

Preface
Revised May 2010

Effective as of 15 December 2009

**Preface to Hong Kong
Standards on Quality
Control, Auditing, Review,
Other Assurance and
Related Services**



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

**PREFACE TO HONG KONG STANDARDS ON QUALITY CONTROL,
AUDITING, REVIEW, OTHER ASSURANCE AND RELATED SERVICES**

(Effective as of 15 December 2009)

(Revised June 2009, revised May 2010)

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This Preface is issued to set out the objectives and due process of the Council of the Hong Kong Institute of Certified Public Accountants (HKICPA) (hereafter referred as the “Council”) in respect of setting Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services and to explain the scope, authority and timing of application of Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services. For the purpose of this Preface, the term “Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services” 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 (HKSAEs);*
- *Hong Kong Standards on Investment Circular Reporting Engagements (HKSIRs); and*
- *Hong Kong Standards on Related Services (HKSRSs).*

It also sets out the relationship between Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services and International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants, and the authority attaching to Practice Notes (PNs), Auditing Guidelines (AGs) and Auditing and Assurance Bulletins.

Appendix 1 illustrates the structure of Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services, PNs and AGs.

Introduction

1. 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 Standards on Quality Control, Auditing, Review, Other Assurance and Related Services and related documents, such as exposure drafts, and other discussion documents, is the responsibility of Council.
2. Council has mandated the Auditing and Assurance Standards Committee (AASC) to develop Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services to achieve convergence with International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services. Within this remit, Council permits the AASC to work in whatever way it considers most effective and efficient and this may include forming advisory working groups or other forms of specialist advisory groups to give advice in preparing new and revised Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services.
3. The HKICPA’s Standards and Quality Accountability Board (SQAB) is responsible for reviewing and advising on the HKICPA’s overall strategy, policies and processes for setting Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services. One of the SQAB’s main objectives is to give advice to the AASC on priorities and on major standard-setting projects.

Objectives of Council

4. In 2001, Council adopted the policy of achieving convergence of Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services with International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services. 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 Standards on Quality Control, Auditing, Review, Other Assurance and Related Services with International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services.

The authority attaching to Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services

- 5. HKSAAs are to be applied in the audit of historical financial information.
- 6. HKSREs are to be applied in the review of historical financial information.
- 7. HKSIRs are to be applied in investment circular reporting engagements.
- 8. HKSAEs are to be applied in assurance engagements other than audits or reviews of historical financial information.
- 9. HKSRSs 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.
- 10. HKSAAs, HKSREs, HKSIRs, HKSAEs and HKSRSs are collectively referred to as Hong Kong Engagement Standards.
- 11. HKSQCs are to be applied for all services falling under Hong Kong Engagement Standards.

HKSAAs

- 12. HKSAAs are written in the context of an audit of financial statements¹ by an independent auditor. They are to be adopted as necessary in the circumstances when applied to audits of other historical financial information. The authority of HKSAAs is set out in HKSA 200².

HKSQCs

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

Other Standards

- 14. Some Standards identified in paragraphs 6-9 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

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"

terms used in HKSA.s.)

15. The Other Standards identified in paragraphs 6-9 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.
16. 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.
17. 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 Judgement

18. The nature of the Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services requires the member to exercise professional judgement in applying them.

Applicability of the Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services

19. The scope, effective date and any specific limitation of the applicability of a specific Hong Kong Standard on Quality Control, Auditing, Review, Other Assurance and Related Services is made clear in the Standard. Unless otherwise stated in the Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services, members are permitted to apply Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services before the effective date specified therein.
20. Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services 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 on Quality Control, Auditing, Review, Other Assurance and Related Services in the case of HKSA.s and HKSQC.s; or
 - (b) In a Public Sector Perspective appearing at the end of other Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services.
21. Exposure drafts are issued for comment and their proposals are subject to revision. Until the effective date of a Hong Kong Standard on Quality Control, Auditing, Review, Other Assurance and Related Services, the requirements of any Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services that would be affected by proposals in an exposure draft remain in force.

Obligation for members to observe Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services or justify departures

22. Council is committed to promoting and supporting compliance with Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services by members. Council therefore expects members to observe Hong Kong Standards on Quality Control,

Auditing, Review, Other Assurance and Related Services.

23. Apparent failures by members to comply with Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services are liable to be enquired into by the appropriate committee established under the authority of the HKICPA, and disciplinary action may result.
24. Members who do not comply with Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services make themselves liable to disciplinary action which may include the withdrawal of a practising certificate and hence of eligibility to perform audits.
25. Relevant Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services 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 on Quality Control, Auditing, Review, Other Assurance and Related Services

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

Application of HKSAs to the audits of overseas enterprises

27. 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 HKSAs 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 HKSAs.
28. 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 HKSAs.
29. 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 of Auditing.
30. 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 HKSAs or to International Standards on Auditing.

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

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

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

Due process

32. Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services are developed through a due process that involves members and other interested individuals and organizations.
33. The AASC consults the Standards and Quality Accountability Board on major projects, agenda decisions and work priorities.
34. Appendix 2 illustrates the due process to adopt IAASB Pronouncements including International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services.

