

Professional Bridging Examination

Paper III

CLARITY PROJECT UPDATE SUPPLEMENT

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OVERVIEW

In 2004 the International Audit and Assurance Standards Board began a comprehensive overhaul of all the International Standards of Auditing (ISAs). The aim of the project was to issue a set of updated ISAs, which were easier to understand and encouraged more consistent standards of auditing across the world.

In Hong Kong, the set of clarified Hong Kong Standard on Auditing (HKSA) is effective for audits of financial statements for periods beginning on or after 15 December 2009. In response to this, the new clarified HKSA will become examinable for the AAT June 2010 examination diet onwards.

The purpose of the supplement is to ensure that candidates studying for the June 2010 exams and beyond with regards to PBE Paper III 'Auditing and Information Systems' are fully aware of the changes that will affect the exam. To fully illustrate these changes the supplement includes the following:

- A summary of the objectives of the 'Clarity Project;'
- A detailed guide of the changes to the Complete and Essential Texts; and
- A summary of key revisions to ISAs;

THE OBJECTIVES OF THE CLARITY PROJECT

The overall aim of the project was to enhance the understandability of the ISAs. Not only should this encourage consistent application of auditing standards, there should also be an improvement in audit quality. It is hoped that this initiative will contribute significantly to the convergence of auditing standards worldwide.

In order to achieve this aim the ISAs have been redrafted to make their objectives and the responsibilities of the auditor clearer. As a result all standards now adopt the following structure:

- Introduction;
- Objective;
- Definitions;
- Requirements; and
- Application and other explanatory information.

The language used in the standards is also less ambiguous, making it clear exactly what is expected of an auditor applying ISAs.

In addition to redrafting the existing standards, a number of them have also been revised with the aim of improving audit practice. This means that the guidance provided has been updated to reflect current issues and developments.

The clarified ISAs appear much more prescriptive than their predecessors. It is hoped that this will reduce ambiguity and improve the consistency of audit. However, many commentators have raised concerns about the lack of flexibility in the clarified ISAs may lead to problems when considering factors such as risk and cost. It also reduces the scope for auditor judgement, something that many academics would argue is vital to the health of successful and efficient auditing.

Practically, firms will be compelled to update their audit approaches and manuals and staff training will undoubtedly be required. Thorough engagement planning and monitoring will also be necessary in the transition period to ensure that the new ISAs are being faithfully applied. Of course, this could lead to modest costs, which will undoubtedly be passed onto clients.

UPDATES REQUIRED TO THE COMPLETE AND ESSENTIAL TEXTS

Chapter 1	<p>Para. 1.2 – HKSA 200 (Clarified) views ‘Reasonable assurance’ as “a high level of assurance” and “is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.”</p>
Chapter 2	<p>Para. 3.4 – HKSA 200 (Clarified) defines ‘professional skepticism’ as “an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence” and ‘professional judgment’ as “the application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement”.</p>
Chapter 3	<p>Para. 2.2 – According to HKSA 320 (Clarified), “Materiality” should emphasise the significance of auditor judgement and consideration of the unique circumstances of the entity.</p> <p>Para. 2.4 – In order to reflect the revision of HKSA 320 (Clarified), The concept of ‘performance materiality’ must now also be considered along with materiality for the financial statements as a whole. Performance materiality also refers to the amounts set a less than materiality for the financial statements as a whole when considering particular classes of transaction, account balances or disclosures. Auditors should establish an amount set at less than materiality when designing the nature, timing and extent of further audit procedures. The aim of which is to reduce the risk that misstatements in aggregate exceed the total for materiality for the financial statements as a whole.</p> <p>Para. 3.8(a) – HKSA 315 (Clarified) defines ‘risk assessment procedures’ as “The audit procedures performed to obtain an understanding of the entity and its environment, including the entity’s internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels”.</p> <p>Para. 3.8(b) - HKSA 315 (Clarified) defines ‘business risks’ as “a risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity’s ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies”.</p>
Chapter 4	<p>Para. 2.5(b) - HKSA 210 (Clarified) reflects the auditor’s responsibility to consider the acceptability of the financial reporting framework applied in the financial statements to be audited and provides guidance on items of the agreed terms of the audit engagement to be included in audit engagement letter are: objective and scope of the audit of the financial statements; respective responsibilities of the auditor and management; identification of the applicable financial reporting framework for the financial statements preparation; and reference to the expected form and content of any reports to be issued by the auditor.</p> <p>Para. 3.5 - HKSA 610 (Clarified) <i>Using the Work of Internal Auditors</i> states that the</p>

