



**By e-mail < [Edcomments@ifac.org](mailto:Edcomments@ifac.org) >**

24 April 2008

Our Ref.: C/AASC

Executive Director, Professional Standards  
International Auditing and Assurance Standards Board,  
International Federation of Accountants,  
545 Fifth Avenue, 14<sup>th</sup> Floor,  
New York 10017, USA.

Dear Sir,

**[IAASB Exposure Draft of proposed ISA 210 \(Redrafted\) Agreeing the Terms of Audit Engagements](#)**

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

Before we comment on the subject IAASB Exposure Draft, we would like to take this opportunity to reiterate a point made by us in our submission dated 28 March 2006 on the IAASB Exposure Draft on Improving the Clarity of IAASB Standards. We are of the view that the IAASB should approach the development of the objectives of each ISA together rather than on a piecemeal ISA-by-ISA basis as it works through the clarity project. Accordingly, we strongly recommend that the IAASB commences to look at the objectives in all ISAs and link them to the objective in the proposed ISA 200.

Notwithstanding our above comment, we support the proposed redrafted ISA and consider that generally the objective to be achieved by the auditor, as stated in the proposed redrafted ISA, is appropriate. Furthermore, the criteria identified by the IAASB for determining a requirement has been applied appropriately and consistently such that the resulting requirements will promote consistency and the use of professional judgement by auditors. Our comments on the significant proposal in the proposed redrafted ISA are set out in the attachment.

We trust that our comments are of assistance to you. If you require any clarifications on our comments, please do not hesitate to contact me or Steve Ong, Deputy Director, Standard Setting ([ong@hkiipa.org.hk](mailto:ong@hkiipa.org.hk)).

Yours faithfully,

Patricia McBride  
Executive Director

PM/SO/ac  
Encl.



**ATTACHMENT**

**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS’  
COMMENTS ON THE IAASB EXPOSURE DRAFT OF ISA 210 (REDRAFTED)  
AGREEING THE TERMS OF AUDIT ENGAGEMENTS AND RELATED  
CONFORMING AMENDMENTS TO OTHER ISAS**

**Requests for Specific Comments**

**ISA 210**

- 1. Are the objectives to be achieved by the auditor, stated in the proposed redrafted ISA, appropriate?**

We believe that the objectives are appropriate.

- 2. Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and reporting, and the use of professional judgment by auditors?**

We believe that the criteria have been applied appropriately and consistently.

**Other comments on the application of the Clarity Drafting Conventions**

- 3.** We note that in paragraph 20 that in the event the management or those charged with governance refuse to provide additional disclosures and the auditor is prohibited by law or regulation from refusing to undertake the audit engagement, the auditor is required to evaluate the effect of the misleading nature of the financial statements on the auditor’s report and include appropriate reference to this matter in the terms of the audit engagement. We consider that the requirement in paragraph 20(a) should be clarified requiring the auditor to determine whether it will be necessary to modify the audit opinion in the auditor’s report in accordance with [proposed] ISA 705 (Revised and Redrafted). This will result in inconsistencies with the current drafting conventions as evident in paragraphs 18 and 19(b)(i).
- 4.** We note that the additional points made in paragraph A23 of the Application and Other Explanatory Material are mostly elevated from paragraph 8 of the extant ISA 210 with the additional of two new points. In respect of the last point on any obligations to provide audit working papers to other parties the intention of the IAASB in, including this point is not clear though we believe it is to acknowledge that, in some jurisdictions, regulators review audit working papers. Therefore, we recommend that the IAASB clarifies its intention such that it is clear that it relates only to jurisdictions where there is requirement for regulators to review audit working papers. Below are suggested wordings for the IAASB’s consideration:

“any obligations to provide audit working papers to other parties, for jurisdictions where regulators review audit working papers.”

- 5.** We note that paragraph 5 of the proposed ISA in its existing wording requires the auditor to decline to accept a proposed audit engagement if the management or those charged with governance impose a limitation on the scope of the auditor’s work which will likely result in the auditors issuing a disclaimer opinion on the financial statements.

There could be situation where the auditor is approached by a potential client whose

audited financial statements contained a disclaimer audit opinion arising from a scope limitation. As such, the auditor could possibly be facing a limitation of scope in accepting the proposed engagement and that could result in the auditor issuing another disclaimer opinion on the prospective year's financial statements.

In assisting the auditor to make the acceptance decision under such situation, more guidance/factors to consider may need to be provided. When the imposition of the scope limitation is within the control and intention of client management e.g. a deliberate limitation on the auditor's access to the books and records of a material subsidiary, this gives rise to concern over the client's integrity and, we presume, this is the situation paragraph 5 is contemplating.

In other cases, the cause for scope limitation could be outside the control of client's management but is instead driven by issues like the going concern/liquidity problem, uncertainty associated with litigation cases etc. and there could be chances for the auditor to issue clean opinion in future should the situation causing the scope limitation change. In this case, the auditors should not be precluded from accepting the engagement if it is clear that there is no management integrity concern. Otherwise it would not be possible for a client carrying a disclaimer audit opinion in its audited financial statements to secure audit service.

We would therefore recommend the IAASB to provide further guidance in the Application and Explanatory Material section.

