



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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

28 March 2006

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 Draft – Improving the Clarity of IAASB Standards](#)

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 Draft.

We are strongly supportive of the aim of improving the readability and understandability of the existing ISAs and are in overall agreement with the proposals in the Exposure Draft. However, we have concerns on the usage of words in the objective section of the redrafted ISAs, both in the articulation of their authority in the Preface and the lack of precision in describing the objects of each individual ISA.

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, the next step of the clarity project should be 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”.

We strongly recommend the following proposals:

- The Preface contain the overarching objective of an audit, as explained in ISA 200, and all the audit objectives embodied in the suite of the ISAs to show how these objectives contribute to the overarching objective; and
- The adequacy of the objectives of all of the present ISAs be evaluated prior to the release of any ISA in the revised format to ensure that all objectives are complete, consistent and contribute to meeting the overarching objective of an audit.



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The suggested approach will help the IAASB address all of the objectives at the start of the project to ensure that the objectives are appropriately linked and are relevant to meeting the overarching objective. Further, the suggested approach will ensure that ISAs are restructured around audit objectives where necessary, thus ensuring that ISAs remain focused on audit objectives and reducing any tendency for them to become rules-based.

--- We set out in the attachment our overall comments on the proposed Preface and ISAs and our responses to the questions in the Exposure Draft 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 or Patricia McBride, Director, Standard Setting, at patricia@hki CPA.org.hk.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Winnie Cheung'. The signature is fluid and cursive.

Winnie C.W. Cheung
Chief Executive & Registrar

WCC/PM/jc
Encl.



ATTACHMENT

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' COMMENTS
ON THE IAASB EXPOSURE DRAFT – IMPROVING THE CLARITY OF IAASB
STANDARDS

Overall comments

We found the revised versions of the ISAs to be a significant improvement over the existing ISAs as they are more readable and understandable having been categorized under four principal sections:

- Introduction – the scope and effective date of the Standard
- Objective – the objective to be achieved by the professional accountant
- Requirements – the requirements to be complied with, together with essential explanatory material where necessary to make the section understandable by an experienced professional accountant; and
- Application Material – material, supplemented in some cases by appendices, that provides further explanation and guidance supporting proper application of the Standard.

The above categorization provides clarity on the professional requirements of auditors and the requirements are better articulated. However, we have concerns with the details of the objectives, both in the articulation of their authority in the Preface and the resulting wording of objectives in the redrafted ISAs. This is explained more fully in our response to the questions in the Exposure Draft and the following specific issues.

1. Substance of a requirement

We notice that requirement sections of the ISAs include the term “shall consider” in a number of places. Sometimes this term is used when a more specific action-oriented or decision-oriented term such as “determine” “evaluate” or “assess” would be appropriate. In other circumstances, the auditor is required to “think about something” and to conclude whether or not it is necessary to do something. We recommend that the IAASB should use more concrete decision or action words rather than the term “shall consider” to clarify the substance of a requirement.

2. Meaning of “consider”

We recognize that paragraph 20 of the proposed Preface states that “if a Standard provides that a procedure or action is one that the professional accountant should consider, the consideration of the procedure or action is required, while carrying out the procedure or action is not. However paragraph 20 does not explain what is involved in “consideration” and how the assessments, evaluations, judgments and resulting actions of the auditor should be documented.



3. Introduction Section

We suggest that the IAASB is consistent as to the content of the Introduction Section and that it be limited to recommend the scope and date of application. The Introduction for ISA 240 goes much further than this. We do not consider clarity is enhanced by having Introductions in some ISAs elaborate on one or more aspects of the subject of the particular ISA, when other Introductions do not. We recommend that additional material be contained in a separate section where the IAASB considers that this is necessary.

4. Definitions

We do not support having a definitions section in individual ISAs. We believe that all the needed definitions for terms, words, and phrases used in ISAs should be in one place for ease of reference and consistency. We consider that the appropriate place for definitions is the Glossary. It should be updated whenever necessary, so that it can serve as an authoritative data dictionary for ISAs. Having a single source for all definitions will assist users of the ISAs and prevent the problems that arise if words are defined differently within the single body of ISAs.

5. Paragraph 19 of the Preface

Paragraph 19 of the Preface states that, “the professional accountant must achieve the objective stated at the beginning of each Standard that is relevant in the circumstances of the engagement”. We do not understand what is meant by this last highlighted phrase. Is this intended to refer to the objective or the standard as being relevant? Does “relevant” mean in every audit where the subject or condition is present and therefore “existence” makes it relevant? We would welcome further clarification in this regard.

Response to Questions 1 to 10 in the Exposure Draft

Restructuring Aspect of the New Drafting Convention

Q1. In the light of the separation of requirements and application material, as presented in the four ISA Exposure Drafts, do you believe there is a need to repeat the requirements at relevant points within the application material to enhance context and reference, as discussed on page 10?

