

# **Joint Declaration of the China Auditing Standards Board and the Hong Kong Institute of Certified Public Accountants on the converged China Auditing Standards and Hong Kong Auditing Standards**

## **Annex I**

### **Elaboration on the background to the comparison project and the comparison process**

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#### **I. Background to the comparison project**

1. Mr. Wang Jun, Chairman of the China Auditing Standards Board (CASB), and Mr. John Kellas, Chairman of the International Auditing and Assurance Standards Board (IAASB), signed a joint statement on 8 December 2005 in respect of China's achievement on the progress of international convergence of the new China Auditing Standards (CAuSs) with International Standards on Auditing (ISAs). At the press conference of China Ministry of Finance (MOF) held on 15 February 2006 in Beijing, it was announced that with the adoption of CAuSs to be effective from 1 January 2007, CAuSs had achieved international convergence. On 1 November 2006, the Chinese Institute of Certified Public Accountants (CICPA) issued CAuS Guidelines providing guidance on the application of CAuSs. CAuS Guidelines are required to be read and applied in conjunction with CAuSs.
2. A CASB/Hong Kong Institute of Certified Public Accountants (Hong Kong Institute of CPAs) Convergence Joint Working Group was formed in early 2007 to prepare a detailed comparison between CAuSs and Hong Kong Auditing Standards (HKAuSs).

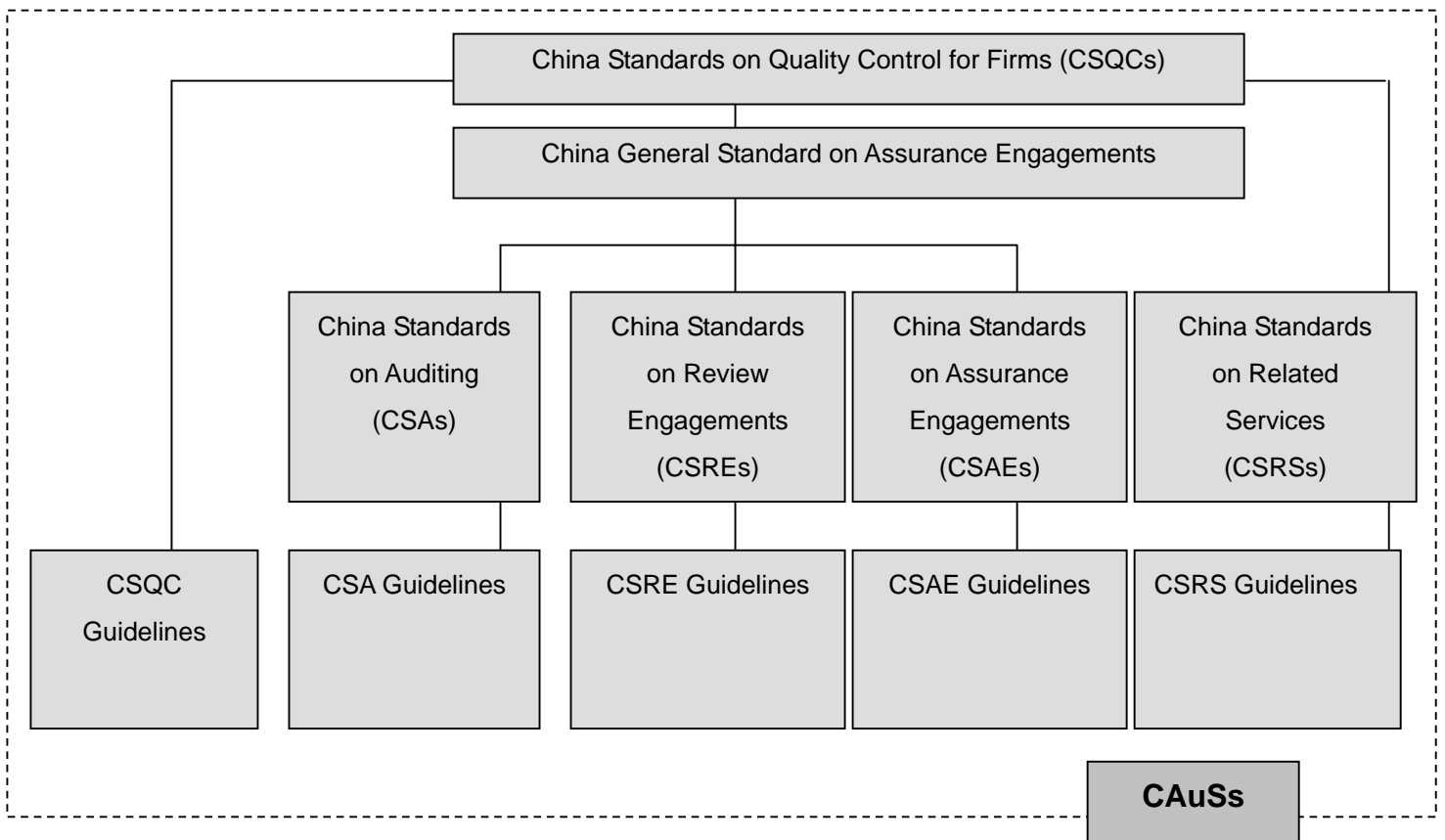
#### **II. The scope of the comparison**

