



Minutes of the 399th Meeting of the Auditing and Assurance Standards Committee

- Date: Tuesday, 26 April 2022 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 Hebditch (Chairman)
Mr. Derek Broadley (Deputy Chairman) (dial-in)
Mr. Ivan Au (dial-in)
Mr. Ivan Chan (dial-in)
Mr. Edmond Chan (dial-in)
Prof. Koon-Hung Chan (dial-in)
Mr. Tony Ching (dial-in)
Ms. Angela Choi (dial-in)
Mr. Louis Lau (dial-in)
Ms. Susanna Lau (dial-in)
Mss. Basilia Wong (dial-in)
Mr. Thomas Wong (dial-in)
Mr. William Wong (dial-in)
- In attendance: Ms. Cecilia Kwei, Director, Standard Setting (dial-in)
Ms. Selene Ho, Deputy Director, Standard Setting
Ms. Grace Lau, Associate Director, Standard Setting
Ms. Cherry Yau, Senior Manager, Standard Setting
Ms. Phoebe To, Manager, Standard Setting
- Observer: Mr. Ambrose Wong, Financial Reporting Council (dial-in)

3052. Minutes of the 398th meeting

The Committee approved the minutes of the 398th meeting.

3053. Work plan status report and update from working groups

The Committee considered the report and noted the progress of various projects. In particular, the Committee noted that the party/vendor just informed the Institute that there would be an indeterminable delay in the development project of the quality management manual ("QMM") due to lack of resources. SSD would be exploring other alternatives to deliver a suitable QMM for local practitioners and would keep the Committee updated on the project's status.

3054. IAASB Paris Conference on Audits of Less Complex Entities ("LCEs")

The Committee noted that the Chairman, Institute's representative on IFAC SMPAG and staff of SSD would be attending the Paris Conference virtually on 3-4 May to discuss the roundtable questions in relation to the key comments received on the IAASB's exposure draft on proposed ISA for LCE to take the project forward. SSD further walked the Committee through the roundtable questions and received the following comments from the

Action

Committee:

- Perception of “two-tier” audits: Additional educational effort to be provided by IAASB and national standard setters to stakeholders including practitioners, regulators and users of financial statements to promote the message that an audit of less complex entity is not a lesser audit.
- Scope of group audits to be included in the ISA for LCE:
 - A list of quantitative indicators to be set out for consideration,
 - The presence/absence or number of foreign subsidiary
 - Level of intangible assets
 - Number of industry segments
 - Quantitative indicators would also be used for determining the scope of group audits to enhance consistency in applying the proposed ISA for LCE, for examples, number of components, number of businesses/ industries engaged by the group, number of hours spent on audit engagements, etc. A company or a group would be considered “complex” if it meets most or some of those indicators.
 - A group audit engagement is not necessarily complex and should not be automatically ruled out from using the LCE standard.
 - If the audits for the entities in a group audit are performed by the group engagement team, it is a much less complicated situation compared with the one having one (or many) component auditor(s) which additional requirements of ISA 600 (Revised) would be applied. In such situation, there is a good reason to say that it is a less complex situation. This principle also aligns with ISA 600 (Revised) which states that when a group audit is carried out entirely by the group auditor, some requirements in ISA 600 (Revised) are not relevant because they are conditional on the involvement of component auditors. If every entity in a group audit is audited by the group auditor, in conjunction with other criteria, it might be appropriate to apply the LCE audit standard.
- Differentiation of the proposed ISA for LCE from an ISA audit: It was suggested to provide details on the expectation of requirements in terms of documentation, risk identification and assessment when auditing less complex entities by applying the proposed ISA for LCE against applying the extant ISAs.
- Accounting estimates: Valuation methodology could be one of the factors to drive for the decision to use the proposed ISA for LCE as mentioned in the Institute’s comment letter submitted to the IAASB.

SSD thanked the Committee for the valuable inputs to the roundtable questions and would report to the Committee for any updates from the Paris Conference at the next meeting.