Coordination with International Due Process

35. 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 Standards on Quality Control, Auditing, Review, Other Assurance and Related Services with International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services.
36. Council supports the integration of its standard setting process with that of the IAASB as outlined below by adopting the procedures in paragraphs 37 to 39.
37. The IAASB states in its Terms of Reference that it cooperates with national standard setters to link its work with IAASB's own in preparing and issuing 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 on Quality Control, Auditing, Review, Other Assurance and Related Services 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 Standards and guidance.
38. 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.
39. National standard setters would follow their own full due process, which they would, ideally, choose to integrate with 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.

The authority attaching to Practice Notes and Auditing Guidelines

40. PNs and AGs are issued to provide interpretative guidance and practical assistance to members in implementing Hong Kong Engagement Standards and to promote good practice. PNs and AGs can be local guidance developed by the HKICPA in response to emerging regulatory issues or new reporting requirements, or guidance adopting International Auditing Practice Statements (IAPSs), International Review Engagement Practice Statements (IREPSs), International Assurance Engagement Practice Statements (IAEPSs) and International Related Services Practice Statements (IRSPSs) issued by the IAASB.
41. Members should be aware of and consider PNs and AGs applicable to the engagement. A member who does not consider and apply the guidance included in a relevant PN/AG should be prepared to explain how the basic principles and essential procedures in the Hong Kong Engagement Standard(s) addressed by the PN/AG have been complied with.
42. Appendix 3 illustrates the due process for the development of local PNs. Appendix 2 is equally applicable to the due process to adopt IAPSs, IREPSs, IAEPSs and IRSPSs.

The authority attaching to Auditing and Assurance Bulletins

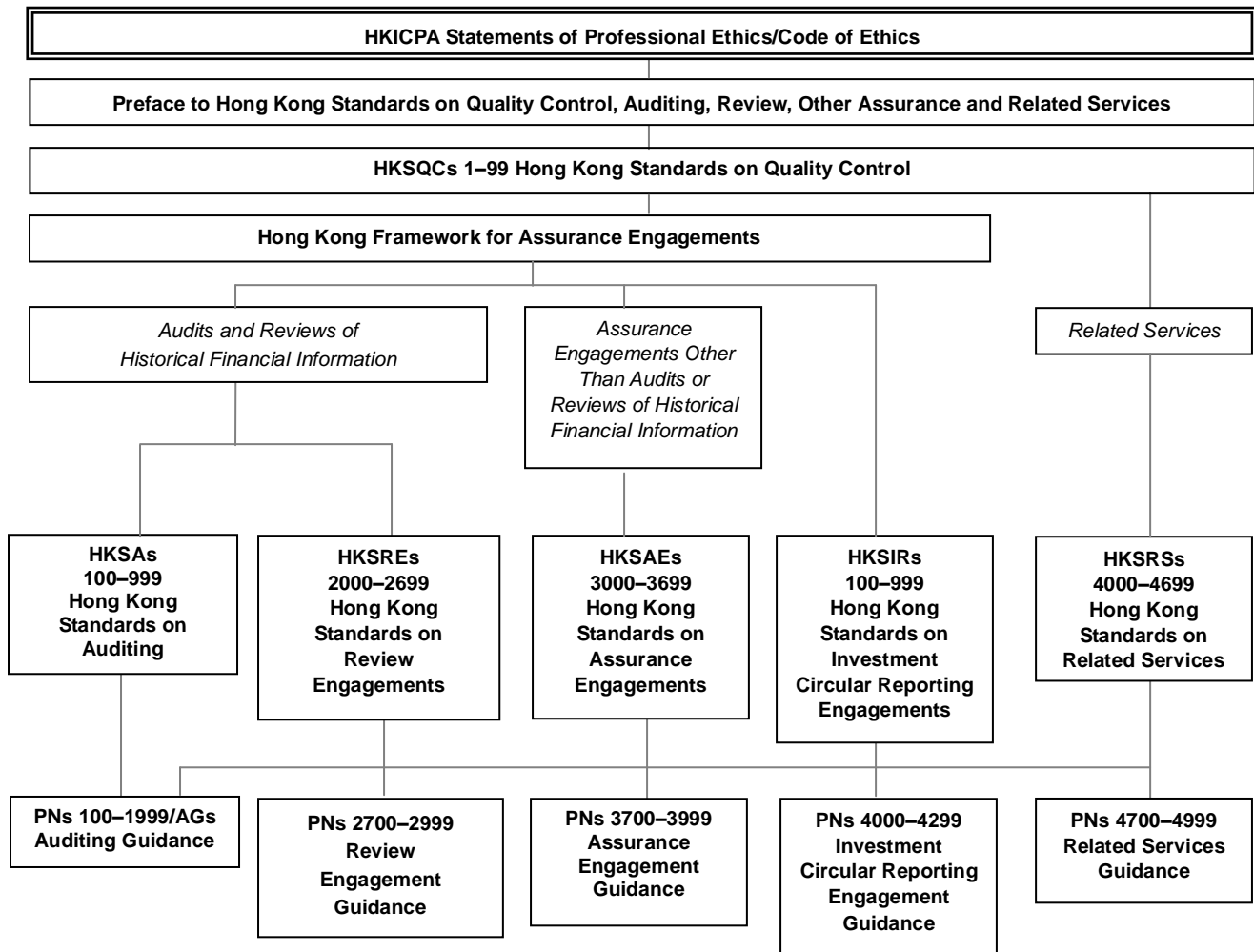
43. Auditing and Assurance Bulletins are informative publications issued by the AASC on subjects of topical interest and are intended to assist members or to stimulate debate on auditing and assurance issues. They do not have the same authority as Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services.

