



# STANDARDS & TECHNICAL

## NEWS AT A GLANCE

TechWatch is a publication designed to alert members to topics and issues that impact on CPAs and their working environment. We welcome your comments and feedback. Comments and suggestions on TechWatch should be addressed to Stephen Chan, Technical Director (Ethics & Assurance) & Head of Standards & Technical Department Coordination [by email](#).

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### HEADLINES

#### Members' Handbook Update

1. [Update No. 8](#)

#### Technical Update Evening

2. [TUE Programme - December 2004](#)

#### Financial Reporting

3. [HKICPA Issues Four New Accounting Standards](#)
4. [FASC Meeting Summary – 12 October 2004](#)

#### Audit & Assurance

5. [New Standard On Audit Planning](#)
6. [New Standards On Auditing And Related Services](#)
7. [Exposure Draft Of 21 Proposed Hong Kong Standards On Auditing And Review Engagements](#)
8. [AASC Meeting Summary – 19 October 2004](#)

#### Corporate Restructuring & Insolvency

9. [Taxing Masters Address The Insolvency Interest Group On The Operation Of The Procedural Guides For Taxation/ Determination Of Bills In Liquidation](#)

#### Professional Accountants In Business

10. [New IFAC Publication Identifies Role And Value Of Professional Accountants In Business](#)
11. [IFAC Publishes Collection Of Award-Winning Articles On Management Accounting](#)

### Corporate Governance

12. [Results Of The 2004 Best Corporate Governance Disclosure Awards Announced](#)
13. [HKEx Issues Code On Corporate Governance Practices And Rules On Corporate Governance Report](#)

### Legislation & Government Initiatives

14. [Reference Guide On Best Practices For Charitable Fund-Raising Activities](#)

### [Comment Due Dates](#)

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## **Members' Handbook Update**

1. [Update No. 8](#) was issued in November 2004 enclosing the following:

### Financial Reporting Standards – Volume II

- HKAS 12 *Income Taxes*
- HKAS 14 *Segment Reporting*
- HKAS 18 *Revenue*
- HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- Amendments to HKAS 32 *Financial Instruments: Disclosure and Presentation*
- Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement*

### Auditing & Assurance Standards – Volume III

- HKSA 200, “Objective and General Principles Governing an Audit of Financial Statements” (Previously forming part of SAS 100 (Revised))
- HKSA 300, “Planning an Audit of Financial Statements”
- HKSA 315, “Understanding of the Entity and Its Environment and Assessing the Risks of Material Misstatement” (Previously SAS 315)
- HKSA 330, “The Auditor’s Procedures in Response to Assessed Risks” (Previously SAS 330)
- HKSA 500, “Audit Evidence” (Previously SAS 500)
- HKSRS 4400, “Engagements to Perform Agreed-upon Procedures Regarding Financial Information” (Previously SAS 710)
- HKSRS 4410, “Engagements to Compile Financial Statements” (Previously SAS 720)

Further details on the above new and revised Statements are set out in the “Financial Reporting” and “Audit & Assurance” sections below.

## **Technical Update Evening**

2. **TUE Programme – December 2004**

The forthcoming [TUE sessions](#) in December 2004 are:

- New Quality Control Standards for Auditors (7 December 2004) (**Re-run**)
- Revised Standards on Fraud Consideration and Audit Planning for Auditors (14 December 2004) (**Re-run**)

Seats are limited. To secure your seats, please register early by completing the [registration form](#) and returning it to the HKICPA.

## **Financial Reporting**

### **3. HKICPA Issues Four New Accounting Standards**

The HKICPA has issued the following new Accounting Standards with effect for annual accounting periods beginning on or after 1 January 2005 (with earlier adoption encouraged):

- HKAS 12 *Income Taxes*
- HKAS 14 *Segment Reporting*
- HKAS 18 *Revenue*
- HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

The above new Accounting Standards are to replace the following:

- SSAP 12 *Income Taxes*
- SSAP 25 *Segment Reporting*
- SSAP 18 *Revenue*
- SSAP 28 *Provisions, Contingent Liabilities and Contingent Assets*

The new Accounting Standards have been issued as part of [Update No. 8](#).

