



Alert

Updates on financial reporting and auditing



Issue 4 (June 2009)

Dear members,

Updates to Hong Kong Standards on Auditing for the new International Standards on Auditing

1. In this issue of our series of alerts on topical financial reporting and auditing matters, we would like to update members on the proposed new Hong Kong Standards on Auditing (HKSAAs) to be issued over the next six months. This is happening as part of the ongoing policy of convergence with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) .

Background

2. The policy of convergence with ISAs was adopted by Council in 2001 with the primary objective of establishing high quality auditing standards that are recognized by and meet the needs of investors, auditors, governments, regulators and other key stakeholders. In 2004 the first HKSAAs were issued that were converged with ISAs.
3. In 2004, the IAASB also began a comprehensive programme to enhance the clarity of its ISAs. The programme involved the application of new drafting conventions to all ISAs, either as part of a substantive revision or through a limited redrafting, to reflect the new conventions and matters of clarity generally.
4. The IAASB clarity project was completed in March 2009. Auditors worldwide will now have access to 36 newly updated and clarified ISAs and a clarified International Standard on Quality Control. As well as redrafting, some ISAs e.g. those addressing the audit of groups and related party transactions have been revised and improved and there is one wholly new ISA on communicating deficiencies in internal control.
5. The Institute's auditing and assurance standards committee is currently updating the HKSAAs . The clarified HKSAAs will use the equivalent ISA as the underlying standard and will conform with the equivalent ISAs. Where necessary, local guidance will be included as in the extant HKSAAs.

Main changes

6. All clarified HKSAs contain certain improvements in language and clarity of purpose. Broadly, these:
 - Identify the auditor's overall objectives when conducting an audit in accordance with HKSAs, setting an objective in each HKSA and establishing the auditor's obligation in relation to those objectives;
 - Clarify the obligations imposed on auditors by the requirements of the HKSAs and the language used to communicate such requirements; and
 - Eliminate ambiguity about the requirements an auditor needs to fulfill.
7. The clarified HKSAs also have a new structure with each individual standard comprising the following separate sections:
 - Introductory material;
 - Objectives;
 - Definitions (as applicable);
 - Requirements; and
 - Application and other explanatory material.
8. HKSA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* sets out the conventions followed in the standards and the obligations of the auditors who follow them. It clarifies that the auditor is required to have an understanding of the entire text of an ISA to understand its objectives and to apply the requirements properly and that, in addition to objectives and requirements, ISAs contain guidance for carrying out their requirements.
9. All of the clarified HKSAs include requirements and guidance that will strengthen practice in areas of audit including planning, risk assessment, gathering and evaluating audit evidence, communicating with those charged with governance and auditor reporting.

Timetable for introduction

10. The Institute plans to issue the clarified HKSAs in batches over the period from June to September 2009.
11. The clarified HKSAs have the same effective date as the ISAs, i.e. for audits of financial statements for periods beginning on or after 15 December 2009. The revised preface and glossary of terms are effective as of 15 December 2009.
12. As most companies in Hong Kong have a 31 December year end, the first audit using the clarified standards would normally be for the period ending 31 December 2010.

Support events and facilities

13. The Institute recognizes that the introduction and first time application of the clarified HKSAs may have some cost implications for auditors but believes that this can be minimized through appropriate training and support. To provide assistance to its

members the Institute will be holding a number of forums over the next few months to address practical implementation issues. The Institute will also draw on IFAC initiatives to assist practitioners in implementation.

14. IFAC has developed an online IAASB clarity centre at <http://web.ifac.org/clarity-center/index> to help with the implementation of the clarified ISAs. IAASB is currently developing a series of ISA modules on a number of clarified ISAs which will be available on the clarity centre website free of charge. Each module will consist of two parts:
 - A short video presentation that will explain the main thrusts of the revised ISA and the significant changes that can be expected in practice; and
 - A set of slides that will expand on the matters covered in the video presentation, and explain the new provisions of the ISA in more detail.
15. A list of the ISAs selected for this purpose, and the expected timing for the release of the related modules, will be posted on the clarity centre's website in the near future.
16. The Institute's publications "Guide to Quality Control" and "Audit Practice Manual" will be updated as necessary to reflect the changes in procedures that will be required as a result of implementing the clarified HKSA's.

Sincere regards,



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