##### **Documents compared**

3. The pronouncements compared include all the CAuSs and HKAuSs which are effective on 6 December 2007.

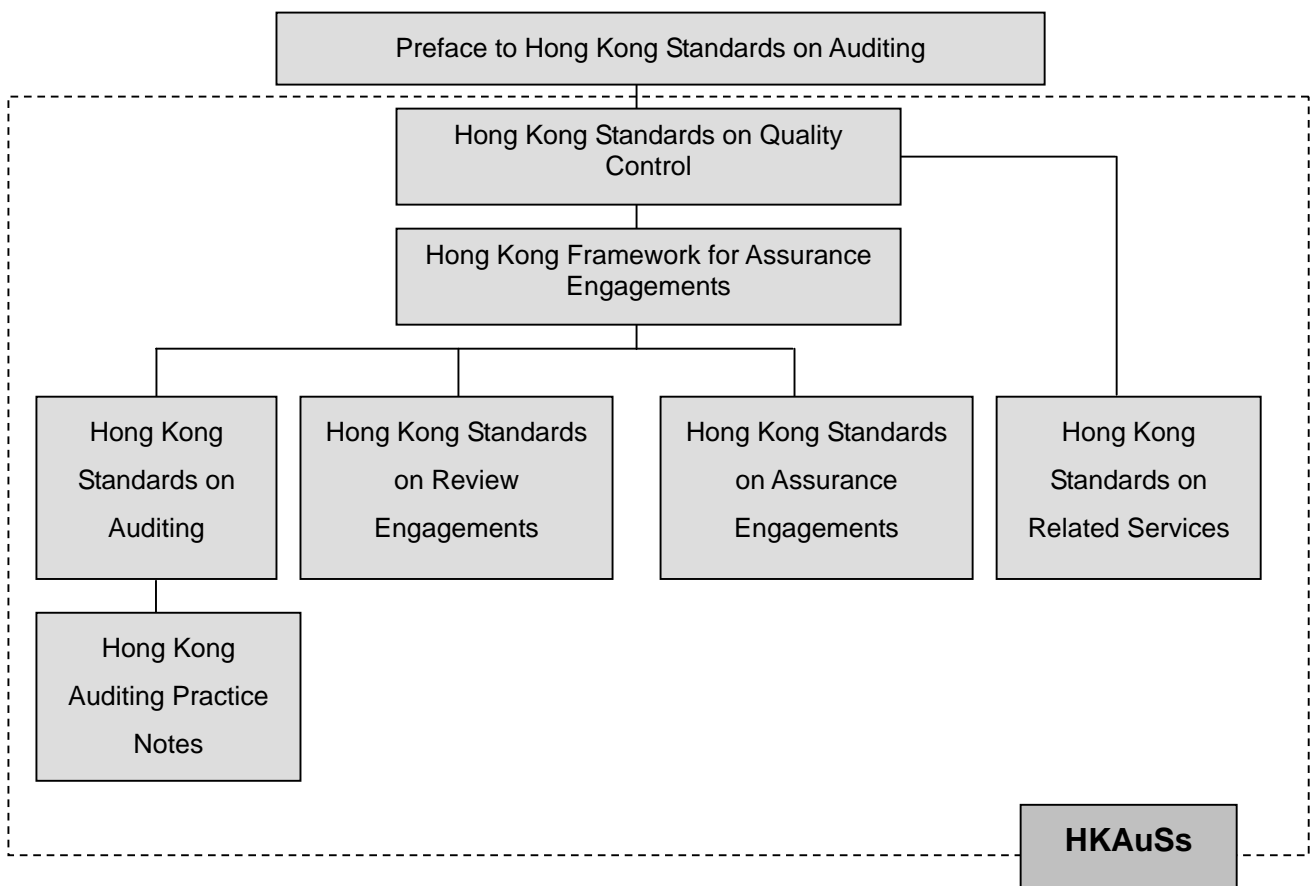
**CAuSs**

- 4. For the purpose of this comparison project, “CAuSs” comprise:
  - a. China Engagement and Quality Control Standards issued by the MOF;  
and
  - b. China Engagement and Quality Control Standard Guidelines issued by the CICPA.
  
