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“CPA for NGO” social responsibility programme

Understanding financial statements and auditors’ reports



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

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1. Laws and requirements on financial statements and audits

- a) By Governing Instruments
- b) By Law
- c) By Funding Bodies, Government Departments and Other Organisations



1. Laws and requirements on financial statements and audits

a) By Governing Instruments

- Commonly used structures include i) a **trust**, ii) a **society** established under the Societies Ordinance (Cap 151), iii) a **company** incorporated under the Companies Ordinance (Cap 622); and iv) a statutory body established by the Hong Kong **legislature**.
- There can be situations that written governing instruments impose requirements on audited financial statements in **addition to the prevailing laws**.



1. Laws and requirements on financial statements and audits

b) By Law

i) Companies Ordinance (Cap 622)

- A company's directors must prepare for each financial year (consolidated) statements that **give a true and fair view** of the **financial position** of the company (and its subsidiary undertakings) as at the end of the financial year and their **financial performance** for the financial year.
- The financial statements for a financial year must comply with i) any other requirements of this Ordinance in relation to the financial statements; and (ii) the **accounting standards applicable to the financial statements**.
- The **HKICPA** is the body prescribed in the Companies (Accounting Standards (Prescribed Body)) Regulation for issuing or specifying the applicable accounting standards.

1. Laws and requirements on financial statements and audits

b) By Law

i) Companies Ordinance (Cap 622)

- The HKICPA issues **three sets** of financial reporting standards:
 - Hong Kong Financial Reporting Standards (“HKFRS”) that gives a **true and fair view**
 - Hong Kong Financial Reporting Standards for Private Entities (“HKFRS for Private Entities”) that gives a **true and fair view**
 - Small and Medium-Sized Entity Financial Reporting Standards (“SME-FRS”) that does **not** give a **true and fair view**
- SME-FRS, the accounting standards applicable to **companies that fall within the reporting exemption** and **prepares simplified financial reports** are **less onerous than HKFRS**.



1. Laws and requirements on financial statements and audits

b) By Law

i) Companies Ordinance (Cap 622)

- Reporting exemption

- A **small guarantee company** falls within the reporting exemption and qualifies for simplified financial reporting if **total revenue for the company does not exceed HK\$25 million in a financial year.**
- A **holding guarantee company of a group of small guarantee companies** falls within the reporting exemption and qualifies for simplified financial reporting if **total aggregate revenue for the group and each company in the group do not exceeding HK\$25 million in a financial year.**



1. Laws and requirements on financial statements and audits

b) By Law

i) Companies Ordinance (Cap 622)

▪ Reporting exemption

➤ The exemptions relating to preparation of financial statements:

- No requirement to disclose auditor's remuneration in financial statements
- **No requirement** for financial statements to **give a true and fair view**
- **Subsidiary undertakings may be excluded from consolidated financial statements** in accordance with applicable accounting standards
- No requirement for auditor to express a true and fair view opinion on the financial statements



1. Laws and requirements on financial statements and audits

b) By Law

i) Companies Ordinance (Cap 622)

- **Audit** of the financial statements is required for **all companies except dormant companies**.
- Companies **limited by guarantee** are required to hold **its annual general meeting** each financial year **within nine months after the end of the financial year** and have its **audited financial statements laid** before the members in that **annual general meeting**.



1. Laws and requirements on financial statements and audits

b) By Law

i) Companies Ordinance (Cap 622)

- **A director** commits **an offence** and is liable to **a fine of \$300,000** if he or she **fails to take all reasonable steps to secure compliance** with **true and fair view** on financial statements under section 379(1) or (2).
- **A director** commits **an offence** and is liable to **a fine of \$300,000** and **to imprisonment for 12 months** if he or she **wilfully fails to take all reasonable steps to secure compliance** with **true and fair view** on financial statements under section 379(1) or (2).



1. Laws and requirements on financial statements and audits

b) By Law

i) Companies Ordinance (Cap 622)

- **A director** commits **an offence** and is liable to **a fine of \$300,000** if he or **she fails to take all reasonable steps to secure compliance** with the requirement to have **audited financial statements laid** before **an annual general meeting** held **within 9 months from the end of the financial year** under section 429(1).
- **A director** commits **an offence** and is liable to **a fine of \$300,000** and **to imprisonment for 12 months** if he or she **wilfully fails to take all reasonable steps to secure compliance** with the requirement to have **audited financial statements laid** before **an annual general meeting** held **within 9 months from the end of the financial year** under section 429(1).



