

Ethics Committee
Meeting Summary – October 2005

The Ethics Committee (Committee) met on 6 October 2005.

Members of the Committee present were: Mark Fong (Chairman), Doug Oxley (Deputy Chairman), Wilson Chan, Barbara Chan, Con Conway, Eric Fok, Charles Grieve, Alex Lai, Quinn Law, Lucia Li, Kenneth Lam, Rita Liaw, Sheila Pattle and Keith Pogson.

Secretariat staff present were: Stephen Chan (Executive Director), Patricia McBride (Director, Standard Setting) and Elaine Chan (Assistant Director, Standard Setting).

The Committee discussed the following items:

1. IFAC Ethics Committee Meeting – 12-14 October 2005
2. IFAC ED of proposed revision to the definition of network firm
3. Proposed Code of Ethics for Professional Accountants and mapping of existing Professional Ethics Statements and Guidance with the IFAC Code of Ethics
4. External Authorised Supervisors Scheme – Possible impact on auditor's independence
5. An enquiry on independence – Participation in a referral programme of an insurance company by a firm of certified public accountants

1. **IFAC Ethics Committee Meeting – 12-14 October 2005**

The Committee discussed the following agenda items of the IFAC Ethics Committee Meeting which would be attended by the Chairman:

a. Independence

The Committee made a number of suggestions on the IFAC Ethics Committee's proposed revised Section 290 on independence in respect of:

- Discussion with the audit committee;
- "Cooling off" period for a former engagement partner joining a listed audit client;
- Exemption from audit partner rotation;
- Audit partner compensation in relation to sale of non-assurance services to audit clients;
- Provision of accounting and bookkeeping services; and
- Potential employment with an assurance client.

b. Network Firm

The Committee noted that the IFAC Ethics Committee would be receiving a verbal report on the nature of the comments received on the IFAC Ethics Committee's Exposure Draft of the proposed revised definition of network firm.

c. IFAC Ethics Committee Forum – 11 October 2005

A member suggested that the Chairman to raise at the IFAC Ethics Committee Forum concerns that the clarity of the restrictions set out in the IFAC Code should be improved.

2. IFAC ED of proposed revision to the definition of network firm

The Committee noted that no submissions were received on the Institute's Invitation to Comment on the IFAC ED of proposed revision to the definition of network firm.

The Committee considered a draft submission to the IFAC Ethics Committee. The Committee was of the view that the definition should be a principles-based definition and the criteria in the proposed definition should be set out as examples of conditions that demonstrate that a firm belongs to a network and should note that the examples are not exhaustive.

3. Proposed Code of Ethics for Professional Accountants and mapping of existing Professional Ethics Statements and Guidance with the IFAC Code of Ethics

The Committee considered the proposed Code of Ethics which was drafted based on the revised IFAC Code of Ethics issued in June 2005 and the proposed Preface and agreed matters as follows:

- i. that the proposed Code of Ethics should be applicable in respect of professional services performed by members of the Institute regardless of whether the professional services are performed in Hong Kong;
- ii. that the modifications made to the IFAC independence requirements when they were adopted in Hong Kong as Professional Ethics Statement 1.203A and Professional Ethics Guidance 1.308 should remain; and
- iii. that additional local requirements contained in the existing Professional Ethics Statements should be incorporated into the proposed Code of Ethics as local add-ons following the relevant sections or paragraphs.

[Post meeting note: Subsequent to the meeting, the Ethics Committee was asked to target at adopting the IFAC Code of Ethics in Hong Kong as soon as possible before the end of 2005. The Committee agreed by circulation to modify its approach in respect of incorporating additional local requirements into the proposed Code of Ethics. It was agreed that where the Committee considers that an existing Professional Ethics Statement should remain because it contains additional local requirements, it would be included under new Part D. The contents of the Professional Ethics Statements will remain intact for the time being and will be reviewed in due course and updated where necessary.]

4. External Authorised Supervisors Scheme – Possible impact on auditor's independence

The Committee considered a referral from the Practical Experience Framework Committee (PEFC) requesting comments on whether an auditor acting as the External Authorised Supervisor of a registered student who is employed by the audit client will affect the auditor's independence. The Committee concluded that potential threats to independence exist in the circumstance in question.

5. An enquiry on independence – Participation in a referral programme of an insurance company by a firm of certified public accountants

The Committee noted an enquiry from a member firm asking whether a firm of certified public accountants is prohibited from entering into a referral programme of an insurance company for the referral of its clients to the insurance company in return for a referral fee at a certain percentage of the insurance agent's commission.

The Committee considered that it appears, based on the facts provided, that there are potential threats to independence such as self-interest threat. The threats identified would therefore need to be evaluated by the firm of certified public accountants to see whether sufficient safeguards could be applied to reduce the threats to an acceptable level.

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