



Auditing and Assurance Standards Committee
Meeting Summary – September 2006

The Auditing and Assurance Standards Committee (Committee) met on 27 September 2006.

Members present at the meeting were: Carlson Tong (Chairman) Richard George (Deputy Chairman), Deborah Annells, Colin Chau, William Crowe, Charles Grieve, Thomas Lau, Amy Law, Lucia Li, Wilfred Wong, Thomas Wong, Eliph Yip and Desmond Yuen (Represented by Mabel Cheung).

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

The following agenda items were discussed:

1. The New Audit Report Standards – HKSA 700 “The Independent Auditor’s Report on a Complete set of General Purpose Financial Statements” and HKSA 701 “Modifications to the Independent Auditor’s Report”
 2. Conforming amendments to HKSA 200 “Objectives and General Principles Governing an Audit of Financial Statements”, HKSA 210 “Terms of Engagements” and HKSA 560 “Subsequent Events” as a result of HKSA 700
 3. IAASB’s Policy Position Paper (July 2006) – Guide for National Standard Setters that adopt the IAASB’s International Standards but find it necessary to make limited modifications
 4. Revised draft proposed Practice Note “The Audit of Accounts of Owners’ Corporation of Building”
 5. Reporting on school accounts under the Education (Amendment) Ordinance 2004
 6. Proposed HKICPA/HKEx Working Group to consider Listing Rule requirement on reporting on Continuing Connected Transactions
 7. Proposed HKICPA/Law Society Working Group to consider revision to Practice Note 840 “The Audit of the Solicitors’ Accounts under the Solicitors’ Accounts Rules and the Accountant’s Report Rules” and Report on Gross Fee Income under Rule 8(i)(a) of the Solicitors (Professional Indemnity Rule)
 8. ISAE 3400 “The Examination of Prospective Financial Information”
1. **The New Audit Report Standards – HKSA 700 “The Independent Auditor’s Report on a Complete set of General Purpose Financial Statements” and HKSA 701 “Modifications to the Independent Auditor’s Report”**

The Committee carried out a final review of the proposed HKSA 700 and HKSA 701 and agreed that the proposed Standards adopt verbatim the equivalent ISAs issued by the IAASB, except for the following matters:

- ISA 701 (paragraph 19) in relation to a disclaimer of opinion report permits the omission of the paragraph stating the responsibility of the auditor. However, in Hong Kong, an auditor of a company incorporated under the Hong Kong Companies Ordinance has a statutory duty to make a report to the members of the company on the company’s annual financial statements. Accordingly, an auditor in Hong Kong adheres to the requirements under paragraphs 32 and 34 of HKSA 700 (ISA 700) which require that the auditor’s report should state the auditor’s responsibility and give details of the basis of an audit. An illustration is provided in example 3 of the appendix to reflect the auditor’s duty under the Hong Kong Companies Ordinance; and

- Additional local guidance is set out in footnotes and local example audit reports are set out in appendices.

The Committee agreed that the secretariat should communicate the exception in HKSA 701 to the IAASB in accordance with the IAASB July 2006 Policy Position Paper - A Guide for National Setters that adopt the IAASB's International Standards but find it necessary to make limited modifications. This is also recorded as an exception in the paragraph "Conformity and Compliance with International Standards on Auditing" of HKSA 701.

The Committee suggested some editorial changes to the proposed HKSA 700 and HKSA 701.

[Post meeting note: After the meeting the proposed HKSA 700 and HKSA 701 were endorsed by the Committee by circulation and approved by Council by circulation on 6 October, 2006 for issuance as final Standards. The final Standards were issued on 11 October 2006 under Members' Handbook Update 33.]

2. Conforming amendments to HKSA 200 "Objective and General Principles Governing an Audit of Financial Statements", HKSA 210 "Terms of Engagements" and HKSA 560 "Subsequent Events" as a result of HKSA 700

The Committee endorsed the conforming amendments to HKSA 200 and HKSA 560 and agreed that these conforming changes should be issued in the form of HKSA 200 (Revised) and HKSA 560 (Revised) as follows:

- HKSA 200 (Revised) – Effective for audits of financial statements for periods beginning on or after 15 December 2005 and where the auditor's report is dated on or after 31 December 2006
- HKSA 560 (Revised) – Effective for auditor's report dated on or after 31 December 2006

In relation to the conforming amendments to HKSA 210, a discussion was held as to whether these conforming changes should be issued together with HKSA 200 (Revised) and HKSA 560 (Revised). Unlike the conforming amendments to ISA 200 and ISA 560, the IAASB has not yet decided on the effective date of the conforming changes to ISA 210. The Committee requested the secretariat to explain the rationale behind issuing it as an additional appendix to the existing HKSA 210.

