



**By e-mail < [Edcomments@ifac.org](mailto:Edcomments@ifac.org) >**

28 January 2010

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 10017, USA.

Dear Sir,

**[IAASB Consultation Paper Auditing Complex Financial Instruments](#)**

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 Consultation Paper for developing guidance relating to auditing complex financial instruments.

We support the proposed plan of revising the extant International Auditing Practice statement (IAPS) 1012 *Auditing Derivative Financial Instruments* and using the UK Auditing Practices Board's publication Practice Note 23 (Revised) *Auditing Complex Financial Instruments* as a starting point for the revision. Our comments on the Consultation Questions are set out in the attachment.

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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 at [ong@hkiipa.org.hk](mailto:ong@hkiipa.org.hk).

Yours faithfully,

Steve Ong, FCPA, FCA  
Director, Standard Setting Department

SO/SH/ac  
Encl.



**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' COMMENTS ON THE  
IAASB CONSULTATION PAPER *AUDITING COMPLEX FINANCIAL INSTRUMENTS***

**Request for Specific Comments**

- 1. Do you agree with the IAASB's overall approach for revising IAPS 1012, in particular the usefulness of the APB's work as a starting point for the revision of an international auditing practice statement ?**

We agree with the IAASB's overall approach for revising IAPS 1012 in view of the time lapse since it was first published. Using APB's work as a starting point would expedite the process given that such guidance would be beneficial to auditors, as the unprecedented financial market conditions experienced during the recent economic environment highlighted the audit challenges in obtaining sufficient appropriate audit evidence regarding complex financial instruments.

- 2. What are the respondents' views as to the overall structure and content of the Practice Note? In considering this question, respondents are asked for views about the level of detail of the APB's Practice Note, including the length and flow of the document, and its suitability in an international context?**

For the ease of finding the relevant guidance, we propose that references (e.g. paragraph numbers) to the detailed guidance are included in the Overview section.

In addition, we note that the Practice Note does not address valuation techniques for unquoted equities. In this respect, the IAASB is recommended to consider including guidance in this area.

We are of the view that there should be more synergy between the International Accounting Standards Board (IASB) and the IAASB. It would be useful to auditors if the revised IAPS could make references to IASB's publications on fair value of financial instruments (e.g. IASB Expert Advisory Panel – Measuring and disclosing the fair value of financial instruments in markets that are no longer active [http://www.iasb.org/NR/rdonlyres/0E37D59C-1C74-4D61-A984-8FAC61915010/0/IASB\\_Expert\\_Advisory\\_Panel\\_October\\_2008.pdf](http://www.iasb.org/NR/rdonlyres/0E37D59C-1C74-4D61-A984-8FAC61915010/0/IASB_Expert_Advisory_Panel_October_2008.pdf) ) and provide guidance on how audit procedures could be developed around the IASB's guidance.

- 3. If respondents think the Practice Note is insufficient, in what areas should the IAASB consider including additional guidance in revising IAPS 1012? Specific examples as well as the rationale for a particular suggestion would be helpful.**

Not applicable.

- 4. Are there currently any national standards or guidance in your particular jurisdictions that should also be considered by the IAASB in revising IAPS 1012?**

None.

- 5. Is the Practice Note clear on what is meant by the term "complex financial instruments"? If it is not, how could the definition and illustrative examples be improved, bearing in mind the evolving nature of these instruments?**

It is clear.



6. **Is the guidance included in paragraphs 9-12 of the Practice Note helpful in explaining its applicability to audits of entities of all sizes? If not, should such guidance be deleted or expanded in revising IAPS 1012; if so, how?**

It is clear.

7. **Throughout the Practice Note, examples of how the guidance can be applied in a range of entities – from smaller entities to larger financial institutions – have been included. Do respondents believe the guidance is adequately balanced, or would a revised IAPS 1012 be more helpful if focused at a different level?**

It would be more useful for the SMPs if there is additional guidance in relation to SME audits at the end of each section.

8. **Many of the considerations described in the Practice Note can also be applied to simpler financial instruments. Would it be more appropriate in revising IAPS 1012 for the guidance to be developed to apply to all financial instruments rather than limiting it to complex financial instruments?**

We are of the view that the guidance should be developed to apply to all financial instruments. In this way, auditors of entities with less complex financial instruments could also refer to the guidance. The guidance should also include guidance on audit procedures when auditing complex financial instruments.

9. **Are the types of risks described in paragraph 59 of the Practice Note understood across a number of industries and applicable in an international context?**

The descriptions of the risks as currently drafted are clear and applicable across a number of industries. However, it should be clearly explained that the discussion of risks is not intended to be exhaustive.

