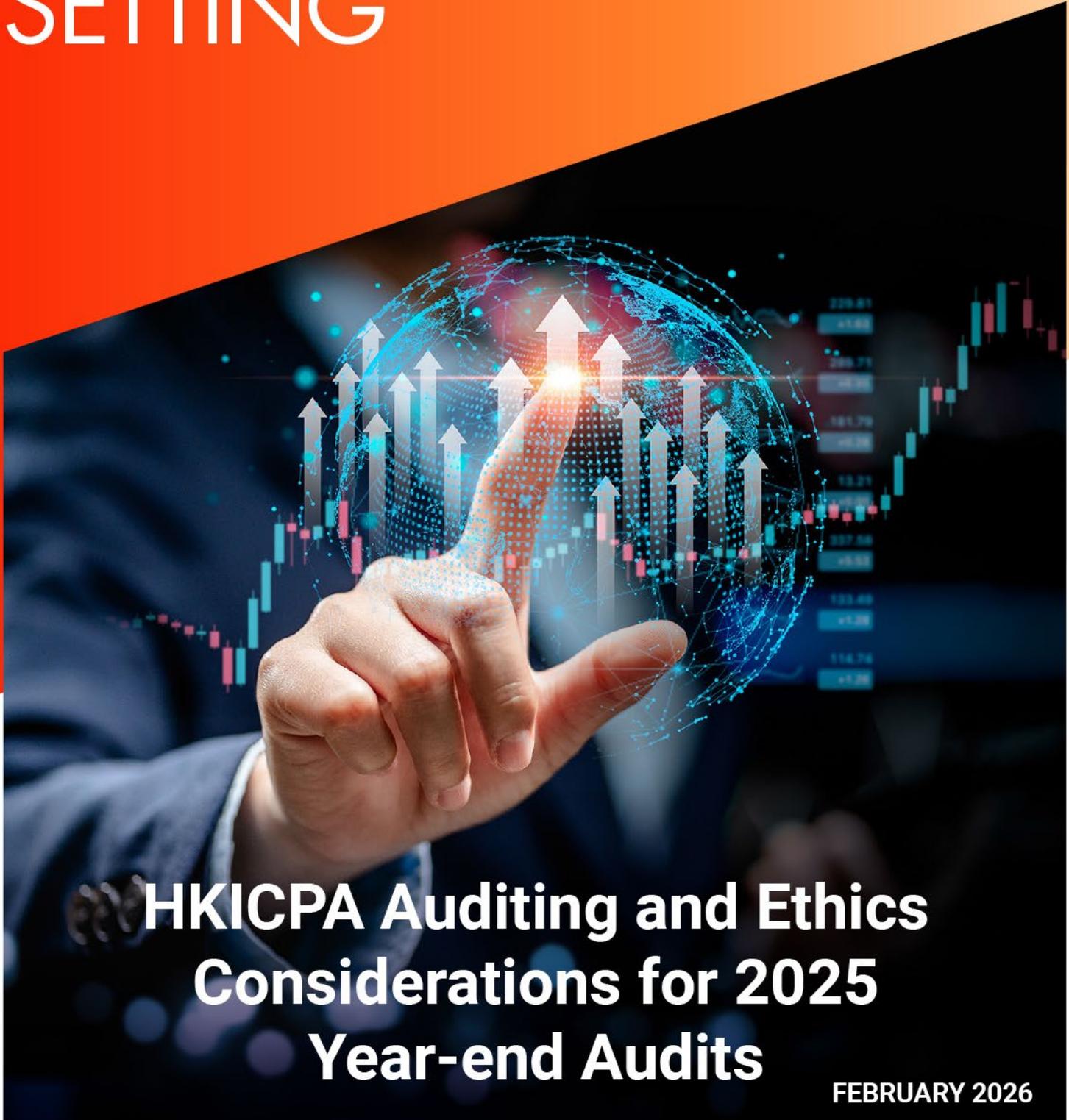


STANDARD SETTING



HKICPA Auditing and Ethics Considerations for 2025 Year-end Audits

FEBRUARY 2026



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

HKICPA Auditing and Ethics Considerations for 2025 Year-end Audits

Introduction.....	3
I. Key Audit and Ethics Considerations for 31 December 2025 Year-Ends	4
1. Auditing Accounting Estimates and Related Disclosures.....	4
2. Understanding the Entity’s Use of IT and Relevant General IT Controls	7
3. Group Audits: HKSA 600 (Revised) and Section 405 of the Code.....	10
4. Disclosure Requirements for Auditor’s Reports.....	15
5. Expanded Definitions of a PIE in the Code and Amendments to HKSAs	17
6. Using the HKICPA Audit Practice Manual.....	22
II. New or Revised Auditing and Assurance and Ethics Standards	25
1. HKICPA Auditing and Assurance Standards: Effective for Audits of Financial Statements for Periods Beginning on or after 15 December 2024	25
2. HKICPA Code of Ethics for Professional Accountants: Effective for Periods Beginning on or after 15 December 2024.....	28
About the Standard Setting Department	30

Introduction

This publication highlights auditing and ethics considerations for auditors conducting 2025 year-end audits in accordance with the Hong Kong Standards on Auditing (“HKSAAs”). It also discusses revised standards effective in recent years. While focused on the 2025 year-end, these contents may remain relevant for subsequent audit periods.

This publication does not address all matters that may be relevant to audits of financial statements for 2025 year-end. It provides an overview of selected topics only and is not intended to be comprehensive. It does not replace or override the requirements of the HKSAAs, the HKICPA *Code of Ethics for Professional Accountants* (the “Code”) or any other applicable professional or statutory requirements. Accordingly, this publication should not be relied upon as a complete checklist or a definitive guide for complying with the HKSAAs, the Code or other professional or statutory requirements.

This document is prepared by staff of the Hong Kong Institute of Certified Public Accountants (“HKICPA” or “the Institute”) for general guidance only. It does not necessarily reflect the views of the Institute, the Council or any of its committees. The Institute does not accept any responsibility or liability, and disclaims all responsibility and liability, in respect of this document and any consequences that may arise from any person acting or refraining from action as a result of any materials in this document.

In this document, paragraph references relate to the specific standard under discussion unless otherwise indicated.

I. Key Audit and Ethics Considerations for 31 December 2025 Year-Ends

1. Auditing Accounting Estimates and Related Disclosures

Scope and Scalability

- **HKSA 540 (Revised), Auditing Accounting Estimates and Related Disclosures** applies to all accounting estimates and related disclosures, regardless of entity size or complexity.
- The standard is scalable. The assessment of inherent risk depends on the degree to which the inherent risk factors affect the likelihood or magnitude of misstatement and varies on a scale that is referred to as the spectrum of inherent risk (Paragraph 4). Auditors should tailor the nature, timing and extent of procedures based on the assessed risk of material misstatement (“RMM”).

