



MEMBERS' HANDBOOK

Update No. 150

(Issued 30 June 2014)

Document Reference and Title	Instructions	Explanations
<u>VOLUME III</u>		
Contents of Volume III	Discard the existing pages i to iv, and replace with the new pages i to iv.	Revised contents pages
<u>HONG KONG STANDARDS ON AUDITING</u>		
<u>HKSA 210 (Clarified) Agreeing the Terms of Audit Engagements</u>	Replace pages 1 and 3 with revised pages 1 and 3. Insert pages 23 to 28.	Notes 1 and 2
<u>HKSA 510 (Clarified) Initial Audit Engagements – Opening Balances</u>	Replace pages 1 and 3 with revised pages 1 and 3. Insert pages 15 to 21.	- ditto -
<u>HKSA 580 (Clarified) Written Representations</u>	Replace pages 1 and 3 with revised pages 1 and 3. Insert page 16.	- ditto -
<u>HKSA 600 (Clarified) Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)</u>	Replace pages 1 and 4 with revised pages 1 and 4. Insert pages 46 to 50.	- ditto -
<u>HKSA 700 (Clarified) Forming an Opinion and Reporting on Financial Statements</u>	Replace pages 1 and 3 with revised pages 1 and 3. Insert pages 34 to 47.	- ditto -
<u>HKSA 705 (Clarified) Modifications to the Opinion in the Independent Auditor's Report</u>	Replace pages 1 and 3 with revised pages 1 and 3. Insert pages 28 to 45.	- ditto -
<u>HKSA 706 (Clarified) Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</u>	Replace pages 1 and 3 with revised pages 1 and 3. Insert pages 14 to 16.	- ditto -
<u>HKSA 710 (Clarified) Comparative Information – Corresponding Figures and Comparative Financial Statements</u>	Replace pages 1 and 3 with revised pages 1 and 3. Insert pages 19 to 28.	- ditto -

[HKSA 720 \(Clarified\) The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements](#)

Replace pages 1 and 3 with revised - ditto - pages 1 and 3. Insert page 10.

PRACTICE NOTES

[PN 600.1 \(Revised\) Reports by the auditor under the Hong Kong Companies Ordinance \(Cap.622\)](#)

Insert after PN600.1 *Reports by the Auditor under the Hong Kong Companies Ordinance* revised in December 2011. Notes 1 and 3

Notes:

1. The Auditing and Assurance Standards Committee has embarked on a project to update the relevant auditing and assurance pronouncements for the new Hong Kong Companies Ordinance (Cap. 622) ("new CO"). As part of the project, the first batch of revised pronouncements are set out below:
 - HKSA 210 (Clarified) *Agreeing the Terms of Audit Engagements*
 - HKSA 510 (Clarified) *Initial Audit Engagements – Opening Balances*
 - HKSA 580 (Clarified) *Written Representations*
 - HKSA 600 (Clarified) *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*
 - HKSA 700 (Clarified) *Forming an Opinion and Reporting on Financial Statements*
 - HKSA 705 (Clarified) *Modifications to the Opinion in the Independent Auditor's Report*
 - HKSA 706 (Clarified) *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*
 - HKSA 710 (Clarified) *Comparative Information – Corresponding Figures and Comparative Financial Statements*
 - HKSA 720 (Clarified) *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*
 - PN 600.1 (Revised) *Reports by the auditor under the Hong Kong Companies Ordinance (Cap.622)*

2. The key revisions to various HKSAs are:
 - (a) Aligned section references with the new CO;
 - (b) Revised example audit engagement letter;
 - (c) Revised example representation letter; and
 - (d) Revised example auditor's reports.

The revisions are attached to the end of each HKSA and they apply to the first financial year of companies that begins on or after the commencement date of the new Companies Ordinance and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015.)

3. The key changes made to PN 600.1 (Revised) are:
- (a) Updated the section numbers of the new CO;
 - (b) Added reporting requirements on directors' report under section 406(2) of the new CO;
 - (c) Updated disclosure requirements for the holding company's statement of financial position in consolidated financial statements;
 - (d) Added guidance for the enhanced auditor's rights under section 412 of the new CO;
 - (e) Revised reference to HKFRS 10 *Consolidated Financial Statements* in relation to the guidance on different reporting dates between the parent and the subsidiary;
 - (f) Added guidance on "Reporting exemption"
 - (g) Deleted guidance on "Special classes of companies", "Companies limited by guarantees and unlimited companies" as they are no longer relevant;
 - (h) Deleted guidance on "Redemption or purchase by a private company of its own shares out of capital (predecessor CO section 49K(5))" and example 1.2 in extant Appendix 1 as there is no requirement for attaching an auditor's report to the solvency statement under the new CO;
 - (i) Deleted section on "Statement of loans to officers (predecessor CO sections 161B and 161BA)". The guidance in relation predecessor CO section 161B is moved to paragraph 14 and the guidance in relation to predecessor CO section 161BA is deleted as predecessor CO section 161BA has been repealed by the new CO;
 - (j) For reporting under section 306(5) (predecessor CO section 79I(4)), the addressee of the report is changed to "members" of the company instead of "directors". The extant guidance that "Group financial statements are not required." is deleted to align with the new CO requirements;
 - (k) Added a "Use of Report" paragraph in the example report in relation to section 304(5) (predecessor CO section 79G(4)) in Example 1 of the Appendix; and
 - (l) Deleted extant Appendix 2 as predecessor CO section 161BA has been repealed by the new CO.

PN 600.1 (Revised) is effective for financial statements which cover a period beginning on or after 3 March 2014. Early application is not permitted.



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(Updated to June 2014)

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HKSA 210
Issued June 2009; revised July, October 2010, December 2012,
June 2014*

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

Hong Kong Standard on Auditing 210

Agreeing the Terms of Audit Engagements

* There are amendments attached to this HKSA resulting from the Hong Kong Companies Ordinance (Cap. 622) which became effective on 3 March 2014. The amendments apply to the first financial year of companies that begins on or after the commencement date of the new Companies Ordinance and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015).



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

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

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

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AMENDMENTS RESULTING FROM THE HONG KONG COMPANIES ORDINANCE (CAP. 622)

Note: The following sets out the amended text required for this Standard resulting from Hong Kong Companies Ordinance (Cap. 622) which became effective on 3 March 2014. The amended text apply to the first financial year of companies that begins on or after the commencement date of the new Companies Ordinance and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015).

Footnote 2c in paragraph 17(b):

^{2c} Auditor of a company incorporated under the Companies Ordinance who resigns or is removed from the office as auditor or where the auditor's term of office expires and not reappointed is required to comply with the requirements of sections 424 or 425 of the Companies Ordinance regarding the statement to be made by the auditor in relation to the resignation, removal or retirement.

Appendix 1:

Appendix 1

Example of an Audit Engagement Letter

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

To the directors of [ABC Company Limited]:

Objective of services

1.1 You have requested that we audit the (consolidated)* financial statements of ABC Company Limited ("the Company") (and its subsidiaries)*. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the (consolidated)* financial statements.

Responsibilities of directors

2.1 Our audit will be conducted on the basis that you acknowledge and understand that you have responsibility:

a. To prepare (consolidated)* financial statements which give a true and fair view of the financial position of the Company (and its subsidiaries)* as at the end of the financial year and of [its][their] financial performance for the financial year in accordance with [insert applicable financial reporting framework] [Hong Kong Financial Reporting Standards][Hong Kong Financial Reporting Standard for Private Entities] and the Companies Ordinance ("CO");

- b. (To ensure the subsidiary, if any, of the Company keeps accounting records that are sufficient for the Company to prepare (consolidated)* financial statements that comply with a. above.)*
- c. To take all reasonable steps to ensure the Company keeps sufficient accounting records which show and explain the transactions of the Company (and its subsidiaries)*, disclose with reasonable accuracy, at any time, the financial position and financial performance of the Company (and its subsidiaries)*;
- d. To ensure that the (consolidated)* financial statements comply with section 383 (Notes to Financial Statements to Contain Information on Directors' Emoluments etc) of the CO which must contain in the notes to the financial statements, the information prescribed by the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G);
- e. For such internal control as you determine is necessary to enable the preparation of (consolidated)* financial statements that are free from material misstatement, whether due to fraud or error;
- f. To provide us with:
 - (i) Access to all information of which you are aware that is relevant to the preparation of the (consolidated)* financial statements such as Company's accounting records and all other relevant records and documentation, including minutes of all management and shareholders' meetings and other matters;
 - (ii) Additional information that we may request from you for the purpose of the audit; and
 - (iii) Unrestricted access to persons related to the Company (and its subsidiaries)* from whom we determine it necessary to obtain audit evidence;
- g. To provide us with (i) any proposed written resolution and (ii) any other document relating to the resolution that is required to be sent to a member of the Company, or before the circulation of written resolution to a member of the Company; and
- h. To notify us any passed written resolution within 15 days after resolution is passed.

2.2 You are also responsible for the preparation and approval of the directors' report in accordance with the CO.

Responsibilities of the auditor

- 3.1 We have a statutory responsibility to prepare a report to the members to state whether in our opinion the (consolidated)* financial statements give a true and fair view of the financial position and financial performance of the Company (and its subsidiaries)* for the financial year and whether they have been properly prepared in compliance with the CO. We shall also state our opinion in the auditor's report if we are of the opinion that:
- a. adequate accounting records have not been kept by the Company (and its subsidiaries)*; or
 - b. the (consolidated)* financial statements are not in agreement with the accounting records in any material respect; and

We shall also state the fact in the auditor's report if we have failed to obtain all the information and explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

In addition, where the (consolidated)* financial statements do not contain information relating to directors' remuneration or loans to officers under section 383(1) of the CO, the CO requires us to include in our report, as far as we are reasonably able to do so, a statement giving the particulars that are required to be, but have not been, contained in the (consolidated)* financial statements.

3.2 We have a professional responsibility to report if the (consolidated)* financial statements do not comply in any material respect with [insert applicable financial reporting framework] [Hong Kong Financial Reporting Standards][Hong Kong Financial Reporting Standard for Private Entities], unless in our opinion the noncompliance is justified in the circumstances. In determining whether or not the departure is justified, we consider:

a. whether the departure is required in order for the (consolidated)* financial statements to give a true and fair view; and

b. whether adequate disclosure has been made concerning the departure.

3.3 We are required to read the information in the directors' report for the financial year to identify and report inconsistencies with the (consolidated)* financial statements. As required by the CO, if we are of the opinion that the information in the directors' report for a financial year is not consistent with the (consolidated)* financial statements for the financial year, we shall state that opinion in our auditor's report; and we may bring that opinion to the members' attention at a general meeting. However, we are not required to audit or review the director's report and accordingly we will not express an opinion or review conclusion or any assurance on it.

Scope of audit

4.1 Our audit will be conducted in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the (consolidated)* financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the (consolidated)* financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the (consolidated)* financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by you, as well as evaluating the overall presentation of the (consolidated)* financial statements.

4.2 Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with HKSA.

4.3 In making our risk assessments, we consider internal control relevant to the entity's preparation of the (consolidated)* financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the (consolidated)* financial statements that we have identified during the audit. Any such report may not be provided to third parties without our prior written consent. Such consent will be granted only on the basis that such reports are not prepared with the interests of anyone

other than the Company in mind and that we accept no duty or responsibility to any other party as concerns the reports.

- (4.4 In connection with the audit of the consolidated financial statements, we draw your attention to section 412 of the CO which gives the rights to the auditor of the holding company to require a person that is a related entity of the company to provide any information or explanation that the auditor reasonably requires for the performance of the duties as auditor of the holding company. As defined in section 412 of the CO, a related entity includes an auditor of a subsidiary undertaking.
- 4.5 In order to express an opinion on the consolidated financial statements which include the financial information of subsidiaries, joint arrangements or associates of which we are not the auditor, it will be necessary for us to communicate directly with the other auditor(s) concerned to satisfy ourselves that:
- a. so far as is practicable, there is uniformity within the Company and its subsidiaries in the application of accounting policies;
 - b. the consolidated financial statements contain the information required by the CO, applicable accounting standards and any other legislation or non-statutory requirements affecting the presentation of financial statements; and
 - c. all material aspects of the consolidated financial statements have been subjected to an audit, the nature and extent of which is adequate and reasonable, in our view, for the purpose of forming an opinion on the consolidated financial statements.)*
- 4.6 As part of our audit procedures, we will request you to provide written confirmation concerning representations which we have received from you during the course of the audit in connection with the audit. In connection with representations and the supply of information to us generally, we draw your attention to section 412 of the CO which sets out the rights of the auditor in relation to obtaining information from a person that is a related entity as defined in this section of the CO. You are also referred to section 413 of the CO which sets out the offences relating to section 412 of the CO.
- 4.7 In order to assist us with the audit of your (consolidated)* 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 (consolidated)* financial statements. We are also entitled to attend all general meetings of the Company and to receive notice of all such meetings.
- 4.8 The responsibility for safeguarding the assets of the Company (and its subsidiaries)* and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with you. However, we shall endeavour to plan our audit so that we have a reasonable expectation of detecting material misstatements in the (consolidated)* financial statements or books of account (including those resulting from fraud, error or non-compliance with law or regulations), but our audit should not be relied upon to disclose all such material misstatements or frauds, errors or instances of non-compliance as may exist.
- 4.9 (Where appropriate - Note) We shall not be treated as having notice, for the purposes of our audit responsibilities, of information provided to members of our firm other than those engaged on the audit (for example information provided in connection with accounting, taxation and other services).
- 4.10 Once we have issued our report we have no further direct responsibility in relation to the (consolidated)* financial statements for that period. However, you agree 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 (consolidated)* financial statements.

Reporting

5.1 [Insert appropriate reference to the expected form and content of the auditor's report.]

5.2 The form and content of our report may need to be amended in the light of our audit findings.

(Other services

6. 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

7. Our fees are computed on the basis of the time spent on your affairs by our 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

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

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

Yours faithfully,

ABC & Co.

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

Date

We agree to the terms of this letter.

(Signed)

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

Date

* Delete where not applicable.