### **4. FASC Meeting Summary – 12 October 2004**

The FASC met on 12 October 2004 and discussed:

- Financial Instruments – Transitional arrangements
- Convergence Project
- Accounting Bulletin on Deemed Disposals
- First Time Application of Hong Kong Financial Reporting Standards

FASC [meeting summaries](#) are available on the HKICPA's website.

## **Audit & Assurance**

### **5. New Standard On Audit Planning**

The HKICPA has issued [Hong Kong Standard on Auditing \(HKSA\) 300, "Planning an Audit of Financial Statements"](#) which adopts verbatim ISA 300 (Revised) and is effective for audits of financial statements for periods beginning on or after 15 December 2004.

HKSA 300 requires the auditor to be more rigorous in the planning of his audits. It builds on the new Audit Risk Standards and requires the auditor to plan the audit so that the engagement will be performed in an effective manner. It emphasizes that planning is a continual and iterative process throughout the engagement and that unexpected events, changes in conditions or other circumstances may lead the auditor to re-evaluate the planned audit procedures. Furthermore it requires the auditor to establish the overall strategy for the audit that sets the scope, timing and direction of the audit.

SAS 200, "Planning" remains effective for audits of financial statements for periods beginning before 15 December 2004.

## 6. New Standards On Auditing And Related Services

Four SAS have been re-issued as HKSA:

- [HKSA 200, “Objective and General Principles Governing an Audit of Financial Statements”](#) (Previously forming part of SAS 100 (Revised))
- [HKSA 315, “Understanding of the Entity and Its Environment and Assessing the Risks of Material Misstatement”](#) (Previously SAS 315)
- [HKSA 330, “The Auditor’s Procedures in Response to Assessed Risks”](#) (Previously SAS 330)
- [HKSA 500 “Audit Evidence”](#) (Previously SAS 500).

HKSA 200, 315, 330 and 500 are effective for audits of financial statements for periods beginning on or after 15 December 2004. Paragraphs 1 to 15 and 29 of SAS 100, and SAS 400 (which is attached to SAS 500) remain in effect for audits of financial statements for periods beginning before 15 December 2004. SAS 315 and 330 are withdrawn.

Two SAS have been re-issued as Hong Kong Standards on Related Services (HKSRS):

- [HKSRS 4400, “Engagements to Perform Agreed-upon Procedures Regarding Financial Information”](#) (Previously SAS 710)
- [HKSRS 4410, “Engagements to Compile Financial Statements”](#) (Previously SAS 720).

HKSRS 4400 and 4410 are effective upon issue, and SAS 710 and 720 are withdrawn.

## 7. Exposure Draft Of 21 Proposed Hong Kong Standards On Auditing And Review Engagements

As reported in [TechWatch Issue No. 28](#), the International Standards Convergence Project is carried out in phases. The HKICPA has recently issued an ED seeking comments on 21 proposed Hong Kong Standards on Auditing and Review Engagements, including 20 replacement Hong Kong Standards on Auditing and 1 new Hong Kong Standard on Review Engagements.

The 20 proposed replacement Hong Kong Standards on Auditing adopt verbatim their latest equivalent International Standards on Auditing (ISAs) that have been revised by the International Auditing & Assurance Standards Board (IAASB) to reflect the conforming changes introduced by the new Audit Risk Standards (HKSA 315 and 330), new Quality Control Standards (HKSQC1 and HKSA 220) and revised Fraud Consideration Standard (HKSA 240). If adopted, they will be effective for audits of financial statements for periods beginning on or after 15 December 2004.

The ED has been posted on the [HKICPA’s website](#). Members and interested parties are requested to submit their comments on the ED to the HKICPA by **28 February 2005**.

## 8. AASC Meeting Summary – 19 October 2004

The [Meeting Summary](#) is available on the HKICPA’s website.

## **Corporate Restructuring & Insolvency**

### **9. Taxing Masters Address The Insolvency Interest Group On The Operation Of The Procedural Guides For Taxation/ Determination Of Bills In Liquidation**

As reported in [TechWatch Issue No. 22](#), the Procedural Guides for Taxation/Determination of Liquidators' Bills ("Procedural Guides") came into effect on 3 May 2004. The Registrar of High Court, Mr. Christopher Chan, and Master Andy Ho and Master Simon Kwang spoke on the operation of the Procedural Guides on 17 November 2004 at the HKICPA's Insolvency Interest Group lunch seminar.