	<p>external auditor should determine: (i) whether work of internal auditors is likely to be adequate for audit purposes, and (ii) the planned effect of the work of the internal auditors on the nature, timing or extent of the external auditor's procedures.</p>
Chapter 5	<p>Para. 2.5 - The suggested methods of obtaining audit evidence listed in (a) to (h) require updating to match those given in HKSA 500 (Clarified), namely: inspection, observation, external confirmation, recalculation, reperformance, analytical procedures and enquiry.</p> <p>Para. 3.1 – HKSA 620 (Clarified) distinguishes between an auditor's expert and a manager's expert should now be made clear. HKSA 620 (Clarified) defines 'auditor's expert' as "an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor's expert may be either an auditor's internal expert (who is a partner or staff, including temporary staff, of the auditor's firm or a network firm), or an auditor's external expert". HKSA 620 (Clarified) defined 'management's expert' as "an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements".</p> <p>Para. 4.3 - HKSA 330 (Clarified) requires the auditor to design and perform further audit procedures in response to the assessed risks of material misstatement at the assertion level. Audit tests are of three main types, each playing a different role in accumulating audit evidence: (i) procedures to obtain an understanding of internal controls; (ii) tests of control – to establish whether the controls in the accounting systems are operating effectively and can be relied upon; and (iii) substantive procedures – to ascertain whether there are misstatements in the transactions and account balances. Substantive procedure comprises tests of details and substantive analytical procedures.</p> <p>Para. 6.1 – HKSA 520 (Clarified) defines 'analytical procedures' as "evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount".</p>
Chapter 6	<p>Para. 2.2(a) - HKSA 530 (Clarified) defines 'sampling risk' as "the risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure. Sampling risk can lead to two types of erroneous conclusions: (i) In the case of a test of controls, that controls are more effective than they actually are, or in the case of a test of details, that a material misstatement does not exist when in fact it does. The auditor is primarily concerned with this type of erroneous conclusion because it affects audit effectiveness and is more likely to lead to an inappropriate audit opinion; (ii) In the case of a test of controls, that controls are less effective than they actually are, or in the case of a test of details, that a material misstatement exists when in fact it does not. This type of erroneous conclusion affects audit efficiency as it would usually lead to additional work to establish that initial conclusions were incorrect".</p> <p>Para. 3.2(a) - HKSA 530 (Clarified) defines 'statistical sampling' as "an approach to sampling that has the following characteristics: (i) Random selection of the sample items; and (ii) The use of probability theory to evaluate sample results, including measurement of sampling risk"; on the other hand, 'non-statistical sampling'</p>

