



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

30 April 2007

Our Ref.: C/AASC

Executive Director, Professional Standards
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 of proposed ISA 230 (Redrafted) *Audit Documentation*

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 ISA 200 "Objective and General Principles Governing an Audit of Financial Statements".

Notwithstanding our above comment, we support the proposed redrafted ISA and are pleased to report 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. However, we have some comments for the IAASB's consideration as 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@hkcipa.org.hk).

Yours faithfully,

Patricia McBride
Executive Director

PM/SO/jc
Encl.



**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' COMMENTS ON THE
IAASB EXPOSURE DRAFT
OF ISA 230 (REDRAFTED) AUDIT DOCUMENTATION.**

Request for Specific Comments

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

We believe that the proposed 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 the use of professional judgment by auditors?**

In general, we believe that the criteria identified for determining requirements have been applied appropriately and consistently.

- 3. Do you agree with the changes described in the explanatory memorandum as being helpful to the clarity of the redrafted ISA, including whether considerations in the audit of small entities have been dealt with appropriately?**

Overall, we agree with the proposed changes in the explanatory memorandum and that considerations in the audit of small entities have been dealt with appropriately except for the following areas:

- **Documentation relating to significant professional judgments made**

We agree with the revised approach on documentation of significant professional judgments.

However, we continue to remain concerned regarding excessive documentation. We note that the wordings in the first bullet of paragraph A10 on "Documentation of Significant Matters" could be very onerous for the auditor to document all of the "information or factors" considered when a requirement provides that the auditor "shall consider" certain information or factors. Whilst it is important to document the rationale for the use of professional judgment, it should only be necessary where matters and judgments are significant. Therefore, we recommend that the wordings "and it is considered significant in the context of the particular engagement." be added at the end of the sentence.

We also note that the circumstance described in the second bullet is already covered in other ISAs. Most of the ISAs are written such that the auditors must design further audit procedures to respond to identified and assessed risks. There are requirements in other ISAs to document how further audit procedures are performed and its conclusions. Therefore the audit documentation should already demonstrate how further audit procedures are performed to respond to the assessed risks. It is not necessary to separately identify those circumstances where the auditor has performed

further audit procedures in addition to those necessary to meet the requirements of an ISA. Therefore, we recommend deleting the second bullet.

- **Documentation of Departure from a Requirement**

In general, we agree with the revised wordings relating to documentation of a departure from a relevant requirement.

However, we note that the guidance in paragraph 21 of the extant ISA “This involves the auditor documenting how the alternative audit procedures performed were sufficient and appropriate to replace that basic principle or essential procedure.” has not been included in the proposed redrafted ISA paragraph A16. It is important that guidance is provided as to the level of documentation expected and how the alternative procedures performed were sufficient and appropriate to replace that requirement.

We recommend reinstating the wordings “If the auditor judges it necessary to depart from a relevant requirement, the auditor’s documentation explains how the alternative procedures performed were sufficient and appropriate to replace that requirement.” in paragraph A16

- **Documentation of Compliance with ISAs**

We understand that it is the IAASB’s intent to clarify that it is not necessary to document how the auditor complied with each requirement in order to demonstrate that the audit was performed in accordance with ISAs. However, the wordings in paragraph A7 of the proposed redrafted ISA do not explicitly say so. To avoid any misinterpretation of the IAASB’s intent, we recommend that the redrafted ISA explicitly make the point that it is neither necessary nor practicable for the auditor to document compliance with every requirement.

~ END ~



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Executive Director, Professional Standards
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 of proposed ISA 560 (Redrafted) Subsequent Events

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 ISA 200 "Objective and General Principles Governing an Audit of Financial Statements".

Notwithstanding our above comment, we support the proposed redrafted ISA and are pleased to report that generally the objective to be achieved by the auditor, as stated in each of 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. However, we have some comments for the IAASB's consideration as 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@hkcipa.org.hk).

Yours faithfully,

Patricia McBride
Executive Director

PM/SO/jc
Encl.



**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' COMMENTS ON THE IAASB
EXPOSURE DRAFT
OF ISA 560 (REDRAFTED) SUBSEQUENT EVENTS.**

Request for Specific Comments

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

We believe that the proposed 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 the use of professional judgment by auditors?**

In general, we believe that the criteria identified for determining requirements have been applied appropriately and consistently.