10. **Is the guidance in paragraphs 64-84 (particularly related to information systems, control activities, and monitoring of controls) helpful for auditors in obtaining an understanding of controls for a financial statements audit? Is the guidance helpful for auditors of entities that have smaller portfolios of complex financial instruments?**

The guidance does not discuss in detail the specific controls that the auditors need to understand. The guidance is not helpful for auditors of entities that have smaller portfolios of complex financial instruments.

11. **Is the guidance on substantive procedures in paragraphs 105-108 of the Practice Note helpful to auditors? Are there other procedures that should be considered in revising IAPS 1012?**

The guidance is too generic. The IAPS should provide guidance on the substantive procedures to be performed for the various complex financial instruments. It would be useful to include guidance for all the audit assertions.

12. **Are there additional issues or best practices relating to the auditor's application of the audit risk standards that have been noted that should be included in revising IAPS 1012?**

None.



**13. Is the additional guidance included in the Practice Note helpful for auditors in obtaining sufficient appropriate audit evidence in relation to complex financial instruments?**

The additional guidance is helpful for auditors to understand the appropriate audit evidence to be obtained.

**14. Is the additional guidance relating to the valuation assertion applicable to most complex financial instruments? Are the concepts in this section easily understood and relevant in an international context?**

The guidance provides some insight to the application to the valuation assertion. There is a need to balance more in-depth discussion and being too technical.

**15. Would it be helpful to include more generic guidance describing concepts such as broker quotes, the different types of pricing services that may be used, and other forms of evidence and cite examples of how this information is typically gathered and in what particular circumstances?**

Additional generic guidance would be helpful for auditors and entities to understand how the information is derived.

**16. Is the guidance on the use of models, from both a preparer and auditor perspective, sufficient? If not, what further guidance could be added and why?**

Additional guidance could be added for the auditor to consider seeking the advice of an expert, if necessary and make reference to ISA 620 "Using the Work of an Auditor's Expert".

**17. Is the Practice Note sufficiently clear that the issues relating to valuation and the types of risks involved in financial instruments apply equally to financial assets and financial liabilities or should more guidance be added about financial liabilities?**

There should be more guidance about financial liabilities.

**18. Are there additional issues or best practices relating to the auditor's need to obtain sufficient appropriate audit evidence that have been noted that should be included in revising IAPS 1012?**

The IAASB could consider making references to ISA 540 "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures" in IAPS 1012 and include guidance in relation to complex financial instruments.

**19. Is the guidance included in the Practice Note on disclosures helpful?**

We note that within Practice Note 23, reference has been made to Practice Note 19 which provides guidance on auditing disclosures of market risk information. We recommend that relevant guidance in Practice Note 19 be included in IAPS 1012.



- 20. Is more guidance needed on the audit of disclosures? For example, is more guidance needed to address how the auditor would obtain sufficient appropriate audit evidence when the disclosures about risks and uncertainties are qualitative in nature or the information is derived from information systems that are not otherwise used to generate information for inclusion in the financial statements? How should the IAASB deal with these areas in revising IAPS 1012, while ensuring the framework neutrality?**

It would be helpful to provide guidance on how the auditor would obtain sufficient appropriate audit evidence when the disclosures about risks and uncertainties are qualitative in nature.

- 21. Is the guidance included on communication with those charged with governance helpful? Is there scope for adding additional guidance on the auditor's communications with those charged with governance with respect to valuation and control issues that come to the auditor's attention?**

The IAASB could consider making reference to ISA 260 "Communication with Those Charged with Governance" and ISA 265 "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management".

- 22. Are there best practices relating to auditor's communications with regulators, prudential supervisors and others, for example, where such communication or reporting is required by law or regulation, that should be acknowledged in revising IAPS 1012?**

The auditors should be reminded to further consider auditor's communications with regulators in regards to the jurisdictions' requirements.

- 23. Would further guidance on the possible implications for the auditor's report when auditing complex financial instruments be helpful? For example, this could include guidance on the use of Emphasis of Matter paragraphs, Other Matter paragraphs and limitations on the scope of the audit.**

Additional guidance on the implications for auditor's report would be helpful with example wordings to illustrate the specific situations.

- 24. Is the use of an Overview section helpful or is such a section duplicative?**

We believe it is not necessary to have an Overview section.

- 25. For the areas noted above, is the level of guidance included in the Practice Note helpful?**

See comments above.

- 26. Are there any issues that may arise with the Practice Note from a translation perspective?**

Not applicable.

~ END ~