1. Laws and requirements on financial statements and audits

b) By Law

ii) Societies Ordinance (Cap 151)

- No particular requirement on audit of financial statements



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1. Laws and requirements on financial statements and audits

c) By Funding Bodies, Government Departments and Other Organisations

i) Funding bodies

- By terms contained in **contracts, agreements, letters**
- Some even require **additional audit or other opinions** on other areas in addition to the audited financial statements such as i) **compliance with terms** of contracts, guidelines and requirements and ii) in separate report on **internal control**

ii) Government Departments

- **Submission of accounts** on **application** and call for accounts **from time to time** by the Inland Revenue Department for charitable institutions or trusts of a public character that are exempt from tax under section 88 of the Inland Revenue Ordinance



1. Laws and requirements on financial statements and audits

c) By Funding Bodies, Government Departments and Other Organisations

iii) Other Organisations

- Requirements after becoming **member bodies** of certain organisations such as one set out in the Constitution of The Hong Kong Council of Social Service as follows:
 - Clause 12(b): Submit copies of **audited accounts** or **certified accounts** with regards to annual income and expenditure after the end of their financial year



2. Warm-up questions

Questions:

1. How timely are management reporting packages (including management accounts/financial statements) for a given month, quarter and year available for your review?
2. Would you like to receive such management reporting packages (including management accounts/financial statements) on a more timely basis and how much earlier?



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3. Understanding Financial Statements

- a) Conceptual Framework for Financial Reporting
- b) Core Statements at a Glance
- c) Common Financial Reporting Issues
- d) Financial Statement Analysis



3. Understanding Financial Statements

a) Conceptual Framework for Financial Reporting

i) Objective

- The objective of **general purpose financial reporting** is to provide **financial information** about the reporting entity that is useful to **stakeholders** in **making decisions** about **providing resources to the entity**.
- Users need information to help them assess the **prospects for future net cash inflows** to an entity.
- The HKICPA seeks to provide the information set that will meet the **needs of the maximum number of primary users** but **does not prevent** the reporting entity from including **additional information** that is **most useful to a particular subset of primary users**.
- To a large extent, financial reports are based on **estimates, judgements and models** rather than exact depictions.



3. Understanding Financial Statements

a) Conceptual Framework for Financial Reporting

i) Objective

- Types of information:

- Economic resources and claims:

- About financial strengths and weaknesses, liquidity and solvency, needs for additional financing, priorities of claims and distributions

- Changes in economic resources and claims result from performance and other events or transactions such as issuing debt or equity instruments:

- About components and variability of returns for uncertainty of future cash flows, indication as to how well management has discharged its responsibilities to make efficient and effective use of the reporting entity's resources, historical performance to predict future returns



3. Understanding Financial Statements

a) Conceptual Framework for Financial Reporting

i) Objective

- Financial performance reflected by accrual accounting
 - An entity shall **prepare its financial statements, except for cash flow information**, using the accrual basis of accounting.
 - Depicts the effects of transactions and other events and circumstances on a reporting **entity's economic resources and claims in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period.**



3. Understanding Financial Statements

a) Conceptual Framework for Financial Reporting

i) Objective

- Financial performance reflected by past cash flows:
 - To **help users to assess** a reporting entity's **ability to generate future net cash inflows**
 - To help users understand a reporting entity's **operations, evaluate its financing and investing activities, assess its liquidity or solvency and interpret other information about financial performance**



3. Understanding Financial Statements

a) Conceptual Framework for Financial Reporting

ii) Qualitative characteristics

- Fundamental qualitative characteristics

- **Relevance**

- **Materiality**

- **Faithful representation**

- Enhancing qualitative characteristics

- **Comparability**

- **Verifiability**

- **Timeliness**

- **Understandability**



3. Understanding Financial Statements

a) Conceptual Framework for Financial Reporting

iii) The Framework

- Going concern assumption
 - The financial statements are normally prepared on the assumption that an entity is a going concern and will **continue in operation for the foreseeable future**.
 - Hence, it is assumed that the entity has **neither the intention nor the need to liquidate or curtail** materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on **a different basis** and, if so, the basis used is **disclosed**.



3. Understanding Financial Statements

a) Conceptual Framework for Financial Reporting

iii) The Framework

- Elements of financial statements

- Income

- The definition of income encompasses both revenue and gains. **Revenue** arises in the course of the **ordinary activities** of an entity.
- Income is **recognised** in the income statement when an **increase in future economic benefits** related to an **increase in an asset** or a **decrease of a liability** has arisen that can be **measured reliably**.



3. Understanding Financial Statements

a) Conceptual Framework for Financial Reporting

iii) The Framework

- Elements of financial statements

- Expenses

- The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the entity. **Expenses** that arise in the course of the **ordinary activities** of the entity.
- Expenses are **recognised** in the income statement when a **decrease in future economic benefits** related to a **decrease in an asset** or an **increase of a liability** has arisen that can be **measured reliably**.