Audit Focus

Accounting estimates are inherently subjective, involves selecting and applying a method using assumptions and data which requires management judgment and can give rise to measurement complexity. As a result, accounting estimates often present a heightened RMM and require enhanced professional skepticism and robust audit procedures.

In recent years, the challenges in auditing accounting estimates have intensified due to volatile economic conditions, increasingly complex and evolving business models, and the growing use of technology and valuation in financial reporting. The Accounting and Financial Reporting Council (“AFRC”) publication, *Audit Focus for 2025 year-end audits*, highlights several high-risk areas for accounting estimates that may carry elevated audit implications in the current macroeconomic and market environment. These include:



Property valuations



Expected credit losses



Inventory valuation



Impairment of non-current assets

Key Requirements of HKSA 540 (Revised)

- ☑ **Separate risk assessment:** Require separate assessment of inherent risk and control risk at the assertion level of an accounting estimate and related disclosures (Paragraph 16).
- ☑ **Focus on inherent risk factors:** Consider estimation uncertainty, complexity, subjectivity, change and susceptibility to management bias or fraud in identifying and assessing RMM at assertion level (Paragraphs 2, 4, 16, A9 and A79).

- ☑ **Understand the entity and its environment and applicable financial reporting framework** (Paragraph 13(a)–(d)):
 - The entity’s events and conditions that may give rise to accounting estimates.
 - Requirements of the applicable financial reporting framework related to accounting estimates.
 - Regulatory factors relevant to the entity’s accounting estimates.
 - The nature of the accounting estimates and related disclosures that the auditor expects to be included in the entity’s financial statements.

- ☑ **Understand the entity’s system of internal control relevant to accounting estimates** (Paragraph 13(e)–(j)):
 - **Oversight and governance:** The entity’s oversight and governance over management’s financial reporting process relevant to accounting estimates.
 - **Risk and control:** How management identifies the need for and applies specialized skills or knowledge related to accounting estimates and the entity’s risk assessment process for accounting estimates.
 - **Information system & methods:** The entity’s information system relates to accounting estimates; management’s identification and selection of methods, assumptions and data sources for accounting estimates and the related processes and controls.
 - **Review:** How management reviews and responds to the outcome of previous accounting estimates.

- ☑ **Three testing approach:** Use one or a combination of (Paragraphs 21–29):
 - Obtain audit evidence from events occurring up to the date of the auditor’s report.
 - Test how management made the accounting estimates (methods, significant assumptions, data and management’s selection of a point estimate and related disclosures about estimation uncertainty).
 - Develop an auditor’s point estimate or range.

- ☑ **Overall evaluation** (Paragraphs 33–35): A requirement to “stand back” and evaluate the audit evidence obtained regarding the accounting estimates, including both corroborative and contradictory audit evidence.

- ☑ **Documentation** (Paragraph 39):
 - Auditor’s understanding of key elements of the entity, its environment and internal controls related to accounting estimates.
 - Linkage of the auditor’s procedures with the assessed RMM at the assertion level.
 - Auditor’s responses when management has not taken appropriate steps to understand and address estimation uncertainty.
 - Any indicators of possible management bias and the auditor’s evaluation of their implications for the audit.

- Significant judgments relating to the auditor’s determination of whether the accounting estimates and related disclosures are reasonable or misstated in the context of the applicable financial reporting framework.

Common Audit Deficiencies and Pitfalls¹



Impairment of non-current assets

- Insufficient testing of the key parameters, e.g., revenue growth rate used in discounted cash flows; appropriateness of the discount rate
- Insufficient challenge of cash flow projections covering a period exceeding five years
- Lack of review of the outcome of prior period estimates or subsequent re-estimation for the current period



Impairment of receivables

- No evaluation on the appropriateness of the valuation methods
- Insufficient testing of the key assumptions
- Not testing the reliability of data
- Lack of review of the outcome of prior period estimates or subsequent re-estimation for the current period

Supporting Implementation

- **AFRC Audit Focus for 2025 year-end audits:** Practical application of auditing impairment of non-current assets including applying professional skepticism through the “Inquiry, Challenge, and Corroboration” approach.
- **HKICPA E-Learning Sessions:**
 - **Update on Revised HKSA 540 (Revised):** Explains the key requirements of HKSA 540 (Revised) relating to risk assessment procedures, responding to RMM, communication with management and those charged with governance (“TCWG”) and documentation requirements.
 - **Auditing Accounting Estimates and Related Disclosures:** Provides a refresher on HKSA 540 (Revised); illustrates auditing accounting estimates relating to impairment of non-current assets and expected credit losses; discusses insights from AFRC inspection findings.
- **HKICPA Audit Practice Manual (2024 edition):** Work programs and templates supporting the evaluation of accounting estimates under HKSA 540 (Revised).
- **HKICPA Auditing and Assurance:** A central hub for auditing and assurance guidance and reference materials, including those related to HKSA 540 (Revised).

¹ AFRC 2024-25 Annual Inspection Report

2. Understanding the Entity's Use of IT and Relevant General IT Controls

Scope and Scalability

- **HKSA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*** requires auditors to obtain an understanding of the entity's IT environment—including IT applications, infrastructure and processes—for all audits, regardless of the audit approach.
- The extent of the auditor's understanding will vary with the nature and circumstances of the entity and its IT environment. The number of IT applications subject to risks arising from the use of IT also varies based on these factors. The standard provides several examples to illustrate these considerations.

Scalability examples from HKSA 315 (Revised 2019): Understanding the Entity's Use of IT and relevant general IT controls (Extract from Paragraph A170)

- An entity that uses commercial software and does not have access to the source code to make any program changes is unlikely to have a process for program changes, but may have a process or procedures to configure the software (e.g., the chart of accounts, reporting parameters or thresholds). In addition, the entity may have a process or procedures to manage access to the application (e.g., a designated individual with administrative access to the commercial software). In such circumstances, the entity is unlikely to have or need formalized general IT controls ("GITC").
- When management is not relying on automated controls or GITC to process transactions or maintain the data, and the auditor has not identified any automated controls or other information processing controls (or any that depend on GITC), the auditor may plan to directly test any information produced by the entity involving IT and may not identify any IT applications that are subject to risks arising from the use of IT.

Audit Focus

As IT becomes the medium through which a significant amount of audit evidence is obtained, it becomes increasingly important for auditors to understand an entity's IT system, including how the integrity of the information is maintained.