[Post meeting note: The secretariat explained to the Committee by circulation and obtained its endorsement that the conforming changes to HKSA 210 (not yet effective) should be attached as an appendix to existing HKSA 210 for reference only and will only be issued as a revised standard with illustrative Hong Kong examples when effective. Attaching it as an appendix to the existing Standard is the approach adopted by the IAASB and provides reference materials for practitioners as the conforming changes are mentioned in HKSA 700 and others.]

Council's approval was obtained by circulation on 6 October 2006 in relation to the conforming amendments to HKSA 200, HKSA 210 and HKSA 560 as a result of HKSA 700. These were issued as part of Members' Handbook Update 33.]

3. IAASB's Policy Position Paper (July 2006) – Guide for National Standard Setters that adopt the IAASB's International Standards but find it necessary to make limited modifications

The Committee noted the issuance of the IAASB's Policy Paper and agreed the following procedures:

- In the event that the HKICPA would like to amend a requirement in an IAASB Standard, the approval of the IAASB should be obtained before the equivalent Hong Kong Standard is issued in final. It was noted that this is rare, as the HKICPA, as part of its International Convergence Programme since 2001, has not had to depart from the requirements of IAASB's Auditing and Assurance Standards.
- In the event that local explanations are inserted as footnotes and these create exceptions to the requirements in the Standards, as in the case of HKSA 701, the HKICPA will report the matter to the IAASB for information only. IAASB's approval in such instances is not required.

[Post meeting note: On 6 October 2006, the HKICPA secretariat wrote to the IAASB Technical Director and attached copies of the proposed HKSA 700 and HKSA 701 and reported the exception in HKSA 701.]

4. Revised draft proposed Practice Note "The Audit of Accounts of Owners' Corporation of Building"

The Committee considered the second Working Draft of the proposed Practice Note (PN) prepared by the AASC/SMPC Joint Working Group and was still of the view that the proposed PN covered some basic audit procedures common to all audits. Furthermore, all the points made should be clearly explained as to how they impact the audit of accounts of owners' corporation of building.

The Committee requested the secretariat and the AASC/SMPC Joint Working Group to consider carefully as to whether it would be more efficient to issue guidance in this regard to members in the form of a Bulletin or as a Q&A circular, rather than as a PN.

5. Reporting on school accounts under the Education (Amendment) Ordinance 2004

The Committee noted that the secretariat together with a Treasury representative met with the Education and Manpower Bureau (EMB) on 18 September 2006. It was noted that it was an encouraging meeting whereby EMB indicated that it would be prepared to consider undertaking to work to change their legislation from requiring a "present fairly" auditor's opinion to a "have been properly prepared, in all material respects, in accordance with" opinion in order to fall in line with HKICPA's pronouncements, when school's accounts are not prepared in accordance with Hong Kong Financial Reporting Standards.

Subject to EMB's undertaking in writing to work to amend the Education Ordinance, the secretariat requested the Committee to consider an appropriate solution for EMB during the interim period until the Ordinance can be changed.

The Committee discussed the matter and agreed that it might be appropriate for practitioners to issue a two-part report to meet the requirements of the HKICPA and EMB. The Committee requested the secretariat to prepare a draft example report for consideration by the Committee.

[Post meeting note: A proposed working draft example report for Incorporated Management Committee Schools was prepared by the secretariat and forwarded to the Committee for consideration by circulation by 13 October 2006.]

6. Proposed HKICPA/HKEx Working Group to consider Listing Rule requirement on reporting on Continuing Connected Transactions

The Committee noted the issues arising from the Listing Rule requirement on reporting on continuing connected transactions and the proposal arising from the HKICPA/SFC/HKEx Tripartite meeting that a Working Group should be formed to consider the issues. Committee members were requested to submit their nominations to the secretariat.

7. Proposed HKICPA/Law Society Working Group to consider revision to Practice Note 840 “The Audit of the Solicitors’ Accounts under the Solicitors’ Accounts Rules and the Accountant’s Report Rules” and Report on Gross Fee Income under Rule 8(i)(a) of the Solicitors (Professional Indemnity Rule)

The Committee noted that the secretariat together with a member of the Committee met the Law Society on 15 September 2006 to discuss the HKICPA’s Draft Discussion Paper “Requests for Special Purpose Reports”. It was explained to the Law Society that the new and revised Auditing, Assurance and Related Services Standards would affect certain of the current reporting on solicitor’s accounts. It was agreed that a Working Group should be formed to consider the existing reporting matters on solicitor’s accounts and how these will be affected by the new and revised Standards.

8. ISAE 3400 “The Examination of Prospective Financial Information”

The Committee noted that a paper was prepared by the secretariat in relation to the adoption of ISAE 3400 as part of the International Convergence Programme. The Committee agreed that given the Standard is linked to the proposed PN 2000 “Other Letters Issued in relation to Investment Circulars” of the Accountants’ Report Project, the adoption of ISAE 3400 should be considered as part of that project. The Accountants’ Report Project team was requested to consider the adoption of ISAE 3400 as part of the project.

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