

Preface
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Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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PREFACE TO THE HONG KONG QUALITY CONTROL, AUDITING, REVIEW, OTHER ASSURANCE, AND RELATED SERVICES PRONOUNCEMENTS

Introduction

1. This Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements is issued to facilitate understanding of the scope and authority of the pronouncements the Hong Kong Institute of Certified Public Accountants (HKICPA) issues.
2. This Preface is issued to set out the objectives and due process of the Council of the HKICPA (hereafter referred as the “Council”) in respect of setting Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements.
3. This Preface also sets out the relationship between Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements and International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants, and the authority attaching to locally developed Practice Notes (PNs), Auditing and Assurance Technical Bulletins and Circulars.

Appendix 1 illustrates the structure of the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements.

Objectives of Council

4. Pursuant to section 18A of the Professional Accountants Ordinance, Council may, in relation to the practice of accountancy, issue or specify any standards of auditing practices required to be observed, maintained or otherwise applied by members of the HKICPA (members). Approval of Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements and related documents, such as exposure drafts, and other discussion documents, is the responsibility of Council.
5. Council has mandated the Auditing and Assurance Standards Committee (AASC) to develop Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements to achieve convergence with International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements. Within this remit, Council permits the AASC to work in whatever way it considers most effective and efficient and this may include forming advisory panels or other forms of specialist groups to give advice in preparing new and revised Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements.
6. [Not used]
7. In 2001, Council adopted the policy of achieving convergence of Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements with International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements (the Convergence). Council’s objectives in this respect are:
 - (a) to establish high quality auditing standards and guidance for financial statement audits that are generally accepted and recognized by investors, auditors, governments, regulators and other key stakeholders;
 - (b) to establish high quality standards and guidance for other types of assurance services on both financial and non-financial matters;
 - (c) to establish high quality standards and guidance for other related services;
 - (d) to establish high quality standards and guidance for quality control covering the scope of services addressed by the AASC;

- (e) to publish other pronouncements on auditing and assurance matters, thereby advancing public understanding of the roles and responsibility of auditors and assurance service providers; and
- (f) to bring about convergence of Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements with International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements.

Relationship with International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements

8. Although Council has a policy to achieve convergence of Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements with International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, Council may consider it appropriate to include additional requirements in a Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncement or, in some exceptional cases, to deviate from an International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncement. Each Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncement issued by Council contains information about the extent of conformity with the equivalent International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncement.

The HKICPA's Pronouncements

HKICPA Authoritative Pronouncements

9. The HKICPA's pronouncements govern audit, review, other assurance, and related services engagements that are conducted in accordance with Hong Kong Standards. They do not override the local laws or regulations that govern the audit of historical financial statements or assurance engagements on other information. In the event that local laws or regulations differ from, or conflict with, the HKICPA's Standards on a particular subject, an engagement conducted in accordance with local laws or regulations will not automatically comply with the HKICPA's Standards. A member should not represent compliance with the HKICPA's Standards unless the member has complied fully with all standards relevant to the engagement.
10. The authoritative pronouncements of the HKICPA include the Hong Kong Standards and locally developed PNs which are issued following the AASC's stated due process.
11. For the purpose of this Preface, the term "Hong Kong Standards" includes:
- Hong Kong Standards on Quality Control (HKSQCs);
 - Hong Kong Framework for Assurance Engagements;
 - Hong Kong Standards on Auditing (HKSAs);
 - Hong Kong Standards on Review Engagements (HKSREs);
 - Hong Kong Standards on Assurance Engagements (HKSAsEs);
 - Hong Kong Standards on Investment Circular Reporting Engagements (HKSIRs); and
 - Hong Kong Standards on Related Services (HKSRSs).

The Authority Attaching to Hong Kong Standards Issued by the HKICPA

12. HKSAAs are to be applied in the audit of historical financial information.
13. HKSREs are to be applied in the review of historical financial information.
14. HKSAEs are to be applied in assurance engagements other than audits or reviews of historical financial information.
15. HKSIRs are to be applied in investment circular reporting engagements.
16. HKSRs are to be applied to compilation engagements, engagements to apply agreed upon procedures to information and other related services engagements as specified by the AASC.
17. HKSAAs, HKSREs, HKSAEs, HKSIRs, and HKSRs are collectively referred to as the Hong Kong Engagement Standards.
18. HKSQCs are to be applied for all services falling under the Hong Kong Engagement Standards.