Aspects of the Procedural Guides covered at the seminar included their scope, vetting of applications, supporting documents and other information required, and procedures for call-over hearings. As regards the scope, the Registrar made it clear that the Procedural Guides were not statutory instruments or judicial decisions but were intended to assist practitioners to comply with the procedural requirements of the Companies (Winding Up) Rules (Cap. 32H). Their scope excluded summary liquidation cases under section 227F of the Companies Ordinance (Cap. 32) (i.e., cases where the property of the company was not likely to exceed HK\$200,000 in value).

The Registrar explained that in order to avoid inconsistency in practice, rather than distributing the taxation work relating to the application of the Procedural Guides among all Masters, it had been decided that it would be taken up by Masters Ho and Kwang, who would each be responsible for vetting the first and subsequent bills in respect of the same cases under a "docket" system. This practice would continue for at least the next six months.

The speakers clarified that the source documents did not need to be submitted with the application for assessment or taxation and the background did not need to be repeated subsequent to submission of the first bill in a series. One of the main topics covered in the seminar was the assessment of the bills of agents, including solicitors. The speakers stressed the need for the Certificate of Scrutiny, which accompanied such bills, to indicate that the bills had undergone a critical scrutiny by the liquidator. The Certificate of Employment should show the authority for engaging an agent, such as a solicitor, which could be a statutory authority, resolution of a committee of inspection, etc. Instructions given to solicitors, which should be in writing, should also be enclosed and liquidators should make sure that the scope of the engagement was within the authority given to the liquidator. Particular agreements on remuneration should be included. The speakers pointed that agents' charge-out rates, particularly where they were higher than any "standard" rates for the profession, should be explained and sufficient narrative explanations of work done and the reason for it should be provided (including addressing question such as why several lawyers might need to work on the same task). If it was within the authority of the liquidator to engage counsel, the liquidator should ensure that counsel's fees were not excessive. If they were regarded as being excessive, counsel's fees might also be taxed down.

Practitioners were referred to Order 62 of the Rules of the High Court (Cap. 4A) as a source of some of the principles applicable to taxation.

Master Ho said that he had found the call-over hearing to be very useful procedure and often the taxation could be completed at a one-hour hearing or, at least, all the outstanding issues could be identified. He advised liquidators attending a hearing to ensure that they had familiarised themselves with the bills and were able to answer questions on them. For hearings on agents bills, he suggested that, generally, the liquidator could write to ask to be excused from attending.

The Registrar indicated that he expected to be able to clear the existing backlog of taxation cases within the next two months without building up a new backlog.

A copy of the [High Court Registrar's speech](#) may be accessed at the HKICPA's website.

## **Professional Accountants In Business**

### **10. New IFAC Publication Identifies Role And Value Of Professional Accountants In Business**

Providing assurance, facilitating management decision-making and strategic development, and serving as the gatekeeper of corporate integrity are all key roles of professional accountants in business (PAIBs) that are highlighted in a new publication, "*The Diverse Roles of Professional Accountants in Business*", released by the International Federation of Accountants (IFAC). The booklet, which provides insights into the varied responsibilities of PAIBs, features interviews with 16 senior-level accountants working in a variety of organisations in 11 different countries.

The goal is to let professional accountants in business tell their own story about their roles and responsibilities so that the public can better understand not only what they do, but also how they balance their roles of meeting corporate objectives and shareholder needs.

Among those interviewed for the publication include the chairman of a bank in Hong Kong, the chief accounting officer of a multinational automotive company, the third in command at the FBI (US Federal Bureau of Investigation), the vice president of investor relations for an international corporation, and the general manager of a small Australian family business.

The interviews revealed several common themes:

- The work of PAIBs has changed significantly in recent years – today it has as much to do with strategy and assurance as it has to do with the integrity of the numbers produced;
- Today's PAIBs face ongoing pressure over ethics, resulting in large part from aggressive earnings management;
- Continuing professional education is seen as necessary to staying up-to-date on increasingly complex business and accounting issues;
- PAIBs have key roles in corporate governance and view themselves as the "leaders of integrity".

Members may purchase printed copies of the booklet through [IFAC's online bookstore](#), or download free of charge after [registration](#).