3. Understanding Financial Statements

a) Conceptual Framework for Financial Reporting

iii) The Framework

- Elements of financial statements

- Asset

- An asset is a **resource controlled** by the entity as a result of **past events** and from which **future economic benefits** are **expected to flow** to the entity.
- An asset is **recognised** in the balance sheet when it is **probable** that the **future economic benefits will flow** to the entity and the asset has a cost or value that can be **measured reliably**.



3. Understanding Financial Statements

a) Conceptual Framework for Financial Reporting

iii) The Framework

- Elements of financial statements

- Liability

- A liability is a **present obligation** of the entity arising from **past events**, the settlement of which is expected to result in an **outflow from the entity of resources** embodying **economic benefits**.
- A liability is **recognised** in the balance sheet when it is **probable** that an **outflow of resources** embodying **economic benefits** will result from the **settlement of a present obligation** and the amount at which the settlement will take place can be **measured reliably**.



3. Understanding Financial Statements

a) Conceptual Framework for Financial Reporting

iii) The Framework

- Elements of financial statements

- Equity

- **Equity** is the **residual interest** in the **assets** of the entity after **deducting** all its **liabilities**.



3. Understanding Financial Statements

a) Conceptual Framework for Financial Reporting

iii) The Framework

- Elements of financial statements

- Capital maintenance adjustments

- **The revaluation or restatement of assets and liabilities** that gives rise to increases or decreases in equity is included in equity as **capital maintenance adjustments or revaluation reserves rather than in the income statement.**



3. Understanding Financial Statements

b) Core Statements at a Glance

- Appendix 1: Core Statements at a Glance
 - Statement of Financial Position
 - Statement of Profit or Loss
 - Statement of Changes in Funds
 - Statement of Cash Flows



3. Understanding Financial Statements

c) Common Financial Reporting Issues

i) Recognition of Income and Expenses

- Common Issues

- **Cash basis instead of accrual basis** of accounting is adopted for either or both income and expenses.
- Revenue is **recognised prematurely**.
- Revenue is **not recognised** when recognition criteria are met.
- Expenditure are recognised **without appropriate capitalisation of capital assets and prepaid expenses**.
- Expenses are **not accrued** for when they are incurred.



3. Understanding Financial Statements

c) Common Financial Reporting Issues

i) Recognition of Income and Expenses

- HKFRS on Revenue Recognition

➤ When the outcome of a transaction involving the **rendering of services** can be **estimated reliably**, revenue associated with the transaction shall be **recognised by reference to the stage of completion** of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- a) the amount of **revenue** can be **measured reliably**;
- b) it is **probable** that the **economic benefits** associated with the transaction will flow to the entity;
- c) the **stage of completion** of the transaction at the end of the reporting period can be **measured reliably**; and
- d) the **costs incurred** for the transaction and the **costs to complete** the transaction can be **measured reliably**. (HKAS 18.20)



3. Understanding Financial Statements

c) Common Financial Reporting Issues

i) Recognition of Income and Expenses

- HKFRS on Revenue Recognition

- The stage of completion of a transaction may be determined by a **variety of methods**. An entity uses the method that measures reliably the services performed. Depending on the nature of the transaction, the methods may include:
 - a) surveys of work performed;
 - b) services performed to date as a percentage of total services to be performed; or
 - c) the **proportion that costs incurred to date bear to the estimated total costs of the transaction**. Only **costs that reflect services performed** to date are included in costs incurred to date. Only costs that reflect services performed or to be performed are included in the estimated total costs of the transaction. (HKAS 18.24)



3. Understanding Financial Statements

c) Common Financial Reporting Issues

i) Recognition of Income and Expenses

- HKFRS on Revenue Recognition

- When the outcome of the transaction involving the rendering of services **cannot be estimated reliably**, revenue shall be recognised only **to the extent** of the expenses recognised that are **recoverable**. (HKAS 18.26)



3. Understanding Financial Statements

c) Common Financial Reporting Issues

ii) Grants related to Assets versus Income

■ Common Issues

- Grants were recognised on **cash basis** in the **statement of profit or loss or statement of funds** as opposed to accrual basis of accounting.
- Accounting for grants related to assets was **surprisingly the same** compared with those for **grants related to income** regardless of different financial reporting requirements.
- Capital assets funded by grants related to **assets were not capitalised**.