Hong Kong Standards on Auditing

19. HKSAAs are written in the context of an audit of financial statements¹ by an independent auditor. They are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. The authority of HKSAAs is set out in HKSA 200.²

Hong Kong Standards on Quality Control

20. HKSQCs are written to apply to firms in respect of all their services falling under the Hong Kong Engagement Standards. The authority of HKSQCs is set out in the introduction to the HKSQCs.

Other Hong Kong Standards

21. Some Hong Kong Standards identified in paragraphs 13–16 contain: objectives, requirements, application and other explanatory material, introductory material and definitions. These terms are to be interpreted in a directly analogous way to how they are explained in the context of HKSAAs and financial statement audits in HKSA 200. (i.e. some standards are drafted using the same drafting conventions as the HKSAAs (effective for audits of financial statements for periods beginning on or after 15 December 2009) and the structure of these standards is similar to that of the HKSAAs. Therefore, the above terms in these Standards have similar meaning as the terms used in HKSAAs.)
22. Other Hong Kong Standards identified in paragraphs 13–16 contain basic principles and essential procedures (identified in bold type lettering and by the word “should”) together with related guidance in the form of explanatory and other material, including appendices. The basic principles and essential procedures are to be understood and applied in the context of the explanatory and other material that provides guidance for their application. It is therefore necessary to consider the entire text of a Standard to understand and apply the basic principles and essential procedures.

¹ Unless otherwise stated, “financial statements” mean financial statements comprising historical financial information.

² HKSA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*

23. The basic principles and essential procedures of a Standard are to be applied in all cases where they are relevant in the circumstances of the engagement. In exceptional circumstances, however, a member may judge it necessary to depart from a relevant essential procedure in order to achieve the purpose of that procedure. When such a situation arises, the member is required to document how alternative procedures performed achieve the purpose of the procedure and, unless otherwise clear, the reasons for the departure. The need for the member to depart from a relevant essential procedure is expected to arise only where, in the specific circumstances of the engagement, that procedure would be ineffective.
24. Appendices, which form part of the application material, are an integral part of a Standard. The purpose and intended use of an appendix are explained in the body of the related Standard or within the title and introduction of the appendix itself.

Professional Judgment

25. The nature of the Hong Kong Standards requires the member to exercise professional judgment in applying them.

Applicability of the Hong Kong Standards

26. The scope, effective date and any specific limitation of the applicability of a specific Hong Kong Standard is made clear in the Standard. Unless otherwise stated in the Hong Kong Standard, the member is permitted to apply a Hong Kong Standard before the effective date specified therein.
27. Hong Kong Standards are relevant to engagements in the public sector. When appropriate, additional considerations specific to public sector entities are included:
 - (a) Within the body of a Hong Kong Standard in the case of HKSAs and HKSQCs; or
 - (b) In a Public Sector Perspective (PSP) appearing at the end of other Hong Kong Standards.
28. Exposure drafts are issued for comment and their proposals are subject to revision. Until the effective date of a Hong Kong Standard, the requirements of any Hong Kong Standards that would be affected by proposals in an exposure draft remain in force.

The Authority Attaching to Practice Notes Locally Developed by the AASC

29. PNs are issued to provide interpretative guidance and practical assistance to members in implementing Hong Kong Engagement Standards and to promote good practice. PNs are local guidance developed by the AASC in response to emerging regulatory issues or new reporting requirements.
30. Members should be aware of and consider PNs applicable to the engagement. A member who does not consider and apply the guidance included in a relevant PN should be prepared to explain how the basic principles and essential procedures in the Hong Kong Engagement Standard(s) addressed by the PN have been complied with.

Obligation for Members to Observe HKICPA Authoritative Pronouncements or Justify Departures

31. Council is committed to promoting and supporting compliance with Hong Kong Standards by members. Council therefore expects members to observe Hong Kong Standards.
32. Apparent failures by practice units to comply with Hong Kong Standards are liable to be enquired into by the Accounting and Financial Reporting Council and disciplinary action may result. Practice units should seek their own legal advice.

33. Members who do not comply with Hong Kong Standards make themselves liable to disciplinary action which may include the withdrawal of a practising certificate and hence of eligibility to perform audits.
34. Relevant Hong Kong Standards are likely to be taken into account when the adequacy of the work of members is being considered in a court of law or in other contested situations.