	<p>(sometimes known as judgment sampling) as “a technique which does not rely on probability theory and requires more subjectivity in making sampling decisions”.</p> <p>Para. 2.2(b) - The concept of ‘tolerable error’ needs to be redefined by HKSA 530 (Clarified) as follows: “A monetary amount set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the monetary amount set by the auditor is not exceeded by the actual misstatement in the population.”</p>
Chapter 15	<p>Para. 4.1 – HKSA 580 (Clarified) defines ‘written representation’ as “a written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. Written representations in this context do not include financial statements, the assertions therein, or supporting books and records”. Here, we need to emphasise the stricter guidance with regard to the use of written representations as audit evidence and the requirement to obtain representations regarding management’s responsibilities, HKSA 580 (Clarified) says that written representations are required to: (i) ensure directors acknowledge their collective responsibility for the preparation of financial statements and to confirm that they agree with what they have stated (it ensures that confusion and disagreement is avoided); and (ii) confirm matters material to the financial statements where the representations are critical.</p>
Chapter 16	<p>Para. 1 - The chapter needs to be updated to reflect the fact that the topic is now covered by two standards, namely:</p> <p>(a) HKSA 260 concerns the objectives of the auditor to communicate with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and their responsibility to oversee the financial reporting process.</p> <p>(b) HKSA 265 concerns the objective of auditor to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified during the audit and that, in the auditor’s professional judgment, are of sufficient importance to merit their respective attentions.</p> <p>Para. 2.1 - The purposes of the auditor to communicate with those charge with governance, as specified in HKSA 260 (Clarified), involve: (i) communicating the responsibilities of the auditor’s responsibilities and the planned scope and timing of the audit; (ii) obtaining information relevant to the audit; (iii) providing timely observations arising from the audit that are important to fulfil the responsibilities of those charged with governance to oversee the financial reporting process; and (iv) promoting effective two-way communication between auditor and those charged with governance.</p> <p>Para. 2.3 - In addition, references to ‘material weaknesses’ in internal control need to be redefined as ‘significant deficiencies’ in internal control</p>
Chapter 17	<p>Para. 1 - The audit report is broadly classified as:</p> <p>(a) unmodified report – characteristics of which are: the financial statements give a true and fair view (or present fairly in all material respects); have been properly prepared in accordance with the applicable financial reporting framework; and any specific requirements of legislation have been complied; e.g. disclosure of directors’ emoluments and other transactions with the entity.</p> <p>(b) Modified reports – this can either: (i) unqualified (including an emphasis of matter paragraph in the report), or (ii) qualified (including a/an qualified, adverse, disclaimer opinion).</p>

Para. 4 (whole section) – ‘Unqualified report’ should be read as ‘unmodified report’. HKSA 700 (Clarified) defines ‘unmodified opinion’ as “the opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework”.

Para. 5 (whole section) – ‘Qualified report’ should be read as ‘Modified report’.

Para. 5.4 & 6.3(d) - All references to ‘disagreements’ and ‘limitations of scope’ need to be replaced with ‘material misstatements in the financial statements’ and ‘the auditor is unable to obtain sufficient appropriate evidence.’ This mainly affects page 358. However, all test your understandings and answers should also adopt the revised terminology.

Examples 2 to 8 - The chapter needs to be adjusted to reflect the fact that guidance relating to the nature and wording of the audit report has been split amongst three HKSAs, namely: 700, 705 and 706.

KEY REVISIONS TO HKSA_s

Standard	Summary of Changes ¹
HKSQC 1	<i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements</i> Redrafted. ²
HKSA 200	<i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing</i> Revised and redrafted. This standard sets out the overall objective of the independent auditor. The new HKSA 200 makes clear the purpose of the objectives in each of the other HKSA _s and explains that the auditor should use these objectives when planning and performing audits. It also includes material explaining some of the fundamental concepts related to an audit, such as: ethical requirements relating to an audit; professional scepticism; professional judgement; limitations of an audit; sufficient appropriate evidence and audit risk; and responsibilities of management.
HKSA 210	<i>Agreeing the Terms of Audit Engagements</i> Redrafted. Now includes specific reference to determining whether the financial reporting framework to be applied is acceptable. Without a suitable accounting framework management do not have an acceptable basis for preparation of the financial statements and the auditor will not have a suitable basis for auditing the financial statements.
HKSA 220	<i>Quality Control for an Audit of Financial Statements</i> Redrafted.
HKSA 230	<i>Audit Documentation</i> Redrafted.
HKSA 240	<i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i> Redrafted.
HKSA 250	<i>Consideration of Laws and Regulations in an Audit of Financial Statements</i> Redrafted.

¹ To understand the full impact of the 'Clarity Project' please refer the full text of the IAASB's International Standards of Auditing

² Please see "Objectives of the Clarity Project" for summary of key changes to redrafted ISAs

