



4 April 2014

Our Ref.: C/AASC

International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor,
New York
NY 10017
USA

Dear Sirs,

Consultation Paper on IAASB's Proposed Strategy for 2015-2019 and Proposed Work Program for 2015-2016

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only statutory licensing body of accountants in Hong Kong responsible for the professional training, development and regulation of the accountancy profession. The HKICPA sets auditing and assurance standards, ethical standards and financial reporting standards in Hong Kong. We welcome the opportunity to provide our comments on the captioned IAASB Consultation Paper (CP).

Overall we support the proposed Strategy and Work Program. We believe the proposed Strategy and Work Program will also help to underpin audit quality.

We trust that our comments are of assistance to the IAASB in finalising the Strategy and Work Program. If you require any clarification on our comments, please do not hesitate to contact our Selene Ho, Associate Director at selene@hkiipa.org.hk.

Yours faithfully,

Simon Riley
Acting Director
Standard Setting Department

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HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS'
COMMENTS ON THE IAASB'S PROPOSED STRATEGY FOR 2015-2019 AND
PROPOSED WORK PROGRAM FOR 2015-2016

Request for Specific Comments

Proposed Strategy for 2015–2019

(a) Whether the strategic objectives identified are considered appropriate for the period 2015–2019. If not, please explain.

The strategic objectives for 2015–2019 identified by the IAASB are to:

- (i) Develop and Maintain High-Quality ISAs that Are Accepted as the Basis for High-Quality Financial Statement Audits
- (ii) Ensure the IAASB's Suite of Standards Continues to Be Relevant in a Changing World by Responding to Stakeholder Needs
- (iii) Collaborate and Cooperate with Contributors to the Financial Reporting Supply Chain to Foster Audit Quality and Stay Informed

We consider the above strategic objectives appropriate.

In our earlier comments to the IAASB for the Future Strategy Survey in May 2013, we agreed in principle that the IAASB's strategy should cover 5 years to cater for the lead time and post implementation monitoring of projects. However, the strategy should be robust enough to respond to current economic conditions and events. Setting out a two-year period work program will help national standard setters to plan ahead. We are of the view that the work program should be updated bi-annually to give a better opportunity to plan and shape an agenda appropriate to stakeholders' ongoing needs.

We are pleased to note that the IAASB will continue to actively monitor global developments and a mid-period review of the strategy will be undertaken to determine whether the identified objectives remain relevant or they need to be adjusted, in particular as the IAASB determines specific initiatives to be prioritized in 2017 and beyond.

(b) Whether the factors included in Appendix 2 on page 19 represent a reasonable basis for the IAASB to use in developing its Work Programs beyond the *Work Program for 2015–2016*.

In general, we support the factors guiding the identification of potential priorities and actions in future work programs.

Proposed Work Program for 2015–2016

- (a) The approach taken to the development of the *Work Program for 2015–2016*, in particular the IAASB's decision to focus on fewer key projects towards the goal of their completion by 2017.**

We are supportive of IAASB's decision to devote a significant majority of its resources to progress certain ISA and ISQC related topics that address significant public interest issues.

We appreciate that the standard setting process is necessarily paced in order to enable the Board time to carefully deliberate on proposals before they are released for public comment; for stakeholders to consider those proposals in responding with comments; and for the Board again to carefully consider the comments received in the process of finalizing the proposed standards and guidance. We consider that there may be alternative methods available to the IAASB to progress the finalisation of certain agenda items, appropriate to the needs of stakeholders, in a more timely fashion. We would therefore recommend the IAASB to explore the possibility of issuing more non-authoritative guidance such as practical implementation guidance and Q&As to provide guidance to practitioners. This would help to ensure consistent application of the pronouncements in practice. This would be helpful for issues arising from the ISA Implementation Monitoring project.

