



By e-mail < Edcomments@ifac.org >

7 December 2007

Our Ref.: C/AASC

Executive Director, Professional Standards
International Auditing and Assurance Standards Board,
International Federation of Accountants,
545 Fifth Avenue, 14th Floor,
New York 10017, USA.

Dear Sir,

IAASB Consultation Paper on Proposed Strategy for 2009-2011

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.

Overall we support the proposed Strategy for 2009-2011 and note that the proposed new projects are in line with the recommendations made in our submission to the IAASB in February 2007 on the IAASB Strategic Review Survey except for the following comments:

1. We would like to reiterate our comments made in the Survey on the need for international standards on investment circular reporting.

The scope of professional accountants' work is expanding and developing beyond the traditional "core" work of audits or reviews of statutory financial statements. Amongst the "non-core" work, engagements concerning investment circular reporting and assistance to sponsors/underwriters are becoming more important in many jurisdictions as regulators are increasingly relying on the professional accountants' opinion.

We have previously expressed concerns about the inconsistencies in practice internationally and the increasing level of risks that reporting accountants are exposed to because of the increasing complexity of securities transactions and onerous regulatory requirements. We are also aware that some international sponsors are "arbitraging" between different jurisdictions, making jurisdictions with less stringent requirements more vulnerable to risks. A number of more sophisticated jurisdictions, such as the UK, US, Canada and Singapore and Hong Kong have already issued local standards in this area and it is apparent that there is an urgent need for international standards in the light of globalisation and the increasing importance of cross-border offerings.

2. We note that it is IAASB's intention to explore the concept of an alternative assurance service for SME entities, which is distinguishable from an audit. In this regard, we would like to highlight that local feedback suggests that the IAASB should not be embarking on this project without further consideration of the needs of users of financial statements. We take the view that "an audit is an audit". Accordingly, we question the demand from the users of SME's financial statements for such alternative assurance service that the IAASB is proposing.



We believe that users of SMEs' financial statements would still hold the view that an alternative assurance service cannot replace audited financial statements. It would be meaningless for the IAASB to propose and for practising members to offer such an alternative assurance service for which there is little or no demand. Accordingly, we recommend that the IAASB reconsiders this project.

Local feedback suggests that accounting professionals in public practice are seeking additional implementation guidance from the IAASB on the application of the ISAs when auditing SMEs. The recent Exposure Draft on a proposed *IFRS for Small and Medium-sized Entities* issued by International Accounting Standards Board serves as an example where simplifying complex principles for SMEs are considered necessary. Therefore, we urge IAASB to allocate its resources to this area instead of an alternative assurance service for SMEs to replace an audit.

We hope the IAASB will consider our above concerns and 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@hki CPA.org.hk).

Yours faithfully,

A handwritten signature in black ink that reads 'Patricia McBride' with a stylized flourish at the end.

Patricia McBride
Executive Director

PM/SO/ac