### **11. IFAC Publishes Collection Of Award-Winning Articles On Management Accounting**

Articles of Merit: 2004, a collection of award-winning articles covering topics of interest to professional accountants in business, has been published by the IFAC's Professional Accountants in Business (PAIB) Committee. The publication includes ten articles previously published by IFAC member bodies that were selected by the IFAC PAIB Committee, as part of its annual Articles of Merit Award Program for Distinguished Contribution to Management Accounting ("Award Program").

The winning article in the 2004 Award Program is "Ensuring Ethical Effectiveness" by Randy Myers, first published in the American Institute of Certified Public Accountants' Journal of Accountancy. The article, which has been reproduced in the November 2004 issue of "*The Hong Kong Accountant*", examines the requirements under the U.S. Sarbanes-Oxley Act for publicly-traded companies to disclose whether they have adopted a code of ethics for their senior financial officers and explains how to draft such codes.

Other award-winning articles cover topics such as risk management, the finance function, intellectual capital statements, the emergence of a new set of management accounting logic, and accrual accounting in central government.

Members may purchase printed copies through [IFAC's online bookstore](#), or download the publication free of charge after [registration](#).

**Corporate Governance**

**12. Results Of The 2004 Best Corporate Governance Disclosure Awards Announced**

The results of the Institute's 2004 Best Corporate Governance Disclosure Awards ("the BCGD Awards") were announced by the president, and chairman of the BCGD Award Judging Panel, Mr. Roger Best, the chairman of the Corporate Governance Committee, Mr. Edward Chow, and the chairman of the BCGD Awards Organising Committee, Mr. Jim Wardell, at a press conference held on 25 November 2004.

This was the fifth consecutive year in which the competition was held and once again it proved a great success, with a record number of annual reports reviewed and several "firsts" in the results: the first winner in the new Growth Enterprise Market Category, the first small government-funded body to win an award in the Public Sector/Not-For-Profit Category and the first Significant Improvement Award to be given out in the Non-Hang Seng Index Category. Directors, chief operating officers, chief financial officers and other senior representatives from many of the winning companies and organisations also attended the press conference and briefly addressed the audience on the subject of corporate governance in their companies/organisations. The results were as follows:

<b><u>Significant Improvement Award</u></b>	
Hang Seng Index Category	Johnson Electric Holdings Limited PCCW Limited
Non-Hang Seng Index Category	Hong Kong Exchanges and Clearing Limited
<b><u>Hang Seng Index Category</u></b>	
Diamond	CLP Holdings Limited
Platinum	HSBC Holdings plc
Gold	Li & Fung Limited



**Non-Hang Seng Index Category**

Diamond	Hong Kong Exchanges and Clearing Limited
Platinum	Hysan Development Company Limited
Gold	Standard Chartered PLC

**Growth Enterprise Market Category**

Diamond	Media Partners International Holdings Inc.
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**Public Sector/Not-For-Profit Organisations Category**

Diamond	Airport Authority Hong Kong
Platinum	Securities and Futures Commission
Gold	Hong Kong Chinese Orchestra Limited

The BCGD Awards Presentation Ceremony took place at the HKICPA Annual Dinner in the evening following the press conference. Senior executives of the winning companies/organisations attended the dinner and received their trophies from Mr. Graham Ward, IFAC president and the guest of honour at the Annual Dinner. During the presentation ceremony, a video and slide presentation of the winning annual reports and short interviews with the chairmen/CFOs of the Diamond winners was shown to the audience.

A Judges' Report for the 2004 BCGD Awards has been produced. In addition to background information of the BCGD Awards, the Judges' Report contains brief commentaries on the annual reports of the winning companies and organisations, as well as comments on the standard of entries generally. It also highlights certain particular aspects of corporate governance practice and disclosure in Hong Kong that the judges and reviewers believe should be commended and encouraged, and areas in relation to which they hope to see further improvements in future.

The [Judges' Report](#) and the [results announcement press release](#) for 2004 BCGD Awards can be accessed on the HKICPA's website.

**13. HKEx Issues Code On Corporate Governance Practices And Rules On Corporate Governance Report**

On 19 November 2004, the Stock Exchange of Hong Kong ("the Exchange") published its [Conclusions on Exposure of Draft Code on Corporate Governance Practices and Corporate Governance Report](#) ("Conclusions Report"). This summarises the main comments raised in response to the draft Code on Corporate Governance Practices and Corporate Governance Report ("Exposure Paper"), issued for public comment on 30 January 2004, and sets out the final conclusions of the Exchange.

