procedures in paragraphs 9 and 10 above, recognising that audit work on the current period's financial statements normally provides evidence regarding opening balances. Other procedures which incoming auditors might perform include the following:
  - a. holding consultations with management and review of records, working papers and accounting and control procedures for the preceding period; and
  - b. substantive testing of any opening balances in respect of which the results of other procedures are considered unsatisfactory.
13. The above procedures normally enable incoming auditors to obtain sufficient appropriate audit evidence concerning opening balances. In certain circumstances incoming auditors may wish to hold consultations with outgoing auditors, who normally afford reasonable co-operation to incoming auditors, since Professional Ethics Statement 1.207 "Changes in a professional appointment" places them under a specific obligation to make certain information available to incoming auditors. Consultations would normally be limited to seeking information concerning the outgoing auditors' audit of particular areas which are important to incoming auditors, and to obtaining clarification of any significant accounting matters which are not adequately dealt with in the client's records.

**Audit conclusions and reporting**

14. *If, after performing procedures including those set out above, the auditors are unable to obtain sufficient appropriate audit evidence concerning opening balances, the auditors' report should include:*
- a. *a qualified (except for limitation) opinion;*
  - b. *a disclaimer of opinion; or*
  - c. *an opinion which is qualified or disclaimed regarding the results of operations and unqualified regarding financial position. (SAS 450.2)*
15. An example of an auditors' report where the auditors are unable to obtain sufficient appropriate audit evidence concerning opening balances is given in the Appendix (example 1).
16. If opening balances contain misstatements which could materially affect the current period's financial statements, the auditors would inform management and, after having obtained management's authorisation, the outgoing auditors, if any.
17. *If the effect of the misstatement is not properly accounted for and/or adequately disclosed, the auditors should express a qualified (except for disagreement) opinion or an adverse opinion, as appropriate (SAS 450.3)*
18. *If the current period's accounting policies have not been consistently applied in relation to opening balances and if the change has not been properly accounted for and/or adequately disclosed, the auditors should express a qualified (except for disagreement) opinion or an adverse opinion, as appropriate. (SAS 450.4)*
19. If the auditors' report on the preceding period's financial statements was modified, the auditors would consider the effect thereof on the current period's financial statements. For example, if there was a scope limitation, such as one due to the inability to determine opening inventory in the preceding period, the auditors may not need to qualify or disclaim the audit opinion on the current period's financial statements.
20. *However, if a modification regarding the preceding period's financial statements remains relevant and material to the current period's financial statements, the auditors should appropriately modify the auditors' report on the current period's financial statements. (SAS 450.5)*

**Comparatives****Auditors' responsibility**

21. The auditors' responsibility is to express an opinion only on the amounts and other disclosures relating to the current period (referred to as the "current period figures").
22. The comparatives are included for comparison with the current period figures and form part of the current period's financial statements. The auditors' responsibility is to establish whether the comparatives are the amounts and other disclosures which appeared in the preceding period's financial statements or, where appropriate, have been reclassified and/or restated either to achieve consistency and comparability with the current period figures or to reflect a change of accounting policy or the correction of a fundamental error.

**Audit procedures**

23. *The auditors should obtain sufficient appropriate audit evidence that:*
- a. *the accounting policies used for the comparatives are consistent with those of the current period or appropriate adjustments and disclosures have been made where this is not the case; and*
  - b. *the comparatives agree with the amounts and other disclosures presented in the preceding period's financial statements or appropriate adjustments and/or disclosures have been made where this is not the case. (SAS 450.6)*

24. In the event that auditors are unable to obtain sufficient appropriate audit evidence, they consider the implications for their report in accordance with SAS 600 "Auditors' reports on financial statements" as discussed below.

**Qualified auditors' report on the preceding period's financial statements**

25. When the auditors' report on the preceding period's financial statements was qualified, and the matter which gave rise to the qualification is unresolved and:
- a. is material in the context of opening balances as well as comparatives, the auditors' report on the current period's financial statements is qualified (an example of an auditors' report is given in the Appendix (example 2)); or
  - b. does not affect opening balances but is material in the context of the current period's financial statements, the auditors' report on the current period's financial statements is not qualified but may add an explanatory paragraph referring to the comparatives in accordance with paragraph 36(b) of SAS 600 "Auditors' reports on financial statements".
26. If the auditors' report on the preceding period's financial statements was qualified but the matter which gave rise to the qualification has been resolved and properly dealt with in the current period's financial statements, the auditors' report on the current period's financial statements does not normally refer to the previous qualification.