Note

When accounting, taxation or other services are undertaken on behalf of an audit client, information may be provided to members of the audit firm other than those engaged on the audit. In such cases, it

AGREEING THE TERMS OF AUDIT ENGAGEMENTS

may be appropriate for the audit engagement letter to include this or a similar paragraph to indicate that the auditor is not to be treated as having notice, for the purposes of the auditor's responsibilities, of such information, to make it clear that a company would not be absolved from informing the auditor directly of a material matter.

HKSA 510
Issued September 2009; revised July 2010, June 2014*

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

Hong Kong Standard on Auditing 510

Initial Audit Engagements —Opening Balances

* There are amendments attached to this HKSA resulting from the Hong Kong Companies Ordinance (Cap. 622) which became effective on 3 March 2014. The amendments apply to the first financial year of companies that begins on or after the commencement date of the new Companies Ordinance and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015).



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

HONG KONG STANDARD ON AUDITING 510
INITIAL AUDIT ENGAGEMENTS—OPENING BALANCES

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

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Hong Kong Standard on Auditing (HKSA) 510, "Initial Audit Engagements—Opening Balances" should be read in conjunction with HKSA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing."

AMENDMENTS RESULTING FROM THE HONG KONG COMPANIES ORDINANCE (CAP. 622)

Note: The following sets out the amended text required for this Standard resulting from Hong Kong Companies Ordinance (Cap. 622) which became effective on 3 March 2014. The amended text apply to the first financial year of companies that begins on or after the commencement date of the new Companies Ordinance and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015).

Appendix

(Ref: Para. A8)

Illustrations of Auditors' Reports with Modified Opinions

Illustration 1:

Circumstances described in paragraph A8(a) include the following:

- **The auditor did not observe the counting of the physical inventory at the beginning of the current period and was unable to obtain sufficient appropriate audit evidence regarding the opening balances of inventory.**
- **The possible effects of the inability to obtain sufficient appropriate audit evidence regarding opening balances of inventory are deemed to be material but not pervasive to the entity's financial performance and cash flows.¹**
- **The financial position at year end is fairly presented.**
- **In this particular jurisdiction, law and regulation prohibit the auditor from giving an opinion which is qualified regarding the financial performance and cash flows and unmodified regarding financial position.^{1a}**
- **The entity is incorporated overseas and has reporting in Hong Kong.**

INDEPENDENT AUDITOR'S REPORT

TO THE [APPROPRIATE ADDRESSEE] OF ABC LIMITED

(incorporated in [country or place] with limited liability)^{1b}

[Report on the Financial Statements]²

We have audited the financial statements of ABC Limited ("the Company") set out on pages

¹ **If the possible effects, in the auditor's judgment, are considered to be material and pervasive to the entity's financial performance and cash flows, the auditor would disclaim an opinion on the financial performance and cash flows.**

^{1a} **This form of opinion is permitted in Hong Kong.**

^{1b} **In Hong Kong, it is a common practice to disclose the place of incorporation of the company.**

² **The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.**

to, which comprise the statement of financial position as at 31 December 20X1, and [the statement of profit or loss and]^{2a} the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors'³ Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants [and the disclosure requirements of the Hong Kong Companies Ordinance^{4a}], and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit^{4b}. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.⁶ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

We were appointed as auditors of the Company on 30 June 20X1 and thus did not observe the counting of the physical inventories at the beginning of the year. We were unable to satisfy ourselves

^{2a} HKAS 1 allows entities to present comprehensive income using either a one statement approach (i.e. a single "statement of profit or loss and other comprehensive income") or a two-statement approach (i.e. a "statement of profit or loss" together with a "statement of profit or loss and other comprehensive income"). Different terms may be used as long as they are consistent with the titles of the corresponding statements.

³ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁴ Not used.

^{4a} For a company incorporated overseas and listed in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance are applicable.

^{4b} 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".

⁵ Not used.

⁶ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

by alternative means concerning inventory quantities held at 31 December 20X0. Since opening inventories enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the financial performance for the year reported in the [statement of profit or loss and other comprehensive income][statement of profit or loss and statement of profit or loss and other comprehensive income]^{2a} and the net cash flows from operating activities reported in the statement of cash flows.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Company as at 31 December 20X1, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards [and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance]^{4a}.

Other Matter

The financial statements of the Company for the year ended 31 December 20X0 were audited by another auditor who expressed an unmodified opinion on those statements on 31 March 20X1.

[Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]²

XYZ & Co.

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

[Auditor's address]

Date of the auditor's report

Illustration 2:

Circumstances described in paragraph A8(b) include the following:

- **The auditor did not observe the counting of the physical inventory at the beginning of the current period and was unable to obtain sufficient appropriate audit evidence regarding the opening balances of inventory.**
- **The possible effects of the inability to obtain sufficient appropriate audit evidence regarding opening balances of inventory are deemed to be material but not pervasive to the entity's financial performance and cash flows.**⁷
- **The financial position at year end is fairly presented.**
- **An opinion that is qualified regarding the financial performance and cash flows and unmodified regarding financial position is considered appropriate in the circumstances.**
- **The information in the directors' report is not consistent with the financial statements.**

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ABC LIMITED

(incorporated in Hong Kong with limited liability)^{7a}

Report on the Financial Statements

We have audited the financial statements of ABC Limited ("the Company") set out on pages to, which comprise the statement of financial position as at 31 December 20X1, and [the statement of profit or loss and]^{8a} the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Directors'*⁹ *Responsibility for the Financial Statements*

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

⁷ If the possible effects, in the auditor's judgment, are considered to be material and pervasive to the entity's financial performance and cash flows, the auditor would disclaim the opinion on the financial performance and cash flows.

^{7a} In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

⁸ Not used.

^{8a} HKAS 1 allows entities to present comprehensive income using either a one statement approach (i.e. a single "statement of profit or loss and other comprehensive income") or a two-statement approach (i.e. a "statement of profit or loss" together with a "statement of profit or loss and other comprehensive income"). Different terms may be used as long as they are consistent with the titles of the corresponding statements.

⁹ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

¹⁰ Not used.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit^{10a}. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.¹² An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified opinion on the financial position and our qualified audit opinion on the financial performance and cash flows.

Basis for Qualified Opinion on the Financial Performance and Cash Flows

We were appointed as auditors of the Company on 30 June 20X1 and thus did not observe the counting of the physical inventories at the beginning of the year. We were unable to satisfy ourselves by alternative means concerning inventory quantities held at 31 December 20X0. Since opening inventories enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the financial performance for the year reported in the [statement of profit or loss and other comprehensive income][statement of profit or loss and statement of profit or loss and other comprehensive income]^{8a} and the net cash flows from operating activities reported in the statement of cash flows.

Qualified Opinion on the Financial Performance and Cash Flows

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the [statement of profit or loss and other comprehensive income][statement of profit or loss and statement of profit or loss and other comprehensive income]^{8a} and statement of cash flows give a true and fair view of the Company's financial performance and cash flows for the year ended 31 December 20X1 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Opinion on the Financial Position

In our opinion, the statement of financial position gives a true and fair view of the financial position of the Company as at 31 December 20X1 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

^{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".

¹¹ Not used.

¹² In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

Other Matter

The financial statements of the Company for the year ended 31 December 20X0 were audited by another auditor who expressed an unmodified opinion on those statements on 31 March 20X1.

Report on [Directors' Report under section 406(2) and]¹³ Other Matters under sections 407(2)¹⁴ and 407(3)¹⁴ of the Hong Kong Companies Ordinance¹⁵

[Directors' and Auditor's Respective Responsibility for the Directors' Report]¹³

In addition to the respective responsibilities of the directors and auditor stated in above section "Report on the Financial Statements", the directors are also responsible for the preparation of the directors' report as set out on pages ... to ... in accordance with the Hong Kong Companies Ordinance.

It is our responsibility to read the information in the directors' report for the year ended 31 December 20X1 as set out on pages ... to ... to identify and report inconsistencies with the financial statements. However, we have not audited or reviewed the directors' report and accordingly do not express an audit opinion or a review conclusion or any assurance conclusion on the directors' report as a whole.]

Matters on which we are required to report by exception

In accordance with the Hong Kong Companies Ordinance, we have the following matters to report. In our opinion:

- [the information given in [insert relevant paragraph/ section] in the directors' report for the year ended 31 December 20X1 is not consistent with the financial statements for the year ended 31 December 20X1. [State the details of the inconsistencies¹³.]]
- in respect alone of the inability to obtain sufficient appropriate audit evidence regarding opening balances of inventory as described in the Basis for Qualified Opinion paragraph above:
 - we were unable to determine whether adequate accounting records had been kept; and
 - we have not obtained all the information and explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

¹³ Section 406(2) of the Hong Kong Companies Ordinance (CO) requires the auditor to opine on the directors' report:

- (2) If a company's auditor is of the opinion that the information in a directors' report for a financial year is not consistent with the financial statements for the financial year, the auditor-
- (a) must state that opinion in the auditor's report; and
 - (b) may bring that opinion to the members' attention at a general meeting.

¹⁴ Section 407 of the CO requires the auditor to opine on other matters:

- (1) In preparing an auditor's report, the auditor must carry out an investigation that will enable the auditor to form an opinion as to—
- (a) whether adequate accounting records have been kept by the company; and
 - (b) whether the financial statements are in agreement with the accounting records.
- (2) A company's auditor must state the auditor's opinion in the auditor's report if the auditor is of the opinion that—
- (a) adequate accounting records have not been kept by the company; or
 - (b) the financial statements are not in agreement with the accounting records in any material respect.
- (3) If a company's auditor fails to obtain all the information or explanations that, to the best of the auditor's knowledge and belief, are necessary and material for the purpose of the audit, the auditor must state that fact in the auditor's report.
- (4) If the financial statements do not comply with section 383(1), the auditor must include in the auditor's report, so far as the auditor is reasonably able to do so, a statement giving the particulars that are required to be, but have not been, contained in the financial statements.

Where the opinion on the financial statements has been modified, the auditor needs to evaluate what the consequences of this modification are on the reporting requirement under the CO, and further modify the report if necessary.

¹⁵ For the requirements under the Hong Kong Companies Ordinance, reference may be made to PN 600.1 "Reports by auditors under the Hong Kong Companies Ordinance".

XYZ & Co.

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

[Auditor's address]

Date of the auditor's report

HKSA 580
Issued July 2009; revised July 2010, June 2014*

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

Hong Kong Standard on Auditing 580

Written Representations

* There are amendments attached to this HKSA resulting from the Hong Kong Companies Ordinance (Cap. 622) which became effective on 3 March 2014. The amendments apply to the first financial year of companies that begins on or after the commencement date of the new Companies Ordinance and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015).



Hong Kong Institute of
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香港會計師公會

HONG KONG STANDARD ON AUDITING 580**WRITTEN REPRESENTATIONS**

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

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Hong Kong Standard on Auditing (HKSA) 580, "Written Representations" should be read in conjunction with HKSA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing."

**AMENDMENTS RESULTING FROM
THE HONG KONG COMPANIES ORDINANCE (CAP. 622)**

Note: The following sets out the amended text required for this Standard resulting from Hong Kong Companies Ordinance (Cap. 622) which became effective on 3 March 2014. The amended text apply to the first financial year of companies that begins on or after the commencement date of the new Companies Ordinance and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015).

Footnote 2a in Appendix 2:

^{2a} The following additional management representations are applicable to audits of companies incorporated under the Companies Ordinance:

- We acknowledge that section 380 of the Companies Ordinance requires us to prepare financial statements which give a true and fair view of the financial position of the company as at the end of the financial year and of the financial performance of the company for the financial year.
 - We are responsible for taking all reasonable steps to ensure the company keeps proper accounting records which are sufficient to show and explain the company's transactions, disclose with reasonable accuracy at any time the company's financial position and financial performance and to ensure that the financial statements comply with the Companies Ordinance.
 - The financial statements comply with section 383 (Notes to Financial Statements to Contain Information on Directors' Emoluments etc) of the Companies Ordinance which must contain in the notes to the financial statements, the information prescribed by the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G).
 - We are responsible for the preparation of the director's report that
 - (a) complies with sections 390 (Contents of Directors' Report: General) and 543(2) (Disclosure of Management Contract) and Schedule 5 (Contents of Directors' Report: Business Review) of the Companies Ordinance;
 - (b) contains the information prescribed by the regulations made under section 452(3) (Financial Secretary May Make Other Regulations) of the Companies Ordinance; and
 - (c) complies with other requirements prescribed by the regulations made under section 452 (3) of the Companies Ordinance.
-

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

Hong Kong Standard on Auditing 600

Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)

- Conforming amendments to HKSA 600 as a result of HKSA 610 (Revised), *Using the Work of Internal Auditors* issued in July 2012 are set out at the back of HKSA 610 (Revised). These amendments are effective for audits of financial statements for periods ending on or after 15 December 2013.
- Conforming amendments to HKSA 600 as a result of HKSA 610 (Revised 2013), *Using the Work of Internal Auditors* issued in May 2013 are set out at the back of HKSA 610 (Revised 2013). These amendments are effective for audits of financial statements for periods ending on or after 15 December 2014.

* There are amendments attached to this HKSA resulting from the Hong Kong Companies Ordinance (Cap. 622) which became effective on 3 March 2014. The amendments apply to the first financial year of companies that begins on or after the commencement date of the new Companies Ordinance and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015).



Hong Kong Institute of
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SPECIAL CONSIDERATIONS—AUDITS OF GROUP FINANCIAL STATEMENTS
(INCLUDING THE WORK OF COMPONENT AUDITORS)

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Hong Kong Standard on Auditing (HKSA) 600, “Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)” should be read in conjunction with HKSA 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing.”
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AMENDMENTS RESULTING FROM THE HONG KONG COMPANIES ORDINANCE (CAP. 622)

Note: The following sets out the amended text required for this Standard resulting from Hong Kong Companies Ordinance (Cap. 622) which became effective on 3 March 2014. The amended text apply to the first financial year of companies that begins on or after the commencement date of the new Companies Ordinance and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015).

Appendix 1

Appendix 1

(Ref: Para. A19)

Example of a Qualified Opinion Where the Group Engagement Team Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion

In this example, the group engagement team is unable to obtain sufficient appropriate audit evidence relating to a significant component accounted for by the equity method (recognized at \$15 million in the statement of financial position, which reflects total assets of \$60 million) because the group engagement team did not have access to the accounting records, management, or auditor of the component^{1a}.

