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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



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

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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."

Introduction

Scope of this HKSA

1. This Hong Kong Standard on Auditing (HKSA) deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements.
2. HKSA 705¹ and HKSA 706² deal with how the form and content of the auditor's report are affected when the auditor expresses a modified opinion or includes an Emphasis of Matter paragraph or an Other Matter paragraph in the auditor's report.
3. This HKSA is written in the context of a complete set of general purpose financial statements. HKSA 800³ deals with special considerations when financial statements are prepared in accordance with a special purpose framework. HKSA 805⁴ deals with special considerations relevant to an audit of a single financial statement or of a specific element, account or item of a financial statement.
4. This HKSA promotes consistency in the auditor's report. Consistency in the auditor's report, when the audit has been conducted in accordance with HKSAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. It also helps to promote the user's understanding and to identify unusual circumstances when they occur.

Effective Date

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

Objectives

6. The objectives of the auditor are:
 - (a) To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and
 - (b) To express clearly that opinion through a written report that also describes the basis for that opinion.

Definitions

7. For purposes of the HKSAs, the following terms have the meanings attributed below:
 - (a) General purpose financial statements – Financial statements prepared in accordance with a general purpose framework.
 - (b) General purpose framework – A financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework.

¹ HKSA 705, "Modifications to the Opinion in the Independent Auditor's Report."

² HKSA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report."

³ HKSA 800, "Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks."

⁴ HKSA 805, "Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement."

The term “fair presentation framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

- (i) 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
- (ii) 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 (i) or (ii) above.⁵

- (c) Unmodified opinion – The opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.⁶
8. Reference to “financial statements” in this HKSA means “a complete set of general purpose financial statements, including the related notes.” The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial statements, and what constitutes a complete set of financial statements.
 9. Reference to “Hong Kong Financial Reporting Standards” in this HKSA means Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

Requirements

Forming an Opinion on the Financial Statements

10. The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.^{7, 8}
11. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account:
 - (a) The auditor’s conclusion, in accordance with HKSA 330, whether sufficient appropriate audit evidence has been obtained;⁹
 - (b) The auditor’s conclusion, in accordance with HKSA 450, whether uncorrected misstatements are material, individually or in aggregate;¹⁰ and
 - (c) The evaluations required by paragraphs 12-15.

⁵ HKSA 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing,” paragraph 13(a).

⁶ Paragraphs 35-36 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

⁷ HKSA 200, paragraph 11.

⁸ Paragraphs 35-36 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

⁹ HKSA 330, “The Auditor’s Responses to Assessed Risks,” paragraph 26.

¹⁰ HKSA 450, “Evaluation of Misstatements Identified during the Audit,” paragraph 11.

12. The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. (Ref: Para. A1-A3)
13. In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:
 - (a) The financial statements adequately disclose the significant accounting policies selected and applied;
 - (b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
 - (c) The accounting estimates made by management are reasonable;
 - (d) The information presented in the financial statements is relevant, reliable, comparable, and understandable;
 - (e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and (Ref: Para. A4)
 - (f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.
14. When the financial statements are prepared in accordance with a fair presentation framework, the evaluation required by paragraphs 12-13 shall also include whether the financial statements achieve fair presentation. The auditor's evaluation as to whether the financial statements achieve fair presentation shall include consideration of:
 - (a) The overall presentation, structure and content of the financial statements; and
 - (b) Whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.
15. The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework. (Ref: Para. A5-A10)

Form of Opinion

16. The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
17. If the auditor:
 - (a) concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
 - (b) is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement,the auditor shall modify the opinion in the auditor's report in accordance with HKSA 705.

18. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor shall discuss the matter with management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, shall determine whether it is necessary to modify the opinion in the auditor's report in accordance with HKSA 705. (Ref: Para. A11)
19. When the financial statements are prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve fair presentation. However, if in extremely rare circumstances the auditor concludes that such financial statements are misleading, the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor's report. (Ref: Para. A12)

Auditor's Report

20. The auditor's report shall be in writing. (Ref: Para. A13-A14)

Auditor's Report for Audits Conducted in Accordance with Hong Kong Standards on Auditing

Title

21. The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor. (Ref: Para. A15)

Addressee

22. The auditor's report shall be addressed as required by the circumstances of the engagement. (Ref: Para. A16)

Introductory Paragraph

23. The introductory paragraph in the auditor's report shall: (Ref: Para. A17-A19)
 - (a) Identify the entity whose financial statements have been audited;
 - (b) State that the financial statements have been audited;
 - (c) Identify the title of each statement that comprises the financial statements;
 - (d) Refer to the summary of significant accounting policies and other explanatory information; and
 - (e) Specify the date or period covered by each financial statement comprising the financial statements.