3. Understanding Financial Statements

c) Common Financial Reporting Issues

ii) Grants related to Assets versus Income

- HKFRS on Government Grants related to Assets versus Income
 - Government grants are assistance by government in the form of **transfers of resources** to an entity in return for **past or future compliance with certain conditions** relating to the operating activities of the entity. (HKAS 20.3)
 - Government grants, including non-monetary grants at fair value, shall not be **recognised until** there is **reasonable assurance** that:
 - a) the entity will **comply with the conditions** attaching to them; and
 - b) the **grants will be received**. (HKAS 20.7)



3. Understanding Financial Statements

c) Common Financial Reporting Issues

ii) Grants related to Assets versus Income

- HKFRS on Government Grants related to Assets versus Income
 - Government grants shall be **recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses** the related costs for which the grants are **intended to compensate**. (HKAS 20.12)
 - Grants related to **assets** are government grants whose primary condition is that an entity qualifying for them should **purchase, construct or otherwise acquire long-term assets**. (HKAS 20.3)
 - Grants related to **income** are government **grants other than those related to assets**. (HKAS 20.3)



3. Understanding Financial Statements

c) Common Financial Reporting Issues

ii) Grants related to Assets versus Income

- HKFRS on Government Grants related to Assets versus Income

- Government grants related to assets, including non-monetary grants at fair value, shall be **presented in the statement of financial position** either by setting up the **grant as deferred income** or by **deducting the grant in arriving at the carrying amount of the asset.** (HKAS 20.24)
- One method recognises the grant as deferred income that is recognised in **profit or loss on a systematic basis over the useful life of the asset.** (HKAS 20.26)
- The other method deducts the grant in calculating the carrying amount of the asset. The grant is recognised in **profit or loss over the** life of a depreciable asset as a reduced depreciation expense. (HKAS 20.27)



3. Understanding Financial Statements

c) Common Financial Reporting Issues

ii) Grants related to Assets versus Income

- HKFRS on Government Grants related to Assets versus Income
 - Grants related to income are presented as part of profit or loss, either **separately** or under a general heading such as "Other income"; alternatively, they are **deducted in reporting the related expense**. (HKAS 20.9)



3. Understanding Financial Statements

c) Common Financial Reporting Issues

iii) Allocation and Combination of Income and Expenses

- Common Issues

- **Arbitrary or disallowed allocation of income and expenses** among service units and projects could affect **recoverability of revenue**.
- Inter-service unit income and expenses were **omitted from elimination** when service units are combined for the entity-wide financial statements.

iv) Provisions

- Common Issues

- There is little awareness to make provisions for **gratuities, long service payments and restructuring provisions**.



3. Understanding Financial Statements

c) Common Financial Reporting Issues

v) Requirements on Financial Statements in addition to HKFRS

■ Common Issues

- Additional requirements usually in the form of note disclosures were **imposed by funding bodies** but either omitted from or not accurately compiled in the financial statements.
- **Additional reconciliations** were not added to explain the differences between figures from different bases of accounting in note disclosures imposed by funding bodies, for example from cash basis to accrual basis.



3. Understanding Financial Statements

d) Financial Statement Analysis

i) General Principles

- “Analytical procedures” mean the analysis of significant **ratios and trends** including the resulting **investigation of fluctuations and relationships** that are **inconsistent with other relevant information or deviate from predicted amounts.**”
- Single ratio is **not meaningful by itself** and must be examined in context of the company’s **past performance, the industry, major competitors and the economy.**
- Ratios are designed to provide analyst with **pertinent questions (like why?, what? and how?) to assist in conducting the analysis** of the company.



3. Understanding Financial Statements

d) Financial Statement Analysis

ii) Analytical procedures

- **Variance analyses** compare **actual with predicted amounts** in the form of **absolute or relative** differences in percentage terms.
- **Predicted amounts** include **prior period amounts, anticipated results** and **similar industry information**.
- **Degree of disaggregation** need to be determined.
- **Thresholds** (in dollar and percentage terms) should be established for **investigative and follow-up actions**.
- **Explanations and causes** are important to be obtained.
- There can be potential **adjustments to budgets** and even **changes to business or economic decisions**.