Effective date

44. This Preface is effective as of 15 December 2009.

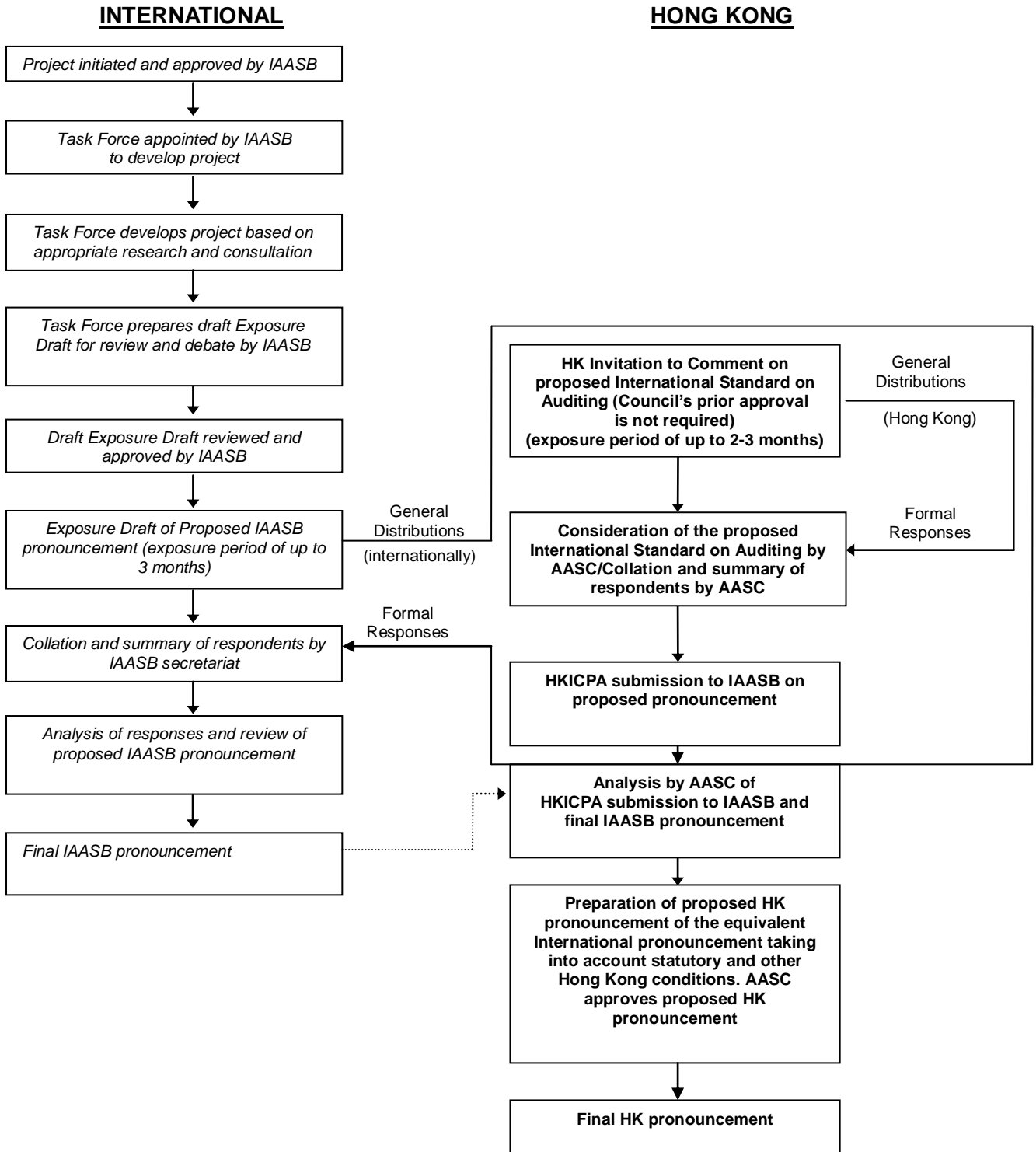
APPENDIX 1

Structure of Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services, Practice Notes and Auditing Guidelines



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**