- 3. Do you agree with the changes described above as being necessary to the clarity of the redrafted ISA, including whether considerations in the audit of small entities and public sector entities have been dealt with appropriately? In particular, do you have any comments on the public sector issue requiring additional consideration described in the section on the considerations in the audits of small entities and public sector entities above?**

We do not have specific comments on the above.

- 4. Do you agree with the IAASB's proposed treatment of the issue in relation to the application of the proposed redrafted ISA 560 to securities offering documents as noted above?**

In the absence of international standards on securities offering documents, the minimal reference currently provided in the proposed redrafted ISA at least gives some form of guidance to auditors of such engagements. Until the IAASB issues any standard in relation to investment circular reporting, we believe it is necessary to keep some references to securities offering documents in the proposed redrafted ISA.

In this regard, we would like to take this opportunity to reiterate our views in our submission dated 23 February 2007 on IAASB Strategic Review Questionnaire. We are of the view that there is a need for international standards on investment circular reporting. With the understanding that this topic is not in the IAASB's current agenda, we would recommend that the IAASB considers 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, Hong Kong, 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.

Given the International Convergence Programme that the HKICPA has adopted, we believe that there should also be international standards on investment circular reporting.

5. Do you agree with the IAASB’s treatment of the restriction of subsequent events procedures and dual dating of the auditor’s report for amended financial statements?

It is not explained in the Explanatory Memorandum and the proposed redrafted ISA what IAASB considers to be dual dating. It is not clear from the proposed redrafted ISA how dual dating works and how it affects the form and content of the auditor’s report. We therefore recommend that the IAASB sets out clearly in the proposed redrafted ISA the mechanics of dual dating and to provide specimen audit report for clarity. We also recommend the IAASB to consider updating other affected ISA such as ISA 701 *Modifications to the Independent Auditor’s Report* to include dual dating.

In addition, we have some concerns regarding paragraph 11 of the Exposure Draft. Paragraph 11 substantively changes the condition that triggers when the auditor can restrict the subsequent event procedures and dual date by referring to the circumstances when the financial reporting framework allows management to restrict the amendment of the financial statements of the financial statements to the effects of the subsequent event and those responsible for the approving the financial statements are permitted to restrict their approval to that amendment. The extant ISA based the condition on local regulation permitting the auditor to restrict the audit procedures performed.

We are of the view that this change from the extant ISA may pose some practical issues in relation to implementation. Most financial reporting frameworks do not address the issue of reissuing or re-approving of financial statements. The authority for reissuing or re-approving financial statements is usually set out in legislations.

In Hong Kong, it is the local legislation which sets out the principle for reissuing or re-approving financial statements. It is specifically written in the Companies (Revision of Accounts and Reports) Regulation which is incorporated into the Companies Ordinance with effect from 20 April 2007. It provides that “if the directors of a company cause the accounts of the company to be revised under section 141E of the Hong Kong Companies Ordinance by replacement, the directors shall cause to be made in a prominent position in the revised accounts... a statement that the revised accounts (i) are taken as having been approved by the board of directors on the date of the original accounts instead of the date of revision; and ii) accordingly do not deal with events between those 2 dates. Accordingly, the auditor is only required to consider post balance sheet events up to the date of the original report.

We would recommend that paragraph 11 be revised so that it is consistent with the extant wording in paragraph 17 as it was the extant paragraph that the abovementioned legislation was based upon.

~ END ~



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545 Fifth Avenue, 14th Floor,
New York,
New York 10017,
USA.

Dear Sir,

IAASB Exposure Draft of proposed ISA 610 (Redrafted) The Auditor's Consideration of the Internal Audit Function

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 ISA 200 "Objective and General Principles Governing an Audit of Financial Statements".

Notwithstanding our above comment, we support the proposed redrafted ISA and are pleased to report 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. However, we have some comments for the IAASB's consideration as 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@hkcipa.org.hk).

Yours faithfully,

Patricia McBride
Executive Director

PM/SO/jc
Encl.



**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' COMMENTS ON THE
IAASB EXPOSURE DRAFT
OF ISA 610 (REDRAFTED) THE AUDITOR'S CONSIDERATION OF THE INTERNAL AUDIT
FUNCTION.**

Request 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. However, we note that the objective may be better improved to clearly differentiate between the need to obtain an understanding for risk assessment purposes and the need to determine the extent to which the auditor may use internal auditor's work. Accordingly, we recommend that the IAASB reconsiders the objective along the abovementioned suggestion.

