



**By e-mail < [Edcomments@ifac.org](mailto:Edcomments@ifac.org) > and by fax (0062 1 212 286 9570)**

5 March 2007

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,  
New York 10017,  
USA.

Dear Sir,

***IAASB Exposure Drafts of proposed ISA 260 (Revised and Redrafted)  
Communication with Those Charged with Governance, ISA 320 (Revised and  
Redrafted) Materiality in Planning and Performing an Audit and ISA 450  
(Redrafted) Evaluation of Misstatements Identified during the Audit***

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 Exposure Drafts.

Before we comment on the subject IAASB Exposure Drafts, we would like to take this opportunity to reiterate a point made by us in our submission dated 28 March 2006 on the IAASB Exposure Draft on Improving the Clarity of IAASB Standards. We are of the view that the IAASB should approach the development of the objectives of each ISA together rather than on a piecemeal ISA-by-ISA basis as it works through the clarity project. Accordingly, we strongly recommend that the IAASB commences to look at the objectives in all ISAs and link them to the objective in ISA 200 "Objective and General Principles Governing an Audit of Financial Statements".

Notwithstanding our above comment, we support the proposed redrafted ISAs and are pleased to report that generally the objective to be achieved by the auditor, as stated in each of the proposed redrafted ISAs, is appropriate. Furthermore, the criteria identified by the IAASB for determining a requirement has been applied appropriately and consistently such that the resulting requirements will promote consistency and the use of professional judgement by auditors. However, we have some concerns on certain requirements on the following areas which we consider should be more appropriately dealt with in the section on application and other explanatory guidance:

- Proposed redrafted ISA 260 – When All of Those Charged with Governance are Involved in Managing the Entity and Significant Findings from the Audit

- Proposed redrafted ISA 450 – Accumulation and Documentation of Misstatements into Separate Categories

We set out in the attachment our specific comments on each of the above points for your consideration.

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 or Steve Ong, Deputy Director, Standard Setting ([ong@hki CPA.org.hk](mailto:ong@hki CPA.org.hk)).

Yours faithfully,

A handwritten signature in black ink that reads "Patricia McBride". The signature is written in a cursive style with a large, stylized initial "P" and "M".

Patricia McBride  
Executive Director

PM/SO/jc  
Encl.



**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' COMMENTS**  
**ON THE IAASB EXPOSURE DRAFTS**  
**OF ISA 260 (REVISED AND REDRAFTED) COMMUNICATION WITH THOSE**  
**CHARGED WITH GOVERNANCE, ISA 320 (REVISED AND REDRAFTED)**  
**MATERIALITY IN PLANNING AND PERFORMING AN AUDIT AND ISA 450**  
**(REDRAFTED) EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE**  
**AUDIT**

**A. Proposed (Revised and Redrafted) ISA 260**

**1. When All of Those Charged with Governance are Involved in Managing the Entity**

We note that details in paragraph 10 on “When All of Those Charged with Governance are involved in Managing the Entity” would be more appropriately treated under the section “Application and Other Explanatory Material” instead of under “Requirements”. This is because the principle that the auditor shall determine the appropriate person(s) within the entity’s governance structure with whom to communicate is already addressed in paragraph 7 and later also in paragraph 9.

In relation to paragraph 9, we would suggest the sentence, “The auditor shall consider ....” be changed to “The auditor shall determine .....”.

**2. Significant Findings from the Audit**

We note that paragraph 14(a) requires the auditor to communicate with those charged with governance the auditor’s views about significant qualitative aspects of the entity’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

The second sentence then goes on to say, “When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting practice not to be appropriate and, when considered necessary, shall request changes”. This second sentence would be more appropriately treated under the section “Application and Other Explanatory Material”.

**B. Proposed (Redrafted) ISA 450**

**1. Accumulation and Documentation of Misstatements into Separate Categories**

We note that paragraph 5 requires the auditor to accumulate misstatements identified during the audit, other than those that are clearly trivial, and categorize them between factual misstatements, judgmental misstatements and projected misstatements. Paragraph 20 (b) requires the auditor to document the above categorization.

We are of the view that whilst categorization of the nature of the misstatements can be useful in communications, we do not believe it to be necessary to fulfill the auditor's responsibilities and are concerned that the proposed requirements would impose unnecessary working practices.

The subject requirements would be more appropriately treated as guidance under the section "Application and Other Explanatory Material".

~ END ~