The HKICPA's [submission](#) on the Exposure Paper, issued in March 2004, may be accessed at the HKICPA's website. A summary of HKICPA's comments was reported in [TechWatch Issue No. 22](#). Comments from other parties on the Exposure Paper are available on the [HKEx's website](#).

## Requirements of the Code

The Code on Corporate Governance Practices (“the Code”) sets out two levels of recommendations, namely (i) Code Provisions and (ii) Recommended Best Practices.

- (i) Listed companies are expected to comply with the Code Provisions. They must state whether they have complied with the Code Provisions in their interim/half-year reports and annual reports. Where a listed company deviates from the Code Provisions, it must give considered reasons for any deviation.
- (ii) Listed companies are encouraged to comply with the Recommended Best Practices, which are provided for guidance only. They are also encouraged to state whether they have complied with the Recommended Best Practices and give considered reasons for any deviation.

Listed companies may also devise their own code on corporate governance practices on such terms as they may consider appropriate.

The Code has five sections dealing with directors, remuneration of directors and senior management, accountability and audit, delegation by the Board and communication with shareholders. In each section, it sets out the Code Provisions and/or Recommended Best Practices, together with the underlying principles of the relevant provisions to assist listed issuers in developing their own code of board practices.

Listed companies are required to include a Corporate Governance Report in their annual reports containing prescribed information on their corporate governance practices.

## Amendments to the Listing Rules

Main Board Listing Rules – the new Code replaces the Code of Best Practice in Appendix 14, and the Rules on the Corporate Governance Report are introduced as a new Appendix 23.

GEM Listing Rules – the Code is added as Appendix 15 (replacing the existing GEM Rules 5.35 to 5.45) and the Rules on the Corporate Governance Report are incorporated in a new Appendix 16.

Various other consequential amendments to the Main Board and GEM Listing Rules have also been made as a result of the introduction of the Code and Rules on the Corporate Governance Report. The amendments are contained in the Conclusions Report.

## Implementation and transitional arrangements

The amendments to the Main Board and GEM Listing Rules will come into effect on 1 January 2005.

The Code, with one exception, will become effective for accounting periods commencing on or after 1 January 2005. The exception is in respect of Code Provision C.2 on internal controls and the proposed disclosure requirements in the Corporate Governance Report relating to listed issuers' internal controls, which will be implemented for accounting periods commencing on or after 1 July 2005. The HKICPA is currently working on guidance on internal controls that aims to help listed issuers understand and implement the Code requirements relating to internal control and devise their internal control procedures.

Details of the implementation and transitional arrangements are also contained in the Conclusions Report.

**Legislation & Government Initiatives**

**14. Reference Guide On Best Practices For Charitable Fund-Raising Activities**

The Social Welfare Department (SWD) of the Government has published the [“Reference Guide on Best Practices for Charitable Fund-raising Activities”](#) (“Guide”) for *voluntary compliance* by charitable organisations. The main objective is to enhance the transparency and public accountability of charitable fund-raising activities.

The Guide is divided into three parts, covering the areas on donors’ right, fund raising practices and financial accountability. The public is encouraged to use the Guide as a reference against which the performance of a Charity in fund-raising can be measured. The SWD will review the effectiveness of the *voluntary compliance system* in a year’s time to ascertain its progress.

**Comment Due Dates**

Date	Subject
6 December 2004	Invitation to Comment on IAASB ED on Proposed Policy Statement “Clarifying Professional Requirements in International Standards Issued by the IAASB” and IAASB Consultation Paper on “Improving the Clarity and Structure of IAASB Standards and Related Considerations for Practice Statements”, which has been posted on the <a href="#">HKICPA’s website</a> .
31 December 2004	Exposure Draft of Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services, which has been posted on the <a href="#">HKICPA’s website</a> .
7 January 2005	Invitation to Comment on IAASB ED on ISA 230 (Revised) “Audit Documentation”, which has been posted on the <a href="#">HKICPA’s website</a> .
28 February 2005	Exposure Draft of 21 Proposed Hong Kong Standards on Auditing and Review Engagements, which has been posted on the <a href="#">HKICPA’s website</a> .
Please send comments to <a href="mailto:commentletters@hkicpa.org.hk">commentletters@hkicpa.org.hk</a>	