In the previous version of HKSA 315, auditors are required to understand controls that are relevant to audits. That is, if auditors undertake an audit engagement using a fully substantive approach, it is possible that no IT understanding is performed. However, the International Auditing and Assurance Standards Board's ("IAASB") post-implementation review found that this often led to IT risks relevant to financial reporting being insufficiently addressed.

The standard revised in 2019 fundamentally shifts this premise. HKSA 315 (Revised 2019) mandates that auditors must perform risk assessment procedures on the IT control environment **on every audit engagement**, even if no reliance on these controls is planned. This understanding serves as the foundation for identifying RMM related to IT and determining

which GITCs the entity has implemented to mitigate those risks. In short, auditors cannot ‘skip’ understanding the entity’s IT environment just because they do not intend to rely on the operating effectiveness of relevant IT-related controls.

Past Practice	Current Requirements
<div style="text-align: center;">  </div> <ul style="list-style-type: none"> • Substantive-based audits often bypassed detailed IT risk assessments unless auditors planned to rely specifically on automated controls. 	<div style="text-align: center;">  </div> <ul style="list-style-type: none"> • Mandatory understanding of the entity’s IT environment, regardless of control testing (Paragraph 25(a)). • Requirement to identify risks arising from the use of IT (Paragraphs 26(a)–(b)).

Key Requirements of HKSA 315 (Revised 2019): Understanding the Entity’s Use of IT and Relevant GITC

- Understand the IT Environment:** Obtain an understanding of the entity’s information system and communication relevant to financial reporting, including (Paragraph 25(a)):
 - How data related to significant classes of transactions flows through the system, including how transactions or information are initiated, recorded, processed, corrected, captured and disclosed in the financial statements.
 - The related accounting records and financial reporting process.
 - The IT environment, including IT applications, infrastructure (network, operating systems and databases) and processes.
- Identify IT Risks and Relevant Applications:** Identify the IT applications and other aspects of the entity’s IT environment that are subject to risks arising from the use of IT (Paragraph 26(b)).
- Identify and Evaluate GITCs:** For identified risks arising from the use of IT, identify the GITCs that address such risks. These typically include controls over (i) access to the IT environment, (ii) program changes and (iii) IT operations. GITCs are identified and evaluated only for those IT applications and aspects of the IT environment subject to risks arising from the use of IT (Paragraph 26(c)).
- Evaluate Design & Implementation:** Evaluate whether identified controls, including the identified GITCs, are appropriately designed and implemented to address risks. Inquiry alone is not sufficient. The auditor must perform procedures such as observation, inspection or re-performance/walkthrough to corroborate (Paragraph 26(d)).
- Assess RMM:** Use the findings from the IT assessment to identify and assess RMM (Paragraphs 28–35).

Common Audit Deficiencies and Pitfalls

Audit inspections identified instances that engagement teams did not obtain sufficient understanding of the entity's IT environment. As a result, they did not perform sufficient risk assessments relating to the entity's use of IT. Pitfalls observed include² :

Insufficient understanding of the IT environment

- How information systems support business processes related to financial reporting
- Information flow between information systems
- Cybersecurity environment and associated risks

Insufficient audit procedures for evaluating GITCs and IT Application Controls ("ITAC")

- Not testing the completeness of the GITC testing population
- Not testing enough scenarios to support the effectiveness conclusion of ITAC
- Using evidence obtained after year-end without assessing if it applies to the effectiveness of controls during the reporting period

Insufficient evaluation of deficiencies identified in testing of GITC and ITAC

- Severity and impact of the identified deficiencies
- Identification and testing of compensating controls
- Consideration of other audit procedures in mitigating the underlying risks of the identified deficiencies
- Whether deficiencies are considered significant individually or in aggregate with other deficiencies

Supporting Implementation

- **HKSA 315 (Revised 2019), Identifying and Assessing the Risk of Material Misstatement**
 - Appendix 5: Considerations for understanding Information Technology
 - Appendix 6: Considerations for understanding GITC
- **AFRC Checkpoint: Obtaining an Understanding of the Audit Client's IT Environments:** Provides guidance to auditors in obtaining an understanding of audit clients' IT environments.
- **AFRC Connect Video: Understand and Evaluate IT Risks and Controls:** Uses a real-life case to demonstrate the importance of understanding and evaluating IT risks and controls in auditing.
- **HKICPA E-Learning: Implementing HKSA 315 (Revised 2019):** Discusses IT-related requirements of the standard and illustrates a step-by-step approach for identifying IT applications relevant to the audit and IT-related risks.
- **HKSA 315 (Revised 2019) Resource Centre:** Contains the full suite of implementation support materials.

² AFRC 2024-25 Annual Inspection Report

3. Group Audits: HKSA 600 (Revised) and Section 405 of the Code

Scope and Scalability

- **HKSA 600 (Revised), Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)** applies to all audits of group financial statements, i.e., group audits, regardless of size or complexity.

What does HKSA 600 (Revised) cover?

In HKSA 600 (Revised), “group financial statements” refer to financial statements that include the financial information of more than one entity or business unit through a “consolidation process”, including (Paragraph 14(k)):

- Consolidation, proportionate consolidation, or an equity method of accounting
 - Presentation of combined financial statements of entities or business units that have no parent but are under common control or common management
 - Aggregation of the financial information of entities or business units such as branches or divisions
- HKSA 600 (Revised) is adaptable and scalable for group audits of different complexity by focusing on identifying, assessing and responding to the RMM of the group financial statements.

Key Requirements of HKSA 600 (Revised)

Effective for audits of group financial statements for periods beginning on or after 15 December 2023, HKSA 600 (Revised) introduces a risk-based approach for planning and performing group audit engagements while strengthening the group auditor’s involvement in the work performed by component auditors.

Below are the key changes introduced in HKSA 600 (Revised) compared to the previous standard.



Proactive Risk-Based Approach

- The group auditor must identify, assess and respond to RMM of the group financial statements and determine the nature, timing and extent of procedures to be performed, regardless of whether the work is performed at the group or component level (Paragraphs 33 and 37).
- The differentiation between “significant” and “non-significant” components has been removed. The extent of audit procedures is driven by the assessed RMM rather than the quantitative size of the component.

☑ **Group Auditor Responsibility**

- **Direction, supervision and review:** A component auditor is a part of the engagement team for a group audit (Paragraph 14(c)). The group auditor is responsible for directing and supervising component auditors and reviewing their work (Paragraph 28).
- **Strengthened two-way communication:** Heightened requirements for clear and timely communication between the group auditor and component auditors about their respective responsibilities and communications take place at appropriate times throughout the group audit, e.g., clear direction to the component auditors about the nature, timing and extent of the work (Paragraphs 29, 31–32).
- **Documentation:** Heightened requirement to document the group auditor’s involvement in the work of component auditors, including the review of the component auditor’s work and audit documentation (if necessary) (Paragraph 59).

