

Frequently Asked Questions – Questions on audit terminology used in the Rules with reference to the HKICPA’s revised Auditor Reporting Standards effective on 15 December 2016 (Released on 6 January 2017 / Last updated on 1 March 2019)

Status of “Frequently Asked Questions”

The following frequently asked questions (FAQs) are designed to help issuers understand and comply with the Listing Rules, particularly in situations not explicitly set out in the Rules or where further clarification may be desirable.

Users of the FAQs should refer to the Rules themselves and, if necessary, seek qualified professional advice. The FAQs are not substitutes for the Rules. If there is any discrepancy between the FAQs and the Rules, the Rules prevail.

In formulating our “answers”, we may have assumed certain underlying facts, selectively summarised the Rules or concentrated on one particular aspect of the question. They are not definitive and do not apply to all cases where the scenario may at first appear similar. In any given case, regard must be had to all the relevant facts and circumstances.

The Listing Department may be consulted on a confidential basis. Contact the Listing Department at the earliest opportunity with any queries.

Release Date (Last Update Date)	Main Board Rules	GEM Rules	Series No.	FAQ No.	Query	Response
06/01/2017 (01/03/2019)			N/A	001-2017	(FAQ withdrawn on 1 March 2019)	

Release Date (Last Update Date)	Main Board Rules	GEM Rules	Series No.	FAQ No.	Query	Response
06/01/2017 (01/03/2019)	1.01, Paragraphs 45(7) and 46(8) of Appendix 16, Appendix 24	1.01, 18.50(8), 18.64, 18.76, 18.78(5), Appendix 17	N/A	002-2017	<p>The revised Hong Kong Standards on Auditing (“HKSAAs”) issued by the HKICPA on 31 August 2015 which became effective for audits of financial statements for periods ending on or after 15 December 2016, require the issuer’s auditors to report “Key Audit Matters” (“KAM”) in their audit report.</p> <p>Will the issuer need to:</p> <p>(i) provide details of KAM in the preliminary results announcement; and</p> <p>(ii) select the headline category “Modified Report by Auditors” when submitting the results announcement for publication?</p>	<p>(i) Currently, there is no specific requirement under the Rules for an issuer to provide details of KAM in its results announcement.</p> <p>For investors to better understand the financial statements and the audit that was performed, it is considered more appropriate that KAM should be read and considered together with the full audit report and the complete set of financial statements. Therefore, the issuer is recommended to publish its full annual report as soon as practicable after the preliminary results announcement has been issued.</p> <p>(ii) No. Given that KAM is part of a clean audit report, the issuer should not select the headline category “Modified Report by Auditors” when submitting the results announcement for publication on the HKEXnews website.</p> <p>The issuer is reminded that paragraphs 45(7) and 46(8) of Appendix 16 to the Main Board Rules and GEM Rules 18.50(8) and 18.78(5) require, where its auditors are likely to issue a modified report on its financial statements, the issuer to provide details of the modification in the results announcement and select the headline category “Modified Report by Auditors”. The newly defined term “modified report” in Main Board Rule 1.01/ GEM Rule 1.01 refers to:</p>

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						<p>(a) where the audit opinion in the auditors' report is a "modified opinion" (i.e. a qualified opinion, an adverse opinion or a disclaimer of opinion); and/or</p> <p>(b) where the auditors' report contains any of the following without modifying the audit opinion:</p> <ul style="list-style-type: none"> - an emphasis of matter paragraph; and - a material uncertainty related to going concern. <p>There is no policy change to the Rules in this regard.</p>
06/01/2017 (01/03/2019)	1.01, Paragraphs 45(7) and 46(8) of Appendix 16, Appendix 24	1.01, 18.50(8), 18.64, 18.76, 18.78(5), Appendix 17	N/A	003-2017	When the auditors express an unmodified opinion but include an "Emphasis of Matter" paragraph or a separate section under the heading "Material Uncertainty Related to Going Concern", will the issuer need to provide details in the preliminary results announcement and select the headline	<p>Yes. See the definition of "modified report" in Main Board Rule 1.01/ GEM Rule 1.01 (FAQ 002-2017).</p> <p>Where the auditors' report is expected to include an "Emphasis of Matter" paragraph or a separate section under the heading "Material Uncertainty Related to Going Concern", the issuer should provide details in its results announcement. In such case, the issuer should also select the headline category "Modified Report by Auditors" when submitting its results announcement for publication on the HKEXnews website.</p>

