



Our Ref.: C/AASC

By Email Alta Prinsloo [altaprinsloo@ifac.org] and By Post

23 February 2007

Ms. Alta Prinsloo
Deputy Director
International Auditing and Assurance Board
545 Fifth Avenue
14th Floor
New York, NY 10017
USA

Dear Alta,

IAASB Strategic Review Questionnaire

We are pleased to note that the IAASB is conducting a review to develop a strategic plan for its activities for the period 2008-2010 and is seeking views to identify key issues for discussion during the strategy review forums and meetings planned for 2007. We have pleasure in enclosing the Hong Kong Institute of Certified Public Accountant's response to the IAASB Strategic Questionnaire ([Annex I](#)). We have also updated this information into the on-line Questionnaire.

In summary, we have highlighted the importance of the following key subjects in the attached questionnaire for the attention of the IAASB:

- (a) Developing a set of International Standards on investment circular reporting;
- (b) Developing more guidance for Small and Medium-sized Practitioners;
- (c) Developing more guidance on the Reporting on Internal control;
- (d) Reviewing the status of ISAE 3400 "The Examination of Prospective Financial Information" and its acceptance internationally;
- (e) Requesting that the finalization of ISA 800 (Revised and Redrafted) "Considerations – Audit of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement" should be given higher priority with the aim of completing the project in late 2007 instead of Q2 of 2008 or later; and
- (f) Developing more guidance on Special Purpose Reporting.



Should you require any further clarification in relation to the above matters,
please do not hesitate to contact me or Steve Ong, Deputy Director, Standard
Setting (ong@hkicpa.org.hk).

Yours sincerely,

A handwritten signature in black ink, appearing to read "Patricia McBride".

Patricia McBride
Executive Director

PM/SO/jc

Annex I

IAASB STRATEGIC REVIEW

INTRODUCTION

The International Auditing and Assurance Standards Board (IAASB) plans to complete its project to improve the clarity of its pronouncements during 2008. During 2007, the IAASB will conduct a review to develop a strategic plan for its activities for the period 2008-2010.

We are seeking the views of current IAASB members, Technical Advisors, CAG Representatives and others at an early stage to identify key issues for discussion during strategy review forums and meetings planned for 2007.

We would be grateful if you could complete the following questionnaire, and return it to kathleenkerrigan@ifac.org by **February 23, 2007**. Individual responses to the questionnaire will not be on public record. They will be summarized for discussion purposes. The summary, which may be made public, will not identify the names or organizations of the respondents.

Name or Organization (Optional):

Hong Kong Institute of Certified Public Accountants (HKICPA)

Email address (Optional):

patricia@hkicpa.org.hk

Kindly provide your email address should you wish to receive an electronic copy of the proposed IAASB strategy and work program for 2008-2010 when it is issued for public comment during 2007.

Please mark the box(es) that best describe the capacity in which you are responding to this questionnaire

- IAASB Member (current or former)
- IAASB Technical Advisor
- IAASB CAG Member Organization / Representative
- Member or Technical Advisor of Other IFAC Board or Committee –
please specify _____
- IFAC Member Body**
 - Preparer of Financial Statements
 - Professional Accountant in Public Practice

User of Financial Statements (e.g., Investor, Customer, Creditor / Supplier, Lender, Analyst, Researcher etc.; Other than Regulator) –

please specify _____

Governmental or legislative body

Regulator

Audit Oversight Body

✓ **Standard setter**

Academia

Private Sector

Public Sector

Small and Medium Sized Entity

Small and Medium Sized Practice

Developing / Emerging Economy

Donor Agency or Similar Body

Other – please specify _____

The 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.

SECTION 1 – THE PUBLIC INTEREST

1.1 IAASB Stakeholders

The IAASB has identified the following groups that are affected by its activities (i.e., its stakeholders) and, therefore, will be consulted in developing the IAASB's future strategy and work program (they are listed alphabetically):

- Auditors
- Audit oversight bodies
- IFAC member bodies
- National standards setters
- Preparers of financial statements
- Regional professional accounting organizations
- Securities and other regulators
- Users of financial statements (other than regulators)

a) Please list any other groups that, in your view, are stakeholders of the IAASB.