Management's Responsibility for the Financial Statements

24. This section of the auditor's report describes the responsibilities of those in the organization that are responsible for the preparation of the financial statements. The auditor's report need not refer specifically to "management," but shall use the term that is appropriate in the context of the legal framework in the particular jurisdiction. In some jurisdictions, the appropriate reference may be to those charged with governance.^{10a}

^{10a} In Hong Kong, under the Hong Kong Companies Ordinance, directors are responsible for the preparation of financial statements that show a true and fair view.

25. The auditor's report shall include a section with the heading "Management's [or other appropriate term] Responsibility for the Financial Statements."
26. The auditor's report shall describe management's responsibility for the preparation of the financial statements. The description shall include an explanation that management is responsible for the preparation of the financial statements in accordance with the applicable financial reporting framework, and for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. (Ref: Para. A20-A23)
27. Where the financial statements are prepared in accordance with a fair presentation framework, the explanation of management's responsibility for the financial statements in the auditor's report shall refer to "the preparation and fair presentation of these financial statements" or "the preparation of financial statements that give a true and fair view," as appropriate in the circumstances.

Auditor's Responsibility

28. The auditor's report shall include a section with the heading "Auditor's Responsibility."
29. The auditor's report shall state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit. (Ref: Para. A24)
30. The auditor's report shall state that the audit was conducted in accordance with Hong Kong Standards on Auditing. The auditor's report shall also explain that those standards require that the auditor comply with ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. (Ref: Para. A25-A26)
31. The auditor's report shall describe an audit by stating that:
 - (a) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements;
 - (b) The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control; and
 - (c) An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements.
32. Where the financial statements are prepared in accordance with a fair presentation framework, the description of the audit in the auditor's report shall refer to "the entity's preparation and fair presentation of the financial statements" or "the entity's preparation of financial statements that give a true and fair view," as appropriate in the circumstances.

33. The auditor's report shall state whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

Auditor's Opinion

34. The auditor's report shall include a section with the heading "Opinion."
35. When expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:
- (a) The financial statements present fairly, in all material respects, ... in accordance with [the applicable financial reporting framework]; or
 - (b) The financial statements give a true and fair view of ... in accordance with [the applicable financial reporting framework]^{10b}. (Ref: Para. A27-A33)
36. When expressing an unmodified opinion on financial statements prepared in accordance with a compliance framework, the auditor's opinion shall be that the financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework]. (Ref: Para. A27, A29-A33)
37. If the reference to the applicable financial reporting framework in the auditor's opinion is not to Hong Kong Financial Reporting Standards issued by the HKICPA, the auditor's opinion shall identify the jurisdiction of origin of the framework.

Other Reporting Responsibilities

38. If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibility under HKSA's to report on the financial statements, these other reporting responsibilities shall be addressed in a separate section in the auditor's report that shall be sub-titled "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section.^{10c} (Ref: Para. A34-A35)
39. If the auditor's report contains a separate section on other reporting responsibilities, the headings, statements and explanations referred to in paragraphs 23-37 shall be under the sub-title "Report on the Financial Statements." The "Report on Other Legal and Regulatory Requirements" shall follow the "Report on the Financial Statements." (Ref: Para. A36)

Signature of the Auditor

40. The auditor's report shall be signed. (Ref: Para. A37)

^{10b} In Hong Kong, the Companies Ordinance, the Main Board Listing Rules and GEM Listing Rules adopt the phrase "true and fair view".

^{10c} 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".

Date of the Auditor's Report

41. The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that: (Ref: Para. A38-A41)
- (a) All the statements that comprise the financial statements, including the related notes, have been prepared; and
 - (b) Those with the recognized authority^{10a} have asserted that they have taken responsibility for those financial statements.

Auditor's Address

42. The auditor's report shall name the location in the jurisdiction where the auditor practises.

Auditor's Report Prescribed by Law or Regulation

43. If the auditor is required by law or regulation of a specific jurisdiction to use a specific layout or wording of the auditor's report, the auditor's report shall refer to Hong Kong Standards on Auditing only if the auditor's report includes, at a minimum, each of the following elements: (Ref: Para. A42)
- (a) A title;
 - (b) An addressee, as required by the circumstances of the engagement;
 - (c) An introductory paragraph that identifies the financial statements audited;
 - (d) A description of the responsibility of management (or other appropriate term, see paragraph 24) for the preparation of the financial statements;
 - (e) A description of the auditor's responsibility to express an opinion on the financial statements and the scope of the audit, that includes:
 - A reference to Hong Kong Standards on Auditing and the law or regulation; and
 - A description of an audit in accordance with those standards;
 - (f) An opinion paragraph containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the jurisdiction of origin of the financial reporting framework that is not Hong Kong Financial Reporting Standards, see paragraph 37);
 - (g) The auditor's signature;
 - (h) The date of the auditor's report; and
 - (i) The auditor's address.

