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By post and email: commentletters@hkicpa.org.hk

Mr. Simon Riley
Director, Standard Setting
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
213 Queen's Road East
Wanchai
Hong Kong

Dear Mr. Riley

**IAASB's Exposure Draft of Reporting on Audited Financial Statements:
Proposed New and Revised International Standards on Auditing**

We refer to the International Auditing and Assurance Standards Board's Exposure Draft of Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing.

Our comments on the specific questions raised in the exposure draft are attached. Should you have any questions, please do not hesitate to contact our Assistant Manager Mr. Timothy Tam at 2526 6080.

Yours sincerely

Boey Wong
Secretary

Enc.

Chairman Standard Chartered Bank (Hong Kong) Ltd
Vice Chairmen Bank of China (Hong Kong) Ltd
The Hongkong and Shanghai Banking Corporation Ltd
Secretary Boey Wong

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Appendix

Consultation on Reporting on Audited Financial Statements

Questions	Section / Reference	Clarification and comments
Determining key audit matters		
1)	Do users of the audited financial statements believe that the introduction of a new section in the auditor’s report describing the matters the auditor determined to be of most significance in the audit will enhance the usefulness of the auditor’s report? If not, why?	<p>Although the key audit matters can serve as a summary to the readers of the financial statements who may find it easier and less time consuming to identify the key risks from this summary compared to reading the entire annual report / financial statements, we have reservations on the introduction of this summary:</p> <ul style="list-style-type: none"> • Key accounting estimates, key risks and major business developments should have already been disclosed in the “critical accounting estimate”, “risk disclosure section” or other notes to the financial statements. Too much information could be disclosed particularly sensitive information to the entity. It is practically difficult to strike a balance between confidentiality and generic description. The latter may not be useful for users of the financial statements.
2)	Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide an appropriate framework to guide the auditor’s judgment in determining the key audit matters? If not, why? Do respondents believe the application of proposed ISA 701 will result in reasonably consistent auditor judgments about what matters are determined to be the key audit matters? If not, why?	<ul style="list-style-type: none"> • The judgment of the auditor is also very subjective which could lead to inconsistencies in the disclosure as different auditors may use different measurement on what is considered as significant. Also in practice it depends on the entity’s willingness in accepting the auditor’s disclosure of the key matters which could lead to long discussion between management of the entity and the auditors on what should be disclosed or not, and result in an unequal playing field in the disclosure amongst entities. • Proposed ISA 701 requires the auditor to consider ‘circumstances that require significant modification of the auditor’s planned approach to the audit...’ as part of his determination of the key audit matters. Audit planning typically initially occurs before an entity’s financial year end and therefore only considers the events and transactions for a part of the financial year. It is not uncommon for the initial audit

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3)	Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide sufficient direction to enable the auditor to appropriately consider what should be included in the descriptions of individual key audit matters to be communicated in the auditor's report? If not, why?	<p>plan to be revised during the course of an audit. It would be unwarranted for the auditor to report a key audit matter which arose from a significant modification to the audit plan in the situation described above.</p> <p>If the Key Audit Matters section is to be implemented, the following suggestions should be considered by the Board:</p> <ul style="list-style-type: none"> • We suggest that paragraph A17 of the Proposed ISA 701 should clarify whether all critical accounting estimates and judgments are necessarily key audit matters, otherwise the Key Audit Matters section of the audit report would be repetitive and would unnecessarily extend the length of the audit report which reduces its usefulness. Additionally, there could be undesirable consequences if it becomes practice for all critical accounting estimates and judgments to be reported as key audit matters. For example, management may be drawn to reduce their disclosures about critical accounting estimates and judgments in order to reduce the number of reported key audit matters. • There should be a control in place to reduce the risk of inappropriate reporting of key audit matters. The Proposed ISA 701 should include a requirement for the auditor to discuss all potential key audit matters with the 'engagement quality control reviewer' (as defined in ISA 220) where one has been appointed. This will achieve consistency with the auditor's responsibilities in the circumstances where the auditor has determined that there are no key audit matters, as set out in paragraph 13 of Proposed ISA 701. This requirement could also avert disagreements between auditors and management about which matters should be reported as key audit matters. • Proposed ISA 701 requires the auditor to consider matters that involve 'a number of separate, but related, auditing considerations' and 'areas in which the auditor encountered significant difficulties...' as part of his determination of key audit

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		<p>matters. As the current accounting, regulatory and business landscape is complex, auditors often engage internal or external experts to obtain sufficient appropriate audit evidence. The extent of the use of experts and their competency could impact the auditor's view of how complex a matter was, how difficult it was to obtain sufficient appropriate audit evidence and therefore whether the matter is a key audit matter.</p> <ul style="list-style-type: none"> • To reduce the subjectivity involved in determining whether complicated matters are key audit matters as mentioned in the above point, we recommend guidance is provided about how the use of experts might impact the determination of the key audit matters. This guidance could indicate, for example, that the auditor's use of an expert does not automatically mean that the matter is a key audit matter, since in practice the decision to use an expert often depends on factors such as the availability of resources within the audit team. This guidance should also emphasize that the auditor has sole responsibility for the audit opinion that has been expressed and that the auditor cannot delegate this responsibility to experts. This will achieve consistency with ISA 620. • An amendment to the Application and Explanatory Material of Proposed ISA 701 or ISA 620 is needed to address an inconsistency regarding references in the audit report to the use of the work of an expert. Paragraph A31 of the Proposed ISA 701 indicates that a key audit matter may refer to the auditor's use of an expert. However paragraph 14 of ISA 620, indicates that the auditor should not refer to the work of an expert in an audit report that contains an unmodified opinion unless it is required by law or regulation.
4)	Which of the illustrative examples of key audit matters, or features of them, did respondents find most useful or informative, and why? Which examples, or features of them, were	No comments.

