



Auditing and Assurance Standards Committee
Meeting Summary – May 2006

The Auditing and Assurance Standards Committee (Committee) met on 23 May 2006.

Members present at the meeting were: Richard George (Deputy Chairman as Acting Chairman), Keith Pogson (Deputy Chairman), Deborah Annells, Colin Chau, Charles Chow, William Crowe, Charles Grieve, Thomas Lau, Lucia Li, Ng Shiu Hong, Michael Sim, Kelvin Wong, Wilfred Wong, Thomas Wong and Desmond Yuen (Represented by Ms. Kannie Wu).

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

The following agenda items were discussed:

1. HKICPA submission on IAASB ED of proposed ISA 550 (Revised) on Related Parties
2. Issuance of ED of HKICPA Discussion Paper “Requests For Special Purpose Reports”
3. Status of Mainland audit issues guidance
4. Accountants’ Report Project – Progress Report
5. Revised Hong Kong Corporate Governance Requirements
6. Proposed Annual Auditing Update Conference
7. HKICPA submission on the Industry Consultation on Draft Accounting Manual for Television Programme Service Licensees
8. HKICPA/SFC REIT Working Group meeting on 28 April 2006
9. Statement 1.207 on Changes in a professional appointment

1. HKICPA submission on IAASB ED of proposed ISA 550 (Revised) on Related Parties

The Committee noted the Institute’s submission to the IAASB on the proposed ISA 550 (Revised) on Related Parties, after its endorsement by the Committee and approval by Council by circulation.

2. Issuance of ED of HKICPA Discussion Paper “Requests For Special Purpose Reports”

The Committee noted that the issuance of ED of HKICPA Discussion Paper “Requests For Special Purpose Reports” on 4 May 2006 for consultation until 31 October 2006.

The Committee agreed that meetings should be arranged with the Regulators, Governmental Authorities and others, including the Department of Justice, to discuss issues of common interest, where appropriate.

3. Status of Mainland audit issues guidance

The Committee noted that the Working Group on Mainland audit issues had developed the following guidance in the form of Q&As since January 2004:

- Recognition of sales – January 2004
- Value-added tax – April 2004
- Revenue recognition for software companies – September 2004
- Consignment sales – June 2005
- Related party transactions – February 2005

The Committee considered the status of the project and agreed that it would no longer be necessary to pursue the project further by this Committee, given the following major developments:

- Adoption of the IAASB auditing standards on Audit Risks and Fraud Consideration in Hong Kong
- Issuance of the IAASB exposure draft of ISA 550 (Revised) on Related Parties
- Convergence of Mainland accounting and auditing standards with IFRSs and ISAs respectively.

The Committee requested the secretariat to refer the matter to the Institute's Quality Assurance and Compliance Departments to consider whether further guidance or training on the implementation of auditing standards for practitioners is required in this regard.

4. Accountants' Report Project – Progress Report

The Acting Chairman, who chairs the Accountants' Report Sub-Committee, reported that the Sub-Committee had two meetings since its formation to consider the development of guidance on the provision of assistance to sponsors in reporting on internal controls of listing applicants.

The Committee noted that the proposed areas to be covered by the guidance and that the next step would be to draft the contents of the proposed guidance with input from Sub-Committee members on the scope of work to be undertaken by reporting accountants. The Committee had a brief discussion on the types of assistance that could be provided by reporting accountants.

The Acting Chairman advised that the current reporting framework in the UK in this regard was unclear since the relevant UK Listing Rules had been changed without corresponding changes in the relevant guidance for reporting accountants issued by Institute of Chartered Accountants in England and Wales and therefore there is no off-the-shelf solution that could be adopted from the UK.

A Committee member advised that reporting accountants might also be asked to assist directors of listed issuers to review the effectiveness of internal controls in accordance with the Code on Corporate Governance Practices under the Listing Rules. Given that the current mandate of the Sub-Committee was to develop guidance in relation to reporting during the IPO process, the Acting Chairman suggested that reporting in relation to continuing obligations could be considered at a later stage.

The Acting Chairman also advised that the Sub-Committee planned to discuss the queries raised by the Committee on the proposed pronouncements under the Accountants' Report Project that have not yet been finalised.

5. Revised Hong Kong Corporate Governance Requirements

The Committee noted that at the last Tripartite meeting with the SFC and HKEx, it was suggested that the HKICPA would gather information from auditors and preparers on whether there are any issues of interpretation, or difficulties in gathering information arising from the revised Corporate Governance requirements that need to be brought to the attention of the SFC/HKEx.

Members of the Committee were requested to gather any information which they might have in this regard and provide their comments, if any, to the secretariat.

6. Proposed Annual Auditing Update Conference

The Committee noted that the Institute's Member Services Department had booked a venue for the proposed Annual Auditing Update Conference.

The Acting Chairman requested the Committee members to volunteer speakers for the proposed Conference. The Committee tentatively agreed on certain topics and speakers and requested a committee member to nominate a speaker from his firm.

[Post meeting note: The proposed Annual Auditing Update Conference has been tentatively scheduled for 21 October 2006 at the JW Marriott Hotel Hong Kong.]

7. HKICPA submission on the Industry Consultation on Draft Accounting Manual for Television Programme Service Licensees

The Committee noted that the Institute's submission was forwarded to the Broadcasting Authority on 9 May 2006, after its approval by Council.

8. HKICPA/SFC REIT Working Group meeting on 28 April 2006

The Committee noted that a Joint Working Group of the HKICPA and the SFC was formed to consider preliminary issues of REIT that had been brought to the attention of the HKICPA secretariat relating to auditing and reporting aspects of REIT Offering Circular, such as:

- Guidance on carve-out financial statements
- Clarification as to the minimum requirement for historical financial statements (track record) in offering circulars
- Profit forecast period presented in offering circulars
- Consistency in proforma financial information presented.

The Committee's attention is drawn to the following matters agreed at the 1st meeting:

- Practitioners should talk to the SFC on a case by case basis on issues arising and the SFC would benchmark REIT in line with the requirements of listed issuers, where appropriate
- Practitioners should use the HKICPA Pronouncements currently applicable for listed issuers in their work for REIT and where applicable, highlight areas where they consider further guidance may be necessary in order that the matters can be considered by the AASC.

The Committee agreed the approach taken by the Joint Working Group and requested the secretariat to keep the Committee informed of further developments, if any.

9. Statement 1.207 on Changes in a professional appointment

A member of the Committee asked whether reporting accountants are required to comply with Statement 1.207 in relation to changes in reporting accountants.

The Committee was generally of the preliminary view that reporting accountants should adhere to all Ethics Statements and noted that Statement 1.207 will in due course be reviewed by the Ethics Committee and the secretariat was requested to bring up the matter to the Ethics Committee.

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