Standard	Summary of Changes ¹
HKSA 260	<p><i>Communication with Those Charged with Governance</i></p> <p>Revised and redrafted.</p> <p>Additional requirements include:</p> <ul style="list-style-type: none"> • Explaining why significant accounting practices, that are acceptable according to financial reporting requirements, are not appropriate to the circumstances of the entity; • Documenting matters communicated orally; • Communication of the difficulties encountered during the audit; • Requirement to report material weaknesses in internal control removed to HKSA 265.
HKSA 265	<p><i>Communicating Deficiencies in Internal Control to Those Charged with Governance and Management</i></p> <p>This is a new standard.</p> <p>‘Material weaknesses’ reclassified as ‘significant deficiencies.’ The aim was to define a threshold of significance for when deficiencies in internal control should be communicated.</p> <p>The threshold was identified as follows:</p> <ul style="list-style-type: none"> • When a control is designed, implemented or operated in such a way that it is unable to prevent or detect misstatements on a timely basis; or • Such a control, as necessary to prevent and detect misstatement is missing. <p>The auditor has to determine whether individually or in combination the identified deficiencies constitute a ‘significant deficiency.’ All such ‘significant deficiencies’ have to be communicated to those charged with governance in writing.</p> <p>Other deficiencies, which are of insufficient significance to communicate to those charged with governance in writing, should be communicated to management.</p>
HKSA 300	<p><i>Planning an Audit of Financial Statements</i></p> <p>Redrafted</p>
HKSA 315	<p><i>Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment</i></p> <p>Redrafted</p>
HKSA 320	<p><i>Materiality in Planning and Performing an Audit</i></p> <p>Revised and redrafted.</p> <p>The focus of the revision to HKSA 320 is the consideration of not only the size of an item but its nature and the circumstances of the entity. The standard explains that:</p> <ul style="list-style-type: none"> • Misstatements, including omissions, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users; • Judgements about materiality are made in light of surrounding circumstances, and are affected by the size and nature of a misstatement, or a combination of both, and • Judgements about matters that are material to users of the financial

Standard	Summary of Changes ¹
	<p>statements are based on a consideration of the common financial information needs of users as a group.</p> <p>The new standard includes the definition of a new concept, 'performance materiality.' This states that the auditor should set materiality for the financial statements as a whole (as per the old standard). However, in addition the auditor should establish an amount set at less than materiality when designing the nature, timing and extent of further audit procedures. The aim of which is to reduce the risk that misstatements in aggregate exceed the total for materiality for the financial statements as a whole.</p> <p>Performance materiality also refers to the amounts set at less than materiality for the financial statements as a whole when considering particular classes of transaction, account balances or disclosures.</p> <p>The new standard clarifies that the determination of materiality requires the exercise of professional judgement. However, it does recognise that a simple percentage may be used as starting point when determining materiality to the financial statements as a whole (benchmarking). Such benchmarks include: total revenue; profit before tax; gross profits; total expenses; total equity; and net assets. However, if using such benchmarks the auditor should consider the following:</p> <ul style="list-style-type: none"> • The elements of the financial statements; • Whether there are items upon which the attention of the users tends to be focussed; • The nature of the entity, its life cycle, and it's industry/economic environment; • The entity's ownership structure and the way it is financed; and • The relative volatility of the benchmark.
HKSA 330	<p><i>The Auditor's Responses to Assessed Risks</i></p> <p>Redrafted</p>
HKSA 402	<p><i>Audit Considerations Relating to an Entity Using a Service Organisation</i></p> <p>Revised and redrafted.</p> <p>The revision increases the focus on when the auditor intends to use a service auditor's report as audit evidence.</p> <p>When performing risk assessment the auditor should perform the following procedures to ensure that the service organisation's controls are operating effectively:</p> <ul style="list-style-type: none"> • Obtaining a Type 2 report, if available. This is a report on the description, design and operating effectiveness of controls at the service organisations. It contains a report prepared by management of the service organisation and a reasonable assurance report by the service auditor; • Performing tests of control at the service organisation; • Using another auditor to perform tests of control at the service organisation on their behalf. <p>If the auditor intends to use a report from a service auditor they should perform procedures to ensure they are satisfied with the competence and independence of the service auditor and that the service auditor's report provides sufficient</p>

