



Auditing and Assurance Standards Committee
Meeting Summary – April 2005

The Auditing and Assurance Standards Committee (Committee) met on 19 April 2005.

Members present at the meeting were: Carlson Tong (Chairman), Charles Chow (Deputy Chairman), Richard George (Deputy Chairman), Deborah Annells, William Crowe, Charles Grieve, Thomas Lau, Man Mo Leung, Keith Pogson (represented by Paul Hebditch), Paul F. Winkelmann, Thomas Wong and Desmond Yuen (represented by Mabel Cheung).

Secretariat staff present at the meeting was: Steve Ong.

The following agenda items were discussed:

1. Proposed Work Plan for 2005
2. Draft submission on ED of ISA 230 (Revised) “Audit Documentation”
3. 21 Proposed Hong Kong Standards on Auditing and Review Engagements
4. Invitation to Comment on IAASB ED of ISA 320 (Revised) on Materiality and ISA 540 (Revised) on Accounting Estimates
5. Proposed ED of PN “Acting as scrutineer at a general meeting of a listed issuer”
6. Proposed PN “Guidance to Auditors with Regard to Preliminary Announcements of Results for the Full Year”
7. Referral from the Small and Medium Practitioners Committee on the Audit of Building Owners’ Corporations
8. Referral from the Financial Reporting Standards Committee on the Valuation Standard issued by the Hong Kong Institute of Surveyors
9. Issues Paper – Types of Reporting in Hong Kong
10. Referral from the Continuing Professional Development Committee on a proposed Structured Training Programme
11. Draft comments from FRSC on the proposed SEHK Draft Announcement – Impact of adopting new accounting standards in initial listing documents and circulars

1. Proposed Work Plan for 2005

The Committee endorsed the Work Plan for 2005 which is aimed at achieving the following 3 key objectives:

- To maintain a stable platform of Hong Kong Standards on Auditing by adopting existing International Standards on Auditing;
- To maintain a concurrent agenda with that of the IAASB; and
- To develop local guidance in response to local requirements or market developments

2. Draft submission on ED of ISA 230 (Revised) “Audit Documentation”

The Committee considered the draft submission prepared by the secretariat and requested certain elaboration on one of the comments in the submission.

[Post meeting note: A revised draft submission was prepared by the secretariat and endorsed by the Committee by circulation for submission to Council for approval as a final submission to the IAASB.]

3. 21 Proposed Hong Kong Standards on Auditing and Review Engagements

The Committee noted that the consultation period of the ED of the 21 proposed Hong Kong Standards on Auditing and Review Engagements expired on 28 February 2005 and there were no comments received.

The Committee endorsed that the 21 proposed Hong Kong Standards on Auditing and Review Engagements be submitted to Council for approval for issuance as final Standards.

4. Invitation to Comment on IAASB ED of ISA 320 (Revised) on Materiality and ISA 540 (Revised) on Accounting Estimates

The Committee noted that the consultation period of the Institute's Invitation to Comment ended on 8 April 2005 and there were no comments received.

The secretariat reported that due to greater collaboration between the Institute and the ICAEW, they had passed to the Institute their submissions on the IAASB EDs for reference.

The Committee considered the ICAEW submissions and agreed with certain of the key points mentioned in the ICAEW submissions. The secretariat was requested to prepare the Institute's submissions to the IAASB based on the key points agreed by the Committee.

[Post meeting note: After the meeting, submissions were also received from a member firm. The secretariat prepared the Institute's draft submissions based on the key points agreed by the Committee and the member firm's submissions. The draft submissions were endorsed by the Committee by circulation for submission to Council for approval as final submissions to the IAASB.]

5. Proposed ED of PN "Acting as scrutineer at a general meeting of a listed issuer"

The Committee considered the comments received from the SFC and HKEx and agreed to take up most of the suggestions which were improvement changes to the draft PN.

The Committee also agreed that in the proposed ED, a recommendation would be made in the ED such that practising members (before the proposed PN is issued in final) observe the proposals in the ED when acting as scrutineer at a general meeting of a listed issuer.

[Post meeting note: A copy of the draft PN was forwarded to the Hong Kong Institute of Company Secretaries for comment on 19 May after its endorsement by the Committee/SFC/HKEx by circulation.]

6. Proposed PN "Guidance to Auditors with Regard to Preliminary Announcements of Results for the Full Year"

The Committee considered a 2nd working draft of proposed PN prepared by the secretariat marked-up with amendments suggested by the Committee at the last meeting.

Upon further discussion, the Chairman of the Committee agreed that a member would follow up and find out the position in the UK in relation to preliminary announcements and ascertain how the different dating regime of audit reports in Hong Kong and the UK would affect the proposed PN.

7. Referral from the Small and Medium Practitioners Committee (SMPC) on the Audit of Building Owners' Corporations

The Committee considered the referral from the SMPC which requested the Committee to comment on an audit engagement letter and sample qualified audit reports prepared by the SMPC in relation to the audit of the accounts of Building Owners' Corporations.

The Committee requested the secretariat to invite a SMPC member who is responsible for the project to brief the Committee on the issues behind their request and to prepare a legal analysis of the Albert House - Aberdeen incident referred to in the SMPC referral.

8. Referral from the Financial Reporting Standards Committee (FRSC) on the Valuation Standard issued by the Hong Kong Institute of Surveyors (HKIS)

The Committee considered the referral from the FRSC which requested the Committee to consider whether there is a need to include some guidance in the Auditing Standard on the reliance on the work of experts about the new Valuation Standard issued by the HKIS.

The Committee agreed that there are benefits in having some additional guidance and requested the secretariat to find out whether such additional guidance is provided in the UK and make a recommendation to the Committee for further consideration.

9. Issues paper – Types of Reporting in Hong Kong

The Committee considered a preliminary issues paper prepared by the secretariat based on the new Standard "Hong Kong Framework for Assurance Engagements" and agreed that a Working Group should be set up to consider the matter. Mr. William Crowe volunteered to be a member of the Working Group and certain committee members agreed to nominate their staff to be members of the Working Group.

[Post meeting note: The Working Group members are Mr. William Crowe – Convenor; Ms. Elza Yuen of PwC; Mr. Derek Broadley of DTT; and Mr. Ernest Lee of E&Y. The first meeting of the Working Group is scheduled to be held on 23 May 2005.]

10. Referral from the Continuing Professional Development Committee (CPDC) on a proposed Structure Training Programme

The Committee considered the referral from the CPDC requesting for comment on the adequacy of the coverage of a proposed structured training programme and the nomination of appropriate speakers for the training programme.

The Committee considered that external trainers should be sourced to implement the proposed training programme as it would be unlikely that the Committee would have spare resources to assist in the training programme.

11. Draft comments from FRSC on the proposed SEHK Draft Announcement – Impact of adopting new accounting standards in initial listing documents and circulars

The Committee considered the draft comments from the FRSC and endorsed the draft comments that it disagreed with the SEHK proposal that, if a listing applicant early adopts a New Standard (which has an effective date for accounting periods commencing on or after 1 January 2005), it must early adopt all the New Standards with the same effective date in its initial listing documents and circulars. This goes beyond Hong Kong Financial Reporting Standards (and also International Financial Reporting

Standards on which HKFRSs are based) which allow selective adoption of New Standards. It would be impractical both in terms of timing and compliance cost for potential initial listing applicants which have already adopted some of the New Standards to have to suddenly change to full adoption under the draft announcement.

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