Auditor's Report for Audits Conducted in Accordance with Both Auditing Standards of a Specific Jurisdiction and Hong Kong Standards on Auditing

44. An auditor may be required to conduct an audit in accordance with the auditing standards of a specific jurisdiction ("other auditing standards"), but may additionally have complied with HKSAs in the conduct of the audit. If this is the case, the auditor's report may refer to Hong Kong Standards on Auditing in addition to the other auditing standards, but the auditor shall do so only if: (Ref: Para. A43-A44)
- (a) There is no conflict between the requirements in the other auditing standards and those in HKSAs that would lead the auditor (i) to form a different opinion, or (ii) not to include an Emphasis of Matter paragraph that, in the particular circumstances, is required by HKSAs; and
 - (b) The auditor's report includes, at a minimum, each of the elements set out in paragraph 43(a)-(i) when the auditor uses the layout or wording specified by the other auditing standards. Reference to law or regulation in paragraph 43(e) shall be read as reference to the other auditing standards. The auditor's report shall thereby identify such other auditing standards.
45. When the auditor's report refers to both the other auditing standards and Hong Kong Standards on Auditing, the auditor's report shall identify the jurisdiction of origin of the other auditing standards.

Supplementary Information Presented with the Financial Statements (Ref: Para. A45-A51)

46. If supplementary information that is not required by the applicable financial reporting framework is presented with the audited financial statements, the auditor shall evaluate whether such supplementary information is clearly differentiated from the audited financial statements. If such supplementary information is not clearly differentiated from the audited financial statements, the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall explain in the auditor's report that such supplementary information has not been audited.
47. Supplementary information that is not required by the applicable financial reporting framework but is nevertheless an integral part of the financial statements because it cannot be clearly differentiated from the audited financial statements due to its nature and how it is presented shall be covered by the auditor's opinion.

Conformity and Compliance with International Standards on Auditing

48. As of September 2009 (date of issue), this HKSA conforms with International Standard on Auditing (ISA) 700 "Forming an Opinion and Reporting on Financial Statements". Compliance with the requirements of this HKSA ensures compliance with ISA 700.
49. Additional local explanations are provided in footnotes 10a, 10b, 10c, 14a, 19a, 20a and 21a.
50. Additional local guidance is provided in the Appendix.

Application and Other Explanatory Material

Qualitative Aspects of the Entity's Accounting Practices (Ref: Para. 12)

- A1. Management makes a number of judgments about the amounts and disclosures in the financial statements.
- A2. HKSA 260 contains a discussion of the qualitative aspects of accounting practices.¹¹ In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that the cumulative effect of a lack of neutrality, together with the effect of uncorrected misstatements, causes the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality that may affect the auditor's evaluation of whether the financial statements as a whole are materially misstated include the following:
- The selective correction of misstatements brought to management's attention during the audit (for example, correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings).
 - Possible management bias in the making of accounting estimates.
- A3. HKSA 540 addresses possible management bias in making accounting estimates.¹² Indicators of possible management bias do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the auditor's evaluation of whether the financial statements as a whole are free from material misstatement.

Disclosure of the Effect of Material Transactions and Events on the Information Conveyed in the Financial Statements (Ref: Para. 13(e))

- A4. It is common for financial statements prepared in accordance with a general purpose framework to present an entity's financial position, financial performance and cash flows. In such circumstances, the auditor evaluates whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the entity's financial position, financial performance and cash flows.

Description of the Applicable Financial Reporting Framework (Ref: Para. 15)

- A5. As explained in HKSA 200, the preparation of the financial statements by management and, where appropriate, those charged with governance requires the inclusion of an adequate description of the applicable financial reporting framework in the financial statements.¹³ That description is important because it advises users of the financial statements of the framework on which the financial statements are based.
- A6. A description that the financial statements are prepared in accordance with a particular applicable financial reporting framework is appropriate only if the financial statements comply with all the requirements of that framework that are effective during the period covered by the financial statements.

¹¹ HKSA 260, "Communication with Those Charged with Governance," Appendix 2.

¹² HKSA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures," paragraph 21.

¹³ HKSA 200, paragraphs A2-A3.

- A7. A description of the applicable financial reporting framework that contains imprecise qualifying or limiting language (for example, “the financial statements are in substantial compliance with Hong Kong Financial Reporting Standards”) is not an adequate description of that framework as it may mislead users of the financial statements.

