

HONG KONG SOCIETY OF ACCOUNTANTS

Auditing and Assurance Standards Committee **Meeting summary – May 2003**

The Society's Auditing and Assurance Standards Committee (Committee) met on 20 May 2003.

Members present at the meeting were: Wong Tak Wai, Alvin (Chairman), Charles Chow (Deputy Chairman), Richard George (Deputy Chairman), Deborah Annells, Albert Au, Andrew Bennett, Patrick Cheng, Kim Chong, William Crowe, Charles Grieve, Raymond Li, Man Mo Leung, Phyllis Mo, Shum Man To and Desmond Yuen.

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

The agenda items were:

1. Minutes of April 2003 (246th) Meeting
2. Meeting Summaries of March 2003 (245th) and April 2003 (246th) Meetings for publication
3. Documents approved by Council
4. Proposed revisions to SAS 600 "Auditors' reports on financial statements"
5. Seven proposed PN's adopting International Auditing Practice Statements
6. Issues Paper on the adoption of International Auditing Practice Statements 1010 and 1014
7. Accountants' Report Project
8. Proposed Professional Risk Management Bulletin No. 2 – "Auditors' Duty of Care to Third Parties and The Audit Report"
9. SFC Consultation Paper "The Draft Code on Real Estate Investment Trusts"
10. The Land Titles Bill and the Companies (Amendment) Bill 2002
11. Date of next meeting

1. Minutes of April 2003 (246th) Meeting

There were comments by members on the paragraphs "Revised statement of auditors' responsibility in audit report" and "Accountants' Report Project", and the secretariat was asked to revise the draft minutes accordingly.

2. Meeting Summaries of March 2003 (245th) and April 2003 (246th) Meetings for publication

The Meeting Summary of March 2003 Meeting was approved by the Committee subject to an amendment. The secretariat was asked to update the Meeting Summary of April 2003 Meeting to reflect the changes which had been agreed to be made to the draft Minutes.

3. Documents approved by Council

The Committee noted that Council had approved the issuance of Practice Note "Engagement to report on compliance with the Billing and Metering Integrity Scheme of OFTA" as a final Statement, and proposed Practice Note "The audit of licensed corporations and associated entities of intermediaries" as an exposure draft for consultation.

4. Proposed revisions to SAS 600 “Auditors’ reports on financial statements”

The Committee agreed that before coming to a decision on whether to adopt the FASC’s proposal to amend the wording of the example audit reports in SAS 600 by replacing the term “accounting principles generally accepted in Hong Kong” with “Hong Kong Financial Reporting Standards” (HKFRSs), the Committee should first seek a clarification from the FASC as to whether by adopting the term “HKFRSs”, this would continue to impose an obligation for financial statements to be prepared with reference to the applicable Accounting Guidelines issued by the HKSA.

The secretariat was asked to seek the required clarification from the FASC.

5. Seven proposed PNs adopting International Auditing Practice Statements (“IAPSS”)

The Committee considered and endorsed the following proposed Practice Notes, which are identical to the equivalent IAPSSs, to be submitted to Council for issuance as Exposure Drafts for a consultation period of three months:

- PN 1000 “Inter-Bank Confirmation Procedures”
- PN 1001 “IT Environments – Stand-Alone Personal Computers”
- PN 1002 “IT Environments – On-Line Computer Systems”
- PN 1003 “IT Environments – Database Systems”
- PN 1009 “Computer–Assisted Audit Techniques”
- PN 1012 “Auditing Derivative Financial Instruments”
- PN 1013 “Electronic Commerce – Effect on the Audit of Financial Statements”.

6. Issues Paper on the adoption of International Auditing Practice Statements 1010 and 1014

The Committee agreed that IAPS 1010 “The Consideration of Environmental Matters in the Audit of Financial Statements” would be adopted verbatim as a Practice Note, and endorsed the submission of the proposed PN to Council for issuance as an Exposure Draft for a consultation period of three months together with the seven proposed PNs mentioned in (5) above.