- **Suppliers of resources to IAASB**

b) Please rank the stakeholders of the IAASB in order of importance, where 1=most important and 10=least important.

1. **National standards setters**
2. **Auditors**
3. **Audit oversight bodies**
4. **Securities and other regulator**
5. **Users of financial statements**
6. **Preparers of financial statements**
7. **IFAC member bodies**
8. **Regional professional accounting organizations**
9. **Suppliers of resources to IAASB**

c) Which, if any, stakeholder group do you belong to?

HKICPA belongs to (1), (3), (4), (6), (7), and (8).

d) What, in your view, does the stakeholder group to which you belong expect from the IAASB?

We expect the IAASB to carry out continuing improvement in the scope and quality of pronouncements with reference to developments in the market place. Areas of particular concern are as follows:

(i) International Standards on investment circular reporting

At your IAASB meeting in March 2006 in Hong Kong, the HKICPA discussed briefly with the IAASB that there is a need for international standards on investment circular reporting. With the understanding that this topic is not on the IAASB's current agenda, we would recommend that the IAASB consider putting this important subject on the agenda.

The scope of professional accountants' work is expanding and developing beyond the traditional "core" work of audits or reviews of statutory financial statements. Amongst the "non-core" work, engagements concerning investment circular reporting and assistance to sponsors/underwriters are becoming more important in many jurisdictions as regulators are increasingly relying on the professional accountants' opinion.

We are concerned about the inconsistencies in practice internationally and the increasing level of risks that reporting accountants are exposed to because of the increasing complexity of securities transactions and onerous regulatory requirements. We are also aware that some international sponsors are “arbitraging” between different jurisdictions, making jurisdictions with less stringent requirements more vulnerable to risks. A number of more sophisticated jurisdictions, such as the UK, US, Canada and Singapore, have already issued local standards in this area and it is apparent that there is an urgent need for international standards in the light of globalisation and the increasing importance of cross-border offerings.

The HKICPA’s Council embarked on a project to develop a series of standards and guidance on investment circular reporting in 2001. We have communicated and negotiated with the regulators and sponsors to get their support for some of our proposals. We have finalised three out of the seven exposure drafts and the relevant exposure drafts and standards issued by the Institute are available at: <http://www.hkicpa.org.hk/index.php?mainLocation=/professionaltechnical/assurance/artf/artf.php>.

We have received adverse comments on one of the standards issued in relation to the provision of assistance to sponsors. Commentators have claimed that the standard is placing significant limits on the involvement of professional accountants in the due diligence process and that professional accountants are seeking ways to limit their potential liability. These same commentators want professional accountants to both prepare and report independently on the preparation of investment circular materials without fully appreciating the impact on independence.

Given the International Convergence Programme that the HKICPA has adopted, we believe that we would be in a much stronger position to have our professional standards accepted if they are part of our International Convergence Programme, and as adopted from their equivalent international standards.

(ii) More Guidance for Small and Medium-sized Practitioners

There should be more guidance developed by the IAASB to guide the Small and Medium-sized Practitioners given that there should be only one set of auditing standards applicable to audits of all sizes.

Please note that all companies incorporated under the Hong Kong Companies Ordinance are subject to an annual statutory audit and Small and Medium-sized Practitioners have to follow the Hong Kong Standards on Auditing issued by the HKICPA which are converged with the International Standards on Auditing issued by the IAASB.

(iii) Reporting on internal control

Reporting on internal controls has become a very important assurance service provided by practitioners and some guidance from the IAASB on this subject would be useful. We note that this is included under section 3 – Potential projects identified by or brought to the attention of IAASB staff/IAASB.

(iv) ISAE 3400 “The Examination of Prospective Financial Information”

In connection with investment circular reporting, we are considering the finalisation of the Hong Kong equivalent of ISAE 3400. We issued some time ago an exposure draft of a Hong Kong version of ISAE 3400 as part of our International Convergence Programme. 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.

Is the IAASB aware of the status of international adoption of ISAE 3400? 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. If other jurisdictions are generally adopting ISAE 3400, then we will be better positioned to push for convergence in Hong Kong.

