

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



Our. Ref.: C/AASC

21 April 2004

Technical Director,  
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 Draft on ISA 700 (Revised) “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements”, ISA 200 “Objective and General Principles Governing an Audit of Financial Statements” and Amendments to ISA 210 “Terms of Audit Engagements” and Conforming Amendments**

The Hong Kong Society of Accountants welcomes the opportunity to provide you with our comments on the captioned IAASB Exposure Draft.

--- We set out in the attachment our comments for your consideration.

We trust that our comments are of assistance to you. If you require any clarifications on our comments, please contact the undersigned at [schan@hksa.org.hk](mailto:schan@hksa.org.hk).

Yours faithfully,

STEPHEN CHAN  
TECHNICAL DIRECTOR (ETHICS & ASSURANCE)

SSLC/SO/jc  
Encl.

**HONG KONG SOCIETY OF ACCOUNTANTS' COMMENTS ON THE IAASB EXPOSURE DRAFT ON ISA 700 (REVISED) "THE INDEPENDENT AUDITOR'S REPORT ON A COMPLETE SET OF GENERAL PURPOSE FINANCIAL STATEMENTS", ISA 200 "OBJECTIVE AND GENERAL PRINCIPLES GOVERNING AN AUDIT OF FINANCIAL STATEMENTS" AND AMENDMENTS TO ISA 210 "TERMS OF AUDIT ENGAGEMENTS" AND CONFORMING AMENDMENTS**

**OVERALL COMMENTS**

1. We are supportive of the proposed revision to ISA 700 which is very timely as we are seeing increased public attention regarding the need to develop high quality international auditing standards.
2. We concur with the IAASB's view that consistent and generally accepted guidance on the form and content of the auditor's report is an important step in gaining both stakeholders' and auditors' understanding and acceptance of audits conducted in accordance with the ISAs.
3. We welcome the new guidance of forming the auditor's opinion at the conclusion of the audit, on the "appropriateness" of the financial reporting framework, on supplementary information included with the financial statements, and on the auditor's performance and reporting responsibilities when the auditor has conducted the audit in accordance with both ISAs and relevant national auditing standards.
4. We agree in principle that consistency in the content, the layout and the wording of the auditor's report for ISA audits will serve to promote credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. While ISA 700 defines the elements that should be included in the auditor's report and provides a model report, it allows flexibility for the report wording when the audit has been conducted in accordance with both ISAs and national auditing standards. We agree with this approach.

**SPECIFIC COMMENTS**

**ISA 700**

5. **Date of approval of the financial statements – Paragraph 47 and ISA 560 paragraph 4(b)**

As referred to in paragraph 47 of the proposed revised ISA 700 and defined in paragraph 4(b) of the proposed revised ISA 560, the "date of approval of the financial statements" is the date that the entity's management or those charged with governance determines that a set of financial statements, including the related notes, has been prepared and approves such statements".

In this regard, we suggest that the definition of the "date of approval of the financial statements" should be aligned with and cross-referenced to paragraph 16 of IAS 10 "Events after the Balance Sheet Date" that deals with the date when financial statements are authorized for issue.

To avoid confusion amongst readers, it may be appropriate for the IAASB to use the same terminology as IAS 10 given that IAS 10 requires the disclosure of the date when the financial statements were authorized for issue. If this suggestion is taken up, the phrase “Date of approval of the financial statements” would be replaced by “Date of authorization for issue”.

6. **Illustrative audit report – Paragraph 51**

We welcome the following new features of the illustrative audit report in paragraph 51:

- new headings and sub-headings for different aspects of reporting;
- the section on management’s responsibility which clarifies that “this responsibility includes maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error .....”; and
- the section on auditor’s responsibility which clarifies that “the auditor considers internal control relevant to the entity’s preparation of the financial statements as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control”.

We believe that these revised responsibility statements will serve to better inform the readers of the different roles of auditors and management regarding the internal controls.

**ISA 200**

7. **Ethical requirements – Paragraph 5**

Paragraph 5 mentions that “although ISA 220 is directed towards the engagement partner and the engagement team, it recognizes that the engagement team relies on a firm’s systems in meeting its responsibilities with respect to quality control procedures applicable to the individual audit engagement”. While the engagement team certainly utilizes the firm’s “policies, procedures, and systems” in complying with ethical requirements, we think it is an overstatement to say that the engagement team relies on a firm’s systems in meeting its responsibilities with respect to quality control procedures applicable to the individual audit engagement. The engagement team and in particular the engagement partner also have responsibility for individual actions.

8. **Scope of an audit – Paragraph 10**

Paragraph 10 defines the term “scope of an audit” to refer to the audit procedures deemed appropriate in the circumstances, in the auditor’s judgment to achieve the objective of the audit. We believe that this could be expanded to refer to ISAs, as follows:

“The term “scope of an audit” refers to the audit procedures deemed appropriate in the circumstances, in the auditor’s judgment and in accordance with ISAs, to achieve the objective of the audit.”

9. **Reasonable assurance - Paragraphs 17 - 21**

- (i) Paragraph 18 provides guidance that an auditor obtains reasonable but not absolute assurance because there are inherent limitations in an audit that affect the auditor’s ability to detect material misstatements. One of the limitations stated is “The inherent limitations of internal control (for example, the possibility of management override or collusion)”.

We consider the phrase “inherent limitations of internal control” to be too negative and suggest that it be replaced with “factors which may undermine the effectiveness of internal control”.

- (ii) Paragraph 19 mentions that the work undertaken by the auditor to form an audit opinion is permeated by judgment, in particular regarding:
  - (a) The gathering of audit evidence, for example, in deciding the nature, timing, and extent of audit procedures; and
  - (b) The drawing of conclusions based on the audit evidence gathered, for example, assessing the reasonableness of the estimates made by management in preparing the financial statements.

We consider that there should be further elaboration to note the auditor’s accountability for his or her use of judgment.

- (iii) Paragraph 21 goes on to say that an audit is not a guarantee that the financial statements are free from material misstatement, because absolute assurance is not attainable. Further, an audit opinion does not assure the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity.

We consider that for a balanced coverage, additional guidance should be added to be said about what an audit does as well as what it does not do.

10. **Applicable Financial Reporting Framework – Paragraph 36 and also ISA 210 paragraphs 15-17**

Paragraph 36 provides guidance that an applicable financial reporting framework is a framework identified by management that is acceptable in view of the nature of the entity (for example, whether it is a business enterprise or a not-for-profit organization) and the objective of the financial statements.

We do not consider that the test of an applicable financial reporting framework should be based on whether it is “acceptable”. This is a very low threshold which is only above unacceptable. We believe that the test should be an “appropriate” financial reporting framework. This would still encompass standards set by a national standard setter, tax based accounting or rules set by a regulator, as all would be appropriate in the circumstances.

\*\*\*\*\*  
\*