The group engagement team has read the audited financial statements of the component as at 31 December 20X1, including the auditor's report thereon, and considered related financial information kept by group management in relation to the component.

In the group engagement partner's judgment, the effect on the group financial statements of this inability to obtain sufficient appropriate audit evidence is material but not pervasive.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ABC LIMITED

(incorporated in Hong Kong with limited liability)^{1b}

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of ABC Limited (the "Company") and its subsidiaries set out on pages ... to ..., which comprise the consolidated statement of financial position as at 31 December 20X1, and [the consolidated statement of profit or loss and]^{1c} the consolidated statement of profit or loss and other

^{1a} Additional local guidance is provided in Appendix 6.

^{1b} In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

¹ Not used.

^{1c} HKAS 1 allows entities to present comprehensive income using either a one statement approach (i.e. a single "statement of profit or loss and other comprehensive income") or a two-statement approach (i.e. a "statement of profit or loss" together with a "statement of profit or loss and other comprehensive income"). Different terms may be used as long as they are consistent with the titles of the corresponding statements.

comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors’² Responsibility for the Consolidated Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit^{3a}. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.⁵ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Basis for Qualified Opinion

ABC Limited’s investment in XYZ Limited, a foreign associate acquired during the year and accounted for by the equity method, is carried at \$15 million on the consolidated statement of financial position as at 31 December 20X1, and ABC Limited’s share of XYZ Limited’s net income of \$1 million is included in the consolidated [statement of profit or loss][statement of profit or loss and other comprehensive income]^{1c} for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC Limited’s investment in XYZ Limited as at 31 December 20X1

² Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

³ Not used.

^{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”.

⁴ Not used.

⁵ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements, this sentence would be worded as follows: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances.”

and ABC Limited's share of XYZ Limited's net income for the year because we were denied access to the financial information, the directors, and the auditors of XYZ Limited. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 20X1, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Report on [Directors' Report under section 406(2) and]⁶ Other Matters under sections 407(2)⁷ and 407(3)⁷ of the Hong Kong Companies Ordinance⁸

[Directors' and Auditor's Respective Responsibility for the Directors' Report⁶

In addition to the respective responsibilities of the directors and auditor stated in above section "Report on the Consolidated Financial Statements", the directors of the Company are also responsible for the preparation of the directors' report as set out on pages ... to ... in accordance with the Hong Kong Companies Ordinance.

It is our responsibility to read the information in the directors' report for the year ended 31 December 20X1 as set out on pages ... to ... to identify and report inconsistencies with the consolidated financial statements. However, we have not audited or reviewed the directors' report and accordingly do not express an audit opinion or a review conclusion or any assurance conclusion on the directors' report as a whole.]

Matters on which we are required to report by exception

In accordance with the Hong Kong Companies Ordinance, we have the following matters to report. In our opinion:

- [the information given in [insert relevant paragraph/ section] in the directors' report for the year ended 31 December 20X1 is not consistent with the consolidated financial statements for the year ended 31 December 20X1. [State the details of the inconsistencies⁶.]]

⁶ Section 406(2) of the Hong Kong Companies Ordinance (CO) requires the auditor to opine on the directors' report:

- (2) If a company's auditor is of the opinion that the information in a directors' report for a financial year is not consistent with the financial statements for the financial year, the auditor-
(a) must state that opinion in the auditor's report; and
(b) may bring that opinion to the members' attention at a general meeting.

⁷ Section 407 of the CO requires the auditor to opine on other matters:

- (1) In preparing an auditor's report, the auditor must carry out an investigation that will enable the auditor to form an opinion as to—
(a) whether adequate accounting records have been kept by the company; and
(b) whether the financial statements are in agreement with the accounting records.
(2) A company's auditor must state the auditor's opinion in the auditor's report if the auditor is of the opinion that—
(a) adequate accounting records have not been kept by the company; or
(b) the financial statements are not in agreement with the accounting records in any material respect.
(3) If a company's auditor fails to obtain all the information or explanations that, to the best of the auditor's knowledge and belief, are necessary and material for the purpose of the audit, the auditor must state that fact in the auditor's report.
(4) If the financial statements do not comply with section 383(1), the auditor must include in the auditor's report, so far as the auditor is reasonably able to do so, a statement giving the particulars that are required to be, but have not been, contained in the financial statements.

Where the opinion on the financial statements has been modified, the auditor needs to evaluate what the consequences of this modification are on the reporting requirement under the CO, and further modify the report if necessary.

⁸ For the requirements under the Hong Kong Companies Ordinance, reference may be made to PN 600.1 "Reports by auditors under the Hong Kong Companies Ordinance".

SPECIAL CONSIDERATIONS—AUDITS OF GROUP FINANCIAL STATEMENTS
(INCLUDING THE WORK OF COMPONENT AUDITORS)

- in respect alone of the inability to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate as described in the Basis for Qualified Opinion paragraph above:
 - we were unable to determine whether adequate accounting records had been kept; and
 - we have not obtained all the information and explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

XYZ & Co.

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

[Auditor's address]

Date of the auditor's report

If, in the group engagement partner's judgment, the effect on the group financial statements of the inability to obtain sufficient appropriate audit evidence is material and pervasive, the group engagement partner would disclaim an opinion in accordance with HKSA 705.

Appendix 6

1. The group auditor is fully responsible for the auditor's opinion on the consolidated financial statements. Section 412 of the Companies Ordinance empowers an auditor to require information and explanation for the performance of the duties as auditor from the following persons, including:

- (a) an officer of the company;
- (b) the subsidiary undertaking;
- (c) a person who—
 - (i) is an officer or auditor of the subsidiary undertaking; or
 - (ii) was an officer or auditor of the subsidiary undertaking at the time to which the information or explanation relates; and
- (d) a person who—
 - (i) holds or is accountable for any of the subsidiary undertaking's accounting records; or
 - (ii) held or was accountable for the subsidiary undertaking's accounting records at the time to which the information or explanation relates.

If a subsidiary undertaking of a company is not a company incorporated in Hong Kong, an auditor of the company may require the company to obtain from any of the persons specified in (b) to (d) above any information or explanation that the auditor reasonably requires for the performance of the duties as auditor of the company. In accordance with paragraph 11 of this HKSA, the auditor's report on the consolidated financial statements shall not refer to the fact that the financial statements of some subsidiaries or associates have been audited by other auditors.

HKSA 700
Issued September 2009; revised July, October 2010, June 2014*

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

Hong Kong Standard on Auditing 700

Forming an Opinion and Reporting on Financial Statements

* There are amendments attached to this HKSA resulting from the Hong Kong Companies Ordinance (Cap. 622) which became effective on 3 March 2014. The amendments apply to the first financial year of companies that begins on or after the commencement date of the new Companies Ordinance and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015).



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

HONG KONG STANDARD ON AUDITING 700

FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

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

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Hong Kong Standard on Auditing (HKSA) 700, "Forming an Opinion and Reporting on Financial Statements," should be read in conjunction with HKSA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing."

AMENDMENTS RESULTING FROM THE HONG KONG COMPANIES ORDINANCE (CAP. 622)

Note: The following sets out the amended text required for this Standard resulting from Hong Kong Companies Ordinance (Cap. 622) which became effective on 3 March 2014. The amended text apply to the first financial year of companies that begins on or after the commencement date of the new Companies Ordinance and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015).

Footnote 10c in paragraph 38:

^{10c} For the requirements under the Hong Kong Companies Ordinance, reference may be made to PN 600.1 "Reports by the auditor under the Hong Kong Companies Ordinance"

Footnote 14a in paragraph A16:

^{14a} In Hong Kong, an auditor of a company incorporated under the Hong Kong Companies Ordinance has a statutory duty to prepare a report to the members of the company on the company's financial statements.

Footnote 20a in paragraph A37:

^{20a} According to section 409 of the Hong Kong Companies Ordinance required that an auditor's report must be signed –

- (a) If the auditor is a natural person, by the auditor; or
- (b) If the auditor is a firm or body corporate, by a natural person authorized to sign the auditor's name on the auditor's behalf.

In Hong Kong, the auditor's report is normally signed in the name of the firm because the firm as a whole assumes responsibility for the audit. To assist identification, the report will normally state the name of the firm of the auditor and the location of the auditor's office.

For a corporate practice, the auditor's report is signed by a director of the practice, who must be a professional accountant holding a current practising certificate. The auditor's report states the name of the corporate practice and the location of its office and is signed in the name of the corporate practice. The auditor's report also identifies the director responsible for the performance of the audit engagement contemplated by such report, and states his/her full name as appearing in his/her practising certificate and the practising certificate number.

For certain purposes, a printed copy of the auditor's report may be required to state the name of the auditor and be signed by the auditor (for example, the Hong Kong Inland Revenue Department normally requires a manuscript signed copy of the auditor's report). For published financial statements (e.g. those of listed companies) the auditor may sign the report in a form from which a final printed version is produced. In both these circumstances, the auditor may sign copies for identification purposes in order to provide appropriately signed auditor's reports, however, no further active procedures need be undertaken after the initial auditor's report has been signed.

Appendix:

Appendix

(Ref: Para. A14)

Illustrations of Auditors' Reports on Financial Statements

- Illustration 1: An auditor's report for a company incorporated in Hong Kong and where the financial statements are prepared in accordance with Hong Kong Financial Reporting Standards.
- Illustration 2: An auditor's report for a company incorporated in Hong Kong and where the financial statements are prepared in accordance with Hong Kong Small and Medium-sized Entity Financial Reporting Standard.
- Illustration 3: An auditor's report for a company incorporated in Hong Kong submitting consolidated financial statements and where the consolidated financial statements are prepared in accordance with Hong Kong Financial Reporting Standards.
- Illustration 4: An auditor's report for a company incorporated overseas and reporting in Hong Kong.
- Illustration 5: An auditor's report for a company incorporated in Hong Kong and where the financial statements are prepared in accordance with Hong Kong Financial Reporting Standards for Private Entities.
- Illustration 6: An auditor's report for a company incorporated in Hong Kong submitting consolidated financial statements and where the consolidated financial statements are prepared in accordance with Hong Kong Financial Reporting Standards for Private Entities.

Illustration 1:**Circumstances include the following:**

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

INDEPENDENT AUDITOR'S REPORT**TO THE MEMBERS OF ABC LIMITED**

(incorporated in Hong Kong with limited liability)^{1a}

[Report on the Financial Statements]¹

We have audited the financial statements of ABC Limited ("the Company") set out on pages to, which comprise the statement of financial position as at 31 December 20X1, and [the statement of profit or loss and]^{1b} the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors'² Responsibility for the Financial Statements

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

^{1a} In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

¹ The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

^{1b} HKAS 1 allows entities to present comprehensive income using either a one statement approach (i.e. a single "statement of profit or loss and other comprehensive income") or a two-statement approach (i.e. a "statement of profit or loss" together with a "statement of profit or loss and other comprehensive income"). Different terms may be used as long as they are consistent with the titles of the corresponding statements.

² Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

³ Not used.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit^{3a}. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.⁵ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 20X1, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

[Report on Other Legal and Regulatory Requirements]

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]^{1, 5a}

XYZ & Co.

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

[Auditor's address]

Date of the auditor's report

^{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 "Auditor's Duty of Care To Third Parties and The Audit Report".

⁴ Not used

⁵ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

^{5a} For further guidance on non-compliance with the Hong Kong Companies Ordinance, refer to HKSA 705 "Modifications to the Opinion in the Independent Auditor's Report", Appendix, Illustrations 3, 4 and 5.

Illustration 2

Illustration 2 is being exposed as part of PN 900 "Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard". The exposure draft is available at <http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/exposure-drafts/>

Illustration 3:**Circumstances include the following:**

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

INDEPENDENT AUDITOR'S REPORT**TO THE MEMBERS OF ABC LIMITED**

(incorporated in Hong Kong with limited liability)^{7b}

[Report on the Consolidated Financial Statements]⁸

We have audited the consolidated financial statements of ABC Limited ("the Company") and its subsidiaries set out on pages to, which comprise the consolidated statement of financial position as at 31 December 20X1, and [the consolidated statement of profit or loss and]^{8a} the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors⁹ Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our

^{7b} In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

⁸ The sub-title "Report on the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

^{8a} HKAS 1 allows entities to present comprehensive income using either a one statement approach (i.e. a single "statement of profit or loss and other comprehensive income") or a two-statement approach (i.e. a "statement of profit or loss" together with a "statement of profit or loss and other comprehensive income"). Different terms may be used as long as they are consistent with the titles of the corresponding statements.

⁹ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

¹⁰ Not used.

audit^{10a}. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.¹² An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 20X1, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]^{8, 12a}

XYZ & Co.

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

[Auditor's address]

Date of the auditor's report

^{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 "Auditor's Duty of Care To Third Parties and The Audit Report".

¹¹ Not used.

¹² In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

^{12a} For further guidance on non-compliance with the Hong Kong Companies Ordinance, refer to HKSA 705 "Modifications to the Opinion in the Independent Auditor's Report", Appendix, Illustrations 3, 4 and 5.

Illustration 4:**Circumstances include the following:**

- **Audit of a complete set of financial statements.**
- **The financial statements are prepared for a general purpose by directors of the entity in accordance with Hong Kong Financial Reporting Standards.**
- **The terms of the audit engagement reflect the description of directors' responsibility for the financial statements in HKSA 210.**
- **The entity is incorporated overseas and has reporting in Hong Kong.**

INDEPENDENT AUDITOR'S REPORT

TO THE [APPROPRIATE ADDRESSEE] OF ABC LIMITED

(incorporated in [country or place] with limited liability)¹³

[Report on the Financial Statements]¹⁴

We have audited the financial statements of ABC Limited ("the Company") set out on pages to, which comprise the statement of financial position as at 31 December 20X1, and [the statement of profit or loss and]¹⁵ the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' ¹⁶ Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants¹⁷ [and the disclosure requirements of the Hong Kong Companies Ordinance¹⁸], and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

¹⁴ The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

¹⁵ HKAS 1 allows entities to present comprehensive income using either a one statement approach (i.e. a single "statement of profit or loss and other comprehensive income") or a two-statement approach (i.e. a "statement of profit or loss" together with a "statement of profit or loss and other comprehensive income"). Different terms may be used as long as they are consistent with the titles of the corresponding statements.

