

**STATEMENT OF AUDITING STANDARDS
010
THE SCOPE AND AUTHORITY OF AUDITING PRONOUNCEMENTS**

(Effective for audits of financial statements where auditors follow Statements of Auditing Standards)

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Introduction

1. The auditing pronouncements of the Hong Kong Institute of Certified Public Accountants (HKICPA) are published with the following objectives:
 - a. to maintain high standards of auditing;
 - b. to ensure public confidence in the audit process; and
 - c. to establish a framework of prescriptive, persuasive and other guidance to support and assist auditors in the exercise of their professional judgement.
2. The auditing pronouncements of the HKICPA fall into three principal categories: Statements of Auditing Standards (SASs), Practice Notes and Auditing Bulletins. This Statement explains the scope and authority of the three types of pronouncement and the distinctions between them.
3. As well as the audit of financial statements, auditors may be required to provide other audits and related services involving other financial information, or non-financial information, which may include considering:
 - a. the adequacy of internal control systems;
 - b. compliance with statutory, regulatory or contractual requirements;
 - c. economy, efficiency and effectiveness in the use of resources ("value-for-money" auditing);
 - d. environmental practices; and performing
 - e. agreed upon procedures.
4. The HKICPA recognises the fundamental importance of professional judgement being applied by auditors in all audit and related service engagements. It would be impracticable to establish a code of rules sufficiently elaborate to cater for all situations and circumstances which an auditor might encounter. Such a code could not provide for innovations in business and financial practice and might hinder necessary development and experiment in auditing practice. In the observance of the auditing pronouncements of the HKICPA, therefore, the auditor must exercise his judgement in determining both the auditing procedures necessary in the circumstances to afford a reasonable basis for his opinion and the wording of his report.

Scope of Statements of Auditing Standards

5. SASs contain basic principles and essential procedures (Auditing Standards), which are indicated by bold italic type and with which auditors are required to comply, except where otherwise stated in the SAS concerned, in the conduct of any audit of financial statements. SASs are also published containing Auditing Standards which apply, as stated therein, to other audits and related services provided by auditors.
6. In addition to SASs of general application the HKICPA issues SASs containing additional Auditing Standards applicable to the conduct of audits of certain types of enterprises, such as those within specialised industries.

7. SASs also include explanatory and other material which, rather than being prescriptive, is designed to assist auditors in interpreting and applying Auditing Standards.
8. Auditing Standards need not be applied to matters whose effect is, in the auditors' judgement, not material.
9. Each SAS specifies the date from which it becomes effective.

Authority of Auditing Standards

10. Apparent failures by auditors to comply with the Auditing Standards contained within SASs are liable to be enquired into by the appropriate committee established under the authority of the HKICPA, and disciplinary action may result.
11. Auditors who do not comply with Auditing Standards when performing company or other audits in Hong Kong or audits in accordance with SASs make themselves liable to disciplinary action which may include the withdrawal of a practising certificate and hence of eligibility to perform audits.
12. All HKICPA pronouncements and in particular Auditing Standards are likely to be taken into account when the adequacy of the work of auditors is being considered in a court of law or in other contested situations.
13. Guidance on the reporting implications where there are limitations on the scope of the work undertaken by auditors, or where auditors consider it necessary in exceptional circumstances to depart from Auditing Standards, is given in SAS 600 "Auditors' reports on financial statements".

Development of SASs

14. The HKICPA is committed to wide consultation in the preparation of SASs. Prior to issuing SASs the HKICPA issues exposure drafts for general comment and may issue other consultative documents in relation to proposed SASs. The HKICPA also seeks out those with a special expertise or interest in the topic under consideration for consultation where necessary.

Application of Auditing Standards on overseas enterprises

15. Where the financial statements of an overseas enterprises are to be incorporated into Hong Kong financial statements, the audit of the overseas enterprises should conform to Auditing Standards in so far as this is necessary to ensure that the audit of the Hong Kong financial statements as a whole is in accordance with Auditing Standards.
16. Where the financial statements of an enterprise, wherever incorporated, are audited by Hong Kong auditors (as represented by signing the auditors' report in the style "Certified Public Accountants (Practising), Hong Kong") the audit of the enterprise should conform to Auditing Standards. There may be circumstances, however, where an audit is being carried out of an overseas enterprises for purposes other than Hong Kong reporting. In these cases, the audit should conform to appropriate standards as follows:
 - a. where the local audit requirements and standards are properly codified and defined, the audit may conform to those standards; and
 - b. in the absence of such local requirements and standards, the audit should conform to Auditing Standards or to International Standards on Auditing.

In any event, the auditors' report should specify under which auditing standards the audit has been carried out.

International Standards on Auditing

17. The HKICPA supports the International Auditing Practices Committee of the International Federation of Accountants (IFAC) in its aim of improving the harmonisation of auditing practices throughout the world. SASs are formulated with due regard to international developments, in particular the International Standards on Auditing (ISAs) issued by IFAC.
18. Each SAS explains its relationship to the ISA dealing with the same topic. In most cases, complying with the Auditing Standards within a SAS ensures compliance with the basic principles and essential procedures identified within the relevant ISA.

Practice Notes and Auditing Bulletins

19. The HKICPA also issues:
 - a. Practice Notes to assist auditors in applying Auditing Standards of general application to particular circumstances and industries; and
 - b. Auditing Bulletins to provide auditors with timely guidance on new or emerging issues.

Practice Notes and Auditing Bulletins are persuasive rather than prescriptive. However, they are indicative of good practice and have similar status to the explanatory material in SASs, even though they may be developed without the full process of consultation and exposure used for SASs. Auditors should be prepared to explain departures if called upon to do so.

20. As the occasion arises, Auditing Bulletins are likely to be developed into, or be included within, SASs or Practice Notes. Similarly, some Practice Notes will at a later date be developed into, or be included within SASs.

Existing pronouncements

21. The Auditing Standards and Guidelines issued by the HKICPA prior to July 1994 remain in force until withdrawn or replaced by SASs or Practice Notes. The "old" Auditing Standards and the Auditing Standards contained within SASs have the same status. The "old" Auditing Guidelines have the same status as Practice Notes.

Effective date

22. This Statement is effective for audits of financial statements where auditors follow Statements of Auditing Standards.