Reference to More than One Financial Reporting Framework

- A8. In some cases, the financial statements may represent that they are prepared in accordance with two financial reporting frameworks (for example, Hong Kong Financial Reporting Standards and other financial reporting framework). This may be because management is required, or has chosen, to prepare the financial statements in accordance with both frameworks, in which case both are applicable financial reporting frameworks. Such description is appropriate only if the financial statements comply with each of the frameworks individually. To be regarded as being prepared in accordance with both frameworks, the financial statements need to comply with both frameworks simultaneously and without any need for reconciling statements. In practice, simultaneous compliance is unlikely unless the jurisdiction has eliminated all barriers to compliance with it.
- A9. Financial statements that are prepared in accordance with one financial reporting framework and that contain a note or supplementary statement reconciling the results to those that would be shown under another framework, are not prepared in accordance with that other framework. This is because the financial statements do not include all the information in the manner required by that other framework.
- A10. The financial statements may, however, be prepared in accordance with one applicable financial reporting framework and, in addition, describe in the notes to the financial statements the extent to which the financial statements comply with another framework (for example, financial statements prepared in accordance with other framework that also describe the extent to which they comply with Hong Kong Financial Reporting Standards). Such description is supplementary financial information and, as discussed in paragraph 47, is considered an integral part of the financial statements and, accordingly, is covered by the auditor’s opinion.

Form of Opinion (Ref: Para. 18-19)

- A11. There may be cases where the financial statements, although prepared in accordance with the requirements of a fair presentation framework, do not achieve fair presentation. Where this is the case, it may be possible for management to include additional disclosures in the financial statements beyond those specifically required by the framework or, in extremely rare circumstances, to depart from a requirement in the framework in order to achieve fair presentation of the financial statements.
- A12. It will be extremely rare for the auditor to consider financial statements that are prepared in accordance with a compliance framework to be misleading if, in accordance with HKSA 210, the auditor determined that the framework is acceptable.¹⁴

Auditor’s Report (Ref: Para. 20)

- A13. A written report encompasses reports issued in hard copy format and those using an electronic medium.
- A14. The Appendix contains illustrations of auditors’ reports on financial statements, incorporating the elements set forth in paragraphs 21-42.

¹⁴ HKSA 210, “Agreeing the Terms of Audit Engagements,” paragraph 6(a).

Auditor's Report for Audits Conducted in Accordance with Hong Kong Standards on Auditing

Title (Ref: Para. 21)

- A15. A title indicating the report is the report of an independent auditor, for example, "Independent Auditor's Report," affirms that the auditor has met all of the relevant ethical requirements regarding independence and, therefore, distinguishes the independent auditor's report from reports issued by others.

Addressee (Ref: Para. 22)

- A16. Law or regulation often specifies to whom the auditor's report is to be addressed in that particular jurisdiction. The auditor's report is normally addressed to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being audited.^{14a}

Introductory Paragraph (Ref: Para. 23)

- A17. The introductory paragraph states, for example, that the auditor has audited the accompanying financial statements of the entity, which comprise [state the title of each financial statement comprising the complete set of financial statements required by the applicable financial reporting framework, specifying the date or period covered by each financial statement] and the summary of significant accounting policies and other explanatory information.
- A18. When the auditor is aware that the audited financial statements will be included in a document that contains other information, such as an annual report, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial statements are presented. This helps users to identify the financial statements to which the auditor's report relates.
- A19. The auditor's opinion covers the complete set of financial statements as defined by the applicable financial reporting framework. For example, in the case of many general purpose frameworks, the financial statements include: a balance sheet, an income statement, a statement of changes in equity, a cash flow statement, and a summary of significant accounting policies and other explanatory information. In some jurisdictions additional information might also be considered to be an integral part of the financial statements.

Management's Responsibility for the Financial Statements (Ref: Para. 26)

- A20. HKSA 200 explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with HKSA is conducted.¹⁵ Management and, where appropriate, those charged with governance accept responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation. Management also accepts responsibility for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The description of management's responsibilities in the auditor's report includes reference to both responsibilities as it helps to explain to users the premise on which an audit is conducted.

^{14a} In Hong Kong, auditors of a company incorporated under the Hong Kong Companies Ordinance have a statutory duty to make a report to the shareholders of the company on the company's financial statements.

¹⁵ HKSA 200, paragraph 13(j).