¹⁶ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

¹⁷ It may be necessary to refer to International Financial Reporting Standards or other national accounting standards and/ or other national legal requirements depending on the jurisdiction in which the company is incorporated.

¹⁸ For a company incorporated overseas and listed in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance are applicable.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit¹⁹. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.²⁰ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 20X1, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards [and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance]¹⁸.

[Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]¹⁴

XYZ & Co.

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

[Auditor's address]

Date of the auditor's report

¹⁹ Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditor's Duty of Care To Third Parties and The Audit Report".

²⁰ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

Illustration 5:**Circumstances include the following:**

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

INDEPENDENT AUDITOR'S REPORT**TO THE MEMBERS OF ABC LIMITED**

(incorporated in Hong Kong with limited liability)²¹

[Report on the Financial Statements]²²

We have audited the financial statements of ABC Limited ("the Company") set out on pages to, which comprise the statement of financial position as at 31 December 20X1, and the [[income statement][statement of comprehensive income]²³, statement of changes in equity][statement of income and retained earnings]²⁴ and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors'²⁵ Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit²⁶. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong

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

²² The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

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

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

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

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

Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 20X1, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards for Private Entities and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

[Report on Other Legal and Regulatory Requirements]

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]^{22, 28}

XYZ & Co.

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

[Auditor's address]

Date of the auditor's report

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

²⁸ For further guidance on non-compliance with the Hong Kong Companies Ordinance, refer to HKSA 705 "Modifications to the Opinion in the Independent Auditor's Report", Appendix, Illustrations 3, 4 and 5.

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

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

INDEPENDENT AUDITOR'S REPORT**TO THE MEMBERS OF ABC LIMITED**

(incorporated in Hong Kong with limited liability)²⁹

[Report on the Consolidated Financial Statements]³⁰

We have audited the consolidated financial statements of ABC Limited ("the Company") and its subsidiaries set out on pages to, which comprise the consolidated statement of financial position as at 31 December 20X1, and the consolidated [[income statement][statement of comprehensive income]³¹, the consolidated statement of changes in equity³² [[statement of income and retained earnings]³² and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors³³ Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our

²⁹ In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

³⁰ The sub-title "Report on the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

³¹ Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

³² According to paragraph 3.18 of the HKFRS for Private Entities, the entity may present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity.

³³ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

audit³⁴. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.³⁵ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 20X1, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards for Private Entities and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

[Report on Other Legal and Regulatory Requirements]

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]^{30, 36}

XYZ & Co.

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

[Auditor's address]

Date of the auditor's report

³⁴ Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditor's Duty of Care To Third Parties and The Audit Report".

³⁵ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

³⁶ For further guidance on non-compliance with the Hong Kong Companies Ordinance, refer to HKSA 705 "Modifications to the Opinion in the Independent Auditor's Report", Appendix, Illustrations 3, 4 and 5.

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

Hong Kong Standard on Auditing 705

Modifications to the Opinion in the Independent Auditor's Report

* There are amendments attached to this HKSA resulting from the Hong Kong Companies Ordinance (Cap. 622) which became effective on 3 March 2014. The amendments apply to the first financial year of companies that begins on or after the commencement date of the new Companies Ordinance and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015).



HONG KONG STANDARD ON AUDITING 705
MODIFICATIONS TO THE OPINION IN THE INDEPENDENT
AUDITOR'S REPORT

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

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Hong Kong Standard on Auditing (HKSA) 705, "Modifications to the Opinion in the Independent Auditor's Report" should be read in conjunction with HKSA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing."

**AMENDMENTS RESULTING FROM
THE HONG KONG COMPANIES ORDINANCE (CAP. 622)**

Note: The following sets out the amended text required for this Standard resulting from Hong Kong Companies Ordinance (Cap. 622) which became effective on 3 March 2014. The amended text apply to the first financial year of companies that begins on or after the commencement date of the new Companies Ordinance and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015).

Footnote 3a in paragraph 27:

^{3a} In Hong Kong, an auditor of a company incorporated under the Hong Kong Companies Ordinance has a statutory duty to prepare a report to the members of the company on the company's annual financial statements. Accordingly, an auditor in Hong Kong adheres to the requirements under paragraphs 29 and 30 of HKSA 700 which require that the auditor's report should state the auditor's responsibility and give details of the basis of an audit. Illustrations 4 and 5 of the Appendix reflect the auditor's duty under the Hong Kong Companies Ordinance.

Appendix:

...

Illustration 1:

Circumstances include the following:

- **Audit of a complete set of general purpose financial statements prepared by the directors of the entity in accordance with Hong Kong Financial Reporting Standards.**
- **The terms of the audit engagement reflect the description of directors' responsibility for the financial statements in HKSA 210.¹**
- **Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law in addition to the Hong Kong Companies Ordinance.**

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ABC LIMITED

(incorporated in Hong Kong with limited liability)^{1a}

[Report on the Financial Statements]²

¹ HKSA 210, "Agreeing the Terms of Audit Engagements."

^{1a} In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

² The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

We have audited the financial statements of ABC Limited ("the Company") set out on pages to, which comprise the statement of financial position as at 31 December 20X1, and [the statement of profit or loss and]^{2a} the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors'³ Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit^{4a}. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.⁶ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

The Company's inventories are carried in the statement of financial position at xxx. The directors have not stated the inventories at the lower of cost and net realizable value but have stated them solely at cost, which constitutes a departure from Hong Kong Financial Reporting Standards. The Company's records indicate that had the directors stated the inventories at the lower of cost and net realizable value, an amount of xxx would have been required to write the inventories down to their net realizable value.

^{2a} HKAS 1 allows entities to present comprehensive income using either a one statement approach (i.e. a single "statement of profit or loss and other comprehensive income") or a two-statement approach (i.e. a "statement of profit or loss" together with a "statement of profit or loss and other comprehensive income"). Different terms may be used as long as they are consistent with the titles of the corresponding statements.

³ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁴ Not used.

^{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".

⁵ Not used.

⁶ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

Accordingly, cost of sales would have been increased by xxx, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Company as at 31 December 20X1, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

[Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]²

XYZ & Co.

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

[Auditor's address]

Date of the auditor's report

Illustration 2:

Circumstances include the following:

- **Audit of consolidated general purpose financial statements prepared by the directors of the parent in accordance with Hong Kong Financial Reporting Standards.**
- **The terms of the group audit engagement reflect the description of directors' responsibility for the financial statements in HKSA 210.**
- **The financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the financial statements. The effects of the misstatement on the financial statements have not been determined because it was not practicable to do so.**
- **In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law in addition to the Hong Kong Companies Ordinance. Assume compliance with Hong Kong Companies Ordinance on non-consolidation of a subsidiary.**

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ABC LIMITED

(incorporated in Hong Kong with limited liability)^{6a}

[Report on the Consolidated Financial Statements]⁷

We have audited the consolidated financial statements of ABC Limited ("the Company") and its subsidiaries set out on pages to, which comprise the consolidated statement of financial position as at 31 December 20X1, and [the consolidated statement of profit or loss and]^{7a} the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors⁸ Responsibility for the Consolidated Financial Statements

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

^{6a} In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

⁷ The sub-title "Report on the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

^{7a} HKAS 1 allows entities to present comprehensive income using either a one statement approach (i.e. a single "statement of profit or loss and other comprehensive income") or a two-statement approach (i.e. a "statement of profit or loss" together with a "statement of profit or loss and other comprehensive income"). Different terms may be used as long as they are consistent with the titles of the corresponding statements.

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

⁹ Not used.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit^{9a}. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.¹¹ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Basis for Adverse Opinion

As explained in Note X, the Company has not consolidated the financial statements of subsidiary DEF Limited it acquired during 20X1 because it has not yet been able to ascertain the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under Hong Kong Financial Reporting Standards, the subsidiary should have been consolidated because it is controlled by the Company. Had DEF been consolidated, many elements in the financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the consolidated financial statements do not give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 20X1, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the Hong Kong Companies Ordinance.^{11a}

[Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]]⁷

^{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".

¹⁰ Not used

¹¹ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

^{11a} Assume the consolidated financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance in all other respects.

MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

XYZ & Co.

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

[Auditor's address]

Date of the auditor's report

Illustration 3:

Circumstances include the following:

- **Audit of a complete set of general purpose financial statements prepared by the directors of the entity in accordance with Hong Kong Financial Reporting Standards.**
- **The terms of the audit engagement reflect the description of directors' responsibility for the financial statements in HKSA 210.**
- **The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the financial statements.**
- **In addition to the audit of the financial statements, the auditor has no other reporting responsibilities required under local law except for the Hong Kong Companies Ordinance.**
- **The information in the directors' report is not consistent with the financial statements.**

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ABC LIMITED

(incorporated in Hong Kong with limited liability)^{11b}

Report on the Financial Statements

We have audited the financial statements of ABC Limited ("the Company") set out on pages to, which comprise the statement of financial position as at 31 December 20X1, and [the statement of profit or loss and]^{12a} the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors'¹³ Responsibility for the Financial Statements

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

^{11b} In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

¹² Not used.

^{12a} HKAS 1 allows entities to present comprehensive income using either a one statement approach (i.e. a single "statement of profit or loss and other comprehensive income") or a two-statement approach (i.e. a "statement of profit or loss" together with a "statement of profit or loss and other comprehensive income"). Different terms may be used as long as they are consistent with the titles of the corresponding statements.

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

¹⁴ Not used.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit^{14a}. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.¹⁶ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

ABC Limited's investment in DEF Limited, a foreign associate acquired during the year and accounted for by the equity method, is carried at xxx on the statement of financial position as at 31 December 20X1, and ABC's share of DEF's net income of xxx is included in ABC's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in DEF as at 31 December 20X1 and ABC's share of DEF's net income for the year because we were denied access to the financial information, management, and the auditors of DEF. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Company as at 31 December 20X1, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

^{14a} 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".

¹⁵ Not used.

¹⁶ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

Report on [Directors' Report under section 406(2) and]^{16a} Other Matters under sections 407(2)^{16b} and 407(3)^{16b} of the Hong Kong Companies Ordinance^{16c}

[Directors' and Auditor's Respective Responsibility for the Directors' Report^{16a}

In addition to the respective responsibilities of the directors and auditor stated in above section "Report on the Financial Statements", the directors are also responsible for the preparation of the directors' report as set out on pages ... to ... in accordance with the Hong Kong Companies Ordinance.

It is our responsibility to read the information in the directors' report for the year ended 31 December 20X1 as set out on pages ... to ... to identify and report inconsistencies with the financial statements. However, we have not audited or reviewed the directors' report and accordingly do not express an audit opinion or a review conclusion or any assurance conclusion on the directors' report as a whole.]

Matters on which we are required to report by exception

In accordance with the Hong Kong Companies Ordinance, we have the following matters to report. In our opinion:

- [the information given in [insert relevant paragraph/ section] in the directors' report for the year ended 31 December 20X1 is not consistent with the financial statements for the year ended 31 December 20X1. [State the details of the inconsistencies^{16a}.]]
- in respect alone of the inability to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate as described in the Basis for Qualified Opinion paragraph above:
 - we were unable to determine whether adequate accounting records had been kept; and
 - we have not obtained all the information and explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

^{16a} Section 406(2) of the Hong Kong Companies Ordinance (CO) requires the auditor to opine on the directors' report:

- (2) If a company's auditor is of the opinion that the information in a directors' report for a financial year is not consistent with the financial statements for the financial year, the auditor-
- (a) must state that opinion in the auditor's report; and
 - (b) may bring that opinion to the members' attention at a general meeting.

^{16b} Section 407 of the CO requires the auditor to opine on other matters:

- (1) In preparing an auditor's report, the auditor must carry out an investigation that will enable the auditor to form an opinion as to—
- (a) whether adequate accounting records have been kept by the company; and
 - (b) whether the financial statements are in agreement with the accounting records.
- (2) A company's auditor must state the auditor's opinion in the auditor's report if the auditor is of the opinion that—
- (a) adequate accounting records have not been kept by the company; or
 - (b) the financial statements are not in agreement with the accounting records in any material respect.
- (3) If a company's auditor fails to obtain all the information or explanations that, to the best of the auditor's knowledge and belief, are necessary and material for the purpose of the audit, the auditor must state that fact in the auditor's report.
- (4) If the financial statements do not comply with section 383(1), the auditor must include in the auditor's report, so far as the auditor is reasonably able to do so, a statement giving the particulars that are required to be, but have not been, contained in the financial statements.

Where the opinion on the financial statements has been modified, the auditor needs to evaluate what the consequences of this modification are on the reporting requirement under the CO, and further modify the report if necessary.

^{16c} For the requirements under the Hong Kong Companies Ordinance, reference may be made to PN 600.1 "Reports by auditors under the Hong Kong Companies Ordinance".

MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

XYZ & Co.

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

[Auditor's address]

Date of the auditor's report

Illustration 4:

Circumstances include the following:

- **Audit of a complete set of general purpose financial statements prepared by the directors of the entity in accordance with Hong Kong Financial Reporting Standards.**
- **The terms of the audit engagement reflect the description of directors' responsibility for the financial statements in HKSA 210.**
- **The auditor was unable to obtain sufficient appropriate audit evidence about a single element of the financial statements. That is, the auditor was also unable to obtain audit evidence about the financial information of a joint venture investment that represents over 90% of the company's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements.**
- **In addition to the audit of the financial statements, the auditor has no other reporting responsibilities required under local law except for the Hong Kong Companies Ordinance.**
- **The information in the directors' report is not consistent with the financial statements.**

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ABC LIMITED

(incorporated in Hong Kong with limited liability)^{16d}

Report on the Financial Statements

We were engaged to audit the financial statements of ABC Limited ("the Company") set out on pages to, which comprise the statement of financial position as at 31 December 20X1, and [the statement of profit or loss and]^{17a} the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors'¹⁸ Responsibility for the Financial Statements

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

^{16d} In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

¹⁷ Not used.

^{17a} HKAS 1 allows entities to present comprehensive income using either a one statement approach (i.e. a single "statement of profit or loss and other comprehensive income") or a two-statement approach (i.e. a "statement of profit or loss" together with a "statement of profit or loss and other comprehensive income"). Different terms may be used as long as they are consistent with the titles of the corresponding statements.

