



Auditing and Assurance Standards Committee
Meeting Summary – May 2005

The Auditing and Assurance Standards Committee (Committee) met on 25 May 2005.

Members present at the meeting were: Carlson Tong (Chairman), Charles Chow (Deputy Chairman), Richard George (Deputy Chairman), Deborah Annells, Arthur Chan, Patrick Cheng, William Crowe, Thomas Lau, Man Mo Leung, Keith Pogson, Paul F. Winkelmann, Lesley Yeung and Desmond Yuen.

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

The following agenda items were discussed:

1. Referral from the Small and Medium Practitioners Committee on the Audit of Building Owners' Corporations
2. Audit Report Exposure Drafts
3. Proposed Exposure Draft of Practice Note on Acting as scrutineer at a general meeting of a listed issuer
4. Auditors' Report on Financial Statements of Investment Funds Authorized under the SFC Code on Unit Trusts and Mutual Funds
5. Developing a generic Practice Note on Reporting on Charitable Fund-raising Events
6. Revision of Practice Note 870 "The assessments of Certification Authorities under the Electronic Transactions Ordinance"
7. Proposed PN "Guidance to Auditors with Regard to Preliminary Announcements of Results for the Full Year"
8. Working Group on Types of Reporting in Hong Kong

1. Referral from the Small and Medium Practitioners Committee (SMPC) on the Audit of Building Owners' Corporations

Two members of the SMPC briefed the Committee on the potential risks and concerns of small and medium practitioners when acting as auditors of Building Management Accounts.

It was agreed that a Practice Note should be prepared by the SMPC to provide guidance to practitioners when carrying out an audit of Building Management Accounts under the Building Management Ordinance. The Committee will review the Practice Note before its finalization.

2. Audit Report Exposure Drafts

The Committee ratified the issue of the Audit Report Exposure Draft and noted that the extant SAS 600 "Auditors' report on financial statements" would remain applicable for auditor's reports dated before 31 December 2006. The Committee discussed a recommendation made by a member that SAS 600 must now be changed to refer to Hong Kong Financial Reporting Standards rather than accounting principles generally accepted in Hong Kong. The secretariat was requested to consider the implications of such a change and report to the Committee.

3. **Proposed Exposure Draft of Practice Note on Acting as scrutineer at a general meeting of a listed issuer**

The Committee noted that a draft copy of the Practice Note had been submitted to the Hong Kong Institute of Company Secretaries (HKICS) for comment after the Securities and Futures Commission (SFC) and the Stock Exchange of Hong Kong had commented on it.

[Post meeting note: There were no comments received from the HKICS and the proposed Exposure Draft was submitted to Council for approval by circulation by 6 June for issuance as an Exposure Draft for a consultation period of 1 month.]

4. **Auditors' Report on Financial Statements of Investment Funds Authorized under the SFC Code on Unit Trusts and Mutual Funds**

The Committee noted that a member of the Committee together with a partner of his firm and the secretariat had a meeting with the SFC to resolve a potential reporting issue by auditors with respect to their reporting responsibilities on investment funds authorized under the SFC Code on Unit Trusts and Mutual Funds. It was noted that due to a number of revised/newly issued accounting standards affecting investment funds significantly, the valuation provisions in the constitutive documents of many investment funds would not be compliant with GAAP. The SFC had indicated their agreement in principle to the suggested approach of presenting a reconciliation between a GAAP NAV and a NAV based on the constitutive documents ("Periodic NAV") plus an auditors' report stating whether in the auditor's opinion, the Periodic NAV has been determined in accordance with the relevant provisions of the Trust Deed (if a unit trust) and the Code.

The Committee agreed to the approach adopted and requested the secretariat to prepare a draft Practice Note/Circular for consideration by the Expert Panel on Securities and the Committee.

5. **Developing a generic Practice Note on Reporting on Charitable Fund-raising Events**

The Committee noted that the development of the proposed generic Practice Note was put on hold pending the Social Welfare Department's completion of a review of the monitoring of charitable fund-raising activities. This was recently completed and the secretariat had received from the Department the newly issued Reference Guide on Best Practices for Charitable Fund-raising Activities to facilitate the Committee's deliberation in the preparation of the proposed generic Practice Note. Furthermore, the Department had also asked the secretariat to comment on two example reports prepared by them as interim measures for charitable events (other than flag day accounts and lottery accounts) before the development of the proposed generic Practice Note.

The Committee requested the secretariat to refer the consideration of the proposed example reports to the Working Group on "Types of Reporting".

6. **Revision of Practice Note 870 "The assessments of Certification Authorities under the Electronic Transactions Ordinance"**

The Committee considered an email received from the Office of the Government Chief Information Officer setting out the changes in the Electronic Transactions Ordinance and the Code of Practice for Recognized Certification Authorities and agreed that the extant Practice Note 870 should be updated to reflect the above changes. The updating of the Practice Note should be referred to the Institute's WebTrust & SysTrust Working Group.

7. Proposed PN “Guidance to Auditors with Regard to Preliminary Announcements of Results for the Full Year”

A member of the Committee reported the information he gathered on the position in the UK regarding dating of audit report. He agreed to provide the information to the secretariat together with his comments on the draft proposed PN.

8. Working Group on Types of Reporting in Hong Kong

The Convenor of the Working Group reported that the Working Group had its first meeting on 23 May. The Working Group would review all example reports in the existing Practice Notes issued by the Institute and would consider whether the reports in each of the existing Practice Notes are in accordance with the new Hong Kong Framework for Assurance Engagements. Attention would be paid to Practice Notes for specialized industries such as Banking, Insurance and Securities in order that any changes required to the Practice Notes would be referred to the relevant Panels for consideration in order that the necessary amendments are made by 31 December 2005. An Issues Paper for the Committee's consideration and publication in TechWatch is planned for October 2005.

The Committee agreed the approach adopted by the Working Group.

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