3. Understanding Financial Statements

d) Financial Statement Analysis

iii) Common-Size Statements

- Formulas:

- Common-size income statement ratios = income statement account/sales
- Common-size balance sheet ratios = balance sheet account/total assets

- Uses:

- Allow one to make comparisons across companies and time
- Provide quick views of ratios such as margins and percentages by total

- Illustrative example:

- [Appendix 2: Common Size Statements](#)



3. Understanding Financial Statements

d) Financial Statement Analysis

iv) Ratio Analysis

- Formulas and Commentaries

- [Appendix 3: Formulas and Commentaries for Financial Ratios](#)



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3. Understanding Financial Statements

d) Financial Statement Analysis

v) Cash Flow Analysis

- Cash flows from operating, investing and financing activities and their components
- Cash flow from operating activities* before changes in working capital and interest and tax payments
- Free cash flows to debt and equity holders:
 - = Cash flows from operating activities* + Interest paid (1- tax rate) - Net capital expenditure
- Free cash flows to equity holders:
 - = Cash flows from operating activities* - Net capital expenditure – Net borrowings

**Interest and dividend received from operating assets should be added since they are generally included as cash flows from investing activities under IFRS/HKFRS.*



3. Understanding Financial Statements

d) Financial Statement Analysis

vi) Management Versus Audited Financial Statements

- **No audit opinion** is rendered
- Usually accompanied with **financial statement analysis and commentaries/explanations** with the use of **both financial and non-financial information** prepared **by the accounting and finance team** and some even reviewed or commented **by Finance Committee**
- **Comparative figures** are usually by **month, year-to-date and full year** on **year-over-year** and/or **actual versus budget** bases.
- Some accompanied with **revised and rolling budgets**
- Some accompanied with **financial forecasts** and **projected financial statements**
- **Not necessarily covered all disclosures required by HKFRS**
- **Management reporting packages** focus on the **financial positions and performances of different projects, service units, service lines, designated and general funds, the holding company, subsidiaries and the group as a whole.**



3. Understanding Financial Statements

d) Financial Statement Analysis

vii) Further Insights

- **Balanced and recurring funding sources** are important.
- Have service **fees** be adjusted to appropriate levels in view of **demand, supply and inflation?**
- **Generating new sources** and **growing existing sources** of **revenue** and **effective cost management measures** are keys to **sustainable growth**.
- Stakeholders pay extra attention to **surplus/deficit level** for an NGO and **each of the presented accumulated funds** in view of the unique **non-profit-making motive**.
- **Surpluses or profits** should be expected to fund **future growth, deficit-making service units or funds, social enterprises** operating on a **self-financed basis** and also for **liquidity purpose**.



3. Understanding Financial Statements

d) Financial Statement Analysis

vi) Further Insights

- **Deficits or losses** are **not good signs of performance** as management **fails to make ends met**.
- Has the NGO **sacrificed/overlooked the financial results/implications** when **overly focused** on **operational results**?
- **Use and separate presentation** of **designated funds** can provide additional information in **better segregation**.
- **Transparency** in financial reporting including **effective communication of reserve policies** is imperative.
- Are there **sufficient investigations and follow-ups** after financial statement analysis?



3. Understanding Financial Statements

d) Financial Statement Analysis

vi) Further Insights

- Has the **financial and non-financial information** in the financial statements **met objectives of management and stakeholders?**
- Do **financial forecasts** for the projects, service units and the reporting entity as a whole support **financial feasibility** and the **going concern assumption?**



4. Open discussion session

Questions:

1. What are the difficulties in interpreting financial statement analysis and commentaries/explanations if they are prepared periodically by the accounting and finance team?
2. What other financial or non-financial information you would like to be included in audited financial statements and/or management reporting packages?



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5. Understanding Auditors' Reports

a) Requirements

i) Forming an Opinion

- 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.** (HKSA 700.10)
- 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;
 - (b) The auditor's conclusion, in accordance with HKSA 450, whether **uncorrected misstatements are material, individually or in aggregate**; and
 - (c) The evaluations required by paragraphs 12- 15 (HKSA 700.11)



5. Understanding Auditors' Reports

a) Requirements

ii) Form of Opinion

- 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**. (HKSA 700.16)
- The auditor shall **modify the opinion** in the auditor's report when:
 - a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are **not free from material misstatement**; or
 - b) The auditor is **unable to obtain sufficient appropriate audit evidence to conclude** that the financial statements as a whole are free from material misstatement. (HKSA 705.6)



5. Understanding Auditors' Reports

a) Requirements

ii) Form of Opinion

- The auditor shall express a **qualified opinion** when:
 - (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that **misstatements, individually or in the aggregate, are material, but not pervasive**, to the financial statements; or
 - (b) The auditor is **unable to obtain sufficient appropriate audit evidence** on which to base the opinion, but the auditor concludes that the **possible effects on the financial statements of undetected misstatements**, if any, **could be material but not pervasive**. (HKSA 705.7)



5. Understanding Auditors' Reports

a) Requirements

ii) Form of Opinion

- The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that **misstatements, individually or in the aggregate, are both material and pervasive** to the financial statements. (HKSA 705.8)
- The auditor shall disclaim an opinion when the auditor is **unable to obtain sufficient appropriate audit evidence** on which to base the opinion, and the auditor concludes that the **possible effects** on the financial statements of **undetected misstatements**, if any, could be **both material and pervasive**. (HKSA 705.9)