Independence for Audit and Review Engagements: Group Audits

In 2022, the Code introduced a new Section 405 to Part 4A, Chapter A on independence requirements in group audits. Section 405 aligns the Code’s terminology and concepts with those in HKSA 600 (Revised). Notably, component auditors—whether within or outside the group auditor’s network—who perform audit procedures related to components for purposes of the group audit are now part of the “group audit team” for auditor independence purposes.

Section 405 became effective concurrently with HKSA 600 (Revised), i.e., for audits of financial statements and group financial statements for periods beginning on or after 15 December 2023. The table below summarizes the independence requirements in Section 405 of the Code as they apply to group auditors, component auditors, other firms and individuals involved in a group audit engagement.

Who	Independence Requirements
Group auditor firm (“GAF”) and its network firms	Shall be independent of the group audit client (Paragraphs R405.9–10). <ul style="list-style-type: none">• For a public interest entity (“PIE”), group audit client includes its related entities and any other components at which audit work is performed.• For a non-PIE, group audit client includes related entities over which such entity has direct or indirect control and any other components at which audit work is performed.
Group audit team members at GAF or a network firm	Subject to the same independence scope as the GAF, i.e., independent of the group audit client (Paragraph R405.5).

Who	Independence Requirements
<p>Component auditor firm (“CAF”) outside the GAF’s network</p>	<p>All group audit clients:</p> <ul style="list-style-type: none"> • Shall be independent of its component audit client (Paragraph R405.11(a)). • Shall not hold a direct or material indirect financial interest in, or have loans and guarantees involving, the entity on whose group financial statements the GAF expresses an opinion (Paragraph R405.11(b)–(c)). • Identify, evaluate and address any relationships or circumstances involving the group audit client, any other component or related entity that the CAF knows, or has reason to believe, that is relevant to the evaluation of the CAF’s independence or might create a threat to the CAF’s independence in the context of the group audit (Paragraph R405.8, 12–13). <p>Group audit clients that are <i>not</i> <i>PIEs</i>:</p> <ul style="list-style-type: none"> • Shall be independent of the component audit client in accordance with the requirements applicable to audit clients that are not <i>PIEs</i> for the purposes of the group audit (Paragraph R405.15).
<p>Group audit team members at a non-network CAF</p>	<p>Shall be independent of (Paragraph R405.6):</p> <ol style="list-style-type: none"> (i) The component audit client (ii) The group audit client (iii) Any “chain-of-control” entity linking the component to the group, i.e., an entity that has direct or indirect control over the component audit client and is controlled by the group audit client <p>For the group audit client’s related entities or components other than those covered in Paragraph R405.6, a group audit team member at a non-network CAF shall notify the CAF about any relationship or circumstance the individual knows, or has reason to believe, might create a threat to the individual’s independence in the context of the group audit. (Paragraph R405.7).</p>

Who	Independence Requirements
Non-assurance services (“NAS”) by a non-network CAF	<p>For PIE group audit client:</p> <ul style="list-style-type: none"> • A non-network CAF shall comply with the PIE provisions of Section 600 in Chapter A of the Code that are applicable to PIEs with respect to the provision of NAS to the component audit client (Paragraph R405.16). • An exception applies: The non-network CAF’s provision of non-prohibited NAS to a component audit client does not need to be communicated with TCWG of the group audit client or obtaining their concurrence regarding the provision of that service as addressed by Paragraphs R600.22 to R600.25 (Paragraph R405.17).

Other Requirements of Section 405 under the Code

- **Two-Way Communication:**

- The group engagement partner is required to:
 - (i) take responsibility to make a component auditor aware of the relevant ethical requirements that are applicable to the group audit engagement (Paragraph R405.3).
 - (ii) request the component auditor to confirm their compliance with relevant ethical requirements that apply to the group audit engagement, including those related to independence (Paragraph R405.4).
- The group engagement partner is required to request the component auditor’s communication to include any independence matters that require significant judgment and the component auditor’s conclusion on whether the threats to its independence are at an acceptable level, and the rationale for that conclusion (Paragraph R405.4(a)–(b)).

- **Structured Response to Breaches:**

- When there is an independence breach at a CAF, Section 405 requires the group engagement partner to assess the significance and impact of the breach on the CAF’s objectivity, and to evaluate the GAF’s ability to use the CAF’s work for the purposes of the group audit (Paragraphs R405.23–25).
- Section 405 also requires communication between the GAF and TCWG of the group audit client about a breach of independence at a CAF (Paragraphs R400.82 and R405.27).

Supporting Implementation

- **HKICPA E-Learning:**
 - **The Revised Standard on Group Audit Engagements:** Discusses key changes to group audit requirements introduced by HKSA 600 (Revised).
 - **Ethics E-learning Exploring the Fundamental Principles and Independence Requirements of the Code:** Discusses fundamental principles and independence requirements in the Code, including key independence requirements and illustrations for group audits.
- **HKICPA Audit Practice Manual (2024 edition):** Work programs and templates supporting the implementation of HKSA 600 (Revised) for group audits.
- **HKSA 600 (Revised) Resource Centre:** A central hub for tools, guidance and reference materials.
- **HKICPA Ethics Resources Centre:** A collection of guidance and materials related to the Code, including those with respect to Section 405 of the Code on independence for group audits.

4. Disclosure Requirements for Auditor's Reports

In March 2025, the Institute amended [HKSA 700 \(Revised\)](#)³ to mandate the auditor's report to disclose the name and practising certificate number ("PC") of the engagement partner, i.e., the CPA (Practising) who signs the report ("mandatory disclosure"). This requirement applies to all audits of financial statements under HKSAs, including both listed and non-listed entities.

Consistently, the [Hong Kong Standard on Auditing for Audits of Financial Statements of Less Complex Entities](#) ("HKSA for LCE"), issued in April 2025, incorporates the same mandatory disclosure for the engagement partner's name and PC number in the auditor's report.

Scope of Mandatory Disclosure

The mandatory disclosure applies to auditor's reports (listed and non-listed) prepared under the following standards:

- [HKSA 700 \(Revised\)](#), *Forming an Opinion and Reporting on Financial Statements*
- [HKSA 800 \(Revised\)](#)⁴ & [HKSA 805 \(Revised\)](#)⁵—As these standards require auditors to apply the reporting requirements of HKSA 700 (Revised) when preparing the auditor's report, the disclosure requirement applies by extension.
- [The HKSA for LCE](#)

Engagements Not Subject to Mandatory Disclosure

Engagement reports not subject to HKSA 700 (Revised) requirements are excluded from the mandatory disclosure. These include:

- **Review Reports:** [HKSRE 2400 \(Revised\)](#)⁶ and [HKSRE 2410](#)⁷
- **Assurance Reports:** [HKSAE 3000 \(Revised\)](#), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*
- **Agreed-Upon Procedures:** [HKSRS 4400 \(Revised\)](#), *Agreed-Upon Procedures Engagements*

Disclosure of the engagement partner's name and PC number in the reports for the above engagements is required only when required by relevant laws, regulations, rules, or guidelines issued by governmental or regulatory authorities.