- (b) The appropriateness of the topics chosen as the focus for the *Work Program for 2015–2016* (see paragraph 4 of the *Work Program* and Table A on pages 26–29) in light of the strategic objectives set out in the IAASB's *Strategy for 2015–2019*.**

We consider the focus on "Quality Control", "Professional Scepticism" and other activities to facilitate and support implementation of new Auditor Reporting standards and Audit Quality to be appropriate.

We recommend the IAASB to include examples and case studies to illustrate what is professional scepticism when amending ISA 200.

We agree that there should be some focus on audit consideration relating to financial institutions. However, we believe some of the issues are more generic and are not restricted to financial institutions only, e.g. increasing complexity of fair value measurements. Hence, we recommend the IAASB to focus on developing ISA or IAPN on a wider application basis and add any further requirements for financial institutions.



- (c) Whether there is an action(s) or project(s) that has not been included in the *Work Program for 2015–2016* that you believe the IAASB should address during that period. For example, should any of the topics in Appendix 1 (on pages 39–41) be prioritized sooner? If so, which initiative(s) identified in Table A (on pages 26–29) do you believe should be replaced by this action(s) or project(s). Please provide an explanation of your views.**

We note on page 34 of the CP that the IAASB may undertake preliminary work on ISA 600 in 2015-2016 to help determine the appropriate actions to address concerns that have been raised.

According to the proposed timetable, the project to revise ISA 600 will only commence in 2017. We believe the IAASB should focus on the remaining key themes identified by the ISA Implementation Monitoring project, in particular, on ISA 600, before commencing other projects. It is important to address the identified areas of concerns as it directly affects how firms conduct group audits.

We recommend the IAASB considers including the revision of ISAE 3400, *The Examination of Prospective Financial Information* in the work program. We understand from the Basis for Conclusion: IAASB Strategy and Work Program, 2012-2014 that the IAASB decided not to include a revision of ISAE 3400 in its future work program, but also agreed not to withdraw the standard.

ISAE 3400 is the only standard which Hong Kong has not adopted. We issued an exposure draft of a Hong Kong version of ISAE 3400 as part of our international convergence exercise. We have, however, received comments resisting the adoption of ISAE 3400 in Hong Kong on the basis that ISAE 3400 is rarely used in other overseas jurisdictions. Concerns were raised as to whether reporting accountants are in a position to provide assurance on the reasonableness of the assumptions on profit forecasts in respect of businesses that are in their start-up phase or those that do not have a long history, and whether reporting accountants have the expertise to comment on the assumptions. There were also comments which suggest limiting the period to be reported on to not more than one financial year, as profit forecasts that cover a longer period may not be reliable. If jurisdictions are not adopting ISAE 3400, we urge the IAASB to review the reasons for this and to consider any necessary changes to ISAE 3400.

We appreciate the difficulties of developing a global standard that works in every jurisdiction. However, engagements concerning investment circular reporting and assistance to sponsors/underwriters are becoming more important in many jurisdictions as regulators are increasingly relying on the work performed by professional accountants.

On the implementation of new and revised auditor reporting standards, we recommend the IAASB incorporates staff publication or "train the trainer" materials into the application materials in the standards to promote consistency in implementation of new and revised standards.

Internal controls are a focus area of most regulators. There is increasing demand for practitioners to provide assurance reports on internal controls. However, it appears that the IAASB has not included this area in its proposed work program. We



recommend the IAASB to consider developing guidance in this area to ensure consistency in application.

- (d) Whether there are alternative approaches for the IAASB to consider in order to enhance the IAASB's ability to address calls from stakeholders for IAASB efforts on a variety of important topics, in light of the constraints of available resources and the need for due process to be applied in the development or revision of standards.**

We understand that the IAASB plans to continue to focus on outreach and strengthening working relationships with key stakeholders groups, including international regulators, audit oversight bodies, NSS. Given the importance of such activities, the IAASB should consider setting aside adequate time and resources for that, when developing its work plan. We encourage ongoing liaison with the accounting standard setters to ensure both sides understand the practical implications of the standards being set.

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