- A21. There may be circumstances when it is appropriate for the auditor to add to the description of management's responsibility in paragraph 26 to reflect additional responsibilities that are relevant to the preparation of the financial statements in the context of the particular jurisdiction or the nature of the entity.
- A22. Paragraph 26 is consistent with the form in which the responsibilities are agreed in the engagement letter or other suitable form of written agreement, as required by HKSA 210.¹⁶ HKSA 210 provides some flexibility by explaining that, if law or regulation prescribes the responsibilities of management and, where appropriate, those charged with governance in relation to financial reporting, the auditor may determine that the law or regulation includes responsibilities that, in the auditor's judgment, are equivalent in effect to those set out in HKSA 210. For such responsibilities that are equivalent, the auditor may use the wording of the law or regulation to describe them in the engagement letter or other suitable form of written agreement. In such cases, this wording may also be used in the auditor's report to describe management's responsibilities as required by paragraph 26. In other circumstances, including where the auditor decides not to use the wording of law or regulation as incorporated in the engagement letter, the wording of paragraph 26 is used.
- A23. In some jurisdictions, law or regulation prescribing management's responsibilities may specifically refer to a responsibility for the adequacy of accounting books and records, or accounting system. As books, records and systems are an integral part of internal control (as defined in HKSA 315¹⁷), the descriptions in HKSA 210 and in paragraph 26 do not make specific reference to them.

Auditor's Responsibility (Ref: Para. 29-30)

- A24. The auditor's report states that the auditor's responsibility is to express an opinion on the financial statements based on the audit in order to contrast it to management's responsibility for the preparation of the financial statements.
- A25. The reference to the standards used conveys to the users of the auditor's report that the audit has been conducted in accordance with established standards.
- A26. In accordance with HKSA 200, the auditor does not represent compliance with HKSAs in the auditor's report unless the auditor has complied with the requirements of HKSA 200 and all other HKSAs relevant to the audit.¹⁸

Auditor's Opinion (Ref: Para. 35-37)

Wording of the auditor's opinion prescribed by law or regulation

- A27. HKSA 210 explains that, in some cases, law or regulation of the relevant jurisdiction prescribes the wording of the auditor's report (which in particular includes the auditor's opinion) in terms that are significantly different from the requirements of HKSAs. In these circumstances, HKSA 210 requires the auditor to evaluate:
- (a) Whether users might misunderstand the assurance obtained from the audit of the financial statements and, if so,
 - (b) Whether additional explanation in the auditor's report can mitigate possible misunderstanding.

¹⁶ HKSA 210, paragraph 6(b)(i)-(ii).

¹⁷ HKSA 315, "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment," paragraph 4(c).

¹⁸ HKSA 200, paragraph 20.

If the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding, HKSA 210 requires the auditor not to accept the audit engagement, unless required by law or regulation to do so. In accordance with HKSA 210, an audit conducted in accordance with such law or regulation does not comply with HKSA's. Accordingly, the auditor does not include any reference in the auditor's report to the audit having been conducted in accordance with Hong Kong Standards on Auditing.¹⁹

“Present fairly, in all material respects” or “give a true and fair view”

- A28. Whether the phrase “present fairly, in all material respects,” or the phrase “give a true and fair view” is used in any particular jurisdiction is determined by the law or regulation governing the audit of financial statements in that jurisdiction, or by generally accepted practice in that jurisdiction. Where law or regulation requires the use of different wording, this does not affect the requirement in paragraph 14 of this HKSA for the auditor to evaluate the fair presentation of financial statements prepared in accordance with a fair presentation framework.

Description of information that the financial statements present

- A29. In the case of financial statements prepared in accordance with a fair presentation framework, the auditor's opinion states that the financial statements present fairly, in all material respects, or give a true and fair view of the information that the financial statements are designed to present, for example, in the case of many general purpose frameworks, the financial position of the entity as at the end of the period and the entity's financial performance and cash flows for the period then ended.

Description of the applicable financial reporting framework and how it may affect the auditor's opinion

- A30. The identification of the applicable financial reporting framework in the auditor's opinion is intended to advise users of the auditor's report of the context in which the auditor's opinion is expressed; it is not intended to limit the evaluation required in paragraph 14. The applicable financial reporting framework is identified in such terms as:

“... in accordance with Hong Kong Financial Reporting Standards” or

“... in accordance with accounting principles generally accepted in Jurisdiction X ...”

- A31. When the applicable financial reporting framework encompasses financial reporting standards and legal or regulatory requirements, the framework is identified in such terms as “... in accordance with Hong Kong Financial Reporting Standards and the requirements of Jurisdiction X Corporations Act.”^{19a} HKSA 210 deals with circumstances where there are conflicts between the financial reporting standards and the legislative or regulatory requirements.²⁰

- A32. As indicated in paragraph A8, the financial statements may be prepared in accordance with two financial reporting frameworks, which are therefore both applicable financial reporting frameworks. Accordingly, each framework is considered separately when forming the auditor's opinion on the financial statements, and the auditor's opinion in accordance with paragraphs 35-36 refers to both frameworks as follows:

- (a) If the financial statements comply with each of the frameworks individually, two opinions are expressed: that is, that the financial statements are prepared in

¹⁹ HKSA 210, paragraph 21.