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 the use of professional judgment by auditors?**

Overall, we believe that the criteria identified for determining requirements have been applied appropriately and consistently. However, we have comments on the following areas which we believe would achieve better clarity:

- (i) Paragraph A3 emphasizes that an effective internal audit function cannot entirely eliminate the need for the auditor to carry out the auditor's own audit procedures. As such, the paragraph appears to be misplaced as it does not apply to the requirement in paragraph 7.

We recommend that this sentence be included in the introduction of the proposed ISA in paragraph 4 or that paragraph A3 be cross-reference to paragraph 4.

- (ii) Paragraph A7 provides guidance on only one of the items mentioned in paragraph 9 on the risk of material misstatement. No guidance is given for the other considerations listed in paragraph 9 such as the risk of material misstatement of the assertions related to those financial statement amounts and the degree of subjectivity involved in the evaluation of the evidence gathered in support of the relevant assertions. We suggest that paragraph A7 be expanded to include these other considerations.

- (iii) The guidance in the extant ISA paragraph 19 states that "The external auditor would record conclusions regarding the specific internal auditing work that has been evaluated and the audit procedures performed on the internal auditor's work". This sets out documentation guidance for the external auditor regarding the specific internal auditing work that has been evaluated and the audit procedures performed. We note that there is no such guidance in the proposed redrafted ISA, which is inconsistent with the current approach of other revised ISAs to include specific documentation requirements. We recommend that this be reinstated in the proposed redraft ISA.



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Executive Director, Professional Standards
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 of proposed ISA 720 (Redrafted) The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited 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 ISA 200 "Objective and General Principles Governing an Audit of Financial Statements".

Notwithstanding our above comment, we support the proposed redrafted ISA and are pleased to report 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. However, we have some comments for the IAASB's consideration as 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@hkcipa.org.hk).

Yours faithfully,

Patricia McBride
Executive Director

PM/SO/jc
Encl.



**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' COMMENTS ON THE
IAASB EXPOSURE DRAFT
OF ISA 720 (REDRAFTED) THE AUDITOR'S RESPONSIBILITY IN RELATION TO OTHER
INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS**

Request for Specific Comments

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

We believe that the proposed 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 the use of professional judgment by auditors?**

In general, we believe that the criteria identified for determining requirements have been applied appropriately and consistently, except for the following comments:

- (i) The requirements in paragraphs 8 – 10 state what the auditors' responsibilities are when material inconsistencies are identified when reading other information. To be able to comply with the requirements, it is assumed that the auditor is reading the information prior to the date of the auditor's report. We recommend that these paragraphs be amended to clarify this. This is because, it is clear from the section heading for paragraphs 14-17 that these paragraphs deal with situations where other information is only available after the date of the auditor's report.
- (ii) We note that paragraph 10 requires that if an amendment is necessary to the other information and the entity refuses to make the amendment, the auditor shall either include in the auditor's report an "Other Matter(s)" paragraph describing the material inconsistency or take other appropriate actions.

We consider that given that paragraph 10 is a requirement, it should be more specific rather than providing options as to what the auditor should do.

We would recommend that paragraph 10 merely states that when an amendment is necessary to the other information and the entity refuses to make the amendment, the auditor shall take further appropriate action.

The application guidance in A8 should then provide guidance on the actions that may be appropriate in the circumstances include:

- Including an "Other Matter" paragraph in the auditor's report describing the material inconsistency; or
- Not issuing the auditor's report; or
- Withdrawing from the engagement.

3. The IAASB would particularly welcome comment on the statement made in the second sentence of paragraph 2 relating to the applicability of the proposed redrafted ISA to reading other information in documents used in securities offerings.

In the absence of any international standards on securities offering documents, the minimal references currently provided in the proposed redrafted IAS at least gives some form of guidance to auditors of such engagements. Until the IAASB issues any standard in relation to investment circular reporting, we believe it is necessary to keep some references to securities offering documents in the proposed redrafted ISA.

In this regard, we would like to take this opportunity to reiterate our views in our submission dated 23 February 2007 on IAASB Strategic Review Questionnaire. We are of the view that there is a need for international standards on investment circular reporting. With the understanding that this topic is not in the IAASB's current agenda, we would recommend that the IAASB considers 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, Hong Kong, 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.

Given the International Convergence Programme that the HKICPA has adopted, we believe that there should also be international standards on investment circular reporting.

~ END ~