



**Auditing and Assurance Standards Committee**  
**Meeting summary – January 2005**

The Auditing and Assurance Standards Committee (Committee) met on 11 January 2005.

Members present at the meeting were: Carlson Tong (Chairman), Charles Chow (Deputy Chairman), Richard George (Deputy Chairman), Arthur Chan, Patrick Cheng, William Crowe, Charles Grieve, Lucia Li, Man Mo Leung, Thomas Lau, Paul F. Winkelmann, Thomas Wong and Desmond Yuen.

Secretariat staff present at the meeting were: Stephen Chan, Elaine Chan and Steve Ong.

The following agenda items were discussed:

1. Proposed Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services
2. ISA 700 (Revised) “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements” and ISA 701 “Modifications to Independent Auditor’s Report”
3. Referral from the HKICPA GAAP for Small Businesses Working Group (GSBWG) - Draft sample audit report on SME-Financial Reporting Standard (SME-FRS) financial statements
4. Progress Report on the development of proposed guidance to auditors with regard to preliminary announcements of results for the full year
5. CPD Seminar – Annual Auditing Update Conference 2005
6. Disclosure in 2004 Financial Statements of Impact of new HKFRSs

**1. Proposed Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services**

The Committee noted that there was no submission received on the ED and endorsed that the proposed Preface be submitted to Council for approval as a final Preface to be effective upon issue.

*[Post meeting note: The final Preface was published in February after its approval by the Council.]*

**2. ISA 700 (Revised) “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements” and ISA 701 “Modifications to Independent Auditor’s Report”**

The Committee considered the revised ISA 700 “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements” and the new ISA 701 “Modifications to Independent Auditor’s Report” released by the IAASB in December 2004.

The Committee agreed that given the importance of the subject matter and the fact that the Standards would not be effective for audit reports dated on or after 31 December 2006, the proposed HKSAs 700 and 701 adopting their IAASB equivalents would be issued first as Exposure Drafts for a consultation period of three months. The secretariat was asked to prepare the Invitation to Comment.

**3. Referral from the HKICPA GAAP for Small Businesses Working Group (GSBWG) - Draft sample audit report on SME-Financial Reporting Standard (SME-FRS) financial statements**

The Committee considered the referral from GSBWG requesting the Committee to develop a sample audit report for qualifying entities preparing financial statements in accordance with SME-FRS. The Committee considered a Working Draft of the proposed sample audit report prepared by the secretariat and considered that the proposed sample audit report should be separated into two reports as follows:

- Example 1 – Company incorporated in Hong Kong applying S141D of the Companies Ordinance and preparing financial statements in accordance with SME-FRS. This example should be further expanded to include:
  - Footnote 1 – Wording to be used if the directors meet only the requirements of S141D of the Companies Ordinance
  - Footnote 2 – Wording to be used when the auditors are requested by the directors of the company to extend their audit opinion to cover the profit and loss account and the notes thereon.
- Example 2 – Company incorporated overseas which satisfy certain criteria preparing financial statements in accordance with SME-FRS.

The Committee requested the secretariat to prepare the proposed example audit reports and submit them to the Committee for endorsement by circulation and to advise the GSBWG to mention, for clarity purposes, in the introduction of the proposed HKICPA Invitation to Comment that the new framework only applies to S141D companies and companies incorporated outside Hong Kong which satisfy certain criteria.

*[Post meeting note: The proposed example audit reports were endorsed by the Committee by circulation. The proposed sample audit reports and the Committee's comments on the proposed ED were submitted to a meeting of the Chairmen and Deputy Chairmen of the Financial Reporting Standards Committee and GSBWG on 25 January 2005 to finalize the proposed ED.]*

**4. Progress Report on the development of proposed guidance to auditors with regard to preliminary announcements of results for the full year**

The Committee noted that the proposed PN was under preparation and would be expected to be available for the Committee's consideration at its next meeting.

It was noted that there is a need for guidance to auditors as a new Listing Rule requires directors of a listed issuer to have agreed the company's preliminary announcement of full year results with the auditors before its notification to HKEx, and that the new requirement would only be effective for annual result announcements for accounting periods commencing on or after 1 July 2004.

**5. CPD Seminar – Annual Auditing Update Conference 2005**

The Committee noted that the HKICPA Education & Training Department had sourced a venue for March 2005 and requested that the date of the Conference be postponed to April 2005.

The Committee considered a draft programme prepared by the secretariat covering the status of HKICPA's International Auditing Standards Convergence Project, final Hong Kong Standards on Auditing issued and significant changes to be introduced by the November 2004 ED of 21 proposed Hong Kong Auditing and Review Engagement Standards. It was agreed that the programme should be extended to include a session

on the reporting frameworks applicable to the different types of regulatory reporting engagements currently performed by practising members.

*[Post meeting note: A revised date of Saturday, 23 April 2005 was fixed after consultation with the Committee Chair.]*

## **6. Disclosure in 2004 Financial Statements of Impact of new HKFRSs**

The Committee was briefed on a matter brought up recently at the HKICPA/SFC/HKEx Tripartite Meeting as to whether a disclosure should be made in the financial statements for the year ended on or after 31 December 2004 to inform readers of the possible effect of the changes resulting from the application of new HKFRSs in subsequent financial statements, and if so, what extent of the disclosure should be.

The Committee considered a proposed preliminary draft and agreed that it would be appropriate for the HKICPA to issue it as guidance to members and member practices.

*[Post meeting note: A Circular to Members and Member Practices was issued on 26 January 2005 setting out the recommended wording of the Committee and the Financial Reporting Standards Committee on the disclosure of the impact of adopting new HKFRSs after its endorsement by Council.]*

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