³ [HKSA 700 \(Revised\)](#), *Forming an Opinion and Reporting on Financial Statements*

⁴ [HKSA 800 \(Revised\)](#), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

⁵ [HKSA 805 \(Revised\)](#), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

⁶ [HKSRE 2400 \(Revised\)](#), *Engagements to Review Historical Financial Statements*

⁷ [HKSRE 2410](#), *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

Effective Date

- **Auditor's Report:** The mandatory disclosure applies to audits of financial statements for periods ended on or after 31 March 2025.
- **Profits Tax Returns:** Concurrently, the Inland Revenue Department requires Hong Kong-incorporated companies to state the PC number of the auditor's report signatory on the financial statements in their Profits Tax Returns, beginning with the Year of Assessment 2024/25.

Illustrative Example of Mandatory Disclosure

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company
(incorporated in Hong Kong with limited liability)

Report on the Audit of the Financial Statements

Opinion

...

The engagement partner on the audit resulting in this independent auditor's report is **[Personal Name]** (practising certificate number: **[PC No.]**).

XYZ & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Auditor Address]

[Date]

Supporting Implementation

- **Basis for Conclusions Amendments to HKSA 700 (Revised):** Summarizes the Institute's Auditing and Assurance Standards Committee consideration in reaching the mandatory disclosure requirements.
- **HKICPA FAQ on Auditor Reporting Standards:** Frequently asked questions on the mandatory disclosure and other matters related to the auditor's report.

5. Expanded Definitions of a PIE in the Code and Amendments to HKSAs

Pursuant to [HKSA 200](#)⁸, auditors must comply with relevant ethical requirements relating to financial statement audit engagements, including those related to independence. Relevant ethical requirements ordinarily comprise the provisions of the Code related to an audit of financial statements, together with local requirements that are more restrictive.

Chapter A of the Code is converged with the *International Code of Ethics for Professional Accountants (Including International Independence Standards)* issued by the International Ethics Standards Board for Accountants. Within the Code, Part 4A of Chapter A establishes the independence standards for audit and review engagements and differentiates the requirements that apply to:

- PIEs
- Entities other than PIEs

Auditors of entities classified as PIEs under the Code are subject to more stringent independence requirements, which include, among others:⁹

- Prohibitions on providing certain NAS to the audit client;
- Mandatory partner rotation and cooling-off periods for key audit partners; and
- Enhanced fee-related disclosures for audit and non-audit services.

(a) Expanded PIE Definition in the Code (Effective for audits of financial statements for periods beginning on or after 15 December 2024)

In 2024, the Institute issued revisions to the PIE definition in Chapter A of the Code. These revisions are effective for audits of financial statements for periods beginning on or after 15 December 2024.

The revised PIE definition extends beyond listed entities and captures additional categories of entities whose financial condition is of significant public interest. Auditors of newly in-scope PIEs must comply with the enhanced independence requirements when performing audit or review engagements.

Under Paragraph R400.22 together with local refinements in Paragraph 400.23 A3 under Chapter A of the Code, the categories of entities classified as PIEs for auditor's independence include:

Mandatory PIE Categories in the Code:

- Publicly traded entities ("PTE"), which replace the previous category of "listed entities".

⁸ HKSA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*

⁹ Further details are available in [IESBA Summary of Prohibitions in the IESBA Code Applicable to Audits of PIEs](#)

- Licensed banks under the Banking Ordinance, except where no statutory audit is required.
- Authorized insurers under the Insurance Ordinance, excluding:
 - (i) captive insurers
 - (ii) special purpose insurers
 - (iii) insurers for which no statutory audit is required
- Entities specified by law, regulation, or professional standards as PIE for auditor independence purposes:
 - Mandatory Provident Fund (“MPF”) Schemes registered under the *Mandatory Provident Fund Schemes Ordinance*.
 - Occupational Retirement Schemes registered under the Occupational Retirement Schemes Ordinance that are exempted under section 5 of the MPF Schemes Ordinance and have total assets exceeding HK\$100 million, based on the most recent audited financial statements.

(b) Amendments to HKSAs in Response to the Revised PIE Definition

To align the HKSAs with the revised PIE definition in the Code, the Institute has issued narrow scope amendments to HKSAs under two implementation tracks.

Track 1: Public disclosure of PIE independence (effective for audits of financial statements for periods beginning on or after 15 December 2024)

For audits where the PIE independence requirements apply, auditors must provide enhanced transparency in both reporting and governance communication.

- **Auditor’s Report Requirement:** HKSA 700 (Revised) requires the auditor’s report to include a statement that the auditor is independent of the entity in accordance with the applicable independence requirements if such public disclosure is required by the relevant ethical requirements (Paragraph 28(c)).

For example, Paragraph R400.25–26 in Chapter A of the Code requires that when a firm has applied the independence requirements for PIEs in performing an audit of the financial statements of an entity, the firm publicly disclose that fact, unless making such disclosure would result in disclosing confidential future plans of the entity.

An illustrative wording for disclosing the firm’s application of the Code’s independence requirements for an audit of a PIE is provided below.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) as issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance

with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), as applicable to audits of financial statements of public interest entities. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

- **Communication with TCWG:** Under HKSA 260 (Revised), auditors shall communicate with TCWG that independence requirements specific to audits of financial statements of certain entities were applied in the engagement (Paragraph 17).

Track 2: Narrow Scope Amendments to Differential Auditing Requirements (effective for audits and reviews of financial statements for periods beginning on or after 15 December 2026)

In December 2025, the HKSA have adopted the definition of PTE from the Code to determine the applicability of certain differential requirements in audits or reviews of financial statement ("differential auditing requirements").¹⁰ This amendment extends the differential auditing requirements—previously applicable only to listed entities—to all PTEs.