We do not believe there is a need to repeat the requirements at relevant points within the application material. If such an approach is taken, we consider that it would not only be contrary to the aim of shorter, more concise standards but could potentially re-introduce the questions of relative authority that the Clarity project set out to resolve.



Application of the New Drafting Conventions to the Four ISA Exposure Drafts

Q2. Are the objectives to be achieved by the auditor, stated at the beginning of the proposed ISAs, appropriate?

We strongly support objective-based standards but are concerned as to how the concept has been implemented in the redrafted ISAs. In particular, we are concerned about the level at which the objectives are pitched and how the Preface describes their authority. We consider that the authority and articulation of objectives are of the utmost importance. Objectives provide important context to guide the application of professional judgment to achieve the overall objective of an audit.

As set in ISA 200 “Objective and General Principles Governing an Audit of Financial Statements”, the objective of an audit of financial statements is to enable the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework. The auditor obtains and evaluates audit evidence to obtain reasonable assurance about whether the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

It is this objective that the auditor must achieve and against which the auditor’s performance should be judged. In addition, it is this overall objective that should provide the fundamental framework that guides the judgments and decisions the auditor makes in the audit.

Collectively, the ISAs provide direction on the actions and procedures the auditor needs to perform to fulfil that objective.

In this connection, we are of the view that paragraph 19 of the Preface together with the objectives of the redrafted ISAs should be rewritten to bring out a consistent message that recognizes the following issues:

- Individual ISAs are designed in pursuit of the achievement of the overarching objective of an audit;
- Individual ISAs do not exist in isolation but rather are part of a cohesive and integrated body of standards; and
- The objective of an audit of financial statements is to enable the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework.

Furthermore, in view of the above, the IAASB should not approach objectives piecemeal ISA-by-ISA as they work through the Clarity Project. We strongly recommend that, the next step of the Clarity Project should be to look at the objectives in all ISAs and link them to the objective in ISA 200. Only then can an auditor reviews compliance with each ISA and reviews whether the overarching objective and the supporting objectives have been achieved in the total audit process.



It is our view that only through this way will the IAASB and those who comment on the ISAs know whether the objectives provide the basis for a complete body of auditing standards. Without a review of all the objectives for all the ISAs it is difficult to ascertain whether the individual objective in a particular ISA covers all the aspects that need to be achieved in that subject area.

Q3. Have the guidelines identified by the IAASB for determining whether a requirement should be specified, as set out in page 6, been applied appropriately and consistently, such that the resulting requirements are at a level that promotes consistency in performance and the use of professional judgment by auditors?

It has always been our concern that excessive detailed, procedural-oriented standards would negatively affect audit quality because auditors would be preoccupied with compliance with the standards rather than focus their attention on the application of professional judgment to achieve the objective of the audit. On balance, we believe that the guidelines identified have been applied appropriately and consistently.

Q4. Has the application material been edited in a way that makes it clearer?

In general, we found the redrafted ISAs to be a significant improvement on the extant ISAs. However, we would like to mention that the more complex issues the auditor faces in today's competitive environment, are not necessarily best served by including more detail describing these complex issues. We hope that this clarity exercise has shown that excessive detail is not always necessary, regardless of the complexity of the issue.

Q5. Has an appropriate balance been achieved between eliminating duplicative material and retaining some repetition in the proposed ISAs to help users understand a particular ISA or how the ISAs interrelate?

In general we consider that the IAASB has achieved an appropriate balance in the redrafted ISAs.

Q6. Do you support the way in which special considerations in the audits of SMEs and public sector entities have been presented in the application material?

Yes, we do support the way it is drafted. We considered whether it would be better for the application guidance specific to both smaller enterprises and public sector entities be placed together in one part of the application material. On balance we rejected this view as we were concerned that such an approach may lead auditors of such entities to consider that particular section only rather than considering the entire text of a Standard to understand and apply the basic principles and essential procedures.



Q7. Do respondents from developing nation foresee difficulties arising from the changes in the proposed ISAs in their environment?

N/A

Q8. Do you foresee any potential translation issues?

N/A

Implementation Approach

Q9. Do you agree with the proposed implementation approach, including priorities and timetable, as discussed on pages 8 and 9 and as set out in Appendix 1?

We support the implementation of the Clarity Project over time but would like to reiterate that it is highly important to identify and evaluate the adequacy of the objectives of all of the present ISAs before proceeding much further with the clarity project.

Proposed Amendments to the Preface

Q10. Do you have any comments on the necessary changes to the Preface to reflect the new drafting conventions?

As explained in Question 2, we do have concerns regarding the authority attached to the objectives and requirements in the Preface.

~ END ~