



By fax (0062 1 212 286 9570) and e-mail <EDComments@ifac.org>

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10 July 2003

Technical Director,
International Auditing and Assurance Standards Board,
International Federation of Accountants,
535 Fifth Avenue, 26th Floor,
New York 10017,
USA.

Dear Sir,

Assurance Engagements Exposure Draft

We welcome the opportunity to provide you with our comments on the IAASB's Assurance Engagements Exposure Draft.

Proposed International Framework For Assurance Engagements ("Proposed Framework")

We support the IAASB's initiative to split the current ISAE 100 into 2 documents which comprise of the proposed Framework and ISAE 2000, and to issue the proposed Framework to define and describe the elements of an assurance engagement, and identify those engagements to which International Standards on Auditing (ISAs) and International Standards on Assurance Engagements (ISAEs) apply. As a result, a frame of reference will be provided for practitioners and others involved with assurance engagements, such as those engaging a practitioner, and for the development by the IAASB of ISAs for audits and reviews of historical financial information, and ISAEs for assurance engagements on other subject matters.

We are, however, of the view that the proposed Framework as currently drafted would be complicated for practitioners and users in Hong Kong to understand. Given that a number of new terms have been introduced, we request that more guidance and clarifications should be provided in the final Framework in relation to the specific areas identified below in order to facilitate a better understanding of the Framework for the performance of assurance engagements.

We would like to emphasize that given that the Hong Kong Society of Accountants has a policy to converge the Hong Kong auditing and assurance standards with the ISAs and ISAEs issued by the IAASB, it is important that our comments below are addressed before the Exposure Draft is finalized as a final Statement. This is because leaving further guidance and clarifications to be made at the level of the member bodies would be cumbersome and would cause difficulties in their adoption by the member bodies.

(a) Differences between Audit-level engagements and Review-level engagements

The proposed Framework establishes that in any assurance engagement, the practitioner reports in the form appropriate to one of only two distinct levels of evidence gathering procedures: an audit-level or a review-level, for both ISAs engagements and ISAEs engagements. It is considered useful that a summary of the characteristics of an audit-level engagement and a review-level engagement is provided in the appendix to the proposed Framework.

From the Hong Kong perspective, we are familiar with these characteristics except for the terms “Acceptably low level” used for assurance engagement risk and “Limited assurance” used for assurance obtained and conveyed. Further guidance and clarifications in relation to both of these terms would be useful for practitioners and users in Hong Kong. In addition, we would also request for specific guidance on the threshold of when an engagement which has a “Limited assurance” obtained and conveyed would cross over to become an assurance engagement which has a “Reasonable assurance” obtained and conveyed.

(b) “Reasonable assurance” and “Limited assurance”

“Reasonable assurance” and “Limited assurance” are the terms which have been adopted in the Exposure Draft to replace “high assurance” and “moderate assurance”. We are of the view that it would be difficult for the users to differentiate between these types of assurances. Accordingly, the abovementioned terms would not reduce the expectation gap of users and hence the engagement risk to practitioners.

(c) “Work Effort” view and “Interaction of Variables” view

The approach adopted in the Exposure Draft as to how practitioners determine the level of assurance provided has elements of both the “Work Effort” view and the “Interaction of Variables” view but is not predicated solely on either of these two views. We are of the view that the “Interaction of Variables” view is a more preferred approach. This is particularly the case for engagements to report on prospective financial information.

Proposed ISAE 2000 “Assurance Engagements On Subject Matters Other Than Historical Financial Information”

We support that the proposed ISAE is issued in order to establish basic principles and essential procedures for, and provide guidance to, practitioners for the performance of assurance engagements on subject matters other than historical financial information. We have the following specific comments on the proposed ISAE for your consideration.

(a) “Audit-level engagement” and “Review-level engagement”

The proposed ISAE uses the terms “Audit-level engagement” and “Review-level engagement” to distinguish between the two types of assurance engagement. It goes on to say that these terms are used for ease of reference only, and it is recognized that various other names may be used for each, including “audit” and “examination”, and “review” and “limited review”. We are of the view that to allow other names to be used would in practice cause more confusion and misunderstanding amongst practitioners and users.

(b) Proposed suite of pronouncements for ISAEs

The proposed ISAE merely sets out the key principles and procedures. We are of the view that the IAASB should consider developing a suite of pronouncements for ISAE engagements like the existing suite of ISAs pronouncements for the audits and reviews of historical financial information, to provide further guidance and clarification to practitioners in the conduct of ISAE engagements.

If you require any clarifications on our comments, please contact our Deputy Director (Ethics & Assurance), Stephen Chan < schan@hksa.org.hk >, in the first instance.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Winnie Cheung', is centered on the page. The signature is written in a cursive style with a horizontal line under the 'g'.

WINNIE C.W. CHEUNG
SENIOR DIRECTOR
PROFESSIONAL & TECHNICAL DEVELOPMENT
HONG KONG SOCIETY OF ACCOUNTANTS

WCC/SSLC/jc