

HONG KONG SOCIETY OF ACCOUNTANTS

Auditing and Assurance Standards Committee **Meeting summary – July 2003**

The Society's Auditing and Assurance Standards Committee (Committee) met on 22 July 2003.

Members present at the meeting were: Wong Tak Wai, Alvin (Chairman), Charles Chow (Deputy Chairman), Richard George (Deputy Chairman), Deborah Annells, Albert Au, Andrew Bennett, Kim Chong, Charles Grieve, Raymond Li, Man Mo Leung, Phyllis Mo, Shum Man To, and Paul F. Winkelmann.

Secretariat staff present at the meeting were: Stephen Chan, Elaine Chan and Steve Ong.

The agenda items were:

1. Minutes of the June 2003 (248th) Meeting
2. Meeting Summary of the June 2003 (248th) Meeting for publication
3. Documents approved by Council
4. Document for the Committee's ratification
5. PN 840 "The audit of solicitors' accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules" – clarification obtained from the Law Society on paragraph 19(b)
6. Retention of working papers – views of the Professional Risk Management Committee
7. PN 870 – proposed changes to the scope of assessment of Certification Authorities under the Electronic Transactions Ordinance
8. Audited financial statements included in Circulars and Takeover Documents
9. Working Group on China audit matters
10. Date of next meeting

1. Minutes of the June 2003 (248th) Meeting

The Committee approved the Minutes of the 248th Meeting subject to some changes.

2. Meeting Summary of the June 2003 (248th) Meeting for publication

The Committee approved the Meeting Summary of the 248th Meeting subject to some changes.

3. Documents approved by Council

The Committee noted that Council had approved the HKSA Submissions on IAASB Exposure Drafts on Assurance Engagements and Proposed Amendments to IAPS 1005 "The Special Considerations in the Audit of Small Entities", and the issuance of an Exposure Draft of proposed PN 852 "Review of lottery accounts".

[The HKSA Submissions on IAASB Exposure Drafts are available on-line at:

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<http://www.hksa.org.hk/professionaltechnical/assurance/submission/docs/ED100703.pdf> > ,

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<http://www.hksa.org.hk/professionaltechnical/assurance/submission/docs/ED100703b.pdf> > and the Exposure Draft of proposed PN 852 is available on-line at:
< <http://www.hksa.org.hk/professionaltechnical/assurance/exposuredraft/ed-pn852.pdf>
>]

4. Document for the Committee’s ratification

The Committee ratified the issuance of the HKSA Invitation to Comment on the IAASB Exposure Draft of Proposed ISA on Review of Interim Financial Information Performed by the Auditor of the Entity, which had been endorsed by the Committee by circulation.

[The HKSA Invitation to Comment is available on-line at: <
http://www.hksa.org.hk/professionaltechnical/assurance/exposuredraft/invitation_to_comment_fi.pdf >]

5. PN 840 “The audit of solicitors’ accounts under the Solicitors’ Accounts Rules and the Accountant’s Report Rules” – clarification obtained from the Law Society on paragraph 19(b)

The Committee noted that a clarification had been obtained from the Law Society that the Law Society takes the view that whilst contraventions of Practice Direction J “Interest on Clients’ Account” (which provides for the payment of interest on client account) are regarded as matters which adversely affect any client account or any trust money held by the firm, those providing the accountant’s report should exercise common sense and apply the “de minimis” rule particularly if the amount of the contravention is less than a realistic administration fee which could have been charged under the same Practice Direction.

The Committee agreed that a further letter should be sent to the Law Society seeking its confirmation that in providing the above clarification, whether it was envisaged by the Law Society that its view as expressed to the HKSA in mid 2002 (that any contraventions of Practice Direction J were regarded as matters which affect adversely any client account or trust money held by the firm to a material extent) would be superseded, such that paragraph 19(b) of the extant PN 840 would need to be amended accordingly.

6. Retention of working papers – views of the Professional Risk Management Committee (PRMC)

The Committee noted the views of the PRMC that it would be appropriate for the HKSA to provide guidance in respect of the need for firms to develop a policy regarding the retention of working papers (not only audit working papers), that it would not be appropriate for the HKSA to prescribe the minimum period of retention of working papers, and that guidance could be provided to include the requirements of the US Securities and Exchange Commission engagements, the Hong Kong Inland Revenue Ordinance requirements and the statutory six year “limitation of actions” period.

The Committee considered that practice review requirements would be an important factor in deciding on the required length of record retention period and that the PRMC should be asked to reconsider whether the statutory six year “limitation of actions” period would be the appropriate benchmark for the required minimum retention period.

7. **PN 870 – proposed changes to the scope of assessment of Certification Authorities under the Electronic Transactions Ordinance**

The Committee considered the preliminary proposals by the Information Technology Services Department (ITSD). The Committee expressed concern that a number of the ITSD's proposals would only work if the ITSD provides in its Code of Practice the relevant benchmarks against which the assessor can measure the Certification Authority's policies and procedures and report on its compliance.

8. **Audited financial statements included in Circulars and Takeover Documents**

The Committee noted that Counsel advice obtained indicates that the clarification wording on auditors' responsibility to third parties for auditors' report is not an option for an auditor in respect of a prospectus issued pursuant to section 40 of the Companies Ordinance, or in respect of a "relevant communication" under section 391 of the Securities and Futures Ordinance which concerns securities or futures contracts, or which may affect the price of securities or the price for dealings in securities contracts.

It was agreed that the HKSA should monitor the developments in this area in other jurisdictions such as the UK before deciding whether to issue any further guidance in this area.

9. **Working Group on China audit matters**

The Committee received a report on the latest composition of the Working Group and progress of the work of the Working Group. So far the Working Group had identified a list of the risk areas in respect of the audit of mainland enterprises and had deliberated on the different forms of guidance that might take.

10. **Date of next meeting**

The next Committee meeting would be held on 4 September 2003.

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This meeting summary is provided for the information and convenience of those who wish to follow the Committee's deliberations. Decisions reported are tentative and may be changed or modified by the Committee at a later date. Decisions become final only after completion of the formal due process required to finalize and release documents. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this meeting summary, or for any errors or omissions in it.