Compliance with a Standard other than Hong Kong Standards

35. Where a member states that he has conducted an engagement in compliance with a standard other than Hong Kong Standards, for example International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services (International Standards), the engagement must have in fact been so conducted and the engagement report must in fact have so conformed.

Application of HKSA's to the Audits of Overseas Enterprises

36. Where the financial statements of an overseas enterprise are to be incorporated into Hong Kong financial statements, the audit of the overseas enterprise should conform to HKSA's 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 HKSA's.
37. Where the financial statements of an overseas incorporated enterprise are audited by Hong Kong auditors (as represented by signing the auditor's report in the style "Certified Public Accountant(s) (Practising), Hong Kong" or "Certified Public Accountant(s), Hong Kong") the audit of the enterprise should conform to HKSA's.
38. Where the financial statements of an overseas/People's Republic of China incorporated enterprise which is listed on The Stock Exchange of Hong Kong are audited by Hong Kong auditors (as represented by signing the auditor's report in the style "Certified Public Accountant(s) (Practising), Hong Kong" or "Certified Public Accountant(s), Hong Kong"), the relevant Listing Rules allow the audit to conform to International Standards on Auditing.
39. There may be circumstances, however, where an audit is being carried out of an overseas enterprise 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 HKSA's or International Standards on Auditing or other auditing standards established by an organization that is authorized or recognized to promulgate auditing standards.

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

Non-Authoritative Material

40. Non-authoritative material includes Practice Guidance (equivalent of IAASB's Practice Notes), locally developed Auditing and Assurance Technical Bulletins, Circulars and staff publications. Non-authoritative material is not part of the HKICPA's Hong Kong Standards.

Hong Kong Auditing Practice Guidance

41. The IAASB develops and publishes non-authoritative International Auditing Practice Notes (IAPNs). IAPNs do not impose additional requirements on auditors beyond those included in the ISAs, nor do they change the auditor's responsibility to comply with all ISAs relevant to the audit. IAPNs provide practical assistance to auditors. They are intended to be disseminated by those responsible for national standards, or used in developing corresponding national material. They also provide material that firms can use in developing their training programs and internal guidance.
42. The AASC considers that IAPNs should be adopted in Hong Kong as non-authoritative guidance to members. For clarity and clear differentiation from locally developed PNs, the IAPNs adopted by the AASC are named "Hong Kong Auditing Practice Guidance" (HKAPG).
43. Depending on the nature of the topic(s) covered, a HKAPG may assist the auditor in:
 - Obtaining an understanding of the circumstances of the entity, and in making judgments about the identification and assessment of risks of material misstatement;
 - Making judgments about how to respond to assessed risks, including judgments about procedures that may be appropriate in the circumstances; or
 - Addressing reporting considerations, including forming an opinion on the financial statements and communicating with those charged with governance.

Practice Guidance Relating to Other Hong Kong Standards

44. The IAASB may also issue International Review Engagement Practice Notes (IREPNs), International Assurance Engagement Practice Notes (IAEPNs), and International Related Services Practice Notes (IRSPNs) to serve the same purpose for ISREs, ISAEs, and ISRSs respectively. In this regard, the AASC would also adopt the IREPNs, IAEPNs and IRSPNs as Hong Kong Review Engagement Practice Guidance (HKREPG), Hong Kong Assurance Engagement Practice Guidance (HKAEPG), and Hong Kong Related Services Practice Guidance (HKRSPG) accordingly.

Auditing and Assurance Technical Bulletins and Circulars Locally Developed by the AASC

45. Auditing and Assurance Technical Bulletins and Circulars are informative publications issued by the AASC on subjects of topical interest and are intended to assist members or to stimulate debate on auditing and assurance issues. They do not have the same authority as the HKICPA's authoritative pronouncements.

Staff Publications

46. Staff publications (including those issued by IAASB) are used to help raise practitioners' awareness of significant new or emerging issues by referring to existing requirements and application material, or to direct their attention to relevant provisions of HKICPA pronouncements.

Due Process

47. The HKICPA's authoritative pronouncements are developed through a due process that involves members and other interested individuals and organizations.
48. Appendix 2 illustrates the due process to adopt IAASB authoritative pronouncements.
49. Appendix 3 illustrates the due process for the development of local PNs.