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					category "Modified Report by Auditors" when submitting the results announcement for publication?	
06/01/2017 (01/03/2019)	Paragraphs 46(5), 46(6) & 46(7) of Appendix 16, Appendix 24	18.61, 18.78(5), 18.78(6) & 18.78(7), Appendix 17	N/A	004-2017	When the interim results have been <u>reviewed</u> by the issuer's auditors and where the review report is modified, will the issuer need to provide details in the review report in the interim results announcement and select the headline category "Modified Report by Auditors" when submitting the announcement for publication?	<p>Paragraphs 46(6) & (7) of Appendix 16 to the Main Board Rules and GEM Rules 18.78(6) & (7) require a statement as to whether or not the interim results have been reviewed and where there is any disagreement by the auditors or the audit committee with the accounting treatment adopted by the issuer, full details should be disclosed.</p> <p>Accordingly, the issuer should disclose in its interim results announcement the fact that the interim results have been reviewed by its auditors. There is no specific requirement under the Rules for an issuer to provide details of the modifications in the review report issued by its auditors in an interim results announcement, except where the modification relates to the auditors' disagreement with the accounting treatment adopted by the issuer.</p> <p>However, paragraph 46(5) of Appendix 16 to the Main Board Rules and GEM Rule 18.78(5) require an issuer to include any supplementary information which in the opinion of the directors of the issuer is necessary for a reasonable appreciation of the results for the relevant period. Therefore, the issuer</p>

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						<p>is expected to provide details of the modifications in its interim results announcement and interim report. In such case, the issuer should also select the headline category “Modified Report by Auditors” when submitting the results announcement for publication on the HKEXnews website.</p> <p>(Note: See FAQ 053-2019 for clarification on the use of the term “modification”.)</p>
01/03/2019	1.01 4.18, 14.68(2)(a)(i), Paragraph 35 of Appendix 1A, Paragraph 42(2) of Appendix 1C, Paragraph 35 of Appendix 1E, Paragraphs 45(7) and 46(8) of Appendix 16	1.01, 7.22, 18.50(8), 18.64, 18.76, 19.68(2)(a)(i), Paragraph 35 of Appendix 1A, Paragraph 42(2) of Appendix 1C	N/A	053-2019	(i) Given the Exchange has now updated the audit terminology in the Rules with reference to the revised HKSA on auditor reporting, the terms “modified opinion” and “modified report” are defined in Main Board Rule 1.01/ GEM Rule 1.01. However, there is no definition of “modification” in the Rules.	(i) “Modification” is a generic term which should be read in the context of the Rule. <u>Audit engagements</u> The terms “modified opinion” and “modified report” defined in Main Board Rule 1.01/ GEM Rule 1.01 relate to an accountants’ report or auditors’ report containing an audit opinion. Where a Rule explicitly refers to a “modified opinion”, then the term “modification” should be read in the context of that Rule and should refer to a “modified opinion”. The same applies when a Rule explicitly refers to a “modified report”, then the term “modification” should be read in the context of that Rule and should refer to a “modified report”.

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					<p>Please clarify the use of the term “modification”.</p> <p>(ii) Where the financial information has been reviewed and a review conclusion has been expressed by the auditors/ reporting accountants (e.g. FAQ 004-2017), what is meant by “modification” referred to in the Rules, interpretation and guidance issued by the Exchange?</p> <p>Please clarify the use of the term “modification” in that context.</p>	<p>For reference, the table below summarises the terminologies used in the current Rules and the HKSAs:</p> <table border="1"> <thead> <tr> <th rowspan="2">Meanings</th> <th colspan="2">Terminology used</th> </tr> <tr> <th>Current Rules</th> <th>HKSAs</th> </tr> </thead> <tbody> <tr> <td> Matters that affect the audit opinion: <ul style="list-style-type: none"> - qualified opinion - adverse opinion - disclaimer of opinion </td> <td>Modified opinion</td> <td>Modified opinion</td> </tr> <tr> <td> Matters that affect the audit opinion: <ul style="list-style-type: none"> - qualified opinion - adverse opinion - disclaimer of opinion <p>AND/OR</p> Matters that do not affect the audit opinion: <ul style="list-style-type: none"> - emphasis of matter - material uncertainty related to going concern </td> <td>Modified report</td> <td>No specific equivalent term</td> </tr> </tbody> </table> <p>(ii) Where the financial information has been reviewed and a review conclusion has been expressed by the auditors/ reporting accountants, then the term “modification” in the</p>	Meanings	Terminology used		Current Rules	HKSAs	Matters that affect the audit opinion: <ul style="list-style-type: none"> - qualified opinion - adverse opinion - disclaimer of opinion 	Modified opinion	Modified opinion	Matters that affect the audit opinion: <ul style="list-style-type: none"> - qualified opinion - adverse opinion - disclaimer of opinion <p>AND/OR</p> Matters that do not affect the audit opinion: <ul style="list-style-type: none"> - emphasis of matter - material uncertainty related to going concern 	Modified report	No specific equivalent term
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						<p>Rules and FAQs should refer to:</p> <p><u>Review engagements</u></p> <p>(a) a modified review conclusion (i.e. qualified conclusion, an adverse conclusion or a disclaimer of conclusion); and/or</p> <p>(b) an emphasis of matter paragraph or a paragraph to highlight a material uncertainty related to going concern without modifying the review conclusion.</p> <p>(Note: A review is substantially less in scope than an audit conducted in accordance with relevant HKICPA standards (or equivalent standards issued by IAASB and China Ministry of Finance). Currently, the applicable HKICPA standards for a review engagement are Hong Kong Standards on Review Engagements 2400 (Revised) and 2410.)</p>

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