(v) Guidance on Special Purpose Reporting

As you are aware, as part of the HKICPA's programme of convergence with pronouncements issued by the IAASB, the HKICPA has issued and revised a number of professional standards. Amongst these, the HKICPA has issued a number of standards on different reporting engagements typically undertaken by professional accountants in public practice in Hong Kong, namely assurance engagements and other types of engagements such as agreed upon procedures engagements and compilation engagements. These standards set out key principles, required procedures and the appropriate form a report should take when the engagement falls within the scope of those standards.

In this regard, we would request the IAASB to develop more guidance on Special Purpose Reporting engagements where a practitioner is requested to undertake an engagement other than an audit or review of a set of financial statements.

The HKICPA has in May 2006 developed a draft Discussion Paper “Requests For Special Purpose Reports” which can be accessed at:

http://www.hkicpa.org.hk/professionaltechnical/assurance/exposedraft/ed_sp_reports.pdf

The draft Discussion Paper seeks to help clarify to practitioners and users of reports of the principal types of special purpose engagements and the form and content of the related reports. This paper also sets out some of the practical issues that may arise when undertaking such engagements and guidance on how to address them.

SECTION 2 – ACHIEVING THE IAASB’S OBJECTIVE

2.1 Environmental Factors

In developing its 2007-2010 Strategic Plan, the Board of the International Federation of Accountants (IFAC) identified a number of environmental factors that affect IFAC and the wider accountancy profession. These factors are summarized in the *Appendix to the IFAC Strategic Plan for 2007-2010*.¹ The environmental factors listed below in alphabetical order are from that summary.

- Application of Standards by Small and Medium Practices
 - Convergence with International Standards in the areas of education, ethics, accounting, auditing
 - Corporate Credibility
 - Credibility of Financial Reporting and the Worldwide Accountancy Profession
 - Effect of Globalization on Developing and Emerging Economies
 - New Needs of Information Users
 - Regulation of the Worldwide Accountancy Profession
 - Scope of Services Rendered by Firms in Public Practice
 - Technological Advance
 - The Audit Performance Gap
 - The Expectations Gap
- a) Please identify the environmental factors that, in your view, will have the greatest impact on the IAASB’s work over the next 3-4 years? Please identify no more than 5 factors (either from the list above or others that you might have identified), and rank in order of importance in the context of the work of the IAASB (where 1=most important and 5=least important):
- 1. The Expectations GAP**
 - 2. The Audit Performance GAP**
 - 3. Application of Standards by Small and Medium Practices**
 - 4. Scope of Services rendered by Firms in Public Practice**
 - 5. Credibility of Financial Reporting and the Worldwide Accountancy Profession**

¹ The Appendix to the IFAC Strategic Plan for 2007-2010 can be accessed at http://www.ifac.org/About/downloads/Environment_Factors_Appendix.pdf.

b) How, in your view, might the factors you have listed above affect the work of the IAASB during the period 2008-2010?

- 1. Increasing supervision of auditors.**
- 2. Need to understand use and application of standards to improve ways standards are written.**
- 3. More guidance to be provided to Small and Medium-sized Practitioners.**
- 4. Widening scope of standards like request for quality standards on investment circular reporting and reporting on internal control.**
- 5. Restriction of use of “true and fair” or “presents fairly” to high quality financial statements to ensure that “true and fair” or “presents fairly” indicates quality, completeness and in accordance with an acceptable financial reporting framework recognized by the National Standards Setter responsible for the jurisdiction.**

2.2 IAASB Initiatives

The objective of the IAASB is to serve the public interest by setting, independently and under its own authority, high quality standards dealing with auditing, review, other assurance, quality control, and related services, and by facilitating the convergence of national and international standards. At present, the IAASB focuses on the following 3 initiatives to achieve its objective:

- 1. Development of Standards – Establish high quality auditing, assurance, quality control and related services standards, with a current focus on auditing.**
- 2. Global Acceptance, Convergence and Partnership – Promote the acceptance and adoption of IAASB pronouncements throughout the world; support a strong and cohesive international auditing profession by coordinating with IFAC member bodies, regional organizations, and national standard setters to achieve the objective of the IAASB**
- 3. Communications – Improve the quality and uniformity of auditing practices and related services throughout the world by encouraging debate and presenting papers on a variety of audit and assurance issues; and increase the public image and awareness of IAASB’s activities and outputs.**

a) Should the IAASB continue to focus on these as the top 3 initiatives over the next 3-4 years?

