



Auditing and Assurance Standards Committee
Meeting Summary – March 2007

The Auditing and Assurance Standards Committee (Committee) met on 13 March 2007.

Members present at the meeting were: Carlson Tong (Chairman), Keith Pogson (Deputy Chairman – via teleconference), Wilfred Wong (Deputy Chairman), Deborah Annells, Chan Tak Shing, Colin Chau, Charles Chow, William Crowe, Richard George, Law Fung Ha, Lucia Li, Kelvin Wong and Thomas Wong.

Secretariat staff present at the meeting were: Patricia McBride, Steve Ong, Elaine Chan, Selene Ho and Winnie Chan.

The following agenda items were discussed:

1. Revised Terms of Reference and Work Plan for 2007
2. Proposed HKSRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*
3. Proposed HKSA 240 (Redrafted) *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, HKSA 300 (Redrafted) *Planning an Audit of Financial Statements*, HKSA 315 (Redrafted) *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment* and HKSA 330 (Redrafted) *The Auditor's Responses to Assessed Risks*
4. HKICPA Invitation to Comment on IAASB Exposure Drafts of Proposed ISA 550 (Revised and Redrafted) *Related Parties* and ISA 570 (Redrafted) *Going Concern*
5. Accountants' Report Project
6. Continuing Connected Transactions Project – Progress Report
7. Request from Insolvency Interest Group Management Committee

1. Revised Terms of Reference and Work Plan for 2007

The Committee approved the Terms of Reference and Work Plan for 2007, and agreed that an additional item be included in the terms of reference as follows:

“To be the main Committee responsible for gathering and communicating information relating to auditing and assurance between the stakeholders in Hong Kong and the IAASB.”

2. Proposed HKSA 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity

The Committee endorsed the issuance of HKSRE 2410 to Council for approval as a final standard. HKSRE 2410 was issued as a final standard under Members' Handbook Update 39 on 30 March 2007.

3. **Proposed HKSA 240 (Redrafted) *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*, HKSA 300 (Redrafted) *Planning an Audit of Financial Statements*, HKSA 315 (Redrafted) *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment* and HKSA 330 (Redrafted) *The Auditor’s Responses to Assessed Risks***

The Committee endorsed the draft HKSAs, subject to updating the legislation references made in the local guidance of HKSA 240 in respect of money laundering and reporting suspicious transactions.

4. **HKICPA Invitation to Comment on IAASB Exposure Drafts of Proposed ISA 550 (Revised and Redrafted) *Related Parties* and ISA 570 (Redrafted) *Going Concern***

The Committee endorsed the Invitation to Comment, subject to including a further note that the proposed definition of “a related party” in the IAASB’s exposure draft is to serve as a minimum requirement for the purposes of the audit. It should be noted that if a specific framework provides additional criteria or specifications in defining “related party” such as HKFRSs, the definition in that framework should be used in addition to that set out in the proposed ISA 550. The HKICPA Invitation to Comment was posted on the Institute’s website on 19 March 2007.

5. **Accountants’ Report Project**

The Committee agreed to the formation of a Working group comprising the HKICPA/SFC/SEHK to consider what decisions need to be made in order to take the project forward.

6. **Continuing Connected Transactions Project – Progress Report**

The Working Group would prepare a paper setting out the findings to date for the Committee’s consideration.

7. **Request from Insolvency Interest Group Management Committee**

The Committee considered a request from the Insolvency Interest Group Management Committee (IIGMC) to provide comments on a proposed guideline drafted by the INSOL Lender Group in Hong Kong. The draft guidelines proposed that the practice of requiring customers to submit auditor’s management letter or report to the audit committee to their bankers would help banks better understand the financial position and controls of borrowers. The INSOL Lender Group considered that the proposed requirement would ensure better analysis and informed judgment of the risks when making credit decisions. The Committee considered the matter and was of the view that such reports by the auditors are not meant for credit decisions purposes. Accordingly, such a requirement would increase the risk of auditors by extending its responsibilities. The Committee would not support such a proposal but would be happy to discuss with the INSOL Lender Group as to other special purpose engagements auditors would be able to provide to banks to provide better analysis of the banks’ clients when making credit decisions. The Committee requested the secretariat to convey the message to the IIGMC.

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