Standard	Summary of Changes ¹
	appropriate evidence about the effectiveness of controls.
HKSA 450	<p><i>Evaluation of Misstatements Identified During the Audit</i></p> <p>Revised and redrafted.</p> <p>All misstatements must be communicated to management on a timely basis, unless they are clearly trivial.</p> <p>Management should be asked to correct all misstatements identified during the audit.</p> <p>The auditor shall obtain an understanding of management’s reasons for refusing to adjust any of the misstatements.</p> <p>Prior to evaluating the significance of uncorrected misstatements the auditor should reassess materiality to confirm whether it remains appropriate to the financial statements. Then the auditor must assess whether uncorrected misstatements are, individually or in aggregate, material. To do this they should consider the size and nature of the misstatements, both in relation to the financial statements as a whole and to particular classes of transaction, account balances and disclosures.</p> <p>The auditor shall obtain a written representation from management and those charged with governance that they believe the effect of the uncorrected misstatements is immaterial, individually and in aggregate.</p>
HKSA 500	<p><i>Audit Evidence</i></p> <p>Redrafted</p>
HKSA 501	<p><i>Audit Evidence – Specific Considerations for Selected Items</i></p> <p>Redrafted</p>
HKSA 510	<p><i>Initial Audit Engagements – Opening Balances</i></p> <p>Redrafted</p>
HKSA 520	<p><i>Analytical Procedures</i></p> <p>Redrafted</p>
HKSA 530	<p><i>Audit Sampling</i></p> <p>Redrafted</p>
HKSA 540	<p><i>Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</i></p> <p>Revised and redrafted.</p> <p>Merged the old HKSA 540 <i>Audit of Accounting Estimates</i> and HKSA 545 <i>Audit of Fair Value Measurements</i>, because the principles and techniques apply to both.</p> <p>The new standard introduces the requirement for greater scepticism when auditing such balances, including an assessment of management bias.</p> <p>It also places a greater emphasis on obtaining an understanding of the client’s estimation process – and related controls – when performing risk assessment procedures in accordance with HKSA 315.</p> <p>The revised standard clarifies the procedures that an auditor shall perform in</p>

Standard	Summary of Changes ¹
	<p>response to the assessment of material misstatement. These include:</p> <ul style="list-style-type: none"> • Determining whether events occurring up to the date of the auditor’s report provide evidence regarding the estimate; • Testing management’s method of measuring the estimate and the assumptions used; • Testing the effectiveness of controls over management estimates; • Developing a point estimate or a range to evaluate management’s point estimate
HKSA 550	<p><i>Related Parties</i></p> <p>Revised and redrafted.</p> <p>The new standard requires the auditor to consider the susceptibility of the financial statements to material misstatement, whether due to fraud or error, that could result from the entity’s related party transactions.</p> <p>To assist with this objective the auditor shall obtain an understanding of the controls that management has established to identify, authorise and account for related party relationships and transactions.</p> <p>If the auditor identifies related parties that were not previously identified or disclosed they shall:</p> <ul style="list-style-type: none"> • Communicate that information to the rest of the engagements team; • Request that management identifies all transactions with the related party and enquire why they failed to identify them; • Perform appropriate substantive procedures relating to transactions with these entities; • Reconsider the risk that other, unidentified, related parties may exist; and • Evaluate the implications if the non-disclosure by management appears intentional. <p>If the auditor identifies related party transactions outside the entity’s normal course of business they should also:</p> <ul style="list-style-type: none"> • Inspect the underlying contracts or agreements to establish: the business rationale; the terms of the transaction; and whether appropriate disclosures have been made; • Obtain evidence that the transactions were appropriately authorised.

Standard	Summary of Changes ¹
HKSA 560	<p><i>Subsequent Events</i></p> <p>Redrafted</p>
HKSA 570	<p><i>Going Concern</i></p> <p>Redrafted</p>
HKSA 580	<p><i>Written Representations</i></p> <p>Revised and redrafted.</p> <p>NB: This standard was revised due – mainly – to concerns that auditors may be over-reliant on written representations.</p> <p>The main emphasis of the standard is that, whilst written representations provide necessary audit evidence, they support other forms of evidence and do not on their own provide sufficient appropriate audit evidence.</p> <p>In addition to this clarification the new standard also requires the auditor to obtain the following written representations about management’s responsibilities:</p> <ul style="list-style-type: none"> • That they have fulfilled their responsibility for the preparation of the financial statements; • That they have provided the auditor with all relevant information and access to records, as agreed in the engagement terms; and • That all transactions have been recorded and reflected in the financial statements. <p>The new standard clearly states that if the auditor concludes that there is sufficient doubt about the integrity of management, thus rendering the written representations unreliable, or if management does not provide the written representations requested then the auditor shall disclaim an opinion on the financial statements in accordance with the revised HKSA 705.</p>
HKSA 600	<p><i>Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)</i></p> <p>Revised and redrafted but not examinable according to Professional Bridging Exam Paper III syllabus guidance.</p> <p>The revised standard introduces a number of new requirements that the group auditor needs to undertake to achieve greater consistency in group audit practices, particularly when other/component auditors are involved. These include:</p> <ul style="list-style-type: none"> • During acceptance procedures the engagement partner shall consider whether sufficient appropriate evidence can reasonably be expected to be obtained in relation to the consolidation process and the financial information of the components of the group. If component auditors are to be involved the partner will consider whether the group engagement team will be able to be involved in the work of component auditors; • The engagement team will establish an overall group audit strategy, which will be subject to review by the engagement partner; • The team shall obtain an understanding of the group, its components and their environments, group-wide controls and the consolidation process; • The engagement partner shall assess the professional competence of the

