

**Issue No. 3**

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*This is the Third Issue of TechWatch, a publication designed to alert members to topics and issues that impact on accountants and their working environment. We welcome your comments and feedback. Comments and suggestions on TechWatch should be addressed to Ms. Winnie Cheung, Senior Director, Professional & Technical Development, Hong Kong Society of Accountants (email:<commentletters@hksa.org.hk>).*

*This issue (and all back issues) is available online at the Society's website <<http://www.hksa.org.hk/professional/>> under "TechWatch (Members only)".*

*If you would prefer to receive future issues electronically via email or in hard copy format, you may register or alter your option online at the Members Only section of HKSA web page under "Personal Profile – Publications Preferences". If you have any questions, please contact Karen Moy, Administrative Officer, Professional & Technical Department at <[karen\\_moy@hksa.org.hk](mailto:karen_moy@hksa.org.hk)> or tel: 2287 7089.*

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## Accounting & Financial Reporting

### New Exposure Drafts on Financial Instruments

The HKSA Council has approved the issue of the following exposure drafts for a three-month consultation period:

- The proposed SSAP "Financial Instruments: Disclosure and Presentation", based on the latest version of International Accounting Standard (IAS) 32;
- The proposed SSAP "Financial Instruments: Recognition and Measurement", based on the latest version of IAS 39;
- The proposed Implementation Guidance on the proposed SSAP "Financial Instruments: Recognition and Measurement", based on the Implementation Guidance issued by the International Accounting Standards Board (IASB) Implementation Guidance Committee.

The objective of issuing the above proposed SSAPs is to establish principles for recognising, measuring and disclosing information about financial instruments in the financial statements of business enterprises in order to bring the accounting practice in Hong Kong into line with international standards.

The proposed Implementation Guidance aims to help financial statement preparers, auditors, financial analysts, and others understand the proposed SSAPs and help ensure consistent application of the proposed SSAPs. It is proposed that this Guidance would have the status equivalent to an "Accounting Guideline" as defined in the Foreword.

The exposure draft SSAPs are available on the HKSA website and will be published in the next update to the Members' Handbook (expected to be released in late March). Due to its size (approximately 280 pages), the proposed Implementation Guidance will be published on a CD-ROM. Paper copies will be available to Handbook subscribers on request. Comments on the proposed SSAPs and Implementation Guidance are requested by 15 July 2002.

### **Five Interpretations Exposure Drafts Released**

The HKSA Council has approved the issue of the following Draft Interpretations, which are based on the equivalent IASB Standing Interpretations Committee (SIC) Interpretations, for a one-month consultation period:

- Proposed Interpretation 14 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease" (based on SIC-27)
- Proposed Interpretation 15 "Business Combinations – Date of Exchange" and Fair Value of Equity Instruments" (based on SIC-28)
- Proposed Interpretation 16 "Disclosure – Service Concession Arrangements" (based on SIC-29)
- Proposed Interpretation 17 "Revenue – Barter Transactions Involving Advertising Services" (based on SIC-31)
- Proposed Interpretation 18 "Consolidation and Equity Method – Potential Voting Rights and Allocation of Ownership Interests" (based on SIC-33)

The exposure draft Interpretations are available on the HKSA website and will be published in the next update to the Members' Handbook. Comments on the proposed interpretations are requested by 30 April 2002.

### **New SSAP 35, Accounting for Government Grants and Disclosure of Government Assistance**

The HKSA Council has approved the issue of SSAP 35, Accounting for Government Grants and Disclosure of Government Assistance, as a final SSAP to become effective for financial statements covering periods beginning on or after 1 July 2002.

The new SSAP, modelled on the equivalent International Accounting Standard IAS 20, is essentially unchanged from the preceding exposure draft. The SSAP will apply to the accounting for, and in the disclosure of, government grants and in the disclosure of other forms of government assistance.

A copy of the new SSAP is available on the HKSA website and will be published in the next update to the Members' Handbook.

### **Achieving convergence with IAS – changes to the accounting standard setting process in Hong Kong**

In light of the HKSA's policy to converge Hong Kong SSAPs with the accounting standards issued by the IASB, the HKSA Council has approved a new statement of due

process by which accounting standards are set in Hong Kong.

The HKSA's new due process is comparable to the IASB's standard setting due process. The Council has also revised the Financial Accounting Standards Committee (FASC) terms of reference to support the due process.

A copy of the statement of due process is attached to this issue of TechWatch and will be published in the Hong Kong Accountant and on the HKSA website. Features of the due process include:

- Harmonising the FASC's project agenda with that of the IASB;
- The FASC discussing the same issues as the IASB as soon as practicable after each IASB meeting;
- Operating a transparent due process along lines comparable to the IASB – in particular as concerns the publication of material, such as decision summaries, direct to the constituency on a timely basis after each FASC meeting; and
- Providing proactive feedback to the IASB on the FASC's deliberations.

With the converged due process, the FASC will endeavour to issue exposure drafts of Hong Kong SSAPs concurrently with exposure drafts issued by the IASB. Exposure drafts will continue to be issued in the traditional way but, to maintain timeliness, the FASC will also publish an exposure draft electronically, via both an e-mail alert and publication on the HKSA website. All members who receive TechWatch currently via e-mail will receive the ED e-mail alert.

### **IASB proposes a limited revision to IAS 19**

The IASB has published an exposure draft on the asset-ceiling test in IAS 19 Employee Benefits. Comments on this limited amendment are requested by 25 March 2002.

In IAS 19, the combination of the asset ceiling and the option for an entity to defer losses can, in certain circumstances, require the entity to report an increase in profit. The combination of the asset ceiling and the option for an entity to defer gains can also require the entity to report a decrease in profit. The IASB has concluded that reporting gains and losses in these circumstances is wholly inappropriate and the limited amendment would prevent their recognition.

A copy of the exposure draft is available on the IASB website, <<http://www.iasb.org.uk>>. The FASC will be considering an equivalent Hong Kong exposure draft.



## **Audit & Assurance**

### **HKSA To Adopt New IFAC Ethics Code On Independence**

The International Federation of Accountants (IFAC) has released an updated Code of Ethics for Professional

Accountants featuring new rules on independence.

Members may notice that the subject of "Audit Independence" has become the focus of much attention worldwide in recent weeks, following the Enron Collapse.

News about proposed ban on non-audit services to audit clients in the US has led to speculative talk about the same ban being introduced in Hong Kong. Such talk has triggered numerous enquiries from both within and outside the profession.

Much of this talk is however misguided. As members will know, the HKSA has a laid down policy to model Hong Kong standards on international standards. In July 2001, the HKSA Council decided to step up its international standards harmonisation programme and set down a new standard setting strategy to converge with IAS, ISA and the IFAC Ethics Code.

The HKSA Ethics Committee will very soon start work to adopt the IFAC Code of Ethics as a model on which to base our ethical requirements for professional accountants in Hong Kong. This will be a massive exercise which involves mapping and re-structuring the entire Volume I of our Handbook. It is expected that an ED will be issued towards the end of this year.

The updated IFAC Code sets out a conceptual framework on independence that focuses on the factors that pose a threat to independence for all assurance engagements and the safeguards that auditors should put in place to preserve their independence.

Our existing independence statement follows a principles-based approach, and so members should already be familiar with many of the principles contained in the updated IFAC Code.

The IFAC Code, however, provides greater and more extensive guidance on the concept of threats and safeguards to independence. The Code identifies five categories of threat to independence – self-interest, self-review, advocacy, familiarity and intimidation threats. Each has its own level and nature of risks attached that