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	<p>seen as less useful or lacking in informational value, and why? Respondents are invited to provide any additional feedback on the usefulness of the individual examples of key audit matters, including areas for improvement.</p>	
5)	<p>Do respondents agree with the approach the IAASB has taken in relation to key audit matters for entities for which the auditor is not required to provide such communication – that is, key audit matters may be communicated on a voluntary basis but, if so, proposed ISA 701 must be followed and the auditor must signal this intent in the audit engagement letter? If not, why? Are there other practical considerations that may affect the auditor's ability to decide to communicate key audit matters when not otherwise required to do so that should be acknowledged by the IAASB in the proposed standards?</p>	No comments.
6)	<p>Do respondents believe it is appropriate for proposed ISA 701 to allow for the possibility that the auditor may determine that there are no key audit matters to communicate? (a) If so, do respondents agree with the proposed requirements addressing such circumstances? (b) If not, do respondents believe that auditors would be required to always communicate at least one key audit matter, or are there other</p>	No comments.

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	actions that could be taken to ensure users of the financial statements are aware of the auditor's responsibilities under proposed ISA 701 and the determination, in the auditor's professional judgment, that there are no key audit matters to communicate?	
7)	Do respondents agree that, when comparative financial information is presented, the auditor's communication of key audit matters should be limited to the audit of the most recent financial period in light of the practical challenges explained in paragraph 65? If not, how do respondents suggest these issues could be effectively addressed?	No comments.
8)	Do respondents agree with the IAASB's decision to retain the concepts of Emphasis of Matter paragraphs and Other Matter paragraphs, even when the auditor is required to communicate key audit matters, and how such concepts have been differentiated in the Proposed ISAs? If not, why?	No comments.
Going Concern		
9)	9. Do respondents agree with the statements included in the illustrative auditor's reports relating to: (a) The appropriateness of management's use of the going concern basis of accounting in the preparation of the entity's financial statements?	<p>We do not support the proposal for the audit report to include a standard Going Concern section based on the following consideration:</p> <ul style="list-style-type: none"> • The current International Financial Reporting Standards (IFRSs) and International Standards on Auditing (ISAs) require disclosures when the going concern basis of accounting is not applied or when there are doubts about the appropriateness of the going concern assumption. These disclosures are usually prominently made as

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	<p>(b) Whether the auditor has identified a material uncertainty that may cast significant doubt on the entity's ability to concern, including when such an uncertainty has been identified (see the Appendix of proposed ISA 570 (Revised)?</p> <p>In this regard, the IAASB is particularly interested in views as to whether such reporting, and the potential implications thereof, will be misunderstood or misinterpreted by users of the financial statements.</p>	<p>follows – (i) IFRS disclosures are usually located in the basis of preparation note in the financial statements; and (ii) ISAs require the inclusion of an Emphasis of Matter paragraph in the auditor's report. We consider that the current practice of prominently reporting by exception is adequate and effective. It provides risk focused information, which is particularly important if the audit report will be expanded to report on key audit matters.</p> <ul style="list-style-type: none"> • Additionally, in practice it is infrequent that there are departures from the going concern basis of accounting or that there are material uncertainties about the appropriateness of the going concern assumption. Therefore there is a risk that the proposed going concern section in the audit report will result in a standardized language disclosure for the majority of reporting entities with the consequence that users of the financial statements may eventually ignore this section.
10)	<p>What are respondents' views as to whether an explicit statement that neither management nor the auditor can guarantee the entity's ability to continue as a going concern should be required in the auditor's report whether or not a material uncertainty has been identified?</p>	<p>Please refer to comments above on question 9.</p>
Compliance with independence and other relevant ethical requirements		
11)	<p>What are respondents' views as to the benefits and practical implications of the proposed requirement to disclose the source(s) of independence and other relevant ethical requirements in the auditor's report?</p>	<p>No comments.</p>
Disclosure of the name of the engagement partner		
12)	<p>What are respondents' views as to the proposal</p>	<p>No comments.</p>

Questions	Section / Reference	Clarification and comments
	to require disclosure of the name of the engagement partner for audits of financial statements of listed entities and include a “harm’s way exemption”? What difficulties, if any, may arise at the national level as a result of this requirement?	
Other improvements to proposed ISA 700 (revised)		
13)	What are respondents’ views as to the appropriateness of the changes to ISA 700 described in paragraph 102 and how the proposed requirements have been articulated?	No comments.
14)	What are respondents’ views on the proposal not to mandate the ordering of sections of the auditor’s report in any way, even when law, regulation or national auditing standards do not require a specific order? Do respondents believe the level of prescription within proposed ISA 700 (Revised) (both within the requirements in paragraphs 20–45 and the circumstances addressed in paragraphs 46–48 of the proposed ISA) reflects an appropriate balance between consistency in auditor reporting globally when reference is made to the ISAs in the auditor’s report, and the need for flexibility to accommodate national reporting circumstances?	No comments.