



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

29 November 2005

Our Ref.: C/AASC

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

Dear Sir,

[IAASB Exposure Drafts on ISA 701 “The Independent Auditor’s Report on Other Historical Financial Information” and ISA 800 “The Independent Auditor’s Report on Summary Audited Financial Statements”](#)

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. We welcome the opportunity to provide you with our comments on the captioned IAASB Exposure Drafts.

In relation to the proposed ISA 701, we believe that further debate among a wide range of stakeholders is needed as to whether it is possible or indeed, right, to give a “true and fair/fairly presents” opinions on anything other than full financial statements before the standard should be released in its final form.

In relation to the proposed ISA 800, we question whether the auditor is in a position to comment on the appropriateness of either the summary financial information or of the summarization process in the absence of an accounting standard or appropriate regulation.

--- We set out in the attachment our detailed comments on the proposed ISA 701 and ISA 800 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@hkicpa.org.hk.

Yours faithfully,

Stephen Chan
Executive Director

SSLC/PM/jc
Encl.

**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' COMMENTS ON
THE IAASB EXPOSURE DRAFTS ON ISA 701 "THE INDEPENDENT AUDITOR'S
REPORT ON OTHER HISTORICAL FINANCIAL INFORMATION" AND
ISA 800 "THE INDEPENDENT AUDITOR'S REPORT ON
SUMMARY AUDITED FINANCIAL STATEMENTS"**

A. ISA 701 – The Independent Auditor's Report on Other Historical Financial Information

1. Confusion created by having "true and fair/fairly presents" opinions falling within the scope of ISA 700 and ISA 701

The proposed ISA 701 does restrict the use of "true and fair/fairly presents" opinions to circumstances when the framework used to prepare the financial statements is designed to achieve fair presentation, but does not restrict it to opinions on complete sets of financial statements.

We believe the use of "true and fair/fairly presents" opinions on subjects other than complete sets of financial statements would create confusion not only amongst practitioners but also readers of financial statements. Accordingly, it is our view that the respective scope of ISA 700 and ISA 701 should be more clearly articulated. In our view, ISA 700 should apply to all financial statements for which the auditor expresses a "true and fair/fairly presents" opinion and ISA 701 be restricted to "properly prepared" compliance reports on other historical financial information.

2. Expanded definition in ISA 701 of what constitutes a financial reporting framework

Paragraph 10 (non bold) states that Financial reporting frameworks presumed to be acceptable for general purpose financial statements are described in ISA 200 "Objective and General Principles Governing an Audit of Financial Statements". ISA 200 paragraph 42, acknowledges that, in some jurisdictions, legislative and regulatory requirements may supplement a financial reporting framework with additional requirements relating to preparing and presenting the financial statements. In these jurisdictions, the applicable financial reporting framework, for the purposes of applying the ISAs, encompasses both the identified financial reporting framework and such additional requirements, provided they do not conflict with the applicable financial reporting framework. For purposes of this ISA, the financial reporting framework may also encompass:

- The effect of the legal and ethical environment, including statutes, regulations, court decisions, and professional ethical obligations in relation to accounting matters;
- Published views of varying authority on emerging accounting issues and accounting interpretations issued by standards setting, professional or regulatory organizations;

- Industry practices widely recognized and prevalent;
- Accounting literature; and
- The provisions of a contract, including significant interpretations made by the responsible party in preparing and presenting the financial information.

We are concerned that the proposed ISA 701 expands this definition to possibly include statutes, regulations, court decisions, professional ethical obligations, public views of varying authority, emerging issues and accounting interpretations, industry practices that are widely recognized and prevalent, accounting literature and the provisions of contracts. This is because these other sources are not recognized in ISA 200. Accordingly, a complete set of financial statements prepared in accordance with a framework designed to achieve fair presentation would not be able to take these other sources into account, but the very same framework used to prepare a single financial statement or statements, or an element, account or item could. We therefore, encourage the IAASB to develop a more comprehensive discussion of the sources of financial reporting frameworks for specific types of reporting situations addressed in ISA 701.

3. Interrelationship with the matters that influence suitability of the framework

Paragraph 11 states that unless the financial reporting framework is an established financial reporting framework recognized as suitable for the intended use, or specifically required to be used by law or regulation, the auditor considers whether it exhibits the characteristics of suitable criteria described in the Framework. The relative importance of each of these characteristics to a particular engagement is a matter of professional judgment, and depends on the nature of the entity and its environment, the nature and objective of the other historical financial information, the information needs of the intended users, and other matters, for example, events, transactions, conditions and practices that may have a significant effect on the engagement. For example, for the purposes of a balance sheet prepared to establish the value of assets of an entity at the date of its sale, the vendor and the purchaser may have agreed that very prudent estimates of allowances for uncollectible accounts receivable are to be made. This may result in preparing financial information that is not neutral, but it may nevertheless be acceptable in the circumstances.