¹⁸ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

¹⁹ Not used.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit^{19a}. Except for the inability to obtain sufficient appropriate audit evidence as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.^{19b} Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The Company's investment in its joint venture DEF (Country X) Limited is carried at xxx on the Company's statement of financial position, which represents over 90% of the Company's net assets as at 31 December 20X1. We were not allowed access to the management and the auditors of DEF, including DEF's auditors' audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of the Company's proportional share of DEF's assets that it controls jointly, its proportional share of DEF's liabilities for which it is jointly responsible, its proportional share of DEF's income and expenses for the year, and the elements making up the statement of changes in equity and statement of cash flows.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements. In all other respects, in our opinion the financial statements have been properly prepared in compliance with the Hong Kong Companies Ordinance.

^{19a} 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".

^{19b} In Hong Kong, an auditor of a company incorporated under the Hong Kong Companies Ordinance has a statutory duty to prepare a report to the members of the company on the company's annual financial statements. Accordingly, an auditor in Hong Kong adheres to the requirements under paragraphs 29 and 30 of HKSA 700 which require that the auditor's report should state the auditor's responsibility and give details of the basis of an audit. Illustrations 4 and 5 of the Appendix reflect the auditor's duty under the Hong Kong Companies Ordinance.

Report on [Directors' Report under section 406(2) and]^{19c} Other Matters under sections 407(2)^{19d} and 407(3)^{19d} of the Hong Kong Companies Ordinance^{19e}

[Directors' and Auditor's Respective Responsibility for the Directors' Report]^{19c}

In addition to the respective responsibilities of the directors and auditor stated in above section "Report on the Financial Statements", the directors are also responsible for the preparation of the directors' report as set out on pages ... to ... in accordance with the Hong Kong Companies Ordinance.

It is our responsibility to read the information in the directors' report for the year ended 31 December 20X1 as set out on pages ... to ... to identify and report inconsistencies with the financial statements. However, we have not audited or reviewed the directors' report and accordingly do not express an audit opinion or a review conclusion or any assurance conclusion on the directors' report as a whole.]

Matters on which we are required to report by exception

In accordance with the Hong Kong Companies Ordinance, we have the following matters to report. In our opinion:

- [the information given in [insert relevant paragraph/ section] in the directors' report for the year ended 31 December 20X1 is not consistent with the financial statements for the year ended 31 December 20X1. [State the details of the inconsistencies^{19c}.]]
- in respect alone of the inability to obtain sufficient appropriate audit evidence regarding an investment in a joint venture as described in the Basis for Disclaimer of Opinion paragraph above:
 - we were unable to determine whether adequate accounting records had been kept; and
 - we have not obtained all the information and explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

XYZ & Co.

^{19c} Section 406(2) of the Hong Kong Companies Ordinance (CO) requires the auditor to opine on the directors' report:

- (2) If a company's auditor is of the opinion that the information in a directors' report for a financial year is not consistent with the financial statements for the financial year, the auditor-
- (a) must state that opinion in the auditor's report; and
 - (b) may bring that opinion to the members' attention at a general meeting.

^{19d} Section 407 of the CO requires the auditor to opine on other matters:

- (1) In preparing an auditor's report, the auditor must carry out an investigation that will enable the auditor to form an opinion as to—
- (a) whether adequate accounting records have been kept by the company; and
 - (b) whether the financial statements are in agreement with the accounting records.
- (2) A company's auditor must state the auditor's opinion in the auditor's report if the auditor is of the opinion that—
- (a) adequate accounting records have not been kept by the company; or
 - (b) the financial statements are not in agreement with the accounting records in any material respect.
- (3) If a company's auditor fails to obtain all the information or explanations that, to the best of the auditor's knowledge and belief, are necessary and material for the purpose of the audit, the auditor must state that fact in the auditor's report.
- (4) If the financial statements do not comply with section 383(1), the auditor must include in the auditor's report, so far as the auditor is reasonably able to do so, a statement giving the particulars that are required to be, but have not been, contained in the financial statements.

Where the opinion on the financial statements has been modified, the auditor needs to evaluate what the consequences of this modification are on the reporting requirement under the CO, and further modify the report if necessary.

^{19e} For the requirements under the Hong Kong Companies Ordinance, reference may be made to PN 600.1 "Reports by auditors under the Hong Kong Companies Ordinance".

MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

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

[Auditor's address]

Date of the auditor's report

Illustration 5:

Circumstances include the following:

- **Audit of a complete set of general purpose financial statements prepared by the directors of the entity in accordance with Hong Kong Financial Reporting Standards.**
- **The terms of the audit engagement reflect the description of directors' responsibility for the financial statements in HKSA 210.**
- **The auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial statements. That is, the auditor was unable to obtain audit evidence about the entity's inventories and accounts receivable. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements.**
- **In addition to the audit of the financial statements, the auditor has no other reporting responsibilities required under local law except for the Hong Kong Companies Ordinance.**
- **The information in the directors' report is not consistent with the financial statements.**

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ABC LIMITED

(incorporated in Hong Kong with limited liability)^{19f}

Report on the Financial Statements

We were engaged to audit the financial statements of ABC Limited ("the Company") set out on pages to, which comprise the statement of financial position as at 31 December 20X1, and [the statement of profit or loss and]^{20a} the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors'²¹ Responsibility for the Financial Statements

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

^{19f} In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

²⁰ Not used.

^{20a} HKAS 1 allows entities to present comprehensive income using either a one statement approach (i.e. a single "statement of profit or loss and other comprehensive income") or a two-statement approach (i.e. a "statement of profit or loss" together with a "statement of profit or loss and other comprehensive income"). Different terms may be used as long as they are consistent with the titles of the corresponding statements.

²¹ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

²² Not used.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit^{22a}. Except for the inability to obtain sufficient appropriate audit evidence as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.^{22b} Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

We were not appointed as auditors of the Company until after 31 December 20X1 and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at 31 December 20X0 and 20X1 which are stated in the statement of financial position at xxx and xxx, respectively. In addition, the introduction of a new computerized accounts receivable system in September 20X1 resulted in numerous errors in accounts receivable. As of the date of our audit report, the directors were still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the statement of financial position at a total amount of xxx as at 31 December 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up [the statement of profit or loss and] ^{20a} the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements. In all other respects, in our opinion the financial statements have been properly prepared in compliance with the Hong Kong Companies Ordinance.

^{22a} 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".

^{22b} In Hong Kong, an auditor of a company incorporated under the Hong Kong Companies Ordinance has a statutory duty to prepare a report to the members of the company on the company's annual financial statements. Accordingly, an auditor in Hong Kong adheres to the requirements under paragraphs 29 and 30 of HKSA 700 which require that the auditor's report should state the auditor's responsibility and give details of the basis of an audit. Illustrations 4 and 5 of the Appendix reflect the auditor's duty under the Hong Kong Companies Ordinance.

Report on [Directors' Report under section 406(2) and]^{22c} Other Matters under sections 407(2)^{22d} and 407(3)^{22d} of the Hong Kong Companies Ordinance^{22e}

[Directors' and Auditor's Respective Responsibility for the Directors' Report^{22c}

In addition to the respective responsibilities of the directors and auditor stated in above section "Report on the Financial Statements", the directors are also responsible for the preparation of the directors' report as set out on pages ... to ... in accordance with the Hong Kong Companies Ordinance.

It is our responsibility to read the information in the directors' report for the year ended 31 December 20X1 as set out on pages ... to ... to identify and report inconsistencies with the financial statements. However, we have not audited or reviewed the directors' report and accordingly do not express an audit opinion or a review conclusion or any assurance conclusion on the directors' report as a whole.]

Matters on which we are required to report by exception

In accordance with the Hong Kong Companies Ordinance, we have the following matters to report. In our opinion:

- [the information given in [insert relevant paragraph/ section] in the directors' report for the year ended 31 December 20X1 is not consistent with the financial statements for the year ended 31 December 20X1. [State the details of the inconsistencies^{22c}.]]
- in respect alone of the inability to obtain sufficient appropriate audit evidence about the inventories and accounts receivable as described in the Basis for Disclaimer of Opinion paragraph above:
 - we were unable to determine whether adequate accounting records had been kept; and
 - we have not obtained all the information and explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

^{22c} Section 406(2) of the Hong Kong Companies Ordinance (CO) requires the auditor to opine on the directors' report:

- (2) If a company's auditor is of the opinion that the information in a directors' report for a financial year is not consistent with the financial statements for the financial year, the auditor-
- (a) must state that opinion in the auditor's report; and
 - (b) may bring that opinion to the members' attention at a general meeting.

^{22d} Section 407 of the CO requires the auditor to opine on other matters:

- (1) In preparing an auditor's report, the auditor must carry out an investigation that will enable the auditor to form an opinion as to—
- (a) whether adequate accounting records have been kept by the company; and
 - (b) whether the financial statements are in agreement with the accounting records.
- (2) A company's auditor must state the auditor's opinion in the auditor's report if the auditor is of the opinion that—
- (a) adequate accounting records have not been kept by the company; or
 - (b) the financial statements are not in agreement with the accounting records in any material respect.
- (3) If a company's auditor fails to obtain all the information or explanations that, to the best of the auditor's knowledge and belief, are necessary and material for the purpose of the audit, the auditor must state that fact in the auditor's report.
- (4) If the financial statements do not comply with section 383(1), the auditor must include in the auditor's report, so far as the auditor is reasonably able to do so, a statement giving the particulars that are required to be, but have not been, contained in the financial statements.

Where the opinion on the financial statements has been modified, the auditor needs to evaluate what the consequences of this modification are on the reporting requirement under the CO, and further modify the report if necessary.

^{22e} For the requirements under the Hong Kong Companies Ordinance, reference may be made to PN 600.1 "Reports by auditors under the Hong Kong Companies Ordinance".

MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

XYZ & Co.

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

[Auditor's address]

Date of the auditor's report

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

Hong Kong Standard on Auditing 706

Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

* There are amendments attached to this HKSA resulting from the Hong Kong Companies Ordinance (Cap. 622) which became effective on 3 March 2014. The amendments apply to the first financial year of companies that begins on or after the commencement date of the new Companies Ordinance and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015).



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

HONG KONG STANDARD ON AUDITING 706

EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT

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

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Hong Kong Standard on Auditing (HKSA) 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report" should be read in conjunction with HKSA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing."

AMENDMENTS RESULTING FROM THE HONG KONG COMPANIES ORDINANCE (CAP. 622)

Note: The following sets out the amended text required for this Standard resulting from Hong Kong Companies Ordinance (Cap. 622) which became effective on 3 March 2014. The amended text apply to the first financial year of companies that begins on or after the commencement date of the new Companies Ordinance and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015).

Appendix 3

(Ref: Para. A4)

Illustration of an Auditor's Report that Includes an Emphasis of Matter Paragraph

Circumstances include the following:

- **Audit of a complete set of general purpose financial statements prepared by the directors of the entity in accordance with Hong Kong Financial Reporting Standards.**
- **The terms of the audit engagement reflect the description of directors' responsibility for the financial statements in HKSA 210.¹**
- **There is uncertainty relating to a pending exceptional litigation matter.**
- **A departure from the applicable financial reporting framework resulted in a qualified opinion.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law in addition to the Hong Kong Companies Ordinance.**

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ABC LIMITED

(incorporated in Hong Kong with limited liability)^{1a}

[Report on the Financial Statements]²

We have audited the financial statements of ABC Limited ("the Company") set out on pages to, which comprise the statement of financial position as at 31 December 20X1, and the [statement of profit or loss and]^{2a} statement of profit or loss and other comprehensive income.

¹ HKSA 210, "Agreeing the Terms of Audit Engagements"

^{1a} In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

² The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

^{2a} HKAS 1 allows entities to present comprehensive income using either a one statement approach (i.e. a single "statement of profit or loss and other comprehensive income") or a two-statement approach (i.e. a "statement of profit or loss" together with a "statement of profit or loss and other comprehensive income"). Different terms may be used as long as they are consistent with the titles of the corresponding statements.

statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors'³ Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit^{4a}. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.⁶ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

The Company's short-term marketable securities are carried in the statement of financial position at xxx. The directors have not marked these securities to market but have instead stated them at cost, which constitutes a departure from Hong Kong Financial Reporting Standards. The Company's records indicate that had the directors marked the marketable securities to market, the Company would have recognized an unrealized loss of xxx in [the statement of profit or loss and]^{2a} the statement of profit or loss and other comprehensive income for the year. The carrying amount of the securities in the statement of financial position would have been reduced by the same amount at 31 December 20X1, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

³ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁴ Not used.

^{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".

⁵ Not used.

⁶ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Company as at 31 December 20X1, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Emphasis of Matter

We draw attention to Note X to the financial statements which describes the uncertainty⁷ related to the outcome of the lawsuit filed against the Company by DEF Company. Our opinion is not qualified in respect of this matter.

[Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]²

XYZ & Co.

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

[Auditor's address]

Date of the auditor's report

⁷ In highlighting the uncertainty, the auditor uses the same terminology that is used in the note to the financial statements.

HKSA 710
Issued September 2009; revised July 2010, June 2014*

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

Hong Kong Standard on Auditing 710

Comparative Information— Corresponding Figures and Comparative Financial Statements

* There are amendments attached to this HKSA resulting from the Hong Kong Companies Ordinance (Cap. 622) which became effective on 3 March 2014. The amendments apply to the first financial year of companies that begins on or after the commencement date of the new Companies Ordinance and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015).



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

HONG KONG STANDARD ON AUDITING 710
COMPARATIVE INFORMATION—
CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL STATEMENTS

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

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Hong Kong Standard on Auditing (HKSA) 710, "Comparative Information—Corresponding Figures and Comparative Financial Statements" should be read in conjunction with HKSA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing."
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AMENDMENTS RESULTING FROM THE HONG KONG COMPANIES ORDINANCE (CAP. 622)

Note: The following sets out the amended text required for this Standard resulting from Hong Kong Companies Ordinance (Cap. 622) which became effective on 3 March 2014. The amended text apply to the first financial year of companies that begins on or after the commencement date of the new Companies Ordinance and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015).