Standard	Summary of Changes ¹
	<p>component auditor's, their regulatory environment and whether they will comply with required ethical standards;</p> <ul style="list-style-type: none"> • The engagement team shall set materiality for the group as a whole when establishing the overall group strategy but will also consider specific classes of transactions, accounts balances and disclosures for which misstatements of lesser amounts could reasonably be expected to effect the decisions of users. They will also establish materiality for the components of the group where component auditors will perform the audit. • The engagement team should define the threshold above which misstatements cannot be regarded as clearly trivial. • The engagement team shall determine the type of work to be performed by the group engagement team, or the component auditor, on the financial information of the components. • For a component that is of individual financial significance to the group the audit shall be performed using component materiality; • For a component that is significant because it is likely to include significant risks of material misstatement of the group financial statements due to its nature or circumstances, one or more of the following shall be used: <ul style="list-style-type: none"> – An audit of the financial information using component materiality; – An audit of one or more classes of transaction, account balances or disclosures relating to the risk of material misstatement of the group financial statements; and – Specified audit procedures relating to the risk of material misstatement of the group financial statements. • For components that are not significant to the group the group engagement team shall perform analytical procedures at group level. If this is not sufficient further procedures are recommended by the standard. • If the component auditor performs the audit of a significant component the group engagement team shall be involved in the risk assessment to identify significant risks of material misstatement of the group financial statements. • The group auditor shall communicate its requirements to the component auditor on a timely basis. This includes: <ul style="list-style-type: none"> – The work to be performed and the use made of that work; – The form and content of the component auditor's communications to the group team; – A request that the component auditor will cooperate with the group team; – The ethical requirements relevant to the group audit; – Component materiality and the threshold for triviality; – Identified significant risks of material misstatement of the group financial statements; – A list of identified related parties. • The group engagement team shall request the component auditor communicates matters relevant to the group audit, such as: compliance with ethical standards; compliance with audit instructions; identification of the financial information upon which the component auditor is reporting; instances on non-compliance with laws and regulations; uncorrected misstatements; indicators of management bias; significant deficiencies in internal control; other significant matters communicated to those charged

Standard	Summary of Changes ¹
	with governance of the component; other matters relevant to the group audit; and the component auditor's overall conclusion.
HKSA 610	<i>Using the Work of Internal Auditors</i> Redrafted
HKSA 620	<i>Using the Work of an Auditor's Expert</i> Revised and redrafted. The revised standard focuses on the use of an auditor's expert. The consideration of the use of management's experts is referred to in HKSA 500. Before using an expert the audit shall agree, in writing: <ul style="list-style-type: none"> • The nature, scope and objectives of the expert's work; • The roles and responsibilities of the auditor and the expert; • The nature, timing and extent of communication between the two parties; and • The need for the expert to observe confidentiality. The procedures for evaluating the experts work have also been clarified. Namely the auditor must consider: the consistency of the findings with other evidence; the significant assumptions made; and the use and accuracy of source data. The auditor should not make reference to the use of an expert in their audit report unless it is required to aid the understanding of a modification to the audit opinion. In such circumstances the auditor shall indicate that the reference to the expert does not diminish the auditor's responsibility for the opinion.
HKSA 700	<i>Forming an Opinion and Reporting on Financial Statements</i> Redrafted
HKSA 705	<i>Modifications to the Opinion in the Independent Auditor's Report</i> Revised and redrafted. The revision discusses the form and content of the audit report when a modification is considered necessary. The main revision is that all references to the terms 'disagreement' and 'limitation of scope' have been removed. Instead the auditor should express an appropriately modified opinion when: <ul style="list-style-type: none"> • They conclude that, on the basis of evidence obtained, the financial statements as a whole are not free from material misstatement; and • They are unable to obtain sufficient appropriate evidence to conclude that the financial statements as a whole are free from material misstatement. When the auditor expects to modify their opinion they should communicate to those charged with governance, explain the circumstances behind the decision and the proposed wording of the modification.
HKSA 706	<i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i> Revised and redrafted. This standard deals with those additional communications in the auditor's reports