Yes

No

b) At present, the IAASB focuses on the initiative to develop standards and, in particular, auditing standards. If you have answered “yes” in a), please indicate how, in your view, the IAASB should balance these 3 initiatives in terms of its resources over the next 3-4 years (total should be 100%).

1. **80%**
2. **5%**
3. **15%**

The message the HKICPA would like to bring across is that if the IAASB gets the standards right and develop a good set of standards and follow due process combined with good communications (e.g. Roundtable discussions around the world and more public relation to bridge the expectation gaps), global acceptance should follow.

Given the limitation of resources, standard setting has to be the prime objective and goal of the IAASB.

c) If you have answered “no” in a), please indicate the 3 initiatives that, in your view, the IAASB should focus on over the next 3-4 years. Also indicate how, in your view, the IAASB should balance these 3 initiatives in terms of its resources over the next 3-4 years (total should be 100%).

Initiative	Balance
1.	%
2.	%
3.	%

2.3 IAASB Activities

a) For each initiative, please suggest one or more specific activities relating to the initiative that you believe the IAASB should undertake during the period 2008-2010? If you have chosen “yes” in 2.2 a), the activities should be indicated for the 3 initiatives listed under 2.2. If you have chosen “no” in 2.2 a), the activities should be indicated for the 3 initiatives you have listed in 2.2 c).

- Development of Standards

As the final set of ISAs under the clarity project is expected to be finalized by Quarter 3 of 2008 as stated in the IFAC Strategic Plan for the years 2007 to 2010, the IAAB should progress to develop more guidance on the application of ISAES and others. Furthermore, as raised in section 1.1(d) above, we encourage the IAASB to put on its agenda a plan to develop International Standards on investment circular reporting.

- Global Acceptance, Convergence and Partnership

As well as its private consultations, the IAASB should participate in public forums with relevant regulators in all major regional areas to encourage an understanding of the objectives and effectiveness of the IAASB standards.

- Communications

The HKICPA would encourage the IAASB to start debates and develop papers on a variety of audit and assurance issues and make these readily available on the IAASB website for member's reference.

The IAASB may consider holding auditing forums on issues arising from the implementation of the International Standards on Auditing in the Far East region. The HKICPA would welcome an auditing forum to be held in Hong Kong.

- Initiative 1 listed in c), if applicable
- Initiative 2 listed in c), if applicable
- Initiative 3 listed in c), if applicable

b) Are there any other specific activities you believe the IAASB should prioritize for the period 2008-2010? If so, what are they?

1. **The IAASB should focus on the clarity project of revising and redrafting International Standards on Auditing to ensure that all the objectives of each ISAs are coherent and link them to the objective in ISA 200 *Objective and General Principles Governing an Audit of Financial Statements*.**
2. **The project on ISA 800 (Revised and Redrafted) *Considerations – Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* should be given higher priority with the aim to complete the project in late 2007 instead of Q2 of 2008 or later.**

SECTION 3 – IAASB PROJECTS

Recently completed and current projects of the IAASB include the following:

- Project to develop the Quality Control Standards (ISQC 1 and ISA 220) (Completed)
- Project to revise the requirements and guidance for audit documentation (ISA 230) (Completed)
- Project to revise the requirements and guidance on the auditor's responsibility relating to fraud in an audit of financial statements (ISA 240) (Completed)
- Project to revise the requirements and guidance on communication with those charged with governance (ISA 260)

