



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

26 May 2005

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

Our. Ref.: C/AASC

Technical Director,
International Auditing and Assurance Standards Board,
International Federation of Accountants,
545 Fifth Avenue, 14th Floor,
New York,
New York 10017,
USA.

Dear Sir,

IAASB Exposure Draft on ISA 230 (Revised), “Audit Documentation”

The Hong Kong Institute of Certified Public Accountants welcomes the opportunity to provide you with our comments on the captioned IAASB Exposure Draft.

--- We set out in the attachment our comments for your consideration.

We trust that our comments are of assistance to you. If you require any clarifications on our comments, please contact the undersigned at schan@hkiipa.org.hk.

Yours faithfully,

Stephen Chan
Executive Director

SSLC/SO/jc
Encl.



ATTACHMENT

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
COMMENTS ON THE IAASB EXPOSURE DRAFT ON
ISA 230 (REVISED), “AUDIT DOCUMENTATION”

We are supportive of the proposed revision to ISA 230 which is very timely as we are seeing increased public attention regarding the need to develop high quality international auditing standards on Audit Documentation.

SPECIFIC COMMENTS

1. Introduction – Paragraph 2

We note that bold paragraph 2 of the proposed revised ISA 230 requires that the auditor should prepare audit documentation that is sufficient and appropriate to provide a record of the basis for the auditor’s report and to demonstrate that the audit was performed in accordance with ISAs and applicable legal and regulatory requirements.

We believe that the primary objective of audit documentation should be to document the basis for the auditor’s report. We are concerned that the reference to “demonstrate that the audit was performed in accordance with ISAs and applicable legal regulatory requirements” may be construed as an expectation that the audit documentation contains a record that maps each requirement in the ISAs to the relevant audit work. Whilst we appreciate that the auditor needs to be able to demonstrate compliance with the ISAs, without further clarification, the current text could result in the development and reliance on standardized checklists and detailed forms for all aspects of the audit. A checklist approach would result in an audit that is mechanical and would be detrimental to the achievement of a high quality audit.

We believe that compliance with the basic principle together with the specific documentation requirements in other ISAs should constitute the documentation that is necessary to demonstrate that the audit was performed in accordance with ISAs and applicable legal and regulatory requirements. To avoid excessive documentation, we believe there would not be a need to separately document how the auditor has complied with each basic principle and essential procedure in order to demonstrate that the audit has been conducted in accordance with the ISAs. We recommend that further clarification be provided in this regard.

2. Changes Resulting from the Process of Assembling and Completing the Audit File – Paragraphs 18 and 19

We note that paragraph 18 of the proposed revised ISA 230 does not preclude the auditor from making those changes to the audit file that ordinarily occur during the process of assembling and completing the audit file after the date of the auditor’s

report but that reflect neither the performance of new audit procedures nor new conclusions reached. Such changes include, for example:

- Documenting audit evidence that the auditor has obtained, discussed and agreed with the relevant members of the audit team prior to the date of the auditor's report.
- Performing routine file-assembling procedures such as deleting or discarding superseded documentation, and sorting, collating and cross-referencing final working papers.
- Signing off on file completion checklist prior to completing and archiving the audit file.

Furthermore, paragraph 19 of the proposed revised ISA 230 requires the auditor to assemble a complete and final audit file without delay after the date of the auditor's report. The date on which the assembling of the audit file is finally completed is ordinarily not more than 60 days after the date of the auditor's report.

In this regard, we understand that the requirement is similar to that introduced by PCAOB and we are of the view that the proposed ISA needs greater clarity on the documentation that is expected to be completed by the date of the auditor's report and the documentation that can be completed during the process of assembling and completing the audit file after the date of the auditors' report. Furthermore, auditors should be reminded that appropriate documentation of their work should be on a continuous process throughout the audit, rather than at the end of the audit process.

General Comments - Audit Quality

We note that there is an underlying presumption in the proposed revised ISA 230 that audit documentation is a key contributor to audit quality. Whilst we agree with this presumption, we would like to mention that of equal importance are matters such as the audit process, the execution of audit work, audit judgements and the qualifications of the auditor. We would recommend that a mention of these other matters be made in the proposed revised ISA 230, where appropriate, to provide a better understanding to improve audit quality.

26 May 2005