5. Understanding Auditors' Reports

a) Requirements

ii) Form of Opinion

■ Summary of modified opinions:

<i>Nature of Matter Giving Rise to the Modification</i>	<i>Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements</i>	
	<i>Material but Not Pervasive</i>	<i>Material and Pervasive</i>
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion



5. Understanding Auditors' Reports

a) Requirements

iii) Contents

- Title
- Addressee
- Auditor's opinion
- Basis for opinion
- Going concern
- Other information
- Responsibilities of directors and those charged with governance for the financial statements
- Auditor's responsibilities for the audit of the financial statements
- Other reporting responsibilities
- Signature of the auditor
- Auditor's address
- Date of the auditor's report



5. Understanding Auditors' Reports

a) Requirements

iv) Illustrations

- [Appendix 4](#) - An auditor's report for an entity other than a listed entity incorporated in Hong Kong submitting consolidated financial statements and where the consolidated financial statements are prepared in accordance with Hong Kong Financial Reporting Standards
- [Appendix 5](#) - An auditor's report of any entity, whether listed or other than listed, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.



6. Practical Tips on Financial Statements and Audits

- Understand **current and upcoming laws and requirements**
- Deploy **sufficient internal resources or outsource**
- Closing for month-ends, quarter-ends and year-ends should be a **continuous process** as opposed to period-end tasks
- Agree on the **details, frequencies and timeliness of management reporting** and financial information to be included in the **annual reports**
- **Budget** for accounting, audit and tax services
- Select service providers **not only based on cost** but also other considerations such as **quality and reputation**
- **Materiality** is a relative concept and expected to be **lower at individual entity, service units and project levels compared with that of a reporting group as a whole.**



6. Practical Tips on Financial Statements and Audits

- **Reasonable assurance** in audits is **not a guarantee** for detection of all material misstatements.
- Agree on **planned scope and timing of the audit** and **significant audit findings including significant deficiencies in internal control** that identify during the audit.



7. Group Discussion Session

Case Study

- Recently, a large NGO has terminated quite a number of staff in view of its management's expectation of running deep financial deficits and decision to reduce its loss-making services despite the service and employment contracts in place.
- The NGO had more than HK\$100 million of accumulated surplus at 31 March 2016 but its management expected to incur tens of millions of deficits for the two years thereafter and only strive to achieve break-even by the end of the next calendar year.
- Management admitted that there were rooms of improvement in financial forecasts which underestimated the financial implications of new services and pay increases.
- Some news reported that the NGO paid bonuses to management and all staff about two years ago.



7. Group Discussion Session

Questions:

1. What areas, balances, ratios and trends that are on or can be derived from extracts of the most recently audited financial statements that cause most of your concerns and why?
2. What questions and to whom would you ask if you were a board member of the NGO?



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8. Questions and Answers

Thank You!

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Appendices



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ABC FOUNDATION LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31ST DECEMBER, 2016

	<u>2016</u>	<u>2015</u>
	HK\$	HK\$
<u>ASSETS</u>		
NON-CURRENT ASSETS		
Plant and equipment
CURRENT ASSETS		
Accounts receivable		
Deposits and prepayments		
Cash at banks and on hand	_____	_____

LESS: CURRENT LIABILITIES		
Deferred income/Receipts in advance		
Accounts payable and accrued expenses		
Provisions	_____	_____

NET CURRENT ASSETS	_____	_____

NET ASSETS	=====	=====
FUNDS		
General Fund		
Designated Funds	_____	_____
	=====	=====

ABC FOUNDATION LIMITED

STATEMENT OF CHANGES IN FUNDS

FOR THE YEAR ENDED 31ST DECEMBER, 2016

	General <u>fund</u> HK\$	Designated <u>funds</u> HK\$	<u>Total</u> HK\$
At 1st January, 2015			
Surplus/(deficit) and total comprehensive income/(loss) for the year			
Transfers in/(out)			
	<hr/>	<hr/>	<hr/>
At 31st December, 2015			
Surplus/(deficit) and total comprehensive income/(loss) for the year			
Transfers in/(out)			
	<hr/>	<hr/>	<hr/>
At 31st December, 2016	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

ABC FOUNDATION LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER, 2016

	<u>2016</u>	<u>2015</u>
	HK\$	HK\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus/(deficit) for the year		
Adjustments for:		
Depreciation		
Interest income		
Operating surplus/(deficit) before working capital changes	_____	_____
(Increase)/decrease in accounts receivable		
(Increase)/decrease in deposits and prepayments		
Increase/(decrease) in deferred income/receipts in advance		
Increase/(decrease) in accounts payable and accrued expenses		
Increase/(decrease) in provisions		
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	_____	_____
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in time deposits with original maturity over three months		
Payments to acquire property, plant and equipment		
Interest received		
NET CASH FROM INVESTING ACTIVITIES	_____	_____
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	_____	_____
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	=====	=====

