

**STATEMENT OF AUDITING STANDARDS
470
OVERALL REVIEW OF FINANCIAL STATEMENTS**

(Effective for audit of financial statements for periods beginning before 15 December 2004)

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*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 on the auditors' overall review of financial statements prior to the expression of an audit opinion.
2. *The auditors should carry out such a review of the financial statements as is sufficient, in conjunction with the conclusions drawn from the other audit evidence obtained, to give them a reasonable basis for their opinion on the financial statements. (SAS 470.1)*
3. An overall review of the financial statements is performed by the auditors at the completion phase of the audit, after having accumulated audit evidence about individual items or groups of items. The performance of such a review requires appropriate levels of experience and skill.

Compliance with generally accepted accounting principles

4. *The auditors should consider whether the information presented in the financial statements is in accordance with relevant statutory requirements and whether the accounting policies employed are in accordance with applicable accounting standards and guidelines, properly disclosed, consistently applied and appropriate to the entity. (SAS 470.2)*
5. When considering whether the accounting policies adopted by management are appropriate, the auditors would have regard to matters set out below.
 - a. Policies commonly adopted in particular industries.
 - b. Policies for which there is substantial authoritative support.
 - c. Whether any departures from applicable accounting standards and guidelines are necessary for the financial statements to give a true and fair view.
 - d. Whether the financial statements reflect the substance of the underlying transactions and not merely their form.
6. In reviewing the financial statements to ensure compliance with statutory requirements, accounting standards and guidelines, and other applicable regulations, the auditors may find it helpful to use a checklist or other aide memoire.

Review for consistency and reasonableness

7. *The auditors should consider whether the financial statements as a whole and the assertions contained therein are consistent with their knowledge of the entity's business and with the results of other audit procedures, and the manner of disclosure is fair. (SAS 470.3)*

8. The principal considerations when carrying out such a review are set out below.
 - a. Whether the financial statements adequately reflect the information and explanations previously obtained and conclusions previously reached during the course of the audit.
 - b. Whether it reveals any new factors which may affect the presentation of, or disclosures in, the financial statements.
 - c. Whether the analytical procedures applied at or near the end of the audit, such as comparing the information in the financial statements with other pertinent data, produce results which assist in arriving at the overall conclusion as to whether the financial statements as a whole are consistent with the auditors' knowledge of the entity's business.
 - d. Whether the presentation adopted in the financial statements may have been unduly influenced by management's desire to present facts in a favourable or unfavourable light.
 - e. The potential impact on financial statements of the aggregate of uncorrected misstatements (including those arising from bias in making accounting estimates) identified during the course of the audit and the preceding period's audit, if any.

Compliance with International Standards on Auditing

9. No International Standard on Auditing has been issued on the auditors' overall review of financial statements prior to the expression of an audit opinion.

Effective date

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