As noted above, PTE is one of the categories within the broader definition of a PIE under the Code. Therefore, entities classified as PIEs under the Code **that are not PTE** (such as unlisted licensed banks and MPF schemes) are **not** subject to the differential auditing requirements in the HKSA listed below.¹¹

Differential Auditing Requirement Applicable to PTEs under HKSA (as a result of HKSA Track 2 Narrow Scope Amendments)	Paragraphs
Engagements subject to an engagement quality review	HKSQM 1 ¹² , Paragraphs 34(f), A133–A137
Communication with TCWG about the system of quality management	HKSQM 1, Paragraphs 34(e), A127–A132
Communication with TCWG about auditor independence	HKSA 260 (Revised) ¹³ , Paragraphs 18, 18A, A29–A32; HKSA 700 (Revised), Paragraph 40(b)

¹⁰ See HKICPA Members' Handbook [Update No. 338](#) (December 2025): [Narrow Scope Amendments to the HKSQMs, HKSA and HKSRE 2400 \(Revised\) as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#) ("HKSA Narrow Scope Amendments").

¹¹ In addition to the differential auditing requirements, the HKSA Narrow Scope Amendments adds a new requirement to HKSRE 2400 (Revised) that if the relevant ethical requirements require the practitioner to publicly disclose that specific independence requirements for reviews of financial statements of certain entities were applied, the practitioner's report shall include a statement that the practitioner is independent of the entity in accordance with the independence requirements applicable to reviews of financial statements of those entities.

¹² HKSQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

¹³ HKSA 260 (Revised), *Communication with Those Charged with Governance*

Differential Auditing Requirement Applicable to PTEs under HKSAs (as a result of HKSA Track 2 Narrow Scope Amendments)	Paragraphs
Communicating key audit matters	HKSA 700 (Revised), Paragraphs 30–31, 40(c), A41–A44; HKSA 701 ¹⁴ , Paragraph 5
Transparency about other information	HKSA 720 (Revised) ¹⁵ , Paragraphs 21–22(b), A12, A52
Going concern	HKSA 570 (Revised 2024) ¹⁶ , Paragraphs 34(b), 35(b), A82, A89 and A101

Effective Date

HKSA Track 2 Narrow Scope Amendments are effective for audits or reviews of financial statements for periods beginning on or after 15 December 2026. This effective date aligns with those of [HKSA 570 \(Revised 2024\)](#) and [HKSA 240 \(Revised\)](#).¹⁷

It should be noted that the Track 2 Amendments extend differential auditing requirements—originally for listed companies—to PTEs. They include but are not limited to:

- HKSA 570 (Revised 2024): Paragraphs 34(b) and 35(b) require that, for audits of PTEs (instead of listed entities), the auditor’s report describes how the auditor evaluated management’s assessment of the entity’s ability to continue as a going concern under specified circumstances.
- HKSA 240 (Revised): In the application material that provides guidance on identifying and assessing the RMM due to fraud in revenue recognition (Paragraph A120) and on determining key audit matters related to fraud (Paragraph A180), the term “listed entity” has been replaced with “PTE.”

In general, unless otherwise stated in the HKSA, it is permitted to apply a HKSA before the effective date specified therein.¹⁸

However, because of the potential confusion for users if auditors’ reports for the same or similar periods within the marketplace lack consistency, the IAASB believes that if early adoption is contemplated the collective changes arising from the Going Concern, Fraud and Track 2 Narrow Scope Amendments should preferably be early adopted as a package, rather than on a piecemeal basis.

¹⁴ HKSA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*

¹⁵ HKSA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*

¹⁶ HKSA 570 (Revised 2024), *Going Concern*

¹⁷ HKSA 240 (Revised), *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

¹⁸ Paragraph 27 of [HKICPA Preface to the Hong Kong Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements](#)

Applying PIE Independence Requirements vs. Differential Auditing Requirements

Between the effective dates of the Code's revised PIE definition and the HKSA Track 2 Narrow Scope Amendments, auditors of PTEs must comply with the PIE independence requirements in the Code, while the differential auditing requirements will continue to apply to listed entities until the HKSA PIE Track 2 Narrow Scope Amendments take effect.

In the Hong Kong context, this creates a timing gap for auditors of PTEs that are not listed entities. The table below summarizes the effective dates for these requirements:

Entity Type	PIE Independence Requirements (e.g., partner rotation)	Differential Auditing Requirements (e.g., key audit matters)
Non-listed PTEs ¹⁹	Effective for audits and reviews for periods <i>beginning on or after 15 December 2024</i>	Effective for audits and reviews for periods <i>beginning on or after 15 December 2026</i>

Supporting Implementation

- **HKICPA Publications:**
 - **Basis for Conclusions Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code:** Provides the Institute's rationale and key considerations in developing the revised PIE definition in the Code.
 - **PIE Questions & Answers:** Addresses common questions and practical scenarios relating to the application of the revised PIE definition in the Hong Kong context.
- **HKICPA Ethics Resources Centre:** A collection of guidance and materials designed to support the application of the Code, including those related to the revised definition of PIE.

¹⁹ Question 3 of the [HKICPA PIE Questions & Answers](#) discusses the scope of a PTE under the Code's PIE definition.

6. Using the HKICPA Audit Practice Manual

Use of Service Provider Resources under HKSQM 1

HKSQM 1 emphasizes that firms are ultimately responsible for the quality of their engagements even when they make use of external tools or other resources. Under the HKSQM 1, a *service provider* is defined as an external individual or organization that provides a resource used in the firm's System of Quality Management ("SOQM") or in performing engagements (Paragraph 16(v)).

HKSQM 1 also establishes a specific quality objective requiring firms to ensure that human, technological or intellectual resources from service providers are **appropriate for use** in both the firm's SOQM and performance of engagements (Paragraph 32(h)).

From the firm's perspective, the Institute's Audit Practice Manual ("APM") constitutes an intellectual resource provided by a service provider.

The Institute's APM is designed to support the performance of financial statement audits conducted in accordance with the HKSAs. It was most recently updated in 2024 ("APM 2024") to reflect revisions arising from HKSA 600 (Revised).

Tailoring the APM to the Firm's SOQM and Circumstances

When using external resources, firms shall understand and evaluate whether such use could adversely affect the achievement of their quality objectives. This includes obtaining an understanding of the conditions, events, circumstances, actions or inactions relating to service providers (Paragraph 25(a)). In doing so, firms may consider (Paragraph A106):

- The nature of the resources provided by service providers;
- How and to what extent those resources will be used by the firm; and
- The general characteristics of the service providers engaged (e.g., the types of professional services firms supplying those resources).

HKSQM 1 also provides examples of additional factors to assess, including but not limited to (Paragraph A107):

- The extent to which the resource is used across the firm; and
- The level of customization required for the resource to be suitable for the firm.