The Committee also agreed that IAPS 1014 “Reporting by Auditors on Compliance with International Financial Reporting Standards” would need further consideration and modification before it could be adopted. The secretariat was asked to consider the required modifications.

7. Accountants’ Report Project

The Committee noted that the Accountants’ Report Task Force’s (ARTF) proposals represent a change from the current Hong Kong and UK practices and as a result, they would require consequential changes to the Listing Rules, and that the ARTF had already alerted the Securities and Futures Commission and The Hong Kong Exchanges and Clearing Limited of the proposals through a presentation and a number of meetings.

It was also noted that profit forecasts and “comfort letters to sponsors” would be dealt with under the proposed SAS 730 “The examination of prospective financial information” and a proposed Practice Note respectively.

The Committee had a few comments on the proposed professional statements drafted by the ARTF for referral to the ARTF for consideration.

8. Proposed Professional Risk Management Bulletin No. 2 – “Auditors’ Duty of Care to Third Parties and The Audit Report”

The Committee considered the final marked-up draft Proposed Professional Risk Management Bulletin No. 2 (PRMB2) prepared by the secretariat in consultation with the Chairman, which had reflected the comments received from members of both the Committee and the Professional Risk Management Committee.

The Committee agreed on a few further editorial changes and the secretariat was asked to revise the proposed PRMB2 and submit it to Council for approval by circulation for issuance as a final document.

9. SFC Consultation Paper “The Draft Code on Real Estate Investment Trusts”

It was noted that the HKSA had not been formally invited by the SFC to comment on the Consultation Paper. The Committee agreed that, despite the fact that the consultation period had expired, a submission should be made by the HKSA. The secretariat was asked to prepare a draft submission setting out the comments on the proposed audit reporting requirements, and forward it to the Committee for endorsement by circulation before submitting it to Council for approval.

10. The Land Titles Bill and the Companies (Amendment) Bill 2002

The Committee considered the referral from the Expert Panel on Legal Matters (EPLM) on the Land Titles Bill and the Companies (Amendment) Bill 2002.

a. The Land Titles Bill – Historical land titles records

The identified issue raised by the EPLM was whether under the Land Titles Bill, going forward, historical land titles records would be made available in a land search for audit purposes.

The Committee noted that there was an apparent attempt by the Administration to address the Society’s concern by setting out in paragraph 16 of the Draft Land Titles Regulation (released in 1994) that the Registrar General shall provide, on application by a person, any document (including any historical record) which is kept in a land registry. In addition, written assurances were given to the Society by the Registrar General back in December 1993 and the Government Secretariat Planning, Environment and Lands Branch again in March 1995 that historical records would be made available for audit purposes.

On the basis of the above, the Committee was of the view that the identified issue had already been resolved and recommended that the secretariat should liaise with the Land Registry requesting for an update on the issue, including ascertaining whether any amendments had been made to paragraph 16 of the draft Land Titles Regulation, and if so, obtain a copy of the updated Regulation, and to reconfirm that

it should be possible to make both a current search as well as a historical search on the basis of the assurances given in 1993 and 1995 and the type of documents that would be retained for such search.

b. The Companies (Amendment) Bill 2002 – Clause 63/section 161B – Particulars of relevant transactions

The Committee supported that the Society should reiterate the suggestion to require a company, for the purpose of the new s161B, only to disclose similar items in aggregate, rather than the details of each transaction that took place during the company's financial year.

The secretariat was asked to convey the above views of the Committee to the EPLM.

11. Date of next meeting

The Committee's next scheduled meeting date is 17 June 2003.

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This meeting summary is provided for the information and convenience of those who wish to follow the Committee's deliberations. Decisions reported are tentative and may be changed or modified by the Committee at a later date. Decisions become final only after completion of the formal due process required to finalize and release documents. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this meeting summary, or for any errors or omissions in it.