



Minutes of the 390th Meeting of the Auditing and Assurance Standards Committee

- Date: Tuesday, 23 March 2021 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: Ms. Loretta Fong (Chairman)(dial-in)
Mr. Paul Hebditch (Deputy Chairman)
Ms. Susanna Lau (Deputy Chairman)(dial-in)
Mr. Derek Broadley (dial-in)
Mr. Edmund Chan (dial-in)
Prof. Koon-Hung Chan
Mr. Ivan Chan (dial-in)
Mr. Tony Ching (dial-in)
Ms. Angela Choi (dial-in)
Mr. Louis Lau (dial-in)
Mr. Gary Stevenson (dial-in)
Mr. William Wong (dial-in)
Ms. Basilia Wong (dial-in)
Mr. Thomas Wong (dial-in)
- In attendance: Mr. Chris Joy, Executive Director
Ms. Cecilia Kwei, Director, Standard Setting
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

2976. Minutes of the 389th meeting

The Committee approved the minutes of the 389th meeting.

2977. Work plan status report and update from working groups

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

2978. Issuance of HKICPA Quality Management Standards

In December 2020, the IAASB issued the quality management final standards comprising:

- ISQM 1 *Quality Management For Firms That Perform Audits Or Reviews Of Financial Statements, Or Other Assurance Or Related Services Engagements*
- ISQM 2 *Engagement Quality Reviews*
- ISA 220 (Revised) *Quality Control For An Audit Of Financial Statements*
- Relating conforming amendments to other ISAs
(Collectively referred to as "IAASB QM Standards")

As part of the International Convergence Programme with standards issued by the IAASB, Standard Setting Department (SSD) had converged the IAASB QM Standards for local adoption. They are:

- HKSQM 1, *Quality Management For Firms That Perform Audits Or Reviews Of Financial Statements, Or Other Assurance Or Related Services Engagements*
 - HKSQM 2, *Engagement Quality Reviews*
 - HKSA 220 (Revised), *Quality Control For An Audit Of Financial Statements*
 - Relating conforming amendments to other HKSA's
- (Collectively referred to as "HKSQM Standards")

Members noted that local guidance had been incorporated into HKSQM Standards by way of footnotes specific to the Hong Kong circumstances, such as relevant requirements in Companies Ordinance (Cap. 622), Financial Reporting Council Ordinance (Cap. 588) and HKICPA Code of Ethics for Professional Accountants (Code). SSD had also considered the proposed local equivalent of IAASB QM Standards in other jurisdictions and whether their proposed local changes would be relevant in Hong Kong context.

The Committee also noted and discussed the following:

- There would be APlus articles and training sessions in 2021 for firms to understand the HKSQM Standards and prepare for the implementation. SSD
- SSD had been liaising with CPA Canada to provide a new guide assisting firms to establish quality management policies and procedures under the HKSQM Standards. The new guide would be a rewrite rather than an update to or transition from the Institute's existing quality management manual. Firms would be encouraged to start understanding the HKSQM Standards and preparation work for the new requirements now. SSD
- A member noted that the new quality management standards had not considered quality control indicators in audit and other engagements. It was explained that ISQM/HKSQM 1 is a framework setting out an enhanced approach for firms to apply quality management, rather than stipulating specific quality measures. It allows flexibility and leeway for firms to tailor their policies and procedures towards the principles in ISQM/HKSQM 1.
- A member commented that ISQM/HKSQM 2 had not illustrated the responsibilities and rotation requirement of an engagement quality reviewer (EQR). It was clarified that an EQR would not have legal liability as ISQM/HKSQM 2 is a professional standard which imposes obligation on an EQR. Any non-compliance with HKICPA standards including HKSQM Standards would be considered by the Institute as a disciplinary matter. The rotation requirement of an EQR would be dealt with by the Code rather than in the quality management standards.
- SSD would monitor the implementation of HKSQM Standards. Any local application issues would be considered and guidance would be sought with the IAASB if necessary. Where necessary, SSD would develop non-authoritative material to provide guidance on HKSQM Standards. SSD

The Committee approved the adoption of IAASB QM Standards and endorsed the HKSQM Standards for final issuance, subject to minor editorial comments and copyright clearance from IFAC.

2979. Update on IAASB LCE project

SSD provided an update on the IAASB's separate standard for audits of financial statements of Less Complex Entities (LCE). The IAASB's LCE Task Force had been developing the standard for a targeted approval of an exposure draft at the June 2021 IAASB meeting.

Members considered that to adopt the LCE standard, it might be necessary to make local changes and consider its practical implementation in the Hong Kong context. SSD would monitor the development of the LCE standard and update the Committee in due course. SSD

2980. Working group for PN 851 Review of the Annual Financial Reports of Non-Governmental Organisations

At the February meeting, the Committee approved SSD's proposal to set up a new working group on the proposed revision to Practice Note 851 *Review of the Annual Financial Reports of Non-governmental Organisations*.

The Committee noted and approved the proposed nominations for the working group. SSD would provide updates to the revision in due course. SSD

2981. Any Other Business

- Members were invited to join the roundtable on 7 April to share their views on the International Ethics Standards Board for Accountants (IESBA) Exposure Draft *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*. The proposed revisions broaden the definition of a public interest entity (PIE) in the *International Code of Ethics for Professional Accountants (Including International Independence Standards)* to include more categories of entities. It also aims at establishing agreement between the IESBA and IAASB on a common revised definition of the term "listed entity" that would be operable for both Boards' standards.
- The Committee was requested to provide topics for the next meeting's agenda by 29 March.

There being no further business, the meeting closed at 9:20 a.m.

LORETTA FONG
CHAIRMAN

9 April 2021