This means that a firm cannot adopt externally sourced tools—such as the APM on an "as is" basis. Instead, the firm must evaluate whether the APM is fit for purpose and tailor it to meet its quality objectives, methodology and risk considerations. These may include:

- **Embedding Firm-Specific Policies or Methodologies:** Firms should tailor the APM to incorporate their own policies or methodologies, where these differ from the illustrative guidance and procedures in the APM. Examples may include firm-specific materiality calculations; internal policies on second-partner or engagement quality reviews; additional procedures required by firm methodology or regulator expectations.

- **Internal Approval, Training and Proper Use:** Firms should review and tailor the APM content for alignment with the firm’s methodology and the applicable professional standards and regulatory requirements. Following this review and tailoring, firms should provide training to engagement teams to ensure a proper understanding and application of the tailored APM. Importantly, firms should reinforce that the APM is **not** intended to function as a checklist. Engagement teams are expected to exercise professional judgment and adapt, tailor, or expand procedures based on the specific circumstances of each audit client, rather than relying mechanically on the APM.
- **Annual Evaluation and Monitoring:** HKSQM 1 requires firms to monitor and evaluate their SOQM at least annually (Paragraphs 9 and 53). As part of this review, firms must assess whether resources such as the APM remain, among others:
 - Appropriate for use
 - Up to date with the current HKSA’s or other professional standards
 - Aligned with regulatory developments
 - Consistent with the firm’s policies and requirements

If gaps are identified, e.g., differences between the APM and new standards or regulatory requirements—the firm must take timely remedial action (Paragraphs 35(b) and 40), such as updating the APM, utilizing additional tools or enhancing internal training.

- **Ongoing Adaptation:** Firms must stay alert to changes in professional standards, laws and regulations and the firm’s own circumstances. Whenever such changes occur, the firm should reconsider whether its methodology—including externally sourced resources like the APM—remains appropriate.
- **Example Areas That May Require Firm-Specific Tailoring or Updates to the APM (Non-Exhaustive):**
 - **Regulatory or Legislative Updates:** The APM may not incorporate recent or imminent legislative or regulatory changes. Firms should proactively monitor such developments and update their APM procedures to ensure that these changes are appropriately addressed and incorporated into audit engagements.

Example: Following the abolition of MPF-Long Service Payment (“LSP”) offsetting requirements, auditors should tailor the procedures in the APM to ensure that the related employee benefit liabilities are accurately calculated and properly valued in accordance with the latest laws and regulations.²⁰

- **Industry-Specific Risks:** Because the APM provides generic guidance, it may not sufficiently address risks in industries with unique characteristics. Firms may need to develop additional procedures, templates or guidance. Examples may include:

²⁰ The Institute’s [e-learning session](#) provides an overview of the abolition of the MPF-LSP offsetting mechanism in Hong Kong, explains how the abolition and the LSP Subsidy should be accounted for, and walks through practical examples with accounting entries.

- **Complex or Regulated Industries:** Construction, healthcare, asset management, etc.
 - **High-Volume or Transaction Industries:** Retail, hospitality, etc.
- **Group Audit Independence Considerations:** The independence checklist in APM 2024 does **not** cover group-specific independence requirements under Section 405 of the Code (see discussion in **Section 3 above**). Firms conducting group audits should implement additional steps, including but not limited to:
 - Assess and confirm component auditors' independence
 - Identify independence threats arising from the group audit client, including its related entities and any other components
 - Document independence assessments in group engagements

Supporting Implementation

- **HKICPA Audit Practice Manual (2024 edition):** Work programs and templates to assist the performance of a financial statements audit under HKSAAs.
- **HKICPA E-Learning:**
 - **New Quality Management Standards Series:**
 - Discusses the eight components of HKSQM 1 and provides a practical roadmap for implementing SOQM using a risk-based approach, including establishing quality objectives, identifying and assessing quality risks and designing responses.
 - Discusses the firm's responsibilities when using resources from external service providers in performing engagements or carrying out SOQM activities.
 - Key concepts are illustrated with practical examples.
 - **Application of HKICPA Audit Practice Manual (2022 edition):**
 - Walkthrough the use of APM 2022 from audit planning to completion.
 - Discussions in this e-learning remain relevant for users of APM 2024, with the exception of references to audit procedures in group audit engagements.

II. New or Revised Auditing and Assurance and Ethics Standards

1. HKICPA Auditing and Assurance Standards: Effective for Audits of Financial Statements for Periods Beginning on or after 15 December 2024

This section provides a summary of the Institute’s new or revised auditing and assurance standards that are effective for audits of financial statements or assurance engagements on sustainability information reported for periods beginning on or after 15 December 2024.

For pronouncements with effective dates earlier than the above, please refer to the [IAASB website](#) and their equivalents issued by the [HKICPA in Members’ Handbook Volume III](#).

(a) New or revised standards issued that are effective for audits of financial statements for periods ending on or after 31 March 2025

Standards (HKICPA Members’ Handbook Update)	Key Aspects
HKSA 700 (Revised), Forming an Opinion and Reporting on Financial Statements (Update No. 326)	<ul style="list-style-type: none"> Mandates the disclosure of the auditor’s name and PC number in the auditor’s report issued under HKSA 700 (Revised) (including the HKSA 800 series). <p><i>Effective date:</i></p> <ul style="list-style-type: none"> Audits of financial statements for periods ending on or after 31 March 2025 <p><i>Guidance and resources:</i></p> <ul style="list-style-type: none"> The Institute’s Basis for Conclusions summarizes the consideration of the Auditing and Assurance Standards Committee in reaching the amendments.

(b) New or revised standards issued that are effective for audits of financial statements for periods beginning on or after 15 December 2024

Standards (HKICPA Members’ Handbook Update)	Key Aspects
Narrow Scope Amendments: HKSA 700 (Revised) and HKSA 260 (Revised) (Update No. 313)	<ul style="list-style-type: none"> Amendments operationalizing changes to the Code related to listed entities and PIEs by providing a clear mechanism that requires a firm to publicly disclose when a firm has applied the independence requirements for PIEs in an audit of financial statements. <p><i>Effective date:</i></p> <ul style="list-style-type: none"> Audits of financial statements for periods beginning on or after 15 December 2024

(c) New or revised standards issued that are not yet effective, but may be adopted early