Appendix 1:

Appendix 1

Illustrations of Auditors' Reports

Illustration 1 - Corresponding Figures (Ref: Para. A5)

Report illustrative of the circumstances described in paragraph 11(a), as follows:

- **The auditor's report on the prior period, as previously issued, included a qualified opinion.**
- **The matter giving rise to the modification is unresolved.**
- **The effects or possible effects of the matter on the current period's figures are material and require a modification to the auditor's opinion regarding the current period figures.**

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ABC LIMITED

(incorporated in Hong Kong with limited liability)^{1a}

[Report on the Financial Statements]¹

We have audited the financial statements of ABC Limited ("the Company") set out on pages to, which comprise the statement of financial position as at 31 December 20X1, and [the statement of profit or loss and]^{1b} the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

^{1a} In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

¹ The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

^{1b} HKAS 1 allows entities to present comprehensive income using either a one statement approach (i.e. a single "statement of profit or loss and other comprehensive income") or a two-statement approach (i.e. a "statement of profit or loss" together with a "statement of profit or loss and other comprehensive income"). Different terms may be used as long as they are consistent with the titles of the corresponding statements.

Directors'² Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit^{3a}. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.⁵ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements, which constitutes a departure from Hong Kong Financial Reporting Standards. This is the result of a decision taken by the directors at the start of the preceding financial year and caused us to qualify our audit opinion on the financial statements relating to that year. Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by xxx in 20X1 and xxx in 20X0, property, plant and equipment should be reduced by accumulated depreciation of xxx in 20X1 and xxx in 20X0, and the accumulated loss should be increased by xxx in 20X1 and xxx in 20X0.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Company as at 31 December 20X1, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

² Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

³ Not used.

^{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".

⁴ Not used.

⁵ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

[Report on Other Legal and Regulatory Requirements]

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]¹

XYZ & Co.

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

[Auditor's address]

Date of the auditor's report

Illustration 2 - Corresponding Figures (Ref: Para. A5)

Report illustrative of the circumstances described in paragraph 11(b), as follows:

- **The auditor's report on the prior period, as previously issued, included a qualified opinion.**
- **The matter giving rise to the modification is unresolved.**
- **The effects or possible effects of the matter on the current period's figures are immaterial but require a modification to the auditor's opinion because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.**

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ABC LIMITED

(incorporated in Hong Kong with limited liability)^{5a}

[Report on the Financial Statements]⁶

We have audited the financial statements of ABC Limited ("the Company") set out on pages to, which comprise the statement of financial position as at 31 December 20X1, and [the statement of profit or loss and]^{6a} the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors'⁷ Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit ^{8a}. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

^{5a} In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

⁶ The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

^{6a} HKAS 1 allows entities to present comprehensive income using either a one statement approach (i.e. a single "statement of profit or loss and other comprehensive income") or a two-statement approach (i.e. a "statement of profit or loss" together with a "statement of profit or loss and other comprehensive income"). Different terms may be used as long as they are consistent with the titles of the corresponding statements.

⁷ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁸ Not used.

^{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".

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.¹⁰ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

Because we were appointed auditors of ABC Limited during 20X0, we were not able to observe the counting of the physical inventories at the beginning of that period or satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories affect the determination of the results of operations, we were unable to determine whether adjustments to the results of operations and opening retained earnings might be necessary for 20X0. Our audit opinion on the financial statements for the period ended 31 December 20X0 was modified accordingly. Our opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.

Qualified Opinion

In our opinion, except for the possible effects on the corresponding figures of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Company as at 31 December 20X1, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

[Report on Other Legal and Regulatory Requirements]

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]⁶

XYZ & Co.

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

[Auditor's address]

Date of the auditor's report

⁹ Not used.

¹⁰ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

Illustration 3 - Corresponding Figures: (Ref: Para. A7)

Report illustrative of the circumstances described in paragraph 13, as follows:

- **The prior period's financial statements were audited by a predecessor auditor.**
- **The auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and decides to do so.**

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ABC LIMITED

(incorporated in Hong Kong with limited liability)^{10a}

[Report on the Financial Statements]¹¹

We have audited the financial statements of ABC Limited ("the Company") set out on pages to, which comprise the statement of financial position as at 31 December 20X1, and [the statement of profit or loss and]^{11a} the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' ¹² Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit^{13a}. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

^{10a} In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

¹¹ The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

^{11a} HKAS 1 allows entities to present comprehensive income using either a one statement approach (i.e. a single "statement of profit or loss and other comprehensive income") or a two-statement approach (i.e. a "statement of profit or loss" together with a "statement of profit or loss and other comprehensive income"). Different terms may be used as long as they are consistent with the titles of the corresponding statements.

¹² Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

^{13a} 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".

¹⁴ Not used.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.¹⁵ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 20X1, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Other Matter

The financial statements of the Company for the year ended 31 December 20X0, were audited by another auditor who expressed an unmodified opinion on those statements on 31 March 20X1.

[Report on Other Legal and Regulatory Requirements]

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]¹¹

XYZ & Co.

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

[Auditor's address]

Date of the auditor's report

¹⁵ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

Illustration 4 - Comparative Financial Statements^{15a}: (Ref: Para. A9)

Report illustrative of the circumstances described in paragraph 15, as follows:

- **Auditor is required to report on both the current period financial statements and the prior period financial statements in connection with the current year's audit.**
- **The auditor's report on the prior period, as previously issued, included a qualified opinion.**
- **The matter giving rise to the modification is unresolved.**
- **The effects or possible effects of the matter on the current period's figures are material to both the current period financial statements and prior period financial statements and require a modification to the auditor's opinion.**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

[Report on the Financial Statements]¹⁶

We have audited the financial statements of ABC Limited ("the Company") set out on pages to, which comprise the statements of financial position as at 31 December 20X1 and 20X0, and [the statement of profit or loss and]^{16a} the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's¹⁷ Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Accountants, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

^{15a} The comparative financial statements as presented in this Illustration are not generally applicable to an audit performed on a Hong Kong incorporated company's annual statutory financial statements, refer to Appendix 2.

¹⁶ The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

^{16a} HKAS 1 allows entities to present comprehensive income using either a one statement approach (i.e. a single "statement of profit or loss and other comprehensive income") or a two-statement approach (i.e. a "statement of profit or loss" together with a "statement of profit or loss and other comprehensive income"). Different terms may be used as long as they are consistent with the titles of the corresponding statements.

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

¹⁸ Not used.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits^{18a}. We conducted our audits in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.²⁰ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements, which constitutes a departure from Hong Kong Financial Reporting Standards. Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by xxx in 20X1 and xxx in 20X0, property, plant and equipment should be reduced by accumulated depreciation of xxx in 20X1 and xxx in 20X0, and the accumulated loss should be increased by xxx in 20X1 and xxx in 20X0.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Company as at 31 December 20X1 and 20X0 and of its financial performance and cash flows for the years then ended in accordance with Hong Kong Financial Reporting Standards.

[Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]¹⁶

XYZ & Co.

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

[Auditor's address]

Date of the auditor's report

^{18a} 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".

¹⁹ Not used.

²⁰ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

Appendix 2:

- (a) Financial statements of companies incorporated under the provisions of the Companies Ordinance are required to disclose comparative amounts as required under the applicable accounting standards.

- (c) "Comparative figures" referred to by the Main Board Rules and GEM Rules refers to the corresponding figures as described in this HKSA.

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

Hong Kong Standard on Auditing 720

The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements

* There are amendments attached to this HKSA resulting from the Hong Kong Companies Ordinance (Cap. 622) which became effective on 3 March 2014. The amendments apply to the first financial year of companies that begins on or after the commencement date of the new Companies Ordinance and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015).



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

HONG KONG STANDARD ON AUDITING 720

THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

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

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Hong Kong Standard on Auditing (HKSA) 720, "The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements" should be read in conjunction with HKSA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing."

AMENDMENTS RESULTING FROM THE HONG KONG COMPANIES ORDINANCE (CAP. 622)

Note: The following sets out the amended text required for this Standard resulting from Hong Kong Companies Ordinance (Cap. 622) which became effective on 3 March 2014. The amended text apply to the first financial year of companies that begins on or after the commencement date of the new Companies Ordinance and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015).

Appendix:

...

2. Section 406(2) of the Hong Kong Companies Ordinance states that if a company's auditor is of the opinion that the information in a directors' report for a financial year is not consistent with the financial statements for the financial year, the auditor
 - a. must state that opinion in the auditor's report; and
 - b. may bring that opinion to the members' attention at a general meeting.
3. The auditor who is considering the course of including a paragraph after the audit opinion in the auditor's report describing the material inconsistency between the financial statements and the other information or the material misstatement of fact in the other information (with the exception of reporting inconsistencies with the director's report) is advised that the qualified privilege (i.e. the defence to an action for defamation) which an auditor's report normally enjoys may not extend to comments on items of the other information which appear to be misleading. Similarly, no qualified privilege may attach to statements made by the auditor on such matter at a general meeting pursuant to his right under section 411 of the Companies Ordinance. The auditor would also bear in mind the provisions of sections 417 and 424 of the Companies Ordinance before deciding whether resignation from the engagement would be likely to resolve the problem. The auditor would consider seeking legal advice both as to which course of action he would adopt and as to the precise form of any wording to be used.

Material Inconsistencies (Ref: Para. 10 and Para. 13)

4. When management refuses to revise the other information, the auditor's possible further course of action may involve using his right under section 411 of the Companies Ordinance to be heard at any general meeting of the members on any business of the meeting which concerns him as auditor.

Material Misstatements of Fact (Ref: Para. 16)

5. If an amendment is necessary in the other information and the entity refuses to make the amendment, the auditor's possible further courses of action may involve the following:
 - (a) including a paragraph after the audit opinion in the auditor's report describing the material misstatement of fact in the other information;
 - (b) using his right under section 411 of the Companies Ordinance to be heard at any general meeting of the members on any business of the meeting which concerns him as auditor;
 - (c) withdrawing from the engagement.

PN 600.1 (Revised)
Issued June 2014

Effective for financial statements which cover a period
beginning on or after 3 March 2014
Early application is not permitted

Practice Note 600.1 (Revised)

Reports by the Auditor under the Hong Kong Companies Ordinance (Cap. 622)



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

PRACTICE NOTE 600.1 (REVISED)
REPORTS BY THE AUDITOR UNDER
THE HONG KONG COMPANIES ORDINANCE (CAP. 622)

(Issued June 2014
Effective for financial statements which cover a period beginning on or after 3 March 2014.
Early application is not permitted)

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Practice Note (PN) 600.1 (Revised) "Reports by the Auditor under the Hong Kong Companies Ordinance (Cap. 622)" should be read in the context of the "Amended Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements" which sets out the application and authority of PNs.

* An exposure draft of the proposed revised Practice Note 900 "Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standards" is available at:
<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/exposure-drafts/>

**PRACTICE NOTE
600.1 (REVISED)
REPORTS BY THE AUDITOR UNDER
THE HONG KONG COMPANIES ORDINANCE (CAP. 622)**

The purpose of Practice Notes issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) is to assist the auditor in applying Hong Kong Engagement Standards of general application to particular circumstances and industries.

Practice Notes are persuasive rather than prescriptive. However they are indicative of good practice and have similar status to the explanatory material in Hong Kong Engagement Standards. This Practice Note provides guidance to assist the auditor to fulfill the objectives of the engagement. The auditor should be prepared to explain departures when called upon to do so.

Introduction

1. In this Practice Note all the sections mentioned below are in respect of the new Hong Kong Companies Ordinance (Cap. 622) ("CO") which became effective on 3 March 2014, unless otherwise stated. The new requirements apply to the first financial year¹ of companies that begins on or after the commencement date of the new CO and all subsequent financial years (i.e. typically the first set of financial statements covered would be for a financial period ending on or after 2 March 2015. Generally, for companies incorporated prior to 3 March 2014 with a calendar year end, the first applicable financial period is for the year ending 31 December 2015).
2. This Practice Note gives guidance on the application of Hong Kong Engagement Standards on reports by an auditor issued under the CO. It is applicable to all such reports, irrespective of whether the reporting entity has taken advantage of the reporting exemption available under the CO for companies which are eligible for those exemptions in accordance with section 359.²

Auditor's report

3. According to section 405 of the CO, a company's auditor must prepare a report for the members of the company on any financial statements prepared by the directors, a copy of which is laid before the company in general meeting under section 429, or sent to a member under section 430 or otherwise circulated, published or issued by the company, during the auditor's term of office.

Auditor's opinion on financial statements

4. Section 406(1) requires the auditor to state in the auditor's report, the auditor's opinion:
 - a. whether the financial statements have been properly prepared in compliance with the CO; and

¹ Section 367(1) of the CO states that a company's first financial year after the coming into operation of this section begins on the first day of its first accounting reference period and ends on the last day of that period.

² The new CO permits certain companies to take advantage of certain "reporting exemptions" if they meet the qualifying criteria set out in section 359 relating to small or larger eligible private companies (or groups), or small companies limited by guarantee (or groups).

The reporting exemptions available affect the content of the annual report. For example, these reporting entities are exempt from preparing a business review for the directors' report and may prepare their financial statements in accordance with the revised Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME-FRF and SME-FRS) which are effective for periods beginning on or after 3 March 2014.

However, in general, the reporting exemptions do not alter the duties of the auditor under the CO to make certain reports in certain circumstances. Therefore, unless otherwise stated, the guidance in this Practice Note applies to all such reports by the auditor, irrespective of whether the reporting entity has taken advantage of the reporting exemptions, in addition to the guidance in the proposed* revised Practice Note 900 "Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standards", which specifically relates to reporting on the financial statements under section 406 of the CO.

- b. in particular, whether the financial statements -
- i. in the case of annual financial statements of a company that does not fall within the reporting exemption³ for the financial year, give a true and fair view of the financial position and financial performance of the company as required by section 380; or
 - ii. in the case of annual consolidated financial statements of a company that does not fall within the reporting exemption for the financial year, give a true and fair view of the financial position and financial performance of the company and all the subsidiary undertakings as required by section 380.
5. In considering whether the financial statements give a true and fair view, it will be necessary for the auditor to take into account, inter alia, of the financial reporting framework adopted. Reference should be made to paragraph A13 of Hong Kong Standard on Auditing (HKSA) 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing," in respect of compliance with relevant requirements.
6. As explained in paragraph A13 of HKSA 200 where the financial reporting framework is a fair presentation framework, as is the case for statutory financial statements prepared by companies incorporated in Hong Kong which are not eligible for the reporting exemption, the opinion required by the HKSAs is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view. Where the financial reporting framework is a compliance framework, as is the case for statutory financial statements prepared by companies incorporated in Hong Kong which are eligible for the reporting exemption, the opinion required is on whether the financial statements are prepared, in all material respects, in accordance with the framework⁴.
7. The term "fair presentation framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:
- a. Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
 - b. Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term "compliance framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in a. or b. above.