APPENDIX 2 - COMMON SIZE STATEMENTS

<i>Balance Sheet Fiscal year end</i>	2002	2001	2000
Assets			
Cash & cash equivalents	0.38%	0.29%	0.37%
Accounts receivable	5.46%	5.61%	6.20%
Inventories	5.92%	5.42%	5.84%
Deferred income taxes	0.89%	0.84%	0.97%
Other current assets	0.41%	0.40%	0.36%
Total current assets	13.06%	12.56%	13.74%
Gross fixed assets	25.31%	23.79%	25.05%
Accumulated depreciation	8.57%	7.46%	6.98%
Net gross fixed assets	16.74%	16.32%	18.06%
Other long term assets	70.20%	71.12%	68.20%
Total assets	100.00%	100.00%	100.00%
Liabilities			
Accounts payable	3.40%	3.40%	3.79%
Short term debt	1.00%	2.19%	1.65%
Other current liabilities	8.16%	10.32%	9.14%
Total current liabilities	12.56%	15.91%	14.58%
Long term debt	18.24%	14.58%	5.18%
Other long term liabilities	23.96%	27.44%	53.27%
Total liabilities	54.76%	57.92%	73.02%
Preferred equity	0.00%	0.00%	0.00%
Common equity	45.24%	42.08%	26.98%
Total liabilities & equity	100.00%	100.00%	100.00%
Income Statement Fiscal year end			
	2002	2001	2000
Revenues	100.00%	100.00%	100.00%
CGS	59.62%	60.09%	60.90%
Gross profit	40.38%	39.91%	39.10%
Selling, general & administrative	16.82%	17.34%	17.84%
Depreciation	2.39%	2.33%	2.18%
Amortization	0.02%	3.29%	2.33%
Other operating expenses	0.58%	0.25%	-0.75%
Operating income	20.57%	16.71%	17.50%
Interest and other debt expense	2.85%	4.92%	2.60%
Income before taxes	17.72%	11.79%	14.90%
Provision for income taxes	6.30%	5.35%	6.17%
Net income	11.42%	6.44%	8.73%

APPENDIX 3: FORMULAS AND COMMENTARIES FOR FINANCIAL RATIOS:

1. Profitability

- Net profit margin = Net profit/Sales
- EBIT margin = Net profit before interest and taxes/Sales
- EBITDA margin = Net profit before interest, taxes, depreciation and amortization/Sales
- Gross profit margin = (Sales - Cost of Sales)/Sales
- Return on equity = Net profit/Average equity
- Return on assets = Net profit/Average total assets

Commentaries:

- Operating profitability ratios look at how good management is at making profits.
- Different ratios are designed to isolate specific costs.
- One should be concerned if a ratio is too low.

2. Liquidity

- Current ratio = Current assets/Current liabilities
- Quick ratio = (Cash + Short-term investments + Accounts receivable)/Current Liabilities
- Cash ratio = (Cash + Marketable securities)/Current liabilities
- Working capital ratio = (Current assets – Current liabilities)/Total Assets
- Operating cash flow ratio = Cash flow from operations/Current liabilities

Commentaries:

- Current, quick and cash each measures the ability to settle current liabilities with increased stringency.
- Working capital is net current assets.
- Cash flow from operations is also used to measure liquidity.

3. Working capital

- Days' receivables = $365 / (\text{Sales} / \text{Average accounts receivable})$
- Days' payables = $365 / (\text{Cost of goods sold or Purchases} / \text{Average accounts payable})$
- Days' inventory = $365 / (\text{Cost of goods sold} / \text{Average inventory})$
- Days' cash conversion = Days' inventory + Days' receivables - Days' payables

Commentaries:

- Credit and payment terms can be too generous or rigorous.
- Higher days' inventory can mean potential obsolescence. Lower days' inventory may indicate inadequate inventories on hand.
- The higher days' cash conversion, the longer for a company to convert cash.
- It can be an indication of going concern or liquidity issue if a ratio is too high.

4. Leverage

- Liabilities-to-equity = Total liabilities/Equity
- Debt-to-equity = (Short-term and Long-term debts)/Equity
- Net-debt-to-equity = (Short-term and Long-term debts – Cash and Marketable Securities)/Equity
- Interest coverage (earnings basis) = Net profit before interest and taxes/Interest expenses
- Interest coverage(cash flow basis) = (Cash flow from operating activities + Interest Paid + Taxes paid)/Interest expenses

Commentaries:

- These ratios assess the ability to meet liability, debt and interest payments.
- It can be an indication of going concern or excessive leverage if liability/debt to equity ratio exceeds 1.
- Adjusted cash flow from operations is also used to measure ability to repay.

