



香港會計師公會  
HONG KONG SOCIETY OF ACCOUNTANTS  
Incorporated by the Professional Accountants Ordinance, Cap. 50

**By fax and air-mail**  
**(0062 1 212 286 9570)**

Our. Ref.: C/AASC

9 April 2003

Technical Director,  
International Auditing and Assurance Standards Board,  
International Federation of Accountants,  
535 Fifth Avenue, 26<sup>th</sup> Floor,  
New York,  
New York 10017,  
USA.

Dear Sir,

**Audit Risk Project Exposure Drafts**

The Hong Kong Society of Accountants welcomes the opportunity to provide you with our comments on the IAASB's Audit Risk Project Exposure Drafts.

We set out in the attachment our responses to the questions raised in the Exposure Drafts and other comments for your consideration.

If you require any clarifications on our responses or comments, please contact our Deputy Director (Ethics & Assurance), Stephen Chan < [schan@hksa.org.hk](mailto:schan@hksa.org.hk) >, in the first instance.

Yours faithfully,

WINNIE C.W. CHEUNG  
SENIOR DIRECTOR  
PROFESSIONAL & TECHNICAL DEVELOPMENT  
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WCC/SSLC/jc

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**HONG KONG SOCIETY OF ACCOUNTANTS' COMMENTS ON THE IAASB's AUDIT RISK EXPOSURE DRAFTS**

**RESPONSES TO THE QUESTIONS RAISED IN THE EXPOSURE DRAFTS**

**Question 1 - General**

**ISAs are drafted to contain basic principles and essential procedures together with related guidance that apply to the audits of financial statements of any entity, irrespective of its size. However, the IAASB recognizes that the audit of small entities may give rise to certain special audit consideration.**

**Are there such special audit considerations in applying the standards and guidance contained in proposed ISA "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement" and proposed ISA "The Auditor's Procedures in Response to Assessed Risks"? If so, include details of such considerations.**

**(The IAASB will take any comments made in response to this request when taking forward its project to consider the effect of the proposed ISAs on IAPS 1005 "The Special Considerations in the Audit of Small Entities" and to make proposals about whether to incorporate relevant guidance in the ISAs or revision of IAPS 1005.)**

We agree that the basic principles and essential procedures together with related guidance of the Exposure Drafts should apply to the audits of financial statements of any entity, irrespective of its size. The size of an entity is not necessarily an indicator of the quality of controls. In small entities, the controls might be less formal but controls can often still be strong.

We agree with the IAASB's proposal to review IAPS 1005 and to give more guidance on the application of the above principles and procedures in audits of small entities.

**Question 2 - Proposed ISA "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement"**

**Paragraphs 50 through 94 deals with internal control including the requirement to obtain an understanding of the components of internal control and guidance on obtaining the understanding. Appendix 2 contains further guidance to assist the auditor in understanding the components of internal control, including their application to small entities.**

**Is this additional guidance helpful, or is there sufficient material within the ISA itself? In considering this question, commentators should assume that the paragraphs relating to small entities will be retained whether in the Appendix or elsewhere.**

Yes, we consider the guidance in Appendix 2 of the proposed ISA helpful and should be retained.

### **Question 3 – Proposed ISA “The Auditor’s Procedures in Response to Assessed Risks”**

**Where the auditor plans to rely on controls that have not changed since they were last tested, paragraph 38 requires the auditor to test the operating effectiveness of such controls at least every third audit. The IAASB discussed whether it was appropriate to impose such a limit on the ability of the auditor to use audit evidence obtained in a prior audit. The alternative view is that the period for such reliance should be left to the auditor’s judgment.**

**Is it appropriate for the ISA to specify a time period, and if so, is every third audit an appropriate limit? If not, please indicate what time period, if any, is considered more appropriate.**

We believe that, in principle, the time limit on the ability of an auditor to use audit evidence obtained in a prior audit should be left to the auditor’s judgment. However, we do see the need to prescribe a maximum time limit in order to avoid abuses. In this respect, we suggest the IAASB reword the standard to the effect that the three-year time limit is a rebuttable presumption and retain the reference in the proposed standard that such evidence would become less reliable over time.

We also suggest the IAASB provide further guidance on factors to consider when deciding whether and to what extent the auditor can place reliance on controls that have not changed since they were last tested.

### **Question 4 – Documentation**

**Proposed ISA “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement” and proposed ISA “The Auditor’s Procedures in Response to Assessed Risks” include detailed documentation requirements. The IAASB considers that documentation requirements are important as a means of ensuring that auditors comply with significant requirements of the standards. The requirements are more extensive than previously.**

**Do commentators agree that it is appropriate for the IAASB to establish detailed documentation requirements? Are the proposals practical? If not, what suggestions do you have for documentation that achieves the objective of improving compliance with standards?**

Yes, we agree that it is appropriate to establish documentation requirements to ensure compliance with standards and include the auditor’s reasoning on all significant matters which require exercise of judgment, together with the auditor’s conclusion thereon. We believe the requirements set out are not overly detailed in this respect.

### **OTHER COMMENTS**

It is noted that the effective date of the proposed ISAs has not yet been determined by the IAASB.

The IAASB is requested to consider whether it would be appropriate for the proposed ISAs to be effective for audits of financial statements for periods beginning on or after 1 January 2005 at the earliest, in order that auditing firms will have sufficient time to consider the necessary staff training, changes to audit methodology and audit software issues.