



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

14 February 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 505 \(Revised and Redrafted\) External Confirmations](#)**

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 revised and redrafted ISA and consider that generally the objective to be achieved by the auditor, as stated in the proposed revised and 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 revised and 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@hkipa.org.hk](mailto:ong@hkipa.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 505 (REVISED AND REDRAFTED) EXTERNAL  
CONFIRMATIONS**

**Requests for Specific Comments**

- 1. The proposal that proposed ISA 505 (Revised and Redrafted) should not mandate the use of external confirmations requests in any particular circumstances or in response to any particular risk of material misstatement.**

We support the proposal that the proposed ISA should not mandate the use of external confirmations requests in any particular circumstances or in response to any particular risk of material misstatement. This is in line with the principles-based approach in the revised and redrafted ISAs.

- 2. The proposal that the scope of proposed ISA 505 (Revised and Redrafted) be directed at the effective performance of external confirmation procedures when the auditor determines that such procedures are an appropriate response to an assessed risk of material misstatement, and that accordingly the ISA should not require that the auditor consider when, or under what circumstances, it may be appropriate to use external confirmations procedures when performing an audit of financial statements.**

We agree with the proposal that the proposed ISA be directed at setting requirements that will improve auditor performance of external confirmation procedures when the auditor has determined that the use of external confirmation procedures is an appropriate response to an assessed risk of material misstatement. There is adequate guidance in ISA 315 (Redrafted) *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment* and ISA 330 (Redrafted) *The Auditor's Responses to Assessed Risks* to assist auditors to decide whether, and to what extent, to use external confirmation procedures when performing an audit of financial statements.

- 3. Whether proposed ISA 505 (Revised and Redrafted) appropriately limits the extent to which auditors may use negative confirmation requests.**

We believe that the requirements in paragraph 14 and guidance in A26 appropriately limits the extent to which auditors may use negative confirmation requests as the only substantive audit procedures to address an assessed risk of material misstatement at the assertion level.

**Other Comments**

- 4. Application and Other Explanatory Material**

We note that the proposed ISA does not include the application guidance on the use of positive confirmations in paragraph 21 of the extant ISA 505. The paragraph discusses the strengths and weaknesses of whether or not to indicate the confirming information in the confirmation requests. The guidance would be helpful in jurisdictions e.g. China, where it is common practice for banks to require the details of the confirming information to be included in the confirmation requests.

Therefore, we recommend that the IAASB re-state the guidance in paragraph 21 of the extant ISA 505 in the proposed ISA.

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