We note that ISA 701 above adds other considerations when considering whether a framework exhibits the characteristics of suitable criteria, including the entity's environment, and the information needs of intended users. This is on top of ISA 200. In the context of some of the types of special purpose reports addressed in ISA 701, we agree that some of these factors are indeed relevant. In the context of general purpose reports, however, we are concerned that this guidance could be inappropriately used to justify the use of industry practices that may be prevalent in a particular jurisdiction (and therefore argued to be acceptable, for example, in the context of the entity's environment), despite the fact that they substantially conflict with, contradict or carve out from a core framework (e.g., GAAP-minus). In such a circumstance, the auditor would not be able to accept such a framework for general purpose financial statements if applying ISA 200. In contrast, in applying ISA 701, the entity could argue that it does constitute suitable criteria in that environment and the only implication would be that the auditor would give a

compliance opinion. We therefore encourage IAASB to develop a more comprehensive discussion of the factors that are relevant when assessing the suitability of financial reporting frameworks in relation to specific types of reporting situations addressed in ISA 701.

4. Others

- (a) We note that all the examples in the Exposure Draft used the term “properly prepared, in all material respects, in accordance with” to opine on a reasonable assurance report. It is recommended that the IAASB should explore whether there are any other possible terms to be used for a reasonable assurance report. If other possible terms are available, we recommend consideration be given as to how to restrict the use of too many different terms in order to avoid confusion. Terms that might be used include “properly compiled in accordance with measurement requirements of IAS 11 *Construction Contracts*”; “have been prepared in a form that is consistent with the accounting policies adopted in the latest financial statements”.
- (b) We note that paragraph 5(d) specifically mentions that the proposed ISA 701 does not establish standards or provide guidance for a report confirming that information is an accurate extraction from audited historical financial information. In this connection, we advise that there are many regulatory bodies in Hong Kong which require auditors to perform an assurance engagement and opine on an accurate extraction of items such as turnover from audited historical financial information. However, pursuant to paragraph 5(d), a report confirming that information is an accurate extraction from audited historical financial information would appear to be excluded from the scope of the proposed ISA. We would request IAASB to provide further clarification regarding paragraph 5(d) as to whether such opinion can only result from an agreed upon procedures engagement or whether such an opinion is still possible for an assurance engagement if audit work performed on the underlying financial information is satisfactory.
- (c) We would like to draw to your attention that, in Hong Kong, we have another example where auditors do not express an opinion on fair presentation for a full set of financial statement and supporting notes. Currently, Hong Kong has two sets of financial reporting standards, which are “Hong Kong Financial Reporting Standards” (the “HKFRSs”) and “Small and Medium-sized Entities Financial Reporting Standard” (the “SME Standard”). The HKFRSs have been, in all material respects, fully converged with IFRSs. One of the objectives of the SME Standard is to relieve the burden of small companies in meeting the complex financial reporting rules under the HKFRSs. This is achieved by simplifying measurement rules and relieving small companies from excessive disclosure requirements. Therefore, for jurisdictions which have more than one set of reporting standards, it may be worth considering expanding the standard to deal with such a situation.

B. ISA 800 – The Independent Auditor’s Report on Summary Audited Financial Statements

1. Auditor’s Report – Expressing an opinion on whether the summary financial statements are an “appropriate” summary of the financial statements in accordance with the applied criteria

Paragraph 19(f) proposes that the auditor express an opinion whether the summary financial statements are an “appropriate” summary of the financial statements in accordance with the applied criteria.

In this regard, we do not believe that the auditor is in a position to comment on the appropriateness of either the summary financial information or of the summarization process in the absence of an accounting standard or appropriate regulation. By definition, it was considered that only the complete set of financial statements will be an “appropriate” representation of the financial affairs of the entity. Furthermore, the auditor is not auditing the summarized financial statements per se. Whilst the auditor has audited the underlying financial statements from which the summary information is derived, the auditor’s role in relation to summarized financial statements is limited to ensuring that the summarized financial statements are derived from, or reconcilable to, the complete financial statements, and are not inconsistent with them.

Accordingly, we would prefer retaining the opinion wording in the extant ISA 800 such that the information in the summarized financial statements is consistent with the audited financial statements from which it was derived. In circumstances in which the summarized financial statements have been prepared in accordance with regulations or other criteria defining the information that should be contained therein, the auditor could also state that the summarized financial information has been prepared in accordance with that criteria.

2. Extending scope of summaries of financial information

Paragraph 2 states that according to ISA 200, “Objective and General Principles Governing an Audit of Financial Statements”, paragraph 34, the term “financial statements” refers to a complete set of financial statements or a single financial statement. Although the term “financial statements” is used in this ISA, the standards and guidance apply to auditors’ reports on summaries of audited complete sets of financial statements and summaries of audited historical financial information other than complete sets of financial statements.

We question how common it is that entities would prepare summarized financial information other than of a complete set of financial statements and, assuming that it appears rare, whether the scope of the ISA should be expanded to cover such summaries. We would recommend that the scope of the guidance be limited to summaries of complete sets of financial statements.

3. Summary financial statements or information

We note that the proposed ISA refers throughout to “summary financial statements”. We would suggest that the IAASB reconsiders whether the term “summary financial statements” should be changed to “summary financial information” as in ISRE 2400 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. It is our understanding that the IAASB referred to interim financial information in that instance because “financial statements” do not include all the financial information and disclosures that would be included in a complete set of financial statements.

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