^{19a} For companies incorporated in Hong Kong, the applicable Corporations Act is the Hong Kong Companies Ordinance.

²⁰ HKSA 210, paragraph 18.

accordance with one of the applicable financial reporting frameworks (for example, Hong Kong Financial Reporting Standards) and an opinion that the financial statements are prepared in accordance with the other applicable financial reporting framework (for example, International Financial Reporting Standards). These opinions may be expressed separately or in a single sentence (for example, the financial statements are presented fairly, in all material respects, in accordance with Hong Kong Financial Reporting Standards and International Financial Reporting Standards).

- (b) If the financial statements comply with one of the frameworks but fail to comply with the other framework, an unmodified opinion can be given that the financial statements are prepared in accordance with the one framework but a modified opinion given with regard to the other framework in accordance with HKSA 705.
- A33. As indicated in paragraph A10, the financial statements may represent compliance with the applicable financial reporting framework and, in addition, disclose the extent of compliance with another financial reporting framework. As explained in paragraph A46, such supplementary information is covered by the auditor's opinion as it cannot be clearly differentiated from the financial statements.
- (a) If the disclosure as to the compliance with the other framework is misleading, a modified opinion is expressed in accordance with HKSA 705.
 - (b) If the disclosure is not misleading, but the auditor judges it to be of such importance that it is fundamental to the users' understanding of the financial statements, an Emphasis of Matter paragraph is added in accordance with HKSA 706, drawing attention to the disclosure.

Other Reporting Responsibilities (Ref: Para. 38-39)

- A34. In some jurisdictions, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibility under HKSAs to report on the financial statements. For example, the auditor may be asked to report certain matters if they come to the auditor's attention during the course of the audit of the financial statements. Alternatively, the auditor may be asked to perform and report on additional specified procedures, or to express an opinion on specific matters, such as the adequacy of accounting books and records. Auditing standards in the specific jurisdiction often provide guidance on the auditor's responsibilities with respect to specific additional reporting responsibilities in that jurisdiction.
- A35. In some cases, the relevant law or regulation may require or permit the auditor to report on these other responsibilities within the auditor's report on the financial statements. In other cases, the auditor may be required or permitted to report on them in a separate report.
- A36. These other reporting responsibilities are addressed in a separate section of the auditor's report in order to clearly distinguish them from the auditor's responsibility under HKSAs to report on the financial statements. Where relevant, this section may contain sub-heading(s) that describe(s) the content of the other reporting responsibility paragraph(s).

Signature of the Auditor (Ref: Para. 40)

- A37. The auditor's signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction. In addition to the auditor's signature, in certain jurisdictions, the auditor may be required to declare in the auditor's report the auditor's professional accountancy designation or the fact that the auditor or firm, as appropriate, has been recognized by the appropriate licensing authority in that

jurisdiction.^{20a}

Date of the Auditor's Report (Ref: Para. 41)

- A38. The date of the auditor's report informs the user of the auditor's report that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date. The auditor's responsibility for events and transactions after the date of the auditor's report is addressed in HKSA 560.²¹
- A39. Since the auditor's opinion is provided on the financial statements and the financial statements are the responsibility of management, the auditor is not in a position to conclude that sufficient appropriate audit evidence has been obtained until evidence is obtained that all the statements that comprise the financial statements, including the related notes, have been prepared and management has accepted responsibility for them.
- A40. In some jurisdictions, the law or regulation identifies the individuals or bodies (for example, the directors) that are responsible for concluding that all the statements that comprise the financial statements, including the related notes, have been prepared, and specifies the necessary approval process. In such cases, evidence is obtained of that approval before dating the report on the financial statements. In other jurisdictions, however, the approval process is not prescribed in law or regulation. In such cases, the procedures the entity follows in preparing and finalizing its financial statements in view of its management and governance structures are considered in order to identify the individuals or body with the authority to conclude that all the statements that comprise the financial statements, including the related notes, have been prepared. In some cases, law or regulation identifies the point in the financial statement reporting process at which the audit is expected to be complete.
- A41. In some jurisdictions, final approval of the financial statements by shareholders is required before the financial statements are issued publicly. In these jurisdictions, final approval by shareholders is not necessary for the auditor to conclude that sufficient appropriate audit evidence has been obtained. The date of approval of the financial statements for purposes of HKSAs is the earlier date on which those with the recognized authority determine that all the statements that comprise the financial statements, including the related notes, have been prepared and that those with the recognized authority have asserted that they have taken responsibility for them.^{21a}

^{20a} 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.

²¹ HKSA 560, "Subsequent Events," paragraphs 10-17.

^{21a} In Hong Kong, the auditor would not date the auditor's report earlier than the date on which the financial statements are approved by the directors. In practice, the date of the auditor's report may be earlier than the date of physical signature of the auditor's report.

