



Minutes of the 386th Meeting of the Auditing and Assurance Standards Committee

Date: Tuesday, 20 October 2020 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 (and via videoconference).

Present: Mr. Paul Lau (Chairman)
Ms. Loretta Fong (Deputy Chairman)
Mr. Derek Broadley
Mr. Edmond Chan (dial-in)
Ms. Hildy Chan (dial-in)
Mr. Ivan Chan (dial-in)
Prof. Koon-Hung Chan (dial-in)
Mr. Paul Hebditch
Ms. Fanny Hsiang (dial-in)
Ms. Susanna Lau (dial-in)
Mr. Gary Stevenson (dial-in)
Miss. Basilia Wong (dial-in)
Mr. Thomas Wong (dial-in)
Mr. Steve Ong (dial-in)

In attendance: Mr. Chris Joy, Executive Director
Ms. Selene Ho, Deputy Director, Standard Setting
Ms. Grace Lau, Manager, Standard Setting
Ms. Phoebe To, Manager, Standard Setting

Observer: Ms. Cynthia Leung, Financial Reporting Council (dial-in)

Action

2949. Minutes of the 385th Meeting

The Committee approved the minutes of the 385th meeting.

2950. Work Plan Status Report and Update from Working Groups

The Committee considered the report and noted progress of various projects.

2951. Consider and Endorse the Responses to the IAASB's Stakeholder Survey on Auditor Reporting Post-Implementation Review

At the September meeting, the Committee provided comments to SSD's draft responses to the IAASB's stakeholder survey on auditor reporting post-implementation review.

SSD had revised the draft responses to the survey. Members had some drafting comments and discussed the following:

- A member considered the benefit of key audit matters' ("KAMs") disclosure is diminishing since the disclosure is generally similar every year. The Chairman agreed that while the incremental benefit of KAMs would be higher in the first year of disclosure, some stakeholders might

expect similar KAMs each year in light of the entity's circumstances rather than a drastic change from year to year. The IAASB's stakeholder survey which solicits feedback not only from professional accountancy organisations, but also investors and other users of financial statements would be helpful for the IAASB to consider whether enhancement to the auditor reporting standards including requirements on KAMs is necessary.

- A member commented that disclosure of KAMs did not result in a higher audit fee despite additional effort by auditors. Other members suggested that the level of audit fee is affected by many factors such as auditor's rotation and scope of the engagement. In general, the level of audit fee for an engagement is a commercial decision to be agreed between the entity and its auditor before an audit commences. Meanwhile, auditors' efforts to identify and disclose KAMs in subsequent years is usually less than that of the initial year of disclosure and is subject to the entity's specific facts and circumstances.
- A member suggested to clarify "regulated entities" in Question 16.

Subject to the drafting comments, the Committee approved the draft responses to the survey for submission to the IAASB.

[Post meeting note: The revised draft responses were circulated to the Committee on 23 October. The survey was submitted to the IAASB on 29 October.]

2952. Update on IAASB LCE Project

The Committee noted that the IAASB had commenced the development of a separate standard for audits of less complex entities (LCE) and invited the Institute to participate in the IAASB Reference Group for Audits of Less Complex Entities ("Reference Group") to provide high level and directional input on the development of the LCE separate standard.

SSD provided an update on key topics discussed by the Reference Group. The Committee considered that a LCE separate standard is in demand by small and medium-sized practitioners for easier application and to provide guidance from a LCE perspective. A member also suggested that the IAASB should carefully define the eligibility to apply the LCE separate standard.

2953. Consider and Endorse the Exposure Draft on PN 820 (Revised), The Audit of Licensed Corporations and Associated Entities of Intermediaries

The Chairman of the Securities Regulatory Advisory Panel and leader of the PN 820 (Revised) drafting team were invited to the meeting. They explained the revamp of PN 820 (Revised) in light of the changing business environment and to provide additional guidance to practitioners on the audit of licensed corporations. The proposed revisions would not result in a drastic change to the audit approach. The Securities and Futures Commission was consulted in the development of the proposed revisions.

The Committee welcomed the revamp of PN 820 (Revised) but considered the proposed effective date for audits with period ending on or after 15 December 2020 was too tight. As the proposed revisions were not driven by imminent regulatory or changes in auditing standards, the Committee suggested to defer the effective date of the proposed revisions to audits with period ending on or after 31 March 2021 or 30 June 2021.

Subject to the revision to the proposed effective date, the Committee considered the proposed revisions to PN 820 (Revised) and endorsed the issuance of exposure draft for one month comment period.

[Post meeting note: The revised draft PN with the proposed effective date revised to 31 March 2021 was circulated to the Committee on 23 October. The exposure draft was issued on 30 for one month comment period and the link is: <https://www.hkicpa.org.hk/en/Standards-and-regulation/Standards/Open-for-comment-documents/Auditing-and-Assurance>]

2954. Consider and Endorse the Exposure Draft on Draft Guidance for ESG Assurance Reporting

Since the last meeting, the Committee had a separate meeting with the Environmental, Social and Governance (“ESG”) Working Group (“WG”) to discuss the draft guidance on ESG Assurance Reporting developed in accordance with HKSAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

It was proposed to issue the draft guidance as Auditing and Assurance Technical Bulletin 5 (“AATB 5”) which would be a non-authoritative pronouncement. The Committee also noted the following:

- The Institute had obtained IFAC’s permission to use certain material in IAASB’s Proposed Non-Authoritative Guidance, *Extended External Reporting (EER) Assurance* (“EER Assurance Guidance”) as part of the proposed AATB 5.
- The IAASB is expected to finalise the EER Assurance Guidance at its December 2020 and release it in 2021. Once the final pronouncement is released, SSD would follow the International Convergence Programme to converge the EER Assurance Guidance as a local guidance. Local guidance in AATB 5 would be incorporated in the local version of the EER Assurance Guidance to provide guidance from a local perspective.

The Committee had some drafting comments on the proposed AATB 5.

The Committee also discussed whether to defer the issuance of AATB 5 as part of the local version of the EER Assurance Guidance. The Chairman considered that before the EER Assurance Guidance is available, it would be helpful to issue AATB 5 sooner than later to provide guidance to practitioners on ESG reporting in view of the new ESG reporting requirements of the Hong Kong Exchanges and Clearing Limited for issuers’ financial years commencing on or after 1 July 2020.

Subject to the drafting comments, the Committee considered the proposed AATB 5 and endorsed the issuance of exposure draft for one month comment period.

[Post meeting note: The revised draft AATB was circulated to the Committee on 29 October. The exposure draft was issued on 2 November for one month comment period and the link is:

<https://www.hkicpa.org.hk/en/Standards-and-regulation/Standards/Open-for-comment-documents/Auditing-and-Assurance>

2955. Any Other Business

- It was noted that the next meeting is scheduled at 8:30 a.m. on Tuesday, 17 November. Members noted they are welcome to propose agenda items for upcoming AASC meetings provided that Management received such items no later than 15 working days prior to the meeting date.
- It was noted that the Annual Auditing Update Conference 2020 would be held on 24 October as a virtual conference.

[Post meeting note: The conference was held on 24 October with over 500 participants.]

- The Executive Director reported the following:
 - The Financial Reporting Council (“FRC”) had released findings on its oversight and monitoring over the Institute. Further updates would be provided to the Committee in due course.
 - The FRC had appointed a new Chief Executive.
 - The director of SSD would be on board in November.

There being no further business, the meeting closed at 10:00 a.m.

PAUL LAU
CHAIRMAN

5 November 2020