

HONG KONG SOCIETY OF ACCOUNTANTS
Auditing and Assurance Standards Committee
Meeting summary – October 2003

The HKSA Auditing and Assurance Standards Committee (Committee) met on 28 October 2003.

Members present at the meeting were: Wong Tak Wai, Alvin (Chairman), Albert Au, Kim Chong, William Crowe, Lucia Li, Charles Grieve, Raymond Li, Man Mo Leung, Phyllis Mo and Paul F. Winkelmann.

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

The following agenda items were discussed:

1. HKSA Submission on IAASB Exposure Draft on Quality Control: Proposed New ISQC 1 “Quality Control for Audit, Assurance and Related Services Practices” and Proposed Revised ISA 220 “Quality Control for Audit Engagements”
2. HKSA Submission on SCCLR Consultation Paper on Phase II of the Corporate Governance Review
3. Comment Letter to the Social Welfare Department on the Monitoring of Charitable Fund-raising Activities
4. Draft HKSA General Guidance 1.307 “Production of audit working papers to the Securities and Futures Commission under section 179 of the Securities and Futures Ordinance”
5. Eight proposed HKSA Practice Notes adopting International Auditing Practice Statements
6. IAASB Exposure Draft of Proposed ISA on Review of Interim Financial Information Performed by the Auditor of the Entity
7. IAASB Exposure Drafts of Proposed Revised ISA 240 “The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements” and Proposed Revised ISA 300 “Planning the Audit”
8. PN 840 “The audit of solicitors’ accounts under the Solicitors’ Accounts Rules and the Accountant’s Report Rules” – proposed amendment to paragraph 19(b)
9. Proposed PN 852 “Review of lottery accounts”
10. Working Group on Mainland audit issues

1. **HKSA Submission on IAASB Exposure Draft on Quality Control: Proposed New ISQC 1 “Quality Control for Audit, Assurance and Related Services Practices” and Proposed Revised ISA 220 “Quality Control for Audit Engagements”**

The HKSA sent the submission on 8 October 2003 after its approval by Council.

[The HKSA submission is available on-line at: <
http://www.hksa.org.hk/professionaltechnical/assurance/submission/docs/IAASB_ED_QC.pdf>].

2. **HKSA Submission on SCCLR Consultation Paper on Phase II of the Corporate Governance Review**

The HKSA sent the submission on 17 October 2003 after its approval by Council.

[The HKSA submission is available on-line at: <
<http://www.hksa.org.hk/professionaltechnical/corporategov/index.php>>].

3. **Comment Letter to the Social Welfare Department on the Monitoring of Charitable Fund-raising Activities**

The HKSA sent the Comment Letter on 6 October 2003 after its endorsement by the Committee by circulation. This was in response to the invitation by the Social Welfare Department (SWD) for the HKSA to comment on the draft “Reference Guide for Charities on Best Practice for Fund-raising

Activities” which sets out the Government’s proposed plan in the monitoring of charitable fund-raising activities.

The Comment Letter mentioned that there was a very useful meeting between the HKSA and the SWD in September 2003, at which the HKSA obtained the clarification that it was not the intention of the SWD to replace the current practice in PN 850 “Review of flag day accounts” with the “audit” requirement of the draft Reference Guide. It also made the comments that it would be difficult for the event accounts to be “prepared in accordance with generally accepted accounting principles and standards established by the HKSA”, and that capping of fund-raising expenses at no more than 10% of the fund-raising revenue may cause difficulties for certain events.

The HKSA also confirmed in the Comment Letter that it would develop a generic PN covering all reporting engagements on the accounts of charitable fund-raising activities once the Social Welfare Department completed its review of the monitoring of charitable fund-raising activities. The new generic PN will replace the extant PN 850 and the proposed PN 852.

4. Draft HKSA General Guidance 1.307 “Production of audit working papers to the Securities and Futures Commission under section 179 of the Securities and Futures Ordinance”

The Committee finalized the draft Guidance after taking into account a suggested amendment by the SFC following its review of the draft Guidance.

It was agreed that upon its clearance with the SFC, the final draft should be submitted to Council for approval for issuance as an Exposure Draft.

After the meeting, the SFC confirmed that it had no further comments and the final draft was submitted to Council for approval for issuance as an Exposure Draft.

5. Eight proposed HKSA Practice Notes (PNs) adopting International Auditing Practice Statements (IAPS)

The Committee endorsed that the eight proposed HKSA PNs should be finalized in their present form for submission to Council for approval for issuance as final statements as there was no comment letter received on the Exposure Drafts.

6. IAASB Exposure Draft (ED) of Proposed ISA on Review of Interim Financial Information Performed by the Auditor of the Entity

The Committee considered the IAASB ED and the two comment letters received in response to the Committee’s Invitation to Comment and had a number of comments on the IAASB ED, the more significant of which are:

- the proposed ISA should be issued as an International Standard on Assurance Engagements (ISAE) instead of as an International Standard on Auditing (ISA);
- the applicability of other ISAs to review engagements;
- there is not a need to have two Standards (the proposed ISA and extant ISA 910) covering a similar subject; and
- it would be preferable for auditors to express the same conclusion on both a condensed set of interim financial information and a complete set of interim financial information.

The Committee requested the secretariat to prepare a draft submission based on the above comments for endorsement by the Committee by circulation before its submission to Council for approval.

[The HKSA submission is available on-line at: < http://www.hksa.org.hk/professionaltechnical/assurance/submission/docs/IAASB_ED_IntFin.pdf >].

7. **IAASB Exposure Drafts (EDs) of Proposed Revised ISA 240 “The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements” and Proposed Revised ISA 300 “Planning the Audit”**

The Committee indicated its support of the IAASB EDs and did not have any comments on them. The Committee noted that there was no comment letter received on the IAASB EDs.

The secretariat was requested to prepare a draft submission to Council for approval.

[The HKSA submission is available on-line at: < http://www.hksa.org.hk/professionaltechnical/assurance/submission/docs/IAASB_ED_fraud_planning.pdf >].

8. **PN 840 “The audit of solicitors’ accounts under the Solicitors’ Accounts Rules and the Accountant’s Report Rules” – proposed amendment to paragraph 19(b)**

The Committee considered the proposed amendment to paragraph 19(b) prepared by the secretariat as a result of the clarification obtained from the Law Society that it would not envisage reports or qualifications of Accountant’s Reports merely on a failure to account for very small amounts of interest particularly if those amounts of interest are less than a realistic administration fee.

The Committee suggested some improvement changes to the proposed amendment and requested the secretariat to present a further draft for the Committee’s consideration at the next meeting.

9. **Proposed PN 852 “Review of lottery accounts”**

The Committee considered the two comment letters received on the Exposure Draft and agreed that the proposed PN 852 should be finalized in its present form for submission to Council for approval for issuance as a final statement.

10. **Working Group on Mainland audit issues**

The Committee noted that the subject of “sales” would form the first series of the Questions and Answers in The Hong Kong Accountant. This series would feature the completeness of sales/deferral of sales recognition, VAT invoices and revenue recognition for entities engaged in the IT industry and agriculture activities.

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Meeting summaries are 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.