Auditor's Report Prescribed by Law or Regulation (Ref: Para. 43)

- A42. HKSA 200 explains that the auditor may be required to comply with legal or regulatory requirements in addition to HKSAs.²² Where this is the case, the auditor may be obliged to use a layout or wording in the auditor's report that differs from that described in this HKSA. As explained in paragraph 4, consistency in the auditor's report, when the audit has been conducted in accordance with HKSAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. When the differences between the legal or regulatory requirements and HKSAs relate only to the layout and wording of the auditor's report and, at a minimum, each of the elements identified in paragraph 43(a)-(i) are included in the auditor's report, the auditor's report may refer to Hong Kong Standards on Auditing. Accordingly, in such circumstances the auditor is considered to have complied with the requirements of HKSAs, even when the layout and wording used in the auditor's report are specified by legal or regulatory reporting requirements. Where specific requirements in a particular jurisdiction do not conflict with HKSAs, adoption of the layout and wording used in this HKSA assists users of the auditor's report more readily to recognize the auditor's report as a report on an audit conducted in accordance with HKSAs. (HKSA 210 deals with circumstances where law or regulation prescribes the layout or wording of the auditor's report in terms that are significantly different from the requirements of HKSAs.)

Auditor's Report for Audits Conducted in Accordance with Both Auditing Standards of a Specific Jurisdiction and Hong Kong Standards on Auditing (Ref: Para. 44)

- A43. The auditor may refer in the auditor's report to the audit having been conducted in accordance with both Hong Kong Standards on Auditing as well as other auditing standards when, in addition to complying with the relevant other auditing standards, the auditor complies with each of HKSAs relevant to the audit.²³
- A44. A reference to both Hong Kong Standards on Auditing and other auditing standards is not appropriate if there is a conflict between the requirements in HKSAs and those in the other auditing standards that would lead the auditor to form a different opinion or not to include an Emphasis of Matter paragraph that, in the particular circumstances, is required by HKSAs. For example, some other auditing standards prohibit the auditor from including an Emphasis of Matter paragraph to highlight a going concern problem, whereas HKSA 570 requires the auditor to add an Emphasis of Matter paragraph in such circumstances.²⁴ In such a case, the auditor's report refers only to the auditing standards (either Hong Kong Standards on Auditing or the other auditing standards) in accordance with which the auditor's report has been prepared.

Supplementary Information Presented with the Financial Statements (Ref: Para. 46-47)

- A45. In some circumstances, the entity may be required by law, regulation or standards, or may voluntarily choose, to present together with the financial statements supplementary information that is not required by the applicable financial reporting framework. For example, supplementary information might be presented to enhance a user's understanding of the applicable financial reporting framework or to provide further explanation of specific financial statement items. Such information is normally presented in either supplementary schedules or as additional notes.

²² HKSA 200, paragraph A55.

²³ HKSA 200, paragraph A56.

²⁴ HKSA 570, "Going Concern," paragraph 19.

- A46. The auditor's opinion covers supplementary information that cannot be clearly differentiated from the financial statements because of its nature and how it is presented. For example, this would be the case when the notes to the financial statements include an explanation of the extent to which the financial statements comply with another financial reporting framework. The auditor's opinion would also cover notes or supplementary schedules that are cross-referenced from the financial statements.
- A47. Supplementary information that is covered by the auditor's opinion does not need to be specifically referred to in the introductory paragraph of the auditor's report when the reference to the notes in the description of the statements that comprise the financial statements in the introductory paragraph is sufficient.
- A48. Law or regulation may not require that the supplementary information be audited, and management may decide not to ask the auditor to include the supplementary information within the scope of the audit of the financial statements.
- A49. The auditor's evaluation whether unaudited supplementary information is presented in a manner that could be construed as being covered by the auditor's opinion includes, for example, where that information is presented in relation to the financial statements and any audited supplementary information, and whether it is clearly labeled as "unaudited."
- A50. Management could change the presentation of unaudited supplementary information that could be construed as being covered by the auditor's opinion, for example, by:
- Removing any cross-references from the financial statements to unaudited supplementary schedules or unaudited notes so that the demarcation between the audited and unaudited information is sufficiently clear.
 - Placing the unaudited supplementary information outside of the financial statements or, if that is not possible in the circumstances, at a minimum place the unaudited notes together at the end of the required notes to the financial statements and clearly label them as unaudited. Unaudited notes that are intermingled with the audited notes can be misinterpreted as being audited.
- A51. The fact that supplementary information is unaudited does not relieve the auditor of the responsibility to read that information to identify material inconsistencies with the audited financial statements. The auditor's responsibilities with respect to unaudited supplementary information are consistent with those described in HKSA 720.²⁵

²⁵ HKSA 720, "The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements."