Standard	Summary of Changes ¹
	<p>that do not affect the wording of the audit opinion, namely the ‘Emphasis of Matter’ and ‘Other Matter’ paragraphs.</p> <p>The new standard clarifies the purpose of these paragraphs:</p> <ul style="list-style-type: none"> • ‘Emphasis of Matter’ paragraph: this is required to refer to a matter appropriately presented or disclosed in the financial statements that, in the auditor’s judgement, is fundamental to the users’ understanding of the financial statements; and • ‘Other Matter’ paragraph: this is required to refer to a matter not presented or disclosed in the financial statements that, in the auditor’s judgement, is relevant to the users’ understanding of the audit, the auditor’s responsibilities or the audit report. <p>Once again, if the auditor expects to include such additional matters in their audit report they must communicate the fact, and an example wording, to those charged with governance.</p>
HKSA 710	<p><i>Comparative Information – Corresponding Figures and Comparative Financial Statements</i></p> <p>Redrafted</p>
HKSA 720	<p><i>The Auditor’s Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements</i></p> <p>Redrafted</p>
HKSA 800	<p><i>Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks</i></p> <p>Revise and redrafted.</p> <p>The key revision is that ‘other comprehensive bases of accounting’ have been renamed as ‘special purpose frameworks.’</p> <p>In the case of an auditor’s report on special purpose financial statements:</p> <ul style="list-style-type: none"> • The auditor’s report shall describe the purpose for which the financial statements are prepared and, if necessary, the intended users, or refer to a note in the special purpose financial statements that contains the information; and • If management has a choice of financial reporting frameworks in the preparation of such financial statements, the explanation of management’s responsibility for the financial statements shall make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.
HKSA 805	<p><i>Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i></p> <p>Revised and redrafted.</p> <p>The standard deals with special considerations in the application of those HKSA’s to an audit of a single financial statement or of a specific element, account or item of a financial statement. When applying HKSA’s in an audit of a single financial statement or of a specific element, account or item of a financial statement, the auditor should address appropriately the special considerations that are relevant</p>

Standard	Summary of Changes¹
	to the acceptance of the engagement; the planning and performance of that engagement; and forming an opinion and reporting on the single financial statement or on the specific element, account or item of a financial statement. Therefore in planning and performing the audit of a single financial statement or of a specific element of a financial statement, the auditor shall adapt all HKSAs relevant to the audit as necessary in the circumstances of the engagement.

Standard	Summary of Changes¹
HKSA 810	<p data-bbox="451 239 1105 268"><i>Engagements to Report on Summary Financial Statements</i></p> <p data-bbox="451 289 1383 352">Revised and redrafted but not examinable according to Professional Bridging Exam Paper III syllabus guidance.</p> <p data-bbox="451 373 829 403">The objectives of the auditor are:</p> <ul data-bbox="451 424 1383 625" style="list-style-type: none"><li data-bbox="451 424 1383 487">• To determine whether it is appropriate to accept the engagement to report on summary financial statements;<li data-bbox="451 487 1383 550">• To form an opinion on the summary financial statements based on an evaluation of the conclusions drawn from the evidence obtained; and<li data-bbox="451 550 1383 625">• To express clearly that opinion through a written report that also describes the basis for that opinion. <p data-bbox="451 634 1383 760">The auditor has to form an opinion on whether the financial statements are consistent, in all material respects, with the audited financial statements or that the summary financial statements are a fair summary of the audited financial statements.</p>