



By electronic submission

4 April 2011

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,

Proposed IAASB Strategy and Work Program for 2012-2014

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only statutory licensing body of accountants in Hong Kong responsible for the professional training, development and regulation of the accountancy profession. The HKICPA sets auditing and assurance standards, ethical standards and financial reporting standards in Hong Kong. We welcome the opportunity to provide you with our comments on the captioned IAASB Consultation Paper.

Overall we support the proposed Strategy and Work Program, 2012-2014. We are pleased to note that the IAASB has included the project to reconsider ISAE 3400 in the Work Program. Our comments on the Consultation Paper are set out in the attachment.

We hope the IAASB will consider our suggestions in finalizing the Strategy and Work Plan for 2010-2012.

We trust that our comments are of assistance to you. If you require any clarifications on our comments, please do not hesitate to contact me at ong@hkiipa.org.hk.

Yours faithfully,

Steve Ong, FCA, FCPA
Director, Standard Setting

SO/SH/jn



ATTACHMENT

**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' COMMENTS ON
THE IAASB PROPOSED
IAASB STRATEGY AND WORK PROGRAM FOR 2012-2014**

Request for Specific Comments

1. Whether the IAASB's three areas of strategic focus noted in paragraphs 7-11 remain appropriate;

We believe the IAASB's three areas of strategic focus as supported in last year's Strategy Questionnaire remain appropriate

- (a) Developing (and revising) standards (and pronouncements); with focus on, amongst others, standards that facilitate the effective operation of the world's capital markets, those that address demand for other assurance services, and those that address the needs of SMEs and SMPs;
- (b) Monitoring and facilitating adoption of those standards; and
- (c) Responding to concerns about the implementation of the standards by activities designed to improve the consistency with which they are applied in practice.

2. Whether the list of anticipated projects likely to commence in 2012-2014 (Column B) adequately address issues currently facing the accounting and auditing professions, in particular:

- (i) **Whether respondents support the IAASB undertaking work in these areas and, if not, the reasons why a particular project(s) would not be supported;**
- (ii) **Whether respondents believe these projects are consistent with the IAASB's three areas of strategic focus; and**
- (iii) **How these anticipated projects should be prioritized in light of the current projects (Column A).**

We agree with the projects listed in Column B, in particular ISAE 3400 "The Examination of Prospective Financial Information" (B3). We are pleased to note that the IAASB has included this project as a project likely to commence in 2012-2014.

As communicated to IAASB previously on this ISAE, in connection with investment circular reporting, we were considering the finalization of the Hong Kong equivalent of ISAE 3400. We issued some time ago an exposure draft of a Hong Kong version of ISAE 3400 as part of our International Convergence Programme. We have, however, received comments resisting the adoption of ISAE 3400 in Hong Kong on the basis that ISAE 3400 is rarely used in other overseas jurisdictions. Concerns were raised as to whether reporting accountants are in a position to provide assurance on the reasonableness of the assumptions on profit forecasts in respect of businesses that are in their start-up phase or those that do not have a long history, and whether reporting accountants have the expertise to comment on the assumptions. There were also



comments which suggest limiting the period to be reported on to not more than one financial year, as profit forecasts that cover a longer period may not be reliable.

We hope the revised ISAE 3400 would help practitioners performing such engagements converge on use of a globally accepted standard. While we acknowledge the difficulties of developing a global standard that works in every jurisdiction due to differing local legal and listing requirements, we would suggest that the IAASB speak to regulators/stock exchanges to promote greater global consistency.

We trust that as part of B1 (Undertake new project(s) to respond to findings of the ISA Implementation Monitoring project, in consultation with the IAASB CAG – output in the form a revised ISA(s), new ISA, IAPS, or other form, as deemed appropriate.), the coverage would cover projects to develop further certain conceptual aspects of ISAs, such as materiality, audit evidence and professional judgement; and guidance on application of ISAs, for example materiality or group audits.

3. With respect to the additional projects (Column C):

- (i) Which of the suggestions, if any, should be considered for inclusion on the future work program, and how should these be prioritized in light of the current projects (Column A) and anticipated projects likely to commence in 2012-2014 (Column B); and**
- (ii) Whether any particular project(s) in Column C would not be supported;**

We believe C8 – in connection with interested parties, consider what further actions can be taken to assist in the implementation of ISQC 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" for smaller firms is important. This project should be considered together with B4 (Through the ISA Implementation Monitoring project and other outreach activities, take a proactive role in identifying implementation challenges and seek to develop materials aimed at addressing these challenges, working with NSS, IFAC member bodies and others.)

4. Whether there are additional actions or projects that respondents believe should be addressed, and, if so, how these should be prioritized in relation to the projects identified in Columns B and C.

In our submission to IAASB on the IAASB Strategy Questionnaire, we have also indicated the following projects which would contribute to the IAASB's strategy over the next three to four years:

- Develop more guidance on special purpose reporting engagements where a practitioner is requested to undertake an engagement other than an audit or review of a set of financial statements;
- Development of ISAE on auditor involvement with comfort letters
- Reporting on internal control



- 5. Respondents are specifically asked to select the top three projects either from, or in addition to, the list of suggestions for additional projects (Column C) that they believe would best meet the IAASB's public interest mandate.**

C8 - in connection with interested parties, consider what further actions can be taken to assist in the implementation of ISQC 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" for smaller firms;

C7 – Redraft ISRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", in the Clarity format;

C6 - Evaluate whether to develop a new ISAE addressing assurance on internal control.

- 6. It would also be helpful to understand which one project (either from Column B, Column C or an additional action not included in either column) respondents would identify as the IAASB's top priority, in order for the IAASB to consider how each of the three areas of strategic focus would be addressed in the future Work Program.**

We recommend B1 on implementation of ISAs as IAASB's top priority.

- 7. In addition, the IAASB would welcome comments from respondents as to the following:**

(a) What types of publications or further implementation guidance may be of most use to facilitate the adoption and implementation of the IAASB's pronouncements; and

(b) What opportunities may exist for the IAASB to partner with others to facilitate implementation of the clarified ISAs (for example, IFAC member bodies, NSS, training organizations, and others)?

To align with B1, we believe revising the "Guide to Using International Standards on Auditing in the Audits of Small and Medium sized Entities" issued by the IFAC's Small and Medium Practices Committee would be helpful to SMPs.

~ END ~