

TECHNICAL NOTE 01/2006 – UNQUALIFIED AUDITOR’S REPORT

Paul Yeung [October 2006]

HKSA 700 “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements”

The HKICPA has issued a new auditing standard HKSA 700 “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements”.

HKSA 700 is effective for auditor’s reports dated **on or after 31 December 2006**.

HKSA 700 addresses circumstances when the auditor expresses an unqualified opinion.

Guidance on the modifications to the auditor’s report for an emphasis of matter, a qualified opinion, a disclaimer of opinion, or an adverse opinion is set out in another standard HKSA 701 “Modifications to the Independent Auditor’s Report”

Major changes from the previous requirements are as follows:

- a new title “Independent Auditor’s Report” is used to affirm that the auditor has met all of the relevant ethical requirements regarding independence;
- the introductory paragraph is required to identify the title of each of the financial statements that comprise the complete set of financial statements and refer to the summary of significant accounting policies and other explanatory notes;
- the paragraph on management’s responsibility becomes more explicit;
- the previous “Basis of Opinion” is replaced by a paragraph “Auditor’s Responsibilities”, which makes explicit reference to
 - i) the auditor’s responsibilities to comply with ethical requirements; and
 - ii) assessment of risks of material misstatement and consideration of the internal control.

HKSA 700 also set out guidance for the auditor who may conduct the audit in accordance with both the HKSAs and the auditing standards of a specific jurisdiction or country.

HKSA 700 also requires that the auditor should be satisfied that any supplementary information that is not covered by the auditor’s opinion is clearly differentiated.

An example of the independent auditor's report is as follows:

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ABC LIMITED *(incorporated in Hong Kong with limited liability)*

We have audited the financial statements of ABC Limited set out on pages [x] to [x], which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 as to 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 auditors' 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 and true and fair presentation 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. 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 2006 and of its profit 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.

PKF

Certified Public Accountants

Hong Kong, 31 March 2007