- 5. China Engagement and Quality Control Standards issued by the MOF comprise:
  - a. China Standards on Quality Control for Firms;
  - b. China General Standard on Assurance Engagements;
  - c. China Standards on Auditing;
  - d. China Standards on Review Engagements;
  - e. China Standards on Assurance Engagements; and
  - f. China Standards on Related Services.
  
- 6. The list of CAuSs covered under the comparison project is set out in Appendix to this Annex.
  
- 7. The hierarchy of CAuSs is diagrammatically represented as follows:



**HKAuSs**

- 8. For the purpose of this comparison project, “HKAuSs” comprise:
  - a. Hong Kong Standards on Quality Control;
  - b. Hong Kong Framework for Assurance Engagements;
  - c. Hong Kong Standards on Auditing;
  - d. Hong Kong Standards on Review Engagements;
  - e. Hong Kong Standards on Assurance Engagements;
  - f. Hong Kong Standards on Related Services; and
  - g. Hong Kong Auditing Practice Notes which are based on International Auditing Practice Statements issued by the International Auditing and Assurance Standards Board.
  
- 9. The list of HKAuSs covered under the comparison project is set out in Appendix to this Annex. Additional Hong Kong Standards on Investment Circular Reporting Engagements and Hong Kong Auditing Practice Notes providing guidance to auditors on local reporting requirements are not covered under the comparison project.
  
- 10. The hierarchy of HKAuSs is diagrammatically represented as follows:



### **The cut-off date for the comparison**

11. The pronouncements that have been compared include all the relevant pronouncements which are effective on 6 December 2007.

## **III. The comparison process**

### **The approach**

12. The approach taken was an outcome-based comparison, being the identification of the differences between CAuSs and HKAuSs and evaluation of the effect of the differences on engagements including audits of financial statements.

### **Identifying the differences**

13. The Hong Kong Institute of CPAs reviewed the requirements set out in all the relevant HKAuSs and traced the requirements to CAuSs and decided whether the HKAuSs requirements are:
  - a. covered under CAuSs;
  - b. omitted from CAuSs; or
  - c. different from CAuSs.

### **Eliminating the differences**

14. The comparison exercise revealed certain differences between CAuSs and HKAuSs as a result of requirements omitted in CAuSs. After discussion between the CICPA and Hong Kong Institute of CPAs, it was agreed that the CSA Guidelines concerned would be expanded or modified to address the identified differences.
15. The revised CSA Guidelines (2007 edition) were issued by the CICPA on 29 November 2007.

## **IV. Finalisation of the results of the comparison**

16. The results of the comparison are presented as a Joint Declaration between the CASB and the Hong Kong Institute of CPAs, supported by:
  - a. Elaboration on the background of the comparison project and the comparison process (this Annex to the Joint Declaration); and
  - b. Mechanism for ongoing maintenance of convergence (Annex II to the

Joint Declaration).

17. Developments subsequent to the date of signing the Joint Declaration between the CASB and the Hong Kong Institute of CPAs will be posted on website of the CICPA at: <http://www.cicpa.org.cn> and the website of the Hong Kong Institute of CPAs at: <http://www.hkicpa.org.hk>.

6 December 2007

**LIST OF HKAuSs and CAuSs UNDER THE COMPARISON PROJECT**

	<b><u>HKAuSs</u></b>		<b><u>CAuSs</u></b>	
1	HKSQC 1 –	Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements	CSQC 5101 –	Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements
2	HKFAE –	Hong Kong Framework for Assurance Engagements	CGSAE –	China General Standard on Assurance Engagements
3	HKSA 200 –	Objective and General Principles Governing an Audit of Financial Statements	CSA 1101 –	Objective and General Principles Governing an Audit of Financial Statements
4	HKSA 210 –	Terms of Audit Engagements	CSA 1111 –	Terms of Audit Engagements
5	HKSA 220 –	Quality Control for Audits of Historical Financial Information	CSA 1121 –	Quality Control for Audits of Historical Financial Information
6	HKSA 230 –	Audit Documentation	CSA 1131 –	Audit Documentation
7	HKSA 240 –	The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements	CSA 1141 –	The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements
8	HKSA 250 –	Consideration of Laws and Regulations in an Audit of Financial Statements	CSA 1142 –	Consideration of Laws and Regulations in an Audit of Financial Statements
9	HKSA 260 –	Communication of Audit Matters with Those Charged with Governance	CSA 1151 –	The Auditor's Communication with Those Charged with Governance
10	HKSA 300 –	Planning an Audit of Financial Statements	CSA 1201 –	Planning an Audit of Financial Statements
11	HKSA 315 –	Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement	CSA 1211 –	Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement
12	HKSA 320 –	Audit Materiality	CSA 1221 –	Audit Materiality
13	HKSA 330 –	The Auditor's Procedures in Response to Assessed Risks	CSA 1231 –	The Auditor's Procedures in Response to Assessed Risks