Coordination with International Due Process

50. Council understands that close coordination between the AASC's and IAASB's due processes is important to the success of achieving convergence of Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements with International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements.
51. Council supports the integration of its standard setting process with that of the IAASB as outlined below by adopting the procedures in paragraphs 52 to 54.
52. The IAASB states in its Terms of Reference that it cooperates with national standard setters to link their work with IAASB's own in preparing and issuing International Standards with an aim to share resources, minimize duplication of effort and reach consensus and convergence in standards at an early stage in their development. It also promotes the endorsement of International Standards by national standard setters, legislators and securities exchanges and promotes debate with users, regulators and practitioners throughout the world to identify user needs for new International Standards and guidance.
53. The IAASB would continue to publish its own exposure drafts and other documents for public comment and national standard setters would publish their own exposure documents at approximately the same time as IAASB exposure drafts and would seek specific comments on any significant divergences between the two exposure documents. In some instances, national standard setters may include in their exposure documents specific comments on issues of particular relevance to their country or include more detailed guidance than is included in the corresponding IAASB document.
54. National standard setters would follow their own full due process, which they would, ideally, choose to integrate with the IAASB's due process. This integration would avoid unnecessary delays in completing standards and would also minimize the likelihood of unnecessary differences between the standards that result.

Post-implementation Review

55. The Institute actively participates in the post-implementation review (PIR) coordinated by the IAASB where the issues are considered significant to Hong Kong entities.
56. The objectives of a PIR are to:
 - Determine whether the Hong Kong Engagement Standards are being consistently understood and implemented in a manner that achieves the intended purpose.
 - Identify how practical challenges and concerns are being addressed.
57. In addition, the Institute has mechanisms in place to identify and address issues arising from the application of Hong Kong Engagement Standards and PNs. Key mechanisms include:
 - (a) conducting an analysis every three years of qualitative and quantitative data collected over the previous three-year period. Sources of data collected include technical enquiries relating to the application of professional standards, regularly soliciting feedback from relevant committees and advisory panels of the Institute or other stakeholders and publications by regulators identifying issues on the application of professional standards; and
 - (b) collecting information on implementation issues from members of AASC and Small and Medium Practices Committee on what members believe are the key implementation issues.

58. The analysis of data collected would help the AASC identify complex, contentious and/or significant issues as follows:
- The number of technical enquiries on a specific standard would help indicate how widespread and significant the issue is i.e. a vast majority or only an isolated number of members not understanding the standard;
 - The nature and depth of the technical enquiries would help indicate whether there are contentious or complex issues in the implementation of the standard;
 - The issues identified from discussions at the AASC, advisory panels or outreach with stakeholders would also help indicate contentious or complex issues;
 - The areas of concern identified in reports issued by regulators such as the Accounting and Financial Reporting Council may indicate their pervasiveness and significance.
59. The implementation issues received from paragraph 57 will be further analyzed and categorized into one or more of the following categories:
- (a) If the implementation issues are due to fundamental questions (i.e. fatal flaws) about the clarity and suitability of the principles in the standard, the Institute will communicate with the relevant international standard setter with our research information for their consideration. The AASC will also consider whether any local standard setting activities will be required to address the issue e.g. developing local pronouncements such as Practice Notes, Circulars, AATBs etc.;
 - (b) If there is insufficient information to decide what the exact implementation issue is, the AASC will consider whether it is necessary to consult the public on the broad issue(s) identified from the data collection exercise by focusing the public on one or more specified aspects of one or more specified requirements of the standard. This will be akin to conducting a full 'IAASB-style' PIR;
 - (c) Where there are specific questions about the application of requirements i.e. there is evidence that the standard is not being consistently applied, the AASC will consider actions and activities to enhance the understanding and implementation of the requirements. Actions may involve, but are not limited to, the continued monitoring of a matter or issuing education materials. The AASC may conclude that no further action is needed.
60. In determining whether to undertake any further actions as indicated in paragraph 59 above and if so their priority, nature and extent, the AASC will have regard to the following criteria:
- (a) Public interest benefits
 - The level of public interest in undertaking the project or initiative.
 - The extent to which the action will enhance public trust in the standards and the profession.
 - (b) Relevance
 - Pervasiveness of the matter or issue to the profession in Hong Kong.
 - (c) Urgency
 - The degree of urgency in addressing the issue(s) identified. This is to be assessed on a standalone basis as well as relative to the other matters identified from the local PIR as well as other projects on the AASC's work plan.