#### **Related Conforming Amendments to Other ISAs**

**6. Do you agree with the proposed description of management's responsibilities in the ISAs?**

We agree with the proposed description of management's responsibilities in:

- ISA 200 to explain that an audit in accordance with ISAs are conducted on the premise that management has those responsibilities to be consistent with ISA 700 (Redrafted);
- ISA 210 to require the auditor to obtain the agreement of management that it acknowledges and understands those responsibilities as a precondition to accepting the audit engagement; and
- ISA 700 to explain in the auditor's report that management is responsible for the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework and this includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**7. Do you agree that the description of management's responsibilities in the terms of the audit engagement, written representations and auditor's report may use the wording of the law or regulation if the auditor has determined that the law or regulation includes responsibilities that are equivalent in effect to those described in the ISAs?**

We agree in principle with paragraph 11 of the proposed ISA to provide for the auditor to use the wording of the law or regulation to describe those responsibilities that the auditor has determined to be equivalent in effect to those set out in the proposed ISA. For management's responsibilities that are not equivalent in effect, or that are not prescribed by law or regulation, the auditor is required to use the description in the proposed ISA.

**8. Do you agree with the proposed conforming amendment to proposed ISA 700 (Redrafted)?**

We agree with the proposed conforming amendment to proposed ISA 700 (Redrafted) such that the auditor's report shall describe management's responsibilities in the manner they are described in the terms of the audit engagement to enhance consistency. We also agree that it is no longer necessary to separately identify "selecting and applying appropriate accounting policies" and "making accounting estimates that are reasonable in the circumstances" as these are integral parts of the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework.

**9. Are there any residual concerns about the way in which management's responsibilities are dealt with that may cause difficulty in any particular jurisdiction?**

We do not foresee any difficulty in complying with the requirements in connection with management's responsibilities.

~ END ~



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Executive Director, Professional Standards  
International Auditing and Assurance Standards Board,  
International Federation of Accountants,  
545 Fifth Avenue, 14<sup>th</sup> Floor,  
New York 10017, USA.

Dear Sir,

**[IAASB Exposure Draft of proposed ISA 710 \(Redrafted\) Comparative Information – Corresponding Figures and Comparative Financial Statements](#)**

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

Before we comment on the subject IAASB Exposure Draft, we would like to take this opportunity to reiterate a point made by us in our submission dated 28 March 2006 on the IAASB Exposure Draft on Improving the Clarity of IAASB Standards. We are of the view that the IAASB should approach the development of the objectives of each ISA together rather than on a piecemeal ISA-by-ISA basis as it works through the clarity project. Accordingly, we strongly recommend that the IAASB commences to look at the objectives in all ISAs and link them to the objective in the proposed ISA 200.

Notwithstanding our above comment, we support the proposed redrafted ISA and consider that generally the objective to be achieved by the auditor, as stated in the proposed redrafted ISA, is appropriate. Furthermore, the criteria identified by the IAASB for determining a requirement has been applied appropriately and consistently such that the resulting requirements will promote consistency and the use of professional judgement by auditors. Our comments on the significant proposal in the proposed redrafted ISA are set out in the attachment.

We trust that our comments are of assistance to you. If you require any clarifications on our comments, please do not hesitate to contact me or Steve Ong, Deputy Director, Standard Setting ([ong@hkiipa.org.hk](mailto:ong@hkiipa.org.hk)).

Yours faithfully,

Patricia McBride  
Executive Director

PM/SO/ac  
Encl.



**ATTACHMENT**

**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS'**  
**COMMENTS ON THE IAASB EXPOSURE DRAFT OF ISA 710 (REDRAFTED)**  
**CORRESPONDING FIGURES AND COMPARATIVE**  
**FINANCIAL STATEMENTS**

**Requests for Specific Comments**

- 1. Is the objective to be achieved by the auditor, stated in the proposed redrafted ISA, appropriate?**

We believe that the objective is appropriate.

- 2. Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and reporting, and the use of professional judgment by auditors?**

We believe that the criteria have been applied appropriately and consistently.

**Comments on significant matters**

- 3. Do respondents agree that the auditor's procedures are the same for the two approaches to presenting comparative information, except for the responsibility to obtain written representations for more than one period in the case of comparative information presented as comparative financial statements?**

We have no further comments to add in relation to the "comparative financial statement" approach given that in Hong Kong only the corresponding figures method of presentation is used.

- 4. If so, do respondents agree with the structure according to which the proposed ISA has been redrafted to give effect to the auditor's responsibilities in the requirements?**

We agree with the structure to which the proposed ISA has been redrafted to give effect to the auditor's responsibilities in the requirements.

**Other comments**

- 5. We note that a sentence from paragraph 18 ("Clear disclosure in the financial statements that the corresponding figures are unaudited is encouraged") of the extant ISA 710 has not been elevated into the proposed ISA 710. Though we understand that it is not considered appropriate for an auditing standard to place a requirement on management, it would be useful to include it as a reminder to the auditor in the Application and Other Explanatory Material section after paragraph A4 and paragraph A6 respectively for corresponding figures and comparative financial statements in the proposed ISA. The recommended wordings are "When the prior period financial statements are not audited, the auditor should encourage management to clearly disclose in the financial statements that the corresponding figures/comparative financial statements are unaudited."**