



**Ethics Committee**  
**Meeting Summary – December 2006**

The Ethics Committee (Committee) met on 7 December 2006.

Members of the Committee present were: Mark Fong (Chairman), Keith Pogson (Deputy Chairman), Albert Au, Wilson Chan, Barbara Chan, Chew Fook Aun, Charles Grieve, Alex Lai, Kenneth Lam, Quinn Law, Lucia Li, Raymond Ng, Sheila Pattle, William Shafer and Kenny Tam.

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

**International Ethics Standards Board for Accountants Meeting – 18-19 December 2006 in London**

The Committee noted that the meeting was arranged to discuss the Agenda Item 2 “Independence” of the International Ethics Standards Board for Accountants (IESBA) Meeting which would be attended by the Chairman in London. The IESBA London meeting would approve the issuance of the Exposure Draft on Independence (sections 290 and 291) by the end of December 2006.

The Committee was requested to provide their views on the proposed Exposure Draft and had discussions on the following areas:

a. **Key Audit Partner**

The Committee noted that the term “key audit partner” would be defined to include:

- Engagement partner
- Individual responsible for the engagement quality control review
- Other audit partners on the engagement team, such as lead partners on significant subsidiaries or divisions, who are responsible for key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion

Certain members expressed concerns as to how the extended definition of key audit partner would affect small practitioners who are auditors of subsidiaries of listed entities. The Committee agreed that during the consultation period, the exposure draft should be carefully considered by the smaller practitioners as the term “key audit partner” would be used on the provisions on employment relationships and partner rotation.

b. **Entities of Significant Public Interest**

As identified at the last meeting, the Committee noted that the Exposure Draft would extend the listed entity independence provisions as follows:

- Listed entity provisions to be extended to all entities of significant public interest (“ESPIs”)
- If an ESPI is not defined by legislation or regulation, member bodies should define:
  - Always includes listed entities; and
  - Depending upon facts and circumstances will normally include banks, governments, insurance companies and other regulated financial institutions and may include pension funds, government-agencies, government-controlled entities and not-for-profit entities.

Certain members reiterated their concerns that an ESPI in Hong Kong may potentially cover a wide range of entities, including those that are predominantly audited by small and medium practitioners, such as stock brokers, schools and accounts of owners' corporation of buildings. The Committee agreed that the approach to define what is an ESPI should be carefully considered by the Committee in future meetings.

c. Management Functions

Committee members generally agreed that a firm should not perform management functions for an audit client. When providing non-assurance services to an audit client, the firm should be satisfied that a member of management with a sufficient understanding of the service and the ability to evaluate the results has been designated to:

- Make all significant judgments and decisions connected with the service; and
- Accept responsibility actions to be taken arising from the results of the service

It was noted that IESBA had refined certain of the proposals reflecting the Committee's initial views expressed at the last IESBA meeting and agreed that during the consultation stage, the Institute's small and medium practitioners should be briefed on the new requirements and that they are requested to consider the proposals carefully and provide their comments.

d. Split of Section 290

Certain members expressed that they did not like the split of section 290 on Independence into two sections on the grounds that auditors would still be required to provide reasonable or limited assurance on these engagements:

- Section 290 for audit and review of historical financial information
- Section 291 on all other assurance engagements

e. Non-audit Services – Taxation Services

A member expressed his view that the detailed guidance on taxation appeared to be a relaxation of the key principles of independence. The Committee agreed that this would be considered at the Consultation period.

There being no further business, the meeting closed at 2:30 p.m.

*[Post meeting note: A HKICPA Invitation to Comment on IFAC's IESBA Exposure Draft on Auditor Independence Requirements (issued on 30 December 2006) was posted on the Institute's website on 5 January 2007 for consultation until 16 April 2007 after obtaining the Committee's endorsement by Circulation.]*

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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.**