

Technical Note 05/2006 – Audits of Financial Statements for the Year ended 31 December 2006 Paul Yeung [December 2006]

Auditing standards issued by HKICPA up to Update No. 35 are set out in Appendix 1 to this Technical Note.

The auditing standards newly applicable (as compared with those applicable to audits of financial statements for the year ended 31 December 2005) to the audits of financial statements for the year ended 31 December 2006 include the following:

1. HKSA 200 (Revised) “Objective and General Principles Governing an Audit of Financial Statements”
2. HKSA 220 “Quality Control for Audits of Historical Financial Information”
3. HKSA 560 “Subsequent Events”
4. HKSA 700 “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements”
5. HKSA 701 “Modifications to the Independent Auditor’s Report”

A summary of the principal new requirements of these standards at the individual engagement level applicable to the audits of financial statements for the year ended 31 December 2006 is as follows:

HKSA 200 (Revised) Objective and General Principles Governing an Audit of Financial Statements

This revised standard reiterates certain basic principles for audits of financial statements. For example, it makes it explicit that the auditor should not represent (in the auditor’s report) compliance with Hong Kong Standards on Auditing unless the auditor has complied fully with all of the Hong Kong Standards on Auditing relevant to the audit.

This revised standard does not set out new requirements on audits of financial statements at the individual engagement level.

HKSA 220 Quality Control for Audits of Historical Financial Information

This newly applicable standard set out the quality control procedures that are applicable to the individual audit engagement.

HKSA 560 (Revised) Subsequent Events

HKSA 560 (Revised) has not set out new requirements on audit procedures regarding subsequent events, but has clarified some of the key definitions. The principal changes in these definitions are as follows:

The “date the financial statements are issued” is now defined as “the date that the auditor’s report and audited financial statements are made available to third parties.

In Hong Kong, the “date the financial statements are issued” is the earliest date that the auditor’s report and audited financial statements are made available to shareholders or other parties. In many other circumstances, it may be the date that the financial statements are filed with a regulatory authority.

“Date of the auditor’s report” is now defined as “the date selected by the auditor to date the report on the financial statements.” (Auditor should refer to HKSA 700’s requirements on the date of the auditor’s report)

Although the wordings for these definitions have been revised, they do not seem to materially change the substance of these terms previously used in practice.

HKSA 700 and HKSA 701

These two new standards set out material changes in the requirements on auditor’s report. Refer to Technical Notes 2006-01 and 2006-02.

HKSA 230 Audit Documentation

Although HKSA 230 “Audit Documentation” is not yet applicable to audits of financial statements for the year ended 31 December 2006, certain explicit requirements on audit documentation have been included in other applicable auditing standards.

Technical Note 05-2006
Audits of Financial Statements for the Year ended 31 December 2006

		Effect date*	
HKSA 200 (Revised)	Objective and General Principles Governing an Audit of Financial Statements	31 Dec 2006^ (note 1)	N
HKSA 210	Terms of Audit Engagements	15 Dec 2004	
HKSA 220	Quality Control for Audits of Historical Financial Information	15 June 2005	N
HKSA 230	Audit Documentation	15 June 2006	X
HKSA 240	The Auditor' s Responsibility to Consider Fraud in an Audit of Financial Statements	15 Dec 2004	
HKSA 250	Consideration of Laws and Regulations in an Audit of Financial Statements	15 Dec 2004	
HKSA 260	Communications of Audit Matters with Those Charged With Governance	15 Dec 2004	
HKSA 300	Planning an Audit of Financial Statements	15 Dec 2004	
HKSA 315	Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement	15 Dec 2004	
HKSA 320	Audit Materiality	15 Dec 2004	
HKSA 330	The Auditor' s Procedures in Response to Assessed Risks	15 Dec 2004 (Note 2)	
HKSA 402	Audit Considerations Relating to Entities Using Service Organizations	15 Dec 2004	
HKSA 500	Audit Evidence	15 Dec 2004	
HKSA 501	Audit Evidence - Additional Considerations for Specific Items	15 Dec 2004	
HKSA 505	External Confirmations	15 Dec 2004	
HKSA 510	Initial Engagements – Opening Balances	15 Dec 2004	
HKSA 520	Analytical Procedures	15 Dec 2004	
HKSA 530	Audit Sampling and Other Means of Testing	15 Dec 2004	
HKSA 540	Audit of Accounting Estimates	15 Dec 2004	
HKSA 545	Auditing Fair Values Measurements and Disclosures	15 Dec 2004	
HKSA 550	Related Parties	15 Dec 2004	
HKSA 560 (Revised)	Subsequent Events	31 Dec 2006^	N
HKSA 570	Going Concern	15 Dec 2004	
HKSA 580	Management Representations	15 Dec 2004	
HKSA 610	Considering the Work of Internal Audit	15 Dec 2004	
HKSA 620	Using the Work of an Expert	15 Dec 2004	
HKSA 700	The Independent Auditor' s Report on a Complete Set of General Purpose Financial Statements	31 Dec 2006^	N
HKSA 701	Modifications to the Independent Auditor' s Report	31 Dec 2006^	N
HKSA 710	Comparatives	15 Dec 2004	

		Effect date*
HKSA 720	Other Information in Documents Containing Audited Financial Statements	15 Dec 2004

Statements of Auditing Standards

SAS 510	Principal auditors and other auditors	30 Sept 1997 [#]
SAS 230	Documentation	15 June 2006 [@]

Note 1: Paragraph 14A of HKSA 200 (revised) are conforming amendments arising from HKSA 230, "Audit Documentation" which are effective for audits of financial statements for periods beginning on or after 15 June 2006.

Note 2: The conforming amendments to HKSA 330 (paragraphs 50, 73, 73a and 73b) as a result of HKSA 230 "Audit Documentation" are effective for audits of financial statements for periods beginning on or after 15 June 2006.

* Unless other stated, the auditor shall apply the Standard to audits of financial statements for annual periods beginning on or after the effective date.

^ The auditor shall apply the Standard to audit's reports dated on or after the effective date.

The auditor shall apply the Standard to audits of financial statements for periods ending on or after that date.

@ The auditor shall apply the Standard to audits of financial statements for periods beginning before that date

N Standard newly applicable to the financial statements for the year ended 31 December 2006.

X Standard not yet applicable to the financial statements for the year ended 31 December 2006.