



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

17 May 2007

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,  
New York 10017,  
USA.

Dear Sir,

***IAASB Exposure Draft of proposed ISA 540 (Revised and Redrafted) Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures***

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 revised and redrafted ISA and are pleased to report 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. 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@hkicpa.org.hk](mailto:ong@hkicpa.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 540 (REVISED AND REDRAFTED) AUDITING ACCOUNTING ESTIMATES, INCLUDING  
FAIR VALUE ACCOUNTING ESTIMATES, AND RELATED DISCLOSURES**

**Request for Specific Comments**

- 1. Is the objective to be achieved by the auditor, stated in the proposed revised and 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 that we have some comments in relation to the requirements set out in paragraphs 8 and 12 in relation to risk assessment procedures and related activities and the need to use the work of an auditor's expert respectively.

We are of the view that paragraph 8, as drafted, could be interpreted as expecting the auditor to carry out risk assessment procedures to obtain an understanding of the entity and its environment for all accounting estimates. This would be onerous, particularly in the audits of smaller entities. We would therefore recommend that amendments be made to clarify the intent of the proposed requirement by emphasizing that the requirement is to identify those significant accounting estimates for which there is a risk of material misstatement.

We are of the view that paragraph 12, as drafted, is unclear and may impose an additional obligation on the auditor in relation to every accounting estimate to "determine" if an expert needs to be involved. We would recommend that further clarification be provided in this regard.

- 3. Combination of ISAs 540 (Revised) and 545**

Overall, we believe that the combination will enhance the auditor's understanding of auditing issues associated with accounting estimates and fair value accounting estimates. The requirements are appropriate for both the audit of estimates, including fair value estimates. We agree with the withdrawal of ISA 545.

- 4. Audit Documentation**

We agree with the proposal to include a specific audit documentation requirement in the proposed ISA in respect of the basis for the auditor's conclusions about the reasonableness of accounting estimates that give rise to significant risks and the indicators of possible management bias.

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International Federation of Accountants,  
545 Fifth Avenue, 14<sup>th</sup> Floor,  
New York,  
New York 10017,  
USA.

Dear Sir,

***IAASB Exposure Draft of proposed ISA 580 (Revised and Redrafted) Written Representations***

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 revised and redrafted ISA and are pleased to report 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. 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@hkiipa.org.hk](mailto:ong@hkiipa.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 580 (REVISED AND REDRAFTED) WRITTEN REPRESENTATIONS**

**Request for Specific Comments**

1. **The requirement set out in the third bullet point of paragraph 8 whereby the auditor shall request relevant parties to provide written representations to include whether the following matters, when relevant in view of the applicable financial reporting framework, have been recognized, measured or disclosed in accordance with that framework:**
  - **Plans or intentions that may affect the carrying value or classification of assets and liabilities;**
  - **Liabilities, both actual and contingent;**
  - **Title to or control over assets, and liens or encumbrances on assets, and assets pledged as collateral;**
  - **Aspects of contractual agreements that may affect the financial statements, including noncompliance; and**
  - **Events subsequent to the period end.**

We support the view taken by the majority of the IAASB members that the above detailed elements of the representations are required in order to reinforce the implications of the overall representation about the preparation of the financial statements in accordance with the applicable financial reporting framework.

2. **The requirement set out in paragraph 9 whereby the auditor shall request relevant parties to confirm whether they believe that the internal control they have maintained is adequate for preparing and presenting financial statements that are free from material misstatement.**

We support the view taken by the majority of the IAASB members that it is important that relevant parties not only to acknowledge and understand their responsibility for internal control, but also to confirm whether they believe that the internal control is adequate to support the preparation and presentation of the financial statements. We agree that, without this, there would be the possibility that those responsible for internal control might acknowledge their responsibilities, while being aware of shortcomings in the internal control system that may be relevant to the financial statements and not informing the auditor. However, it may be useful to clarify in the application guidance that it is not envisaged that this confirmation will entail a comprehensive assessment of the effectiveness of internal controls by management but rather it is on the assessment of the internal controls relating to financial reporting.

3. **The requirement set out in paragraph 19 whereby the auditor shall disclaim an opinion on the financial statements when relevant parties do not provide the general written representations about the premises, relating to management's responsibilities, on which an audit is conducted.**

We do not agree with the proposed requirement such that the auditor must disclaim an opinion on the financial statements when relevant parties do not provide the general written representations. Given that International Standards on Auditing are principles-

based standards, auditors should have the discretion to exercise professional judgment as to whether or not it should issue a disclaimer on the financial statements rather than having a mandatory rule. We would propose that the sentence be amended to “shall consider whether to issue a disclaimer of opinion based on the auditor’s professional judgment of the circumstances surrounding the audit.”

There is no doubt that the auditor should understand why management is reluctant to provide a particular representation and consider carefully the appropriate course of action. Disclaiming an opinion would be one of the appropriate actions, but not the only appropriate action in all cases.

**4. The requirement set out in paragraph 11 on the date of the general written representations**

We support the IAASB’s view that the general written representations should be as of the same date as the auditor’s report on the financial statements.

**5. The appropriateness of the objective for the proposed revised ISA, and the appropriateness of the proposed requirements as responses to that objective.**

Overall, we believe the objective and requirements are appropriate except for those matters highlighted in (3) above.

~ END ~