	<b><u>HKAuSs</u></b>		<b><u>CAuSs</u></b>	
14	HKSA 402 –	Audit Considerations Relating to Entities Using Service Organizations	CSA 1212 –	Audit Considerations Relating to Entities Using Service Organizations
15	HKSA 500 –	Audit Evidence	CSA 1301 –	Audit Evidence
16	HKSA 501 –	Audit Evidence – Additional Considerations for Specific Items	CSA 1311 –	Attendance at Physical Inventory Counting
17	HKSA 505 –	External Confirmations	CSA 1312 –	External Confirmations
18	HKSA 510 –	Initial Engagements – Opening Balances	CSA 1331 –	Initial Engagements – Opening Balances
19	HKSA 520 –	Analytical Procedures	CSA 1313 –	Analytical Procedures
20	HKSA 530 –	Audit Sampling and Other Means of Testing	CSA 1314 –	Audit Sampling and Other Means of Testing
21	HKSA 540 –	Audit of Accounting Estimates	CSA 1321 –	Audit of Accounting Estimates
22	HKSA 545 –	Auditing Fair Value Measurements and Disclosures	CSA 1322 –	Auditing Fair Value Measurements and Disclosures
23	HKSA 550 –	Related Parties	CSA 1323 –	Related Parties
24	HKSA 560 –	Subsequent Events	CSA 1332 –	Subsequent Events
25	HKSA 570 –	Going Concern	CSA 1324 –	Going Concern
26	HKSA 580 –	Management Representations	CSA 1341 –	Management Representations
27	HKSA 610 –	Considering the Work of Internal Audit	CSA 1411 –	Considering the Work of Internal Auditing
28	HKSA 620 –	Using the Work of an Expert	CSA 1421 –	Using the Work of an Expert
29	HKSA 700 –	The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements	CSA 1501 –	The Auditor's Report on Financial Statements
30	HKSA 701 –	Modifications to the Independent Auditor's Report	CSA 1502 –	Modifications to the Auditor's Report
31	HKSA 710 –	Comparatives	CSA 1511 –	Comparatives
32	HKSA 720 –	Other Information in Documents Containing Audited Financial Statements	CSA 1521 –	Other Information in Documents Containing Audited Financial Statements
33	HKSRE 2400 –	Engagements to Review Financial Statements	CSRE 2101 –	Engagements to Review Financial Statements

	<u>HKAuSs</u>	<u>CAuSs</u>
34.	HKSRE 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity	CSRE 2101 – Engagements to Review Financial Statements
35	HKSAE 3000 – Assurance Engagements Other Than Audits or Reviews of Historical Financial Information	CSAE 3101 – Assurance Engagements Other Than Audits or Reviews of Historical Financial Information
36	HKSRS 4400 – Engagements to Perform Agreed-upon Procedures Regarding Financial Information	CSRS 4101 – Engagements to Perform Agreed-upon Procedures Regarding Financial Information
37	HKSRS 4410 – Engagements to Compile Financial Information	CSRS 4111 – Engagements to Compile Financial Information
38	HKPN 830 – Reports by Auditors under the Banking Ordinance	CSA 1613 – The Relationship between Banking Supervisors and External Auditors
39	HKPN 1000 – Inter-Bank Confirmation Procedures	CSA 1612 – Inter-Bank Confirmation Procedures
40	HKPN 1010 – The Consideration of Environmental Matters in the Audit of Financial Statements	CSA 1631 – The Consideration of Environmental Matters in the Audit of Financial Statements
41	HKPN 1012 – Auditing Derivative Financial Instruments	CSA 1632 – Auditing Derivative Financial Instruments
42	HKPN 1013 – Electronic Commerce – Effect on the Audit of Financial Statements	CSA 1633 – Electronic Commerce – Effect on the Audit of Financial Statements
43	HKSAS 510 – Principal Auditors and Other Auditors	CSA 1401 – Using the Work of Another Auditor
44	ED (HKSAS 730) – The Examination of Prospective Financial Information	CSAE 3111 – The Examination of Prospective Financial Information
45		CSA 1601 – The Auditor's Report on Special Purpose Audit Engagements
46		CSA 1621 – The Special Considerations in the Audit of Small Entities
47		CSA 1611 – Audits of the Financial Statements of Commercial Banks
48		CSA 1602 – Capital Verification
49		CSA 1152 – Communication Between Predecessor and Successor Auditors