**Incoming auditors - additional considerations**

27. When the preceding period's financial statements were audited by outgoing auditors, incoming auditors would read the preceding period's financial statements and, using the knowledge gained during the current audit, consider whether they have been properly reflected as the comparatives in the current period's financial statements. Incoming auditors would normally be able to obtain sufficient appropriate audit evidence concerning the comparatives by applying the procedures in paragraphs 9, 10, 12 and 13 above regarding opening balances and other audit procedures determined to be necessary.
28. Where incoming auditors are unable to obtain sufficient appropriate audit evidence concerning the comparatives which have a direct effect on the current period figures, the auditors' report on the current period's financial statements is normally qualified on the basis of a scope limitation in accordance with SAS 600 "Auditors' reports on financial statements".

*Preceding period's financial statements not audited*

29. ***When the preceding period's financial statements are not audited, incoming auditors should state in the auditors' report that the comparatives are unaudited. (SAS 450.7)***
30. Such a statement in paragraph 29 above does not, however, relieve incoming auditors of the requirement to perform appropriate procedures regarding opening balances in accordance with the standards and guidance in the "Opening balances" section of this SAS. In the event that incoming auditors are unable to obtain sufficient appropriate audit evidence concerning opening balances, they would consider the implications for the auditors' report on the current period's financial statements in accordance with SAS 600 "Auditors' reports on financial statements" as discussed in paragraphs 14 to 20 above. Clear disclosure in the financial statements that the comparatives are unaudited is encouraged.

**Misstated comparatives**

31. ***In situations where auditors identify that the comparatives are materially misstated, they should request management to revise the comparatives or if management refuses to do so, appropriately modify the auditors' report. (SAS 450.8)***
32. If in performing the audit of the current period's financial statements, the auditors become aware of a possible material misstatement of the comparatives, they would inform management and, for incoming auditors, after having obtained management's authorisation, the outgoing auditors. In addition, the auditors would consider the guidance in SAS 150 "Subsequent events", and:
- a. if the preceding period's financial statements have been revised and reissued with a new auditors' report, the auditors ensure that the comparatives agree with the revised financial statements;

- b. if the preceding period's financial statements have not been revised and reissued but the comparatives have been properly restated, the auditors do not qualify their report on the current period's financial statements providing adequate disclosure has been given;
- c. if the preceding period's financial statements have not been revised and reissued, and the comparatives have not been properly restated, the auditors consider the implications for their report on the current period's financial statements in accordance with SAS 600 "Auditors' reports on financial statements".

### Compliance with International Standards on Auditing

33. Compliance with this SAS ensures compliance in all material respects with the basic principles and essential procedures in International Standard on Auditing 510 "Initial Engagements - Opening Balances". Except for the following, compliance with this SAS ensures compliance in all material respects with the basic principles and essential procedures in International Standard on Auditing 710 "Comparatives":

- a. International Standard on Auditing 710 refers to two frameworks and methods of presentation of comparative financial information which are "corresponding figures" and "comparative financial statements". The applicable framework and method of presentation for Hong Kong is "corresponding figures" where the auditors' report only expresses an opinion on the current period figures. Accordingly, the following requirements in relation to "comparative financial statements" included in International Standard on Auditing 710 are not reflected in auditing standards in this SAS:
  - i. "The auditor should obtain sufficient appropriate audit evidence that the comparative financial statements meet the requirements of the relevant financial reporting framework."
  - ii. "When the comparatives are presented as comparative financial statements, the auditor should issue a report in which the comparatives are specifically identified because the auditor's opinion is expressed individually on the financial statements of each period presented."
  - iii. "When reporting on the prior period financial statements in connection with the current year's audit, if the opinion on such prior period financial statements is different from the opinion previously expressed, the auditor should disclose the substantive reasons for the different opinion in an emphasis of matter paragraph."
  - iv. "When the financial statements of the prior period were audited by another auditor,
    - (a) the predecessor auditor may reissue the audit report on the prior period with the incoming auditor only reporting on the current period; or
    - (b) the incoming auditor's report should state that the prior period was audited by another auditor and the incoming auditor's report should indicate:
      - (i) that the financial statements of the prior period were audited by another auditor;
      - (ii) the type of report issued by the predecessor auditor and if the report was modified, the reasons therefor; and
      - (iii) the date of that report."
  - v. "In these circumstances, the incoming auditor should discuss the matter with management and, after having obtained management's authorization, contact the predecessor auditor and propose that the prior period financial statements be restated. If the predecessor agrees to reissue the audit report on the restated financial statements of the prior period, the auditor should follow the guidance in paragraph 26."
- b. The following requirements in International Standard on Auditing 710 in respect of "corresponding figures" are also not reflected in auditing standards in this SAS:

- i. "When the comparatives are presented as corresponding figures, the auditor should issue an audit report in which the comparatives are not specifically identified because the auditor's opinion is on the current period financial statements as a whole, including the corresponding figures."
- ii. "When the auditor decides to refer to another auditor, the incoming auditor's report should indicate:
  - (a) that the financial statements of the prior period were audited by another auditor;
  - (b) the type of report issued by the predecessor auditor and, if the report was modified, the reasons therefor; and
  - (c) the date of that report."
- c. Paragraphs 25 and 32 of this SAS are considered to be more appropriately expressed as guidance rather than basic principles or essential procedures.

**Effective date**

- 34. This SAS is effective for audits of financial statements for periods beginning before 15 December 2004.

## APPENDIX

### EXAMPLES OF AUDITORS' REPORTS ON FINANCIAL STATEMENTS

*General guidance on the format and wording of auditors' reports are set out in SAS 600 "Auditors' reports on financial statements".*

*The examples below are illustrative only. Auditors' reports in practice should suit the circumstances. The extent of disclosures in the financial statements and the auditors' report will depend on the circumstances prevailing in each particular case.*

Example 1: A qualified auditors' report where auditors are unable to obtain sufficient appropriate audit evidence concerning opening balances

Example 2: A qualified auditors' report where the auditors' report on the preceding period's financial statements was qualified and the subject matter of the qualification has not been resolved in the current period



**Example 1**

**A qualified auditors' report where auditors are unable to obtain sufficient appropriate audit evidence concerning opening balances**

**AUDITORS' REPORT  
TO THE SHAREHOLDERS OF XYZ LIMITED**  
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages ... to... which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of directors and auditors**

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our work was limited as explained below

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited because we were not appointed auditors of the company until 30 June 2001 and in consequence it was not possible for us to observe the counting of the physical inventories included in the preceding year's financial statements at \$.... We were unable to satisfy ourselves as to the inventory quantities at 31 December 2000 by other audit procedures and accordingly, our auditors' report on the preceding year's financial statements was qualified in that respect. Any adjustment to opening inventories as at 1 January 2001 would have a consequential effect on the profit [loss] for the year ended 31 December 2001.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Qualified opinion arising from limitation of audit scope**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2001 and, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to observe the counting of physical inventories and satisfy ourselves as to the inventories as at 1 January 2001, of its profit [loss] and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

In respect alone of the limitation on our work relating to inventories:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

\*[• we were unable to determine whether proper books of account had been kept.]

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

\*Delete where not applicable

**Example 2**

**A qualified auditors' report where the auditors' report on the preceding period's financial statements was qualified and the subject matter of the qualification has not been resolved in the current period**

**AUDITORS' REPORT  
TO THE SHAREHOLDERS OF XYZ LIMITED**  
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages ... to... which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below

**Respective responsibilities of directors and auditors**

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Qualified opinion arising from disagreement about accounting treatment**

Included in the debtors shown on the balance sheets of 31 December 2000 and 31 December 2001 is an amount of \$Y which is the subject of litigation and against which no provision has been made by the company. In our opinion full provision of \$Y should have been made by the company in the year ended 31 December 2000, reducing profit before tax for the year ended 31 December 2000 and net assets at 31 December 2000 and 31 December 2001 by that amount.

Except for the absence of this provision, in our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2001 and of its profit [loss] and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

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