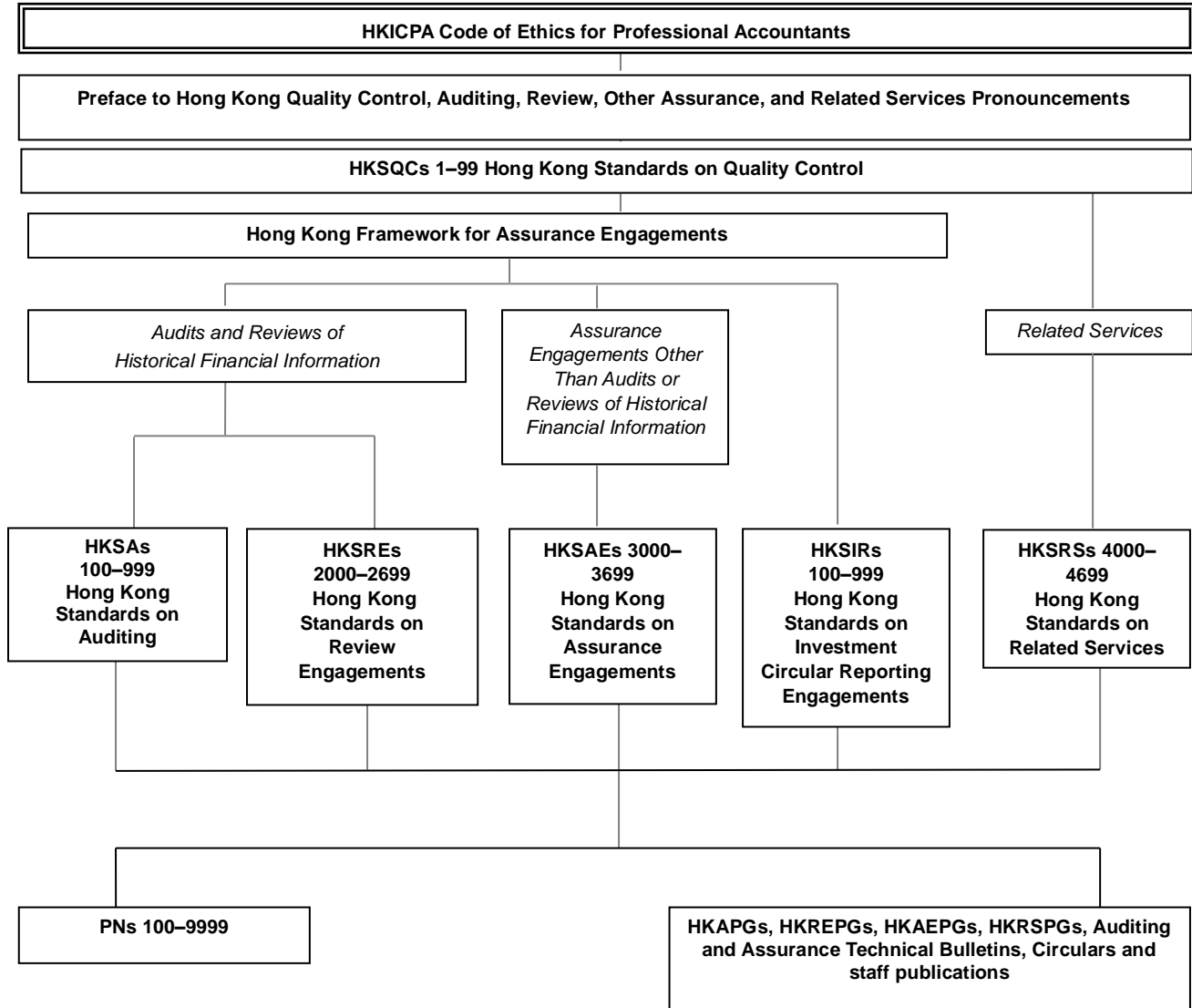
- The extent of the impact on the public interest and the profession if action is not taken or is delayed.
 - Interaction of the proposed project with the projects on the IAASB's work plan, including whether the IAASB plans to address the issues identified in the foreseeable future.
- (d) Achievability
- Feasibility of achieving an effective outcome within a reasonable timeframe, taking into account the resources required.
 - Whether the issue can be addressed by the AASC, i.e. whether it is within the remit of the AASC to develop any potential guidance as there may be cases where, for example, it may be more suitable and effective for regulators or other parties to deal with the issue, e.g. poor compliance.