5. Sustainable growth

- Revenue growth rate = $(\text{Sales}_{t1} - \text{Sales}_{t0}) / \text{Sales}_{t0}$
- Sustainable growth rate = Return on equity x (1 – Dividends paid/Net profit)

Commentaries:

- Where dividend is not applicable, sustainable growth rate equals return of equity.

APPENDIX 4 - UNMODIFIED AUDIT REPORT

FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

Illustration 4 – Auditor's Report for an Entity Other than a Listed Entity 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 purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of an entity other than a listed entity using Hong Kong Financial Reporting Standards (HKFRSs). The audit is a group audit of an entity with subsidiaries (i.e., HKSA 600 applies).
- The consolidated financial statements are prepared by the directors of the entity in accordance with HKFRSs (a general purpose framework).
- The terms of the audit engagement reflect the description of the directors' responsibility for the consolidated financial statements in HKSA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with HKSA 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.
- 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 Company

(incorporated in Hong Kong with limited liability)²²

Report on the Audit of the Consolidated Financial Statements²³

Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries ("the Group") 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]²⁴ the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

²² In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

²³ The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

²⁴ 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.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 20X1, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in HKSA 720 (Revised) – see Illustration 1 in Appendix 2 of HKSA 720 (Revised).]

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements²⁵

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.²⁶ Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Paragraph 41(b) of this HKSA explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or HSAs expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the

²⁵ Or other terms that are appropriate in the context of the legal framework of 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 "Auditors' Duty of Care To Third Parties and The Audit Report".

auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.²⁷
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law or regulation. The matters addressed by other law or regulation (referred to as "other reporting responsibilities") shall be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the HKSA's as part of the Report on the Audit of the Consolidated Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the HKSA's may be combined (i.e., included in the Report on the Audit of the Consolidated Financial Statements section under the appropriate subheadings) provided that the wording

²⁷ This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements.

FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the HKSAs where such a difference exists.]²⁸

XYZ & Co.

Certified Public Accountants (Practising) or Certified Public Accountants

[Auditor Address]

[Date]

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

APPENDIX 5 - OTHER INFORMATION (NOTHING TO REPORT)

THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION

Illustration 1 – An auditor's report of any entity, whether listed or other than listed, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of any entity, whether listed or other than listed, using Hong Kong Financial Reporting Standards (HKFRSs). The audit is not a group audit (i.e., HKSA 600¹ does not apply).
- The financial statements are prepared by the directors of the entity in accordance with HKFRSs (a general purpose framework).
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial statements in HKSA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with HKSA 570 (Revised).²
- Key audit matters have been communicated in accordance with HKSA 701.³
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of 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 Company

(incorporated in Hong Kong with limited liability)^{3a}

Report on the Audit of the Financial Statements⁴

Opinion

We have audited the financial statements of ABC Company ("the Company") set out on pages to, which comprise the statement of financial position as at 31 December 20X1, and [the statement

¹ HKSA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

² HKSA 570 (Revised), *Going Concern*

³ HKSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*. The Key Audit Matters section is required for listed entities only.

^{3a} In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

⁴ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

of profit or loss and]^{4a} 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 notes to the financial statements, including a summary of significant accounting policies.

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 its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[Key Audit Matters]⁵

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with HKSA 701.]

Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

The directors⁶ are responsible for the other information. The other information comprises the [information included in the X report,⁷ but does not include the financial statements and our auditor's report thereon.]

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material

^{4a} 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.

⁵ The Key Audit Matters section is required for listed entities only.

⁶ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

⁷ A more specific description of the other information, such as "the directors' report and chairman's statement," may be used to identify the other information.

misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements⁸

[Reporting in accordance with HKSA 700 (Revised)⁹ – see Illustration 1 or 3 in HKSA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with HKSA 700 (Revised) – see Illustration 1 or 3 in HKSA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with HKSA 700 (Revised) – see Illustration 1 or 3 in HKSA 700 (Revised).]

[The engagement partner on the audit resulting in this independent auditor's report is [name].¹⁰

XYZ & Co.

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

[Date]

⁸ Throughout these illustrative auditor's reports, the terms directors/ management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction

⁹ HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

¹⁰ The name of the engagement partner is included in the auditor's report for audits of complete sets of general purpose financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see HKSA 700 (Revised), paragraph 46).