8. Normally, a company incorporated in Hong Kong prepares their financial statements in accordance with Hong Kong Financial Reporting Standards (HKFRSs) or Hong Kong Financial Reporting Standard for Private Entities (HKFRS for Private Entities) unless eligible for the reporting exemption. HKFRSs or HKFRS for Private Entities describe methods of accounting approved by the Council of the HKICPA for application to financial statements intended to give a true and fair view. If the company is eligible for the reporting exemption then it may prepare its financial statements in accordance with the Small and Medium-sized Entity Financial Reporting

³ As explained in footnote 2 above, if the reporting entity is eligible for the reporting exemption then it may prepare its financial statements in accordance with the SME-FRF and SME-FRS. Paragraph 1.2 of the SME-FRS requires those financial statements to properly present the financial position and financial performance of the reporting entity in accordance with the SME-FRS. This is consistent with the reporting exemption granted in section 380(7) of the CO. Consequently, the requirement under section 406(1)(b) for the auditors to report on whether the financial statements give a true and fair view does not apply when the auditor is reporting on financial statements prepared in accordance with the SME-FRF and SME-FRS. Further guidance on the auditor's report on financial statements prepared under the SME-FRF and SME-FRS is contained in the proposed revised Practice Note 900.

⁴ Refer to the proposed revised Practice Note 900 for further guidance on reporting on statutory financial statements prepared by reporting entities eligible for the reporting exemption.

Framework and Financial Reporting Standard (SME-FRF and SME-FRS), which is a compliance framework.

9. The auditor is also required to state whether, in the auditor's opinion, the financial statements have been properly prepared in compliance with the CO. In this context, the expression "properly prepared" includes compliance with the following requirements as set out in section 380 of the CO, in addition to an overriding requirement that the financial statements should give a true and fair view (if applicable):
 - a. The financial statements must comply with the requirements of accounting disclosures as set out in Schedule 4 of the CO.
 - b. The financial statements must also comply with -
 - i. any other requirements of the CO in relation to the financial statements; and
 - ii. the accounting standards applicable to the financial statements.
 - c. If, in relation to any financial statements that do not fall within the reporting exemption, compliance with a. and b. above would be insufficient to give a true and fair view, the financial statements must contain all additional information necessary for that purpose.
 - d. If, in relation to any financial statements that do not fall within the reporting exemption, compliance with a. or b. above would be inconsistent with a requirement to give a true and fair view, the financial statements must –
 - i. depart from a. or b. (as the case may be) to the extent necessary for it to give a true and fair view; and
 - ii. contain the reasons for, and the particulars and effect of, the departure.
10. An example of unmodified auditor's report for a company incorporated in Hong Kong and not falling within the reporting exemption is included in Appendix – Illustration 1 of HKSA 700 "Forming an Opinion and Reporting on Financial Statements". A suggested Chinese translation of an unmodified auditor's report based on HKSA 700 is provided on the HKICPA's website for reference. Examples of modified auditor's reports are included in the Appendix to HKSA 705 "Modifications to the Opinion in the Independent Auditor's Report". Examples of unmodified and modified auditor's reports for a company incorporated in Hong Kong which falls within the reporting exemption are included in the Appendices to the proposed revised Practice Note 900 "Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standards".

Auditor's opinion on directors' report

11. Section 406(2) states that if a company's auditor is of the opinion that the information in a directors' report for a financial year is not consistent with the financial statements for the financial year, the auditor –
 - a. must state that opinion in the auditor's report; and
 - b. may bring that opinion to the members' attention at a general meeting.
12. Section 406(2)(a) is silent on whether the provisions apply only to material inconsistencies. The auditor should refer to HKSA 720 "The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements" for further guidance in this regard.

Auditor's opinion on other matters

13. In addition to the auditor's opinion on financial statements and director's report, an auditor is required to opine on other matters as set out in section 407 of the CO. These requirements include:
- a. In preparing an auditor's report, the auditor must carry out an investigation that will enable the auditor to form an opinion as to –
 - i. whether adequate accounting records have been kept by the company; and
 - ii. whether the financial statements are in agreement with the accounting records.
 - b. A company's auditor must state the auditor's opinion in the auditor's report if the auditor is of the opinion that –
 - i. adequate accounting records have not been kept by the company; or
 - ii. the financial statements are not in agreement with the accounting records in any material respect.
 - c. If a company's auditor fails to obtain all the information or explanations that, to the best of the auditor's knowledge and belief, are necessary and material for the purpose of the audit, the auditor must state that fact in the auditor's report.
 - d. If the financial statements do not comply with section 383(1), the auditor must include in the auditor's report, so far as the auditor is reasonably able to do so, a statement giving the particulars that are required to be, but have not been, contained in the financial statements.

The absence of any comment in the auditor's report in respect of these matters is equivalent to a positive affirmation by the auditor that he/ she is satisfied with each of them. If the auditor is not so satisfied, he/ she must state the fact in the auditor's report. The auditor should also refer to the guidance in paragraph 37 of AATB 4 "Guidance on section 408 of the Companies Ordinance".

14. In relation to paragraph 13.d. above, section 383(1) of the CO requires that the financial statements for a financial year must contain, in the notes to the statements, the information prescribed by the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) ("Regulation") about the following:
- a. the directors' emoluments;
 - b. the directors' retirement benefits;
 - c. payments made or benefit provided in respect of the termination of the services of directors, whether in the capacity of directors or in any other capacity while directors;
 - d. loans, quasi-loans and other dealings in favour of –
 - i. directors of the company and of a holding company of the company;
 - ii. bodies corporate controlled by such directors⁵; and
 - iii. entities connected with such directors;
 - e. material interests of directors in transactions, arrangements or contracts entered into by

⁵ The auditor should read the Regulation when reporting on the above matters. According to section 13(5) of the Regulation, a reference is made to "a body corporate controlled by a director" within the meaning of section 492 of the CO.

the company or another company in the same group of companies;

- f. consideration provided to or receivable by third parties for making available the services of a person as director or in any other capacity while director.

Dating and signing of the auditor's report

15. Section 387(1) of the CO requires that a statement of financial position that forms part of any financial statements must be approved by the directors and signed by two directors on the directors' behalf or in the case of a company having only one director, by the director. The auditor should not sign or date the auditor's report earlier than the date on which the complete financial statements were approved by the director(s). The auditor shall sign and date the auditor's report on financial statements in accordance with paragraphs 40 and 41 of HKSA 700.

Auditor's reports on consolidated financial statements

16. Under section 379(2) of the CO, if the company is a holding company at the end of the financial year, the directors must prepare for the financial year consolidated statements that comply with sections 380, 381 and 383. Sections 380 and 383 provide the general requirements for financial statements and notes to financial statements to contain information on directors' emoluments and section 381 deals with subsidiary undertakings to be excluded from the annual consolidated financial statements.
17. As stated in paragraph 4 above, the auditor is required to state in the auditor's report, the auditor's opinion:
 - a. whether the annual consolidated financial statements have been properly prepared in compliance with the CO; and
 - b. whether the annual consolidated financial statements of a company that does not fall within the reporting exemption for the financial year, give a true and fair view of the financial position and financial performance of the company and all the subsidiary undertakings as required by section 380.

As set out in paragraph 2, Part 1 of Schedule 4 of the CO, the annual consolidated financial statements must contain, in notes to the statements, the holding company's statement of financial position and must include a note disclosing the movement in the holding company's reserves. The holding company's statement of financial position must be in the format in which that statement would have been prepared if the holding company had not been required to prepare any annual consolidated financial statements. The holding company's statement of financial position to be contained in the notes to the annual consolidated financial statements is not required to contain any notes.

18. An example of an auditor's report for a company incorporated in Hong Kong submitting consolidated financial statements is included in Appendix – Illustration 3 of HKSA 700.
19. Normally, the auditor of a holding company incorporated in Hong Kong is required to report that the consolidated financial statements have been audited in accordance with HKSAs. HKSAs are approved by the Council of the HKICPA for application in the audit of historical financial information. It is stated in paragraph 36 of the Amended Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements ("the Amended Preface") that where the financial statements of an overseas enterprise are to be incorporated into Hong Kong financial statements, the audit of the overseas enterprise should conform to HKSAs in so far as this is necessary to ensure that the audit of the Hong Kong financial statements as a whole is in accordance with HKSAs. It is also stated in paragraph 38 of the Amended Preface that where the financial statements of an overseas/ People's Republic of China incorporated enterprise which is listed on The Stock Exchange of Hong Kong, the relevant Listing Rules allow the audit to conform to International Standards on Auditing.

20. Relevant guidance for audit of consolidated financial statements is included in HKSA 600 "Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)".

21. The following additional guidance is given in respect of modifications on consolidated financial statements:

a. *subsidiary company modification affecting consolidated financial statements*

Where the financial statements of a subsidiary contain a modification which is not eliminated on consolidation and is material to the consolidated financial statements, it will be necessary to consider whether it affects the consolidated financial position and the consolidated financial performance.

The auditor's report on the consolidated financial statements must be worded to include whatever reference is appropriate to the items which have been the subject of modification. However, it may not be adequate just to repeat the audit modification of the subsidiary's financial statements.

b. *modification of consolidated financial statements only*

Even though the auditor's reports of individual group companies may be unmodified, if the auditor concludes that a modification to the auditor's opinion on the consolidated financial statements is necessary, it may be necessary to modify the auditor's report on the consolidated financial statements.

Example modified auditors' reports on financial statements can be found in the Appendix to HKSA 705, "Modifications to the Opinion in the Independent Auditor's Report" and in the Appendices to the proposed revised Practice Note 900 "Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standards", as applicable.

Subsidiaries' and associates' financial statements audited by other auditors

22. The group auditor is fully responsible for the auditor's opinion on the consolidated financial statements. Section 412 of the CO⁶ empowers an auditor to require information and explanation for the performance of the duties as auditor from the following persons:

- a. an officer of the company;
- b. the subsidiary undertaking;
- c. a person who—
 - i. is an officer or auditor of the subsidiary undertaking; or
 - ii. was an officer or auditor of the subsidiary undertaking at the time to which the information or explanation relates; and
- d. a person who—
 - i. holds or is accountable for any of the subsidiary undertaking's accounting records; or
 - ii. held or was accountable for the subsidiary undertaking's accounting records at the time to which the information or explanation relates.

⁶ For further information, please refer to Companies Registry *Frequently Asked Questions* on Enhancement of Auditor's rights.

23. If a subsidiary undertaking of a company is not a company incorporated in Hong Kong, an auditor of the company may require the company to obtain from any of the persons specified in b. to d. above any information or explanation that the auditor reasonably requires for the performance of the duties as auditor of the company. In accordance with paragraph 11 of HKSA 600, the auditor's report on the consolidated financial statements shall not refer to the fact that the financial statements of some subsidiaries or associates have been audited by other auditors.
24. However, the directors of the holding company may consider it is useful to disclose the information that the financial statements of some of the entities in the group have been audited by other auditors and the materiality of those entities to the group. A common way to disclose this information is to include in the schedule of principal subsidiaries and associates, which of those entities have been audited by the other auditors. It may be useful to indicate thereon the significance to the group of the entities that have been so audited by reference to the amount of their assets, turnover or profits or losses before taxation.

Dates of financial statements of subsidiaries

25. In accordance with paragraph 37 of HKSA 600, if the consolidated financial statements include the financial statements of a component with a financial reporting period-end that differs from that of the group, the auditor of the holding company shall evaluate whether appropriate adjustments have been made to those financial statements in accordance with the applicable financial reporting framework.
26. In accordance with paragraph B92 of Hong Kong Financial Reporting Standard 10 "Consolidated Financial Statements", when the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial information as of the same date as the financial statements of the parent to enable the parent to consolidate the financial information of the subsidiary, unless it is impracticable to do so. Paragraph B93 provides further guidance if it is impracticable for the subsidiary to prepare the financial information as required in paragraph B92. Similar guidance is set out in paragraph 9.16 of the HKFRS for Private Entities and paragraphs 19.8-19.9 of the SME-FRS, if applicable.

Identification of financial statements audited

27. Frequently one or more of the following accompany the financial statements in the company's annual report:
- a. directors' report;
 - b. chairman's statement; and
 - c. information supplementary to the financial statements.
28. In the absence of any separate reporting requirement (e.g. auditor's opinion on directors' report under section 406(2)), generally, the auditor is not responsible for the additional information referred to in paragraph 27 above. However, there could be a belief on the part of the reader that the auditor has in fact been satisfied that the information is accurate or at least not misleading. If the additional information is materially inconsistent or misleading, the auditor should determine whether the audited financial statements or the additional information needs to be revised before signing the auditor's report (see paragraphs 11-12 above and HKSA 720). Under HKSA 720, the requirement is that if, on reading the other information, the auditor identifies a material inconsistency, the auditor shall determine whether the audited financial statements or the other information needs to be revised.
29. Generally, it is usual for the auditor to be specific as to the actual financial statements on which the auditor is opining on by identifying the page numbers containing the financial statements as follows (see A18 of HKSA 700):

"We have audited the financial statements of ABC Limited set out on pages to".

Other reports required by the Hong Kong Companies Ordinance

30. The CO also requires the auditor to give other reports on distributions and initial financial statements. The report arising under section 304(5) in relation to distributions is discussed in paragraphs 31 to 35 below. Guidance on the determination of distributable profits under sections 79A to 79P⁷ is set out in Accounting Bulletin 4 "Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Hong Kong Companies Ordinance" issued by the HKICPA and paragraphs 46 to 52 of the SME-FRF, if applicable. The report arising under section 306(5) in relation to initial financial statements is discussed in paragraphs 36 to 38 below.