- Project to develop the Audit Risk Standards (ISAs 315, 330 and 500) (Completed)
- Project to revise the requirements and guidance on materiality in planning and performing an audit and the evaluation of misstatements identified during the audit (ISAs 320 and 450)
- Project to revise the requirements and guidance on audit considerations relating to entities using service organizations (ISA 402)
- Project to revise the requirements and guidance on external confirmations (ISA 505)
- Project to revise the requirements and guidance on auditing of accounting estimates (ISA 540)
- Project to revise the requirements and guidance on related parties (ISA 550)
- Project to revise the requirements and guidance on written representations (ISA 580)
- Project to develop requirements and guidance for the audit of group financial statements (ISA 600)
- Project to revise the requirement and guidance on using the work of an expert (ISA 620)
- Projects to revise the requirements and guidance on the independent auditor's report on general and special purpose financial statements (including modifications to the opinion in the independent auditor's report) (ISAs 700, 705, 706 and 800) (Partly completed)
- Project to develop requirements and guidance on reporting on material weaknesses in internal control
- Project to develop the International Framework for Assurance Engagements and a standard for assurance engagements other than audits or reviews of historical financial information (Framework and ISAE 3000) (Completed)
- Project to develop requirements and guidance for auditors reporting on controls at service organizations (ISAE 3402)
- Project to improve the clarity of the IAASB's Pronouncements
- Project to develop guidance for national auditing standards setters that adopt the International Standards on Auditing with limited modifications (Completed)

Potential projects identified by or brought to the attention of IAASB staff / IAASB include the following:

Development or Revision of International Standards on Auditing

- Revision of the International Standards on Auditing that were redrafted but not revised as part of the Clarity project (including the standard on the consideration of laws and regulations in an audit of financial statements (ISA 250) and the standard on other information in documents containing audited financial statements (ISA 720))

Development or Revision of International Standards on Assurance Engagements (other than audits and reviews of historical financial statements)

- Redraft of the International Standards on Assurance Engagements in the new clarity style
- Reporting on internal control
- Reporting on sustainability reports (including Corporate Social Responsibility (CSR))
- Reporting on prospective financial information
- Auditor involvement in pro forma financial information
- Auditor involvement in prospectuses, including comfort letters
- On-line business reporting / XBRL reporting
- Assurance services other than audit in relation to financial statements

Development or Revision of Other International Standards (i.e., International Standards on Review Engagements and International Standards on Related Services)

- Redraft of the International Standards on Review Engagements and International Standards on Related Services in the new clarity style

Implementation of the International Standards

- Consideration of ways in which the IAASB could assist with the implementation of its standards, e.g., establishing a moratorium on the issue of new standards for a specified period to allow implementation of the clarity redrafted standards, the development of implementation guidance, etc.
- Audits of the financial statements of banks (i.e., revision of IAPS 1006)
- Audits of insurance companies
- Consideration of aspects relating to audits of small entities (including the development / revision of standards for an alternative assurance service)
- Post-implementation review of clarity redrafted standards (e.g., based on the investigation reports of audit oversight bodies) to identify areas for further clarification or that need greater coverage in the standards

Conceptual Matters

- A conceptual framework for assurance engagements
 - Consideration of aspects relating to the qualitative characteristics or behavior of an auditor, e.g., professional judgment
 - Develop the meaning of “reasonable assurance,” including the inherent limitations of an audit
- a) Please identify the projects that, in your view, would best contribute to the IAASB’s initiatives over the next 3-4 years? Please identify no more than 7 projects (either from the list of potential projects above or other projects that you may have identified), giving

reasons for each choice, and rank in order of importance (where 1= most important and 7=least important):

- 1. Reporting on prospective financial information, Auditor involvement in pro forma financial information, Auditor involvement in prospectuses, including comfort letters**

Reason: See reasons given in section 1.1(d).

- 2. Reporting on internal control**

Reason: See reasons given in 1.1(d).

- 3. Consideration of aspects relating to the qualitative characteristics or behavior of an audit, e.g., professional judgment.**

Reason: Regulators and other users of audit reports have difficulty understanding that auditing requires professional judgment and that absolute certainty is rarely achievable. Developing a framework would support local educational initiatives.

- 4. Develop the meaning of “reasonable assurance”, including the inherent limitations of an audit.**

Reason: See reasons in (3) above.

5.

Reason:

6.

Reason:

7.

Reason:

SECTION 4 – OTHER

a) Are there any other issues you feel the IAASB should consider when it conducts its strategic review in 2007? In particular, do you have any comments and suggestions as to how the IAASB can best ensure it serves the public interest? Please write as much as you like in the space below:

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b) What, if any, single thing might the IAASB do that could increase the quality of audit or assurance work conducted by professional accountants?

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END – 13 February 2007