Appendix

(Ref: Para. A14)

Illustrations of Auditors' Reports on Financial Statements

- Illustration 1: An auditor's report for a company incorporated in Hong Kong.
- Illustration 2: An auditor's report on financial statements prepared in accordance with a compliance framework designed to meet the common financial information needs of a wide range of users.
- Illustration 3: An auditor's report for a company incorporated in Hong Kong submitting group financial statements.
- 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 group 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 SHAREHOLDERS 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 [balance sheet][statement of financial position]^{1b} as at 31 December 20X1, and the [income statement][statement of comprehensive income]^{1b}, statement of changes in equity and [cash flow statement][statement of cash flows]^{1b} 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.

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.

^{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} Delete as appropriate, 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.

^{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".

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 state of the Company's affairs as at 31 December 20X1, and of its [profit][loss] and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance 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

XYZ & Co.

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

[Auditor's address]

Date of the auditor's 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."

Illustration 2:

Circumstances include the following:

- **Audit of a complete set of financial statements required by law or regulation.**
- **The financial statements are prepared for a general purpose by management of the entity in accordance with the Financial Reporting Framework (XYZ Law) of Jurisdiction X (that is, a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).**
- **The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in HKSA 210.**

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

We have audited the financial statements of ABC Limited (“the Company”) set out on pages to, which comprise the [balance sheet][statement of financial position]^{5a} as at 31 December 20X1, and the [income statement][statement of comprehensive income]^{5a}, statement of changes in equity and [cash flow statement][statement of cash flows]^{5a} for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management’s⁶ Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit^{6a}. 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 the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s

^{5a} Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

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

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

internal control.⁷ 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 presentation of the financial statements.

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

Opinion

In our opinion, the financial statements of the Company for the year ended 31 December 20X1 are prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.

XYZ & Co.

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

[Auditor's address]

Date of the auditor's report

⁷ 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 the financial statements in order to design audit procedures that are appropriate in the circumstances."

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 group 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 SHAREHOLDERS OF ABC LIMITED

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

[Report on the Consolidated Financial Statements]⁸

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

Directors'⁹ 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^{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

^{7a} 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} Delete as appropriate, 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.

^{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".

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 state of affairs of the Company and of the Group as at 31 December 20X1, and of the Group's [profit][loss] and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance 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

XYZ & Co.

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

[Auditor's address]

Date of the auditor's 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."

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 SHAREHOLDERS 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 [balance sheet][statement of financial position]¹⁵ as at 31 December 20X1, and the [income statement][statement of comprehensive income]¹⁵, statement of changes in equity and [cash flow statement][statement of cash flows]¹⁵ 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 Delete as appropriate, 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 audit ¹⁹. 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 state of the Company's affairs as at 31 December 20X1, and of its [profit][loss] and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards [and have been properly prepared in accordance with the disclosure requirements of 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.]]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 Standard 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 SHAREHOLDERS 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 [balance sheet][statement of financial position]²³ as at 31 December 20X1, and the [[income statement][statement of comprehensive income]²³, statement of changes in equity][statement of income and retained earnings²⁴] and [cash flow statement][statement of cash flows]²³ 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 the Hong Kong Financial Reporting Standard 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.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit ²⁶. 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.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 state of the Company's affairs as at 31 December 20X1, and of its [profit][loss] and cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standard for Private Entities and have been properly prepared in accordance 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

XYZ & Co.

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

[Auditor's address]

Date of the auditor's report

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".

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."

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

- **Audit of consolidated financial statements prepared for a general purpose by directors of the parent in accordance with the Hong Kong Financial Reporting Standard 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 group 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 SHAREHOLDERS OF ABC LIMITED

(incorporated in Hong Kong with limited liability)²⁸

[Report on the Consolidated Financial Statements]²⁹

We have audited the consolidated financial statements of ABC Limited ("the Company") and its subsidiaries (together "the Group") set out on pages to, which comprise the consolidated and company [balance sheets][statements of financial position]³⁰ as at 31 December 20X1, and the consolidated [[income statement][statement of comprehensive income]³⁰, the consolidated statement of changes in equity][statement of income and retained earnings]³¹ and the consolidated [cash flow statement][statement of cash flows]³⁰ for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors'³² 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 the Hong Kong Financial Reporting Standard 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.

²⁸ In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

²⁹ 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.

³⁰ Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

³¹ 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.

³² Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit³³. 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.³⁴ 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 state of affairs of the Company and of the Group as at 31 December 20X1, and of the Group's [profit][loss] and cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standard for Private Entities and have been properly prepared in accordance 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.]²⁹

AAA & Co.

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

[Auditor's address]

[Date of the auditor's report]

³³ 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".

³⁴ 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."