Distributions (section 304(5))

31. The CO prohibits all companies from making a distribution otherwise than out of profits available for the purpose. Where the auditor has not given an unqualified opinion on the last annual financial statements, the company's ability to make a distribution, by reference to those financial statements, could be in doubt, and the company may not proceed to do so unless the auditor has made a statement under section 304(5) concerning the company's ability to make the distribution.
32. According to section 304(5) of the CO, the auditor must have given a written statement as to whether, in the auditor's opinion, the matter in respect of which the report is qualified⁸ is material for determining, by reference to the financial items as stated in the financial statements, whether the distribution would be made in contravention of section 297, 298 or 299 or a prohibition or restriction in that section as modified under section 300 of the CO. Therefore, in planning and performing this work, the auditor should refer to the principles in the Hong Kong Standard on Assurance Engagements (HKSAE) 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" applicable to assurance engagements. The terms of this engagement should be agreed in writing with the company.
33. Although section 304(6)(a) allows the written statement to be made either at the time of the auditor's report or subsequently, in view of the two different standards involved (that is HKSAs in the auditor's report on annual financial statements and HKSAE 3000 in the report under section 304(5)), a separate statement should be made for reporting under section 304(5) rather than reflecting in the auditor's report.
34. The auditor's statement under section 304(5) will incorporate the following elements:
- a. *Title* - The auditor's statement should have a title that clearly indicates that the report is an independent assurance report.
 - b. *Addressee* - the statement should be addressed to the members.
 - c. *Introductory Paragraph* - the auditor refers to the audit which will have been carried out in accordance with HKSAs issued by the HKICPA and state the date on which the auditor's opinion was expressed and that the auditor's opinion was modified. The auditor is required under section 304(5) to give a written statement as to whether, in the auditor's opinion, the matter in respect of which the auditor's opinion is modified is material for determining, by reference to the financial items as stated in the financial statements, whether the distribution would be made in contravention of section 297, 298 or 299, or a prohibition or restriction in that section as modified under section 300.
 - d. *Directors' Responsibility* - this section describes and summarises the directors'

⁷ The guidance in AB 4 is still applicable for the CO. Sections 79A to 79P are replaced by sections 290 to 306 and Schedule 11, Part 6, section 49.

⁸ The meaning of "qualified" in the new CO is equivalent to the meaning of "modified" in the context of clarified HKSAs. In order to avoid confusion, the word "modified" is used in the rest of this Practice Note. Guidance on types of modified opinions is set out in HKSA 705 "Modifications to the Opinion in the Independent Auditor's Report."

responsibility with respect to the financial statements referred to in the introductory paragraph. The description should include an explanation that directors are also responsible for considering whether the company, subsequent to the reporting period, has sufficient distributable profits to make a distribution at the time the distribution is made.

- e. *Auditor's Responsibility* - the auditor should state that the auditor's responsibility is to report whether, in the auditor's opinion, the matter in respect of which the auditor's opinion is modified is material for determining, by reference to the financial items as stated in the financial statements, whether the distribution would be made in contravention of section 297, 298 or 299, or a prohibition or restriction in that section as modified under section 300. The auditor should state that the engagement was performed in accordance with HKSAE 3000 and with reference to this Practice Note. The auditor should also include a summary of work performed to help the intended users understand the nature of the assurance conveyed by the assurance report.
- f. *Conclusion* - the auditor must state whether in the auditor's opinion the matter in respect of which the auditor's opinion is modified is material for the purpose of determining, by reference to the financial items as stated in the financial statements, whether the distribution proposed by the company would contravene the relevant section(s) of the CO. A modification is not material for this purpose if the financial effect of the matters giving rise to modification could not be such as to reduce the distributable profits below the levels required for the purpose of such distributions. The level of the proposed or potential distribution should always be quantified in the opinion. Where the maximum effect of a modification is unquantifiable, it would normally be material for distribution purposes unless the auditor can conclude that the effect of the modification on the distributable profits could only be favourable. A disclaimer of opinion on the financial statements as a whole would be material as the auditor would be unable to form an opinion on the amount at which the company's distributable profits are stated.
- g. *Signature of the Auditor* - the auditor's statement should be signed in the name of the firm or the practitioner and a specific location, which ordinarily is the city where the practitioner maintains the office that has responsibility for the engagement.
- h. *Date of the independent assurance report* - the date used should be that on which the statement is signed. In any case the statement must be available to be laid before the company in general meeting before the distribution in question is made, and so the statement will have to be signed by that date.

An example of the independent assurance report under section 304(5) is set out as Example 1 in the Appendix.

- 35. The report under section 304(5) can only be made by the auditor who reported on the last annual financial statements.

Distributions by listed companies: the use of initial financial statements (section 306(5))

- 36. Paragraphs 31 to 35 of this Practice Note describe the statement required where a company wishes to make a distribution and a modified auditor's report has been given on the annual financial statements, section 304(5) applies to all types of companies (including private and listed companies). A company may wish to make a distribution during its first accounting reference period or after the end of that period but before the financial statements for that period have been laid before a general meeting. "Initial financial statements" must be prepared for this purpose which, in the case of a listed company, are required to satisfy section 306(2). The initial financial statements must be approved by and signed on behalf of the directors in the same manner as annual financial statements, and must be delivered to the Registrar of Companies.
- 37. Section 306(2) states that subject to subsection (3), the initial financial statements must:
 - a. have been properly prepared in accordance with Subdivision 3 of Division 4 of Part 9 of

the CO; or

- b. have been properly prepared in accordance with Subdivision 3 of Division 4 of Part 9 of the CO, except only in relation to the matters which are not material for the purpose specified in subsection (8) (i.e. the purpose of determining, by reference to financial items as stated in the financial statements, whether the distribution would be made in contravention of section 297, 298 or 299, or a prohibition or restriction in that section as modified under section 300).

Subsection (3) states that the requirements under subsection (2) for the financial statements to be properly prepared has effect subject to any modifications that are necessary for applying that requirement to any financial statements prepared otherwise than for a financial year.

- 38. The reference to Subdivision 3 of Division 4 of Part 9 of the CO in sections 306(2) and 306(3) indicates that the initial financial statements should be properly prepared so as to give a true and fair view of the company's financial position and performance and to comply with Schedule 4, subject to any modifications that are necessary for applying that requirement to any financial statements prepared otherwise than for a financial year. However, it should also be noted that the alternative offered in section 306(2)(b) allows a company to prepare initial financial statements which do not meet all of these requirements, provided that the information omitted is not material for the purpose of determining the legality of the proposed distribution. For example, if a listed company applies section 306(2)(b), the initial financial statements may omit some of the disclosure requirements of HKFRSs. In the case of a listed company, the auditor is required to make a report on the initial financial statements. The report will incorporate the following elements:

- a. *Title* - The auditor's report should have a title that clearly indicates that it is the report of an independent auditor.
- b. *Addressee* - the statement should be addressed to the members.
- c. *Introductory Paragraph* - the report is concerned with the initial financial statements. The period covered by the initial financial statements and the accounting principles adopted should be identified.
- d. *Directors' Responsibility* - the directors are responsible for the preparation of initial financial statements under section 306.
- e. *Auditor's Responsibility* - the auditor is responsible for expressing an opinion on whether the financial statements satisfy section 306(2)(a). The audit of the initial financial statements should be carried out in accordance with HKSA's. The auditor shall explain the auditor's responsibilities as described in paragraphs 28 to 33 of HKSA 700.
- f. *Auditor's Opinion* - the auditor must state whether, in the auditor's opinion, the financial statements satisfy section 306(2)(a). This therefore means that the auditor must report on whether in the auditor's opinion the financial statements give a true and fair view of the financial position of the company as at the end of the reporting period and of the financial performance of the company for the reporting period, and on whether the financial statements comply with Schedule 4 subject to any modifications that are necessary for applying that requirement to any financial statements prepared otherwise than for a financial year. An example of an unqualified auditor's report prepared in accordance with section 306(2)(a) is set out as Example 2 in the Appendix.

If the opinion is modified (for example, if the company has chosen to prepare financial statements which comply with section 306(2)(b) rather than section 306(2)(a)), then section 306(6) requires the auditor to state whether the matter giving rise to the modification is material for determining whether the distribution is permitted. In addition, a separate statement (see Example 1 in the Appendix) should be made for reporting under section 306(6) rather than reflecting in the auditor's report. Guidance on elements of the auditor's report in paragraph 34 above is also applicable to such an auditor's

statement to be given under section 306(6).

- g. *Signature of the Auditor* - the auditor's report should be signed (see footnote 20a of HKSA 700).
- h. *Date of the Auditor's Report* - the same principles apply for initial financial statements as for annual financial statements (see HKSA 700).

APPENDIX
Example reports in relation to sections 304(5) and 306(5) of
the Hong Kong Companies Ordinance

The purpose of this Appendix is to provide examples of reports and is for illustration.

- 1 Independent assurance report on a company's ability to make a distribution where auditor's opinion was modified, based on HKSAE 3000 – effective for assurance reports dated before 15 December 2015
- 2 Independent auditor's report on initial financial statements prepared in accordance with section 306(2)(a) when a listed company wishes to make a distribution

Example 1 – Independent assurance report on a company's ability to make a distribution where auditor's report was modified, based on HKSAE 3000 – effective for assurance reports dated before 15 December 2015

**INDEPENDENT ASSURANCE REPORT
TO THE MEMBERS OF XYZ LIMITED
UNDER SECTION 304(5)¹ OF THE HONG KONG COMPANIES ORDINANCE**

We have audited the financial statements of XYZ Limited ("the Company") for the year ended 31 December 20X1 in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have expressed a modified opinion thereon in our independent auditor's report dated [date]. Under section 304(5) of the Hong Kong Companies Ordinance ("the Ordinance"), we have been requested to give this written statement as to whether, in our opinion, the matter in respect of which our opinion is modified is material for the purpose of determining, by reference to the financial items as stated in the financial statements, whether the distribution would be in contravention of the [section 297, 298 or 299, or a prohibition or restriction in that section as modified under section 300]² of the Ordinance.

Directors' Responsibility

The directors are responsible for the preparation of the aforesaid financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. They are also responsible for considering whether the Company, subsequent to the year ended 31 December 20X1, has sufficient distributable profits to make a distribution at the time the distribution is made.

Auditor's Responsibility

Our responsibility is to report whether, in our opinion, the matter of our modification of our auditor's report on the financial statements for the year ended 31 December 20X1 is material for the purpose of determining, by reference to the financial items as stated in the financial statements, whether the distribution proposed by the Company would contravene [section 297, 298 or 299, or a prohibition or restriction in that section as modified under section 300]² of the Ordinance.³ However, we are not required to form an opinion on whether the Company has sufficient distributable reserves to make the distribution proposed at the time it is made.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 600.1 "Reports by Auditor under the Hong Kong Companies Ordinance" issued by the HKICPA. We have performed such procedures as we considered necessary to evaluate the effect of the modified opinion for the determination of profits available for distribution. [*Insert a summary of work performed.*]

Conclusion

Based on the foregoing, in our opinion, the matter of the modification is not material for determining, by

¹ Section 304(5) applies where the last annual financial statements are used. Where initial financial statements are used a similar report is prepared based on the report in Example 2 of this Appendix.

² Amend where appropriate.

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

reference to the financial items as stated in the financial statements, whether the [distribution of HK\$.....][interim/ final dividend for the year ended 31 December 20X1 of HK\$] proposed by the Company would contravene [section 297, 298 or 299, or a prohibition or restriction in that section as modified under section 300]² of the Ordinance.

Use of Report

This report is intended solely for the purpose of assisting the Company to satisfy the requirements of the Ordinance as set out in the introductory paragraph. It is not intended to be, and should not be, used by anyone for any other purpose.

ABC & Co.

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

[Auditor's address]

Date of the assurance report

Notes:

1. As an alternative the auditor's statement might be expressed in terms of the company's ability to make potential distributions up to a specific level. This may be particularly appropriate where the directors have only determined the maximum level of distributions. In such circumstances the opinion paragraph would be worded as follows:

"Based on the foregoing, in our opinion, the matter of the modification is not material for determining, by reference to the financial items as stated in the financial statements, whether a distribution of not more than HK\$ by the Company would contravene [section 297, 298 or 299, or a prohibition or restriction in that section as modified under section 300]² of the Ordinance."

2. As a further alternative the auditor's statement might be expressed in terms of the company's ability to make "any distribution". In such circumstances the opinion paragraph would be worded as follows:

"Based on the foregoing, in our opinion, the matter of the modification is not material for determining by reference to the financial items as stated in the financial statements, whether any distribution proposed by the Company would contravene [section 297, 298 or 299, or a prohibition or restriction in that section as modified under section 300]² of the Ordinance."

3. Where the auditor concludes that the matter of the modification is material to either a specific distribution which is proposed or to any distribution, then an adverse conclusion is given. In such circumstances the conclusion paragraph would be worded as follows:

"Adverse conclusion

Based on the foregoing, in our opinion, the matter of the modification is material for determining, by reference to the financial items as stated in the financial statements, whether the [distribution of HK\$.....][interim/ final dividend for the year ended 31 December 20X1 of HK\$][any distribution] proposed by the Company would contravene [section 297, 298 or 299, or a prohibition or restriction in that section as modified under section 300]² of the Ordinance."

Example 2 – Independent auditor's report on initial financial statements prepared in accordance with section 306(2)(a) when a listed company wishes to make a distribution - based on HKSA 700 "Forming an Opinion and Reporting on Financial Statements"

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF XYZ LIMITED
UNDER SECTION 306(5) OF THE HONG KONG COMPANIES ORDINANCE**

We have audited the initial financial statements of XYZ Limited ("the Company") set out on pages to which comprise the statement of financial position of the Company as at [Date], and [the statement of profit or loss and] ⁴ the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the period from [Date] to [Date], and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Initial Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these initial financial statements based on our audit ⁵. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the initial financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the initial financial statements give a true and fair view of the financial position of the Company as at [Date], and of its financial performance and cash flows for the period from [Date] to [Date] in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

⁴ HKAS 1 allows entities to present comprehensive income using either a one statement approach (i.e. a single "statement of profit or loss and other comprehensive income") or a two-statement approach (i.e. a "statement of profit or loss" together with a "statement of profit or loss and other comprehensive income").

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

ABC & Co.

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

[Auditor's address]

Date of the auditor's report