



To: **HKSA members**  
**All other interested parties**

**HKSA INVITES COMMENTS ON IAASB EXPOSURE DRAFTS**

- (1) Proposed revised ISA 700 “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements” and proposed conforming changes to ISAs**
- (2) Proposed revised ISA 600 “The Work of Related Auditors and Other Auditors in the Audit of Group Financial Statements” and proposed new IAPS “The Audit of Group Financial Statements”**

The International Auditing and Assurance Standards Board (IAASB) is seeking comments on the above Exposure Drafts (EDs) which have been posted on the HKSA website at <http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/>. They can also be found on-line at <http://www.ifac.org/IAASB/>.

In accordance with the HKSA’s ISA Convergence Due Process, the HKSA Auditing and Assurance Standards Committee (AASC) invites comments on the IAASB EDs from any interested party and would like to hear from both those who do agree and those who do not agree with the proposals contained in the IAASB EDs. Comments should be supported by specific reasoning and should preferably be submitted in written form.

To allow your comments on the IAASB EDs to be considered and included in the HKSA’s submission to the IAASB, they are requested to be received by the HKSA on or before **6 March 2004**. Comments may be sent by mail, fax or e-mail to:

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Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.

Upon finalization of the IAASB EDs, the AASC intends to adopt them as local standards so that Hong Kong Auditing and Assurance Standards maintain conformity with current International Auditing and Assurance Standards at all times.

A brief commentary on the IAASB EDs is set out below.

**The Auditor’s Report**

The ED of proposed revised ISA 700 proposes significant changes to the wording of the auditor’s report on a complete set of general purpose financial statements. Significant changes include:

- Introducing guidance on matters the auditor considers in forming the audit opinion including a requirement that the auditor reflects, at the end of the audit process, on the fair presentation of the financial statements as a whole;
- Clarifying the auditor’s responsibilities with respect to management’s identification of an applicable financial reporting framework; and
- Requiring that reference to compliance with ISAs in the auditor’s report is based on the auditor ensuring that the report includes all ISA reporting elements.

The proposed wording of the auditor’s report includes:

- A better explanation of the responsibilities of the auditor and management, including respective responsibilities for internal control, accounting policies and estimates;
- An updated description of the audit process to reflect the new Audit Risk Standards; and
- An explanation of the limitations of the auditor’s consideration of internal control in a financial statement audit.

In addition, the IAASB proposes conforming changes to ISA 200 “Objective and General Principles Governing an Audit of Financial Statements”, ISA 210 “Terms of Audit Engagements”, ISA 560 “Subsequent Events”, ISA 701 “Modifications to the Independent Auditor’s Report” and ISA 800 “The Independent Auditor’s Report on Special Purpose Audit Engagements”.

### **Audit of Group Financial Statements**

The ED of proposed revised ISA 600 proposes significant changes which include:

- Applying the new Audit Risk Standards to an audit of group financial statements;
- Recognizing the differences that exist when the other auditor is related to the group auditor through a firm operating under common quality control policies;
- Discussing the group auditor’s responsibility to access relevant information; and
- Providing guidance on determining the adequacy of the other auditor’s work.

In addition, the IAASB is proposing a new IAPS that sets out practical assistance on how the standard, along with other ISAs, would be applied when the group auditor takes sole responsibility for the audit opinion on the group financial statements.

*(January 2004)*