Effective Date

61. This Preface is effective upon issue.

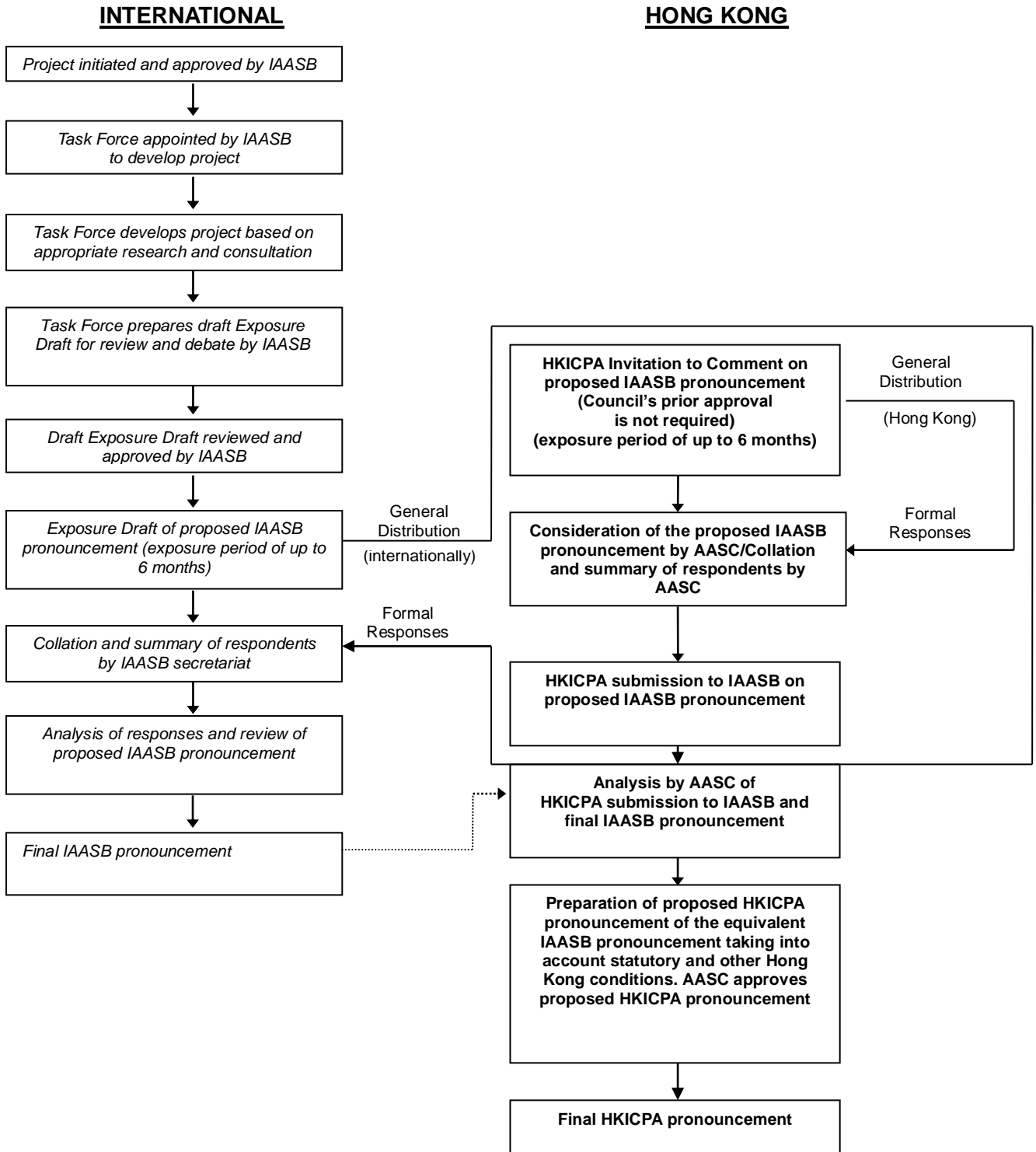
APPENDIX 1

Structure of Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements



APPENDIX 2

Auditing and Assurance Standards Committee Due Process to Adopt IAASB Pronouncements



APPENDIX 3

Auditing and Assurance Standards Committee Due Process for the Development of Local Practice Notes