3055. IAASB National Standard Setters Virtual Meetings (“NSS meetings”)

SSD thanked the Committee for their comments provided on the proposed responses to the IAASB’s request for information (“RFI”) specific to (a)

general and technology and (b) assurance on sustainability and ESG reporting that were previously circulated to the Committee in early April. SSD had submitted the updated responses to the IAASB on 22 April in order to facilitate discussion at the NSS meetings on 11-12 May. The Committee noted that the Chairman and staff of SSD would attend the NSS meetings and provide updates to the Committee at the next meeting.

3056. IESBA's Exposure Draft on Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits ("Proposed revisions to the Code")

SSD informed the Committee that the Institute had issued an invitation to comments ("ITC") in relation to the IESBA's exposure draft on the proposed revisions to the Code in March to solicit comments from local stakeholders. SSD highlighted the proposed revisions to the Committee and welcomed Committee's comments by 3 May. The Committee noted that SSD would report to the Ethics Committee the stakeholders' feedback and prepare a draft comment letter for the Ethics Committee's consideration in due course.

[Post meeting note: The ITC closed on 30 April and no comments were received.]

3057. Issuance of the proposed updates to other standards and local pronouncements as a result of the new and revised quality management standards ("new QM standards")

SSD reported to the Committee that SSD had completed (a) convergence of the final pronouncements of *IAASB's Other Standards as a Result of the New and Revised Quality Management Standards* ("QM changes") for local adoption and (b) incorporation of the QM changes into local pronouncements for the Committee's consideration. In addition, as part of the local housekeeping exercise, the Committee noted the SSD's proposal to remove obsolete example auditor's reports from the respective local pronouncements.

The Committee considered that the proposed updates were straight forward (e.g. updated the titles and references to the new QM standards, etc.) and editorial/housekeeping in nature, and endorsed to issue the proposed updates to other standards and local pronouncements.

3058. Endorsement on the new and revised illustrative auditor's reports

- (a) Revised illustrative auditor's report on financial statements of a listed Exchange Traded Fund or a listed Real Estate Investment Trust ("revised ETF/REIT report")

The Committee noted that the proposed revisions to provide better clarity in the ETF/REIT report had been considered by the Investment Funds Regulatory Advisory Panel ("IFRAP") and the Securities and Futures Commission ("SFC"), and endorsed the revised ETF/REIT report to be posted on the Institute's website with no further comment.

[Post meeting note: The revised ETF/REIT report was posted on the

Institute's website on 28 April 2022 and is available at https://www.hkicpa.org.hk/-/media/HKICPA-Website/HKICPA/section6_standards/technical_resources/pdf-file/newmajor/etf_report.pdf

- (b) New illustrative auditor's report on financial statements of a public fund established in the form of an Open-ended Fund Company ("OFC")

The Committee noted that the new illustrative auditor's report to cater for public funds established in OFC structure (i.e. covered both the company level and the sub-funds of the umbrella OFCs) had been reviewed by the IFRAP and the SFC. The Committee considered the new illustrative auditor's report and endorsed to post it on the Institute's website.

[Post meeting note: The new illustrative auditor's report was posted on the Institute's website on 28 April 2022 and is available at https://www.hkicpa.org.hk/-/media/HKICPA-Website/New-HKICPA/Standards-and-regulation/SSD/08_Resource-centre/aaegreport/ofcr.pdf]

3059. Issuance of the Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements ("Preface")

The Committee considered and approved the proposed revisions to the Preface to include the timing and criteria for the enhanced assessment framework and to remove "Amended" from the title to align with the IAASB's Preface.

A member reminded SSD to update the Preface with QM conforming changes, and SSD reverted that a separate set of the Preface and all relevant pronouncements had been updated for QM conforming changes and would be available in the Members' Handbook upon release in May 2022.

3060. Any other business

The Committee noted that the next meeting would be held on 24 May. The Committee was requested to suggest any agenda items by 29 April and provide any comments in relation to the IESBA's exposure draft on the proposed revisions to the Code.

There being no further business, the meeting closed at 9:50 a.m.

PAUL HEBDITCH
CHAIRMAN

16 May 2022