



Auditing and Assurance Standards Committee
Meeting Summary – June 2005

The Auditing and Assurance Standards Committee (Committee) met on 29 June 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, Lucia Li, Man Mo Leung, Keith Pogson and Thomas Wong.

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

The following agenda items were discussed:

1. Issuance of the 21 Hong Kong Standards on Auditing and Review Engagements
2. IAASB items
3. Proposed guidance to auditors with regard to preliminary announcements of results for the full year
4. Proposed Audit Report for the proposed SME Financial Reporting Framework and Financial Reporting Standard
5. Proposed revision to PN 600.2 “Audit approach to Companies applying section 141D of the Companies Ordinance”
6. Working Group on Types of Reporting – Progress Report
7. Proposed Guidance on Auditors’ Report on Financial Statements of Investment Funds Authorized under the Securities and Futures Commission Code on Unit Trusts and Mutual Funds

1. Issuance of the 21 Hong Kong Standards on Auditing and Review Engagements

The Committee noted the issuance of the 21 Hong Kong Standards on Auditing and Review Engagements comprising of 20 Auditing Standards and 1 Review Standard, adopting their latest international equivalents issued by the IAASB.

The 20 Auditing Standards cover important areas such as Communication of Audit Matters with Those Charged with Governance, Audit Materiality, Audit Sampling, Auditing Fair Value Measurements and Disclosures, Auditing Related Parties and Auditors’ Consideration of Going Concern.

The new Review Standard (HKSRE 2400) establishes standards and provides guidance for an engagement to review financial statements.

The Committee agreed that notwithstanding the issue of HKSRE 2400, SAS 700, “Engagements to review interim financial reports” remains applicable for engagements where a listed issuer’s auditors are engaged to review the interim financial statements if an audit committee has not been formed or the audit committee has requested auditors to assist in the review process.

[Post meeting note: The Committee’s decision regarding the status of SAS 700 was published in TechWatch 34 which was issued on 30 June]

2. **IAASB items**

The Committee noted that the IAASB had a meeting in Rome from 13 to 17 June and it was expected that the revised ISA 800 (to be renumbered as ISA 701) “The Independent Auditors’ Report on Other Historical Financial Information” and the revised ISA 550 “Related Parties” would be approved at the meeting.

[Post meeting note: On 30 June, the IAASB issued Exposure Drafts of ISA 701 “The Independent Auditor’s Report on Other Historical Financial Information” and ISA 800 “The Independent Auditor’s Report on Summary Audited Financial Statements”. On 11 July, the Institute issued an Invitation to Comment on the two IAASB Exposure Drafts for comment until 7 October.]

3. **Proposed guidance to auditors with regard to preliminary announcements of results for the full year**

The Committee reviewed the 3rd Working Draft prepared by the secretariat and suggested improvement changes to the proposed guidance. It deliberated on the proposed report on the auditors’ agreement in respect of a listed issuer’s announcement of its preliminary results.

The Committee agreed that the proposed example report should be drafted in accordance with Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed-upon Procedures Regarding Financial Information” and requested three members of the Committee, who volunteered to assist on the development of the proposed example report, to finalize the example report. Thereafter a further draft of the proposed guidance should be prepared by the secretariat for the Committee’s consideration at its next meeting.

[Post meeting note: On 6 July, a meeting was arranged by the secretariat with the three Committee members to finalize the proposed example report.]

4. **Proposed Audit Report for the proposed SME Financial Reporting Framework (FRF) and Financial Reporting Standard (FRS)**

The Committee noted that at a recent special meeting between the key representatives of the GAAP for Small Businesses Working Group, the AASC Chairman, Carlson Tong, and Deputy Chairman, Charles Chow, it was considered that with the introduction of the SME-FRF, compliance with the SME-FRF and SME-FRS are necessary in order for section 141D financial statements to give a “true and correct view”. Since the income statement would form part of the financial statements under the SME-FRS, it was proposed that the example auditors’ report should also cover the income statement.

As a result of the proposal, which would be subject to Council’s approval, the secretariat was requested to prepare an example audit report to cover all companies preparing its accounts under the SME-FRF and SME-FRS.

The Committee considered the example audit report prepared by the secretariat to cover all companies preparing its accounts under the SME-FRF and SME-FRS and endorsed its release to the GAAP for Small Businesses Working Group.

[Post meeting note: Upon Council’s approval, the example audit report was included in the Exposure Draft of PN 900 “Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard”.]

5. Proposed revision to PN 600.2 “Audit approach to Companies applying section 141D of the Companies Ordinance”

The Committee noted that given the forthcoming issuance of the proposed SME-FRF and SME-FRS, the scope of the proposed revised PN 600.2 would need to be expanded to cover all companies reporting under the proposed SME-FRF and SME-FRS. This would include companies applying section 141D.

The Committee considered a proposed revised PN titled “Audit Approach to Companies under the Hong Kong Small and Medium-sized Entity Financial Reporting Framework”, prepared by the secretariat and proposed some editorial changes. It was agreed that subject to the editorial changes, the proposed revised PN could be submitted to the GAAP for Small Businesses Working Group for their consideration.

[Post meeting note: As the existing PN 600.2 would still be applicable to the audit of companies applying section 141D that cover a period beginning before 1 January 2005, it was decided that it would be retained. The above proposed revisions were reflected in the Exposure Draft of PN 900 which was approved by Council and issued on 22 August, for comment by 15 October.]

6. Working Group on Types of Reporting – Progress Report

The Convenor of the Working Group, William Crowe, briefed the Committee on its recent meeting. Members of the Working Group had completed their review of all the relevant Practice Notes and during the last meeting it primarily focused on the existing guidance for auditors reporting on the matters related to banking, securities and insurance industries. The reason for this prioritization was to take account of the time that would likely be required to discuss any changes, if needed, with relevant regulators.

The Committee noted that the progress made by the Working Group and that an Issues Paper for the Committee’s consideration and publication in TechWatch is planned for October 2005.

7. Proposed Guidance on Auditors’ Report on Financial Statements of Investment Funds Authorized under the Securities and Futures Commission Code on Unit Trusts and Mutual Funds

The Committee noted that the secretariat had prepared a proposed Guidance, with input from a partner of a Member firm, in relation to the potential reporting issue by auditors, reported at the last meeting, with respect to their reporting responsibilities on investment funds authorized under the SFC Code on Unit Trusts and Mutual Funds.

The Committee agreed that given that the proposed Guidance had just been tabled, members should consider the proposed Guidance after the meeting and provide their comments, if any, at the next meeting.

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