



Minutes of the 372nd Meeting of the Auditing and Assurance Standards Committee

- Date: Thursday, 13 December 2018 at 8:30 a.m.
- Location: Board Room of the Hong Kong Institute of Certified Public Accountants, 37/F., Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong.
- Present: Mr. Paul Lau (Chairman)
Ms. Loretta Fong (Deputy Chairman)
Mr. Derek Broadley
Mr. Edmond Chan
Mr. Paul Hebditch
Mr. Frank Lam
Ms. Susanna Lau
Mr. Steve Ong (Dial-in)
Miss. Basilia Wong
Mr. Thomas Wong
Miss. Joyce Woo
- In attendance: Mr. Chris Joy, Executive Director
Ms. Christina Ng, Director, Standard Setting
Ms. Selene Ho, Deputy Director, Standard Setting
Ms. Grace Lau, Manager, Standard Setting
Ms. Phoebe To, Manager, Standard Setting
- Apologies: Mr. Chi Kit Shaw
Mr. Anthony Wong

- | | <u>Action</u> |
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| 2846. <u>Minutes of the 371st Meeting</u>
The Committee approved and the Chairman signed the minutes of the 371 st meeting. | |
| 2847. <u>Work Plan Status Report and Update from Working Groups</u>
The Committee considered the report and noted progress of various projects. | |
| 2848. <u>Update on IAASB Extended External Reporting Roundtable</u>
The Executive Director attended the IAASB Roundtable on the Extended External Reporting project in Sydney held in November and updated the Committee on key topics discussed and overall timetable of the project. | |

2849. HKSA 540 (Revised), Auditing Accounting Estimates and Related Disclosures and Conforming and Consequential Amendments to other Hong Kong Standards

In October 2018, IAASB released ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures and Conforming and Consequential Amendments to other International Standards*.

The Committee approved the adoption of ISA 540 (Revised) and endorsed the converged HKSA 540 (Revised) for final issuance, subject to the copyright clearance from IFAC.

The Committee requested SSD to consider developing local application guidance in relation to the standard.

[Post meeting note: HKSA 540 (Revised), Auditing Accounting Estimates and Related Disclosures and Conforming and Consequential Amendments to other Hong Kong Standards was issued on 28 December 2018 in Members' Handbook Update 223 and is available at: http://app1.hkicpa.org.hk/hksaebk/HKSA_Members_Handbook_Master/volumell/hksa540rev18.pdf]

2850. Proposed Circular on Reporting related to the Private Columbaria Ordinance

The Committee noted the revised draft on the proposed circular on reporting related to the Private Columbaria Ordinance.

The Committee had some drafting comments on the proposed circular. SSD would amend the circular and circulate to AASC for approval after the meeting.

[Post meeting note: The circular was circulated to AASC for approval on 10 January 2019. The final circular was posted on HKICPA's website on 30 January 2019 and is available at: https://www.hkicpa.org.hk/-/media/HKICPA-Website/New-HKICPA/Standards-and-regulation/SSD/03_Our-views/TB_Cir/Auditing/cir_pco.pdf]

2851. Final issuance of PN 830 (Revised), Reports by the Auditor Under the Banking Ordinance

The Committee noted that the comment period on the Exposure Draft ("ED") of PN 830 (Revised), *Reports by the Auditor Under the Banking Ordinance* had ended on 26 November 2018. SSD and the Institute's Banking Regulatory Advisory Panel ("BRAP") had considered the comments received and amended the PN 830 (Revised) accordingly.

The Committee considered the amended draft of PN 830 (Revised) and endorsed the final issuance. It will be effective for reporting periods ending on or after 1 January 2019.

[Post meeting note: PN 830 (Revised) was issued on 28 December 2018 in Members' Handbook Update 223 and is available at: http://app1.hkicpa.org.hk/hksaebk/HKSA_Members_Handbook_Master/volumell/pn8302018.pdf]

2852. Auditor's reporting in relation to the Product Eco-responsibility (Regulated Electrical Equipment) Regulation

Following the enactment of the *Promotion of Recycling and Proper Disposal (Electrical Equipment and Electronic Equipment) (Amendment) Ordinance 2016* in March of 2016, and the *Product Eco-responsibility (Regulated Electrical Equipment) Regulation* ("REE Regulation") in July 2017 by the Legislative Council, the Producer Responsibility Scheme on the Waste Electrical and Electronic Equipment ("WPRS") have been formally implemented on 1 August 2018 to promote the recycling and proper disposal of locally generated waste electrical and electronic equipment.

Under the regulatory framework, a registered supplier must submit returns to the Director of EPD in specified form and an annual audit report in respect of the returns submitted, to ensure that the contents of the returns are accurate and correct. The audit report should be submitted within 3 months from the last day of the audit year. The audit report must be prepared by a certified public accountant (practicing) as defined by Section 2(1) of the Professional Accountants Ordinance (Cap. 50) with auditor's opinion on specified items.

SSD reported that it had not been approached by the EPD or any relevant authority regarding the auditor's reporting at the ordinance development stage. The Committee agreed that a working group with representatives nominated by AASC members should be set up to further discuss the reporting framework and consider the need to develop guidance for such reporting requirement. Committee members were invited to send their nominations to SSD.

[Post meeting note: The first meeting of the Working Group on Product Eco-responsibility Regulation was held on 7 January 2019. Work progress will be updated at AASC meetings in due course.]

2853. AOB

(i) Potential auditing issues relating to revenue recognition of sponsor fee income under HKFRS 15 *Revenue from Contracts with Customers*

It was reported that on 10 December, SSD met the representatives from the Institute's Financial Reporting Standards Committee ("FRSC") and Securities Regulatory Advisory Panel ("SRAP") to discuss the issues identified in the revenue recognition of sponsor fee income under HKFRS 15. Auditing difficulties were highlighted at the meeting such as the use of the input method based on the costs incurred because many entities do not capture their time charges and even with such information available, it would be difficult to correlate such information with the completion of the milestones in the contract.

The Committee discussed the concerns and considered that in general, audit procedure is designed with reference to the relevant accounting treatment. To substantiate the use of input method or milestone recognition under HKFRS 15, audit evidence is required on

the time or cost incurred against total expected time or cost of the project, which is dependent on contract terms, the entity's information system and internal control procedures. Similar to other auditing scenarios, the Committee considered that auditors should tailor their audit procedures based on the requirements in the auditing standards and specific facts and circumstances of the engagement.

- (ii) The Chairman gave a vote of thanks to all members of the Committee for their contributions and participation in 2018.

There being no further business, the meeting closed at 9:35 a.m.

PAUL LAU
CHAIRMAN

30 January 2019



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