



Auditing and Assurance Standards Committee
Meeting Summary – April 2006

The Auditing and Assurance Standards Committee (Committee) met on 25 April 2006.

Members present at the meeting were: Carlson Tong (Chairman), Keith Pogson (Deputy Chairman), Colin Chau, Patrick Cheng, Charles Chow, William Crowe, Amy Law, Lucia Li, Michael Sim, Wilfred Wong, Thomas Wong and Desmond Yuen.

Secretariat staff present at the meeting were: Patricia McBride, Steve Ong, Elaine Chan and Elsa Ho.

The following agenda items were discussed:

1. HKICPA Invitation to Comment on IAASB ED of ISA 600 (Revised and Redrafted) on the Audit of Group Financial Statements
2. Draft HKICPA Submission on IAASB ED of proposed ISA 550 (Revised) on Related Parties
3. Consideration of the adoption of extant ISA 800 “The Auditor’s Report on Special Purpose Audit Engagements”
4. Working Draft of the proposed PN “The Audit of Accounts of Owners’ Corporation of Building”
5. Accountants’ Report Project – Progress Report
6. Draft comments on the Industry Consultation on Draft Accounting Manual for Television Programme Service Licensees
7. Proposal of the Education Manpower Bureau to reduce the complexity of school accounts
8. Appeal from *A Plus*
9. Issues arising from Main Board Listing Rule requirement on report on continuing connected transactions and Practice Note 730 “Guidance for Auditors Regarding Preliminary Announcements of Annual Results”

1. HKICPA Invitation to Comment on IAASB ED of ISA 600 (Revised and Redrafted) on the Audit of Group Financial Statements

The Committee noted the issuance of the subject IAASB ED for consultation until 7 July 2006, after its endorsement by the Committee by circulation.

2. Draft HKICPA Submission on IAASB ED of proposed ISA 550 (Revised) on Related Parties

The Committee noted that the consultation period of the Institute’s Invitation to Comment ended on 7 April and comments were received from two member firms.

The Committee considered the Institute’s draft submission to the IAASB prepared by the secretariat based on the key points of the submissions received and suggested certain editorial changes. The secretariat was requested to revise the draft submission incorporating the Committee’s comments.

[Post meeting note: The revised Institute’s submission prepared by the secretariat was endorsed by the Committee and approved by Council by circulation. The Institute’s submission was forwarded to the IAASB on 10 May.]

3. Consideration of the adoption of extant ISA 800 “The Auditor’s Report on Special Purpose Audit Engagements”

The Committee at its last meeting noted that the proposed ISA 701 “The Independent Auditor’s Report on Other Historical Financial Information” would not be finalized by the IAASB until late 2007, and requested the secretariat to develop a proposal to adopt the extant ISA 800 “The auditor’s report in special purpose audit engagements”, if appropriate.

The Committee noted that the proposed adoption of the extant ISA 800 would require amendments to certain paragraphs and example reports of the ISA that allows “true and fair view” opinion on non-GAAP special purpose financial information.

The Committee deliberated on the matter at length and agreed that given that the Committee’s Exposure Draft of Discussion Paper “Requests for Special Purpose Reports” would be issued shortly, which would cover the issues in the extant ISA 800, it would be more appropriate to delay the adoption of ISA 800 until the finalization of the proposed ISA 701 by the IAASB. Furthermore, the standards and guidance in ISA 800 on “Summarized financial statements” are consistent with the Institute’s Practice Note 710 “The auditors’ statement on the summary financial report”.

[Post meeting note: The Committee’s Exposure Draft of Discussion Paper “Requests for Special Purpose Reports” was released on 4 May 2006 for consultation until 31 October 2006, after its approval by Council.]

4. Working Draft of the proposed PN “The Audit of Accounts of Owners’ Corporation of Building”

The Committee considered the first Working Draft of the proposed PN prepared by the secretariat, after three meetings of the AASC/SMPC Joint Working Group.

The Committee was of the view that the proposed PN should cover the key areas relating to the audit of accounts of owners’ corporation of buildings and therefore should not cover the basic audit procedures common to all audits.

The secretariat was requested to update the Working Draft in consultation with the Joint Working Group.

5. Accountants’ Report Project – Progress Report

The Committee noted that the Accountants’ Report Sub-Committee has held its first meeting on 11 April 2006 to consider developing guidance on assistance to sponsors on internal controls reporting and was in the process of reviewing the extent to which FRAG 10/95 issued by the Institute of Chartered Accountants in England and Wales could be adopted in Hong Kong.

The Committee agreed the Sub-Committee’s proposal to include in its work plan the following two tasks in addition to the finalisation of the HKSIR series and development of guidance on assistance to sponsors on internal controls reporting:

- development of guidance for preparers of prospective financial information; and
- addressing the risk that may be faced by reporting accountants in respect of the authority afforded to sponsors under Listing Rule Chapter 3A to have full access to all documents relevant to the sponsors’ performance of its duties, in particular, those in relation to engagements with experts.

6. Draft comments on the Industry Consultation on Draft Accounting Manual for Television Programme Service Licensees

The Committee noted that comments were received from a member firm, which were endorsed by the Financial Reporting Standards Committee. The Committee considered the comments received and agreed that the comments could form the basis of the HKICPA submission to the Broadcasting Authority.

[Post meeting note: The Institute's submission was submitted to the Broadcasting Authority on 9 May 2006, after its approval by Council.]

7. Proposal of the Education Manpower Bureau to reduce the complexity of school accounts

The Committee noted the concern of the Education Manpower Bureau (EMB) that implementing HKFRSs would increase compliance costs and complexity to the school accounts without bringing any additional benefits. The Committee further noted that the secretariat proposed to the EMB that, subject to legal advice, they should consider whether it would be possible for reporting by auditors on school accounts to use the term "properly prepared in accordance with" (e.g., the accounts have been properly prepared in accordance with the EMB Code of Aid and other requirements), instead of the term "present fairly" where schools are not complying with the requirements of HKFRSs.

The Committee agreed the approach taken by the secretariat and requested the secretariat to keep the Committee informed of further developments.

8. Appeal from A Plus

The Committee noted that the Editorial Board of *A Plus* had written to the secretariat requesting that they appeal to the members of the various HKICPA committees to contribute articles and technical briefings for publication in *A Plus*, on a regular basis. Members of the Committee were encouraged to contribute to *A Plus* in order that it would have a stronger technical content.

9. Issues arising from Main Board Listing Rule requirement on report on continuing connected transactions and Practice Note 730 "Guidance for Auditors Regarding Preliminary Announcements of Annual Results"

The Committee considered certain issues raised by a member of the Committee in relation to the subject matters and the following matters were noted:

- In relation to the Main Board Listing Rule requiring auditors to provide to the directors a letter confirming that certain matters of the company's continuing connected transactions, it was agreed that auditors might have difficulty confirming the information required. An agreed-upon procedures engagement might be more appropriate. It was noted that the Committee's Exposure Draft of Discussion Paper "Requests for Special Purpose Reports" had elaborated on this issue.

[Post meeting note: HKEx advised that auditors having difficulty could apply to HKEx for waiver. In granting any waiver, HKEx may impose conditions whenever it considers appropriate.]

- In relation to applying Practice Note 730, it was agreed that whilst PN 730 allows draft financial statements to form the basis of the preliminary announcements, it expects that the draft financial statements to be in very final form and the audit to be more or less completed subject only to minor outstanding matters. The

preliminary announcement cannot state that the financial statements are “audited” until the audit report is signed.

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