Standards (HKICPA Members' Handbook Update)	Key Aspects
<p>The HKSA for LCE (Update No. 329)</p>	<ul style="list-style-type: none"> • A standalone auditing standard tailored to meet the specific audit needs of smaller and less complex businesses and organizations. The Authority of the standard in Part A sets out the intended scope of the HKSA for LCE. <p><i>Effective date:</i></p> <ul style="list-style-type: none"> • Audits of financial statements for periods beginning on or after 15 December 2025 <p><i>Guidance and resources:</i></p> <ul style="list-style-type: none"> • Basis for Conclusions • HKICPA Questions & Answers: HKSA for LCE • HKSA for LCE Resource Centre
<p>HKSA 570 (Revised 2024), <i>Going Concern</i> Including Conforming and Consequential Amendments to Other Hong Kong Standards on Auditing (Update No. 331):</p>	<ul style="list-style-type: none"> • Enhances how auditors evaluate management’s assessment of an entity’s ability to continue as a going concern. These updates strengthen consistency, transparency and reporting on going concern matters. <p><i>Effective date:</i></p> <ul style="list-style-type: none"> • Audits of financial statements for periods beginning on or after 15 December 2026 <p><i>Guidance and resources:</i></p> <ul style="list-style-type: none"> • Key Impact • HKICPA Auditing and Assurance Resource Centre
<p>HKSA 240 (Revised), <i>The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements</i> Including Conforming and Consequential Amendments to Other Hong Kong Standards (Update No. 334)</p>	<ul style="list-style-type: none"> • Clarifies the auditor’s responsibilities, emphasizes a fraud lens in the auditor’s risk identification and assessment and the appropriate responses to assessed risks and provides greater transparency in the auditor’s reports of publicly traded entities. <p><i>Effective date:</i></p> <ul style="list-style-type: none"> • Audits of financial statements for periods beginning on or after 15 December 2026 <p><i>Guidance and resources:</i></p> <ul style="list-style-type: none"> • Key Impact • HKICPA Auditing and Assurance Resource Centre

Standards (HKICPA Members' Handbook Update)	Key Aspects
<p>HKSSA 5000, <i>General Requirements for Sustainability Assurance Engagements</i> (Update No. 324)</p>	<ul style="list-style-type: none"> • Establishes the requirements and application material for all elements of a sustainability assurance engagement, aiming to provide a robust framework that supports the consistent performance of quality sustainability assurance engagements and ensure the reliability and transparency of the disclosed information. <p><i>Effective date:</i></p> <ul style="list-style-type: none"> • Assurance engagements on sustainability information reported for periods beginning on or after 15 December 2026 or as at a specific date on or after 15 December 2026 <p><i>Guidance and resources:</i></p> <ul style="list-style-type: none"> • Key Impacts to Local Stakeholders • Questions and Answers • On-Demand E-learning Courses • Dedicated Resource Centre
<p>Narrow Scope Amendments to HKSQMs, HKSAAs and HKSRE 2400 (Revised) (Update No. 338)</p>	<ul style="list-style-type: none"> • Adopts the same definition of PTE in the HKSQMs and HKSAAs as adopted in Chapter A of the Code; and introduces differential auditing requirements for PTEs that are previously applicable only to listed entities. <p><i>Effective date:</i></p> <ul style="list-style-type: none"> • Audits and reviews of financial statements for periods beginning on or after 15 December 2026 <p><i>Guidance and resources:</i></p> <ul style="list-style-type: none"> • HKICPA PIE Questions & Answers

2. HKICPA Code of Ethics for Professional Accountants: Effective for Periods Beginning on or after 15 December 2024

This section provides a summary of the Institute's new or revised provisions to the Code that are effective for periods beginning on or after 15 December 2024.

For pronouncements with effective dates earlier than the above, please refer to the [IESBA website](#) and their equivalents issued by the [HKICPA in Members' Handbook Volume I](#).

(a) New or revised standards issued and are effective

Standards (HKICPA Members' Handbook Update)	Key Aspects
Tax Planning and Related Services (Update No. 312)	<ul style="list-style-type: none"> • Establishes a comprehensive ethical framework to guide professional accountants when providing tax planning and related services. <p><i>Effective date:</i></p> <ul style="list-style-type: none"> • Tax planning activities beginning after 30 June 2025 <p><i>Guidance and resources:</i></p> <ul style="list-style-type: none"> • On-demand E-learning course: Tax Planning Revisions to the Code and Implications in Tax Practice • HKICPA Ethics Resource Centre
Revisions to the Definitions of Listed Entity and Public Interest Entity (Update No. 313)	<ul style="list-style-type: none"> • Specifies a broader list of categories of entities as PIE whose audits and reviews should be subject to additional independence requirements to meet stakeholders' heightened expectations concerning auditor independence. • Incorporates HKICPA's local modifications to the PIE definition taking into account the unique facts and circumstances of Hong Kong. <p><i>Effective date:</i></p> <ul style="list-style-type: none"> • Audits of financial statements for periods beginning on or after 15 December 2024 <p><i>Guidance and resources:</i></p> <ul style="list-style-type: none"> • Basis for Conclusions • Youtube Video (Cantonese) • A-Plus Article • HKICPA PIE Questions & Answers • HKICPA Ethics Resource Centre

(b) New or revised standards issued that are not yet effective, but early adoption is permitted

Standards (HKICPA Members' Handbook Update)	Key Aspects
<p>Ethics Standards for Sustainability Assurance and Other Revisions to the Code Relating to Sustainability Assurance and Reporting (Update No. 332)</p>	<ul style="list-style-type: none"> • Addresses critical risks to the integrity, quality and effectiveness of sustainability reporting and assurance. <p><i>Effective date:</i></p> <ul style="list-style-type: none"> • Sustainability assurance engagements for periods beginning on or after 15 December 2026; or as at a specific date on or after 15 December 2026 <p><i>Guidance and resources:</i></p> <ul style="list-style-type: none"> • Key Impacts • Dedicated Resource Centre
<p>Revisions to the Code Addressing Using the Work of an External Expert (Update No. 332)</p>	<ul style="list-style-type: none"> • Set ethical framework for professional accountants and sustainability assurance practitioners when deciding whether to use an external expert's work. It also includes guidance to help practitioners apply the Code's conceptual framework when using the work of an external expert. <p><i>Effective date:</i></p> <ul style="list-style-type: none"> • Apply to audit, review, and other assurance engagements outside Part 5 in Chapter A of the Code for periods beginning on or after 15 December 2026, or as at a specific date on or after 15 December 2026; and for other professional services from 15 December 2026. <p><i>Guidance and resources:</i></p> <ul style="list-style-type: none"> • Key Impacts • Dedicated Resource Centre

About the Standard Setting Department

The HKICPA is the only statutory body in Hong Kong that sets auditing and assurance standards, ethical standards, financial reporting standards as well as sustainability disclosure standards for professional accountants in Hong Kong. The due process documents of the Standard Setting Department (“SSD”) explain the processes and procedures for developing local standards and adopting international standards.

- Visit [this page](#) to learn more about SSD’s contributions to international standard-setting.
- For SSD’s latest publications and webcasts, please visit [this page](#).

SSD welcomes your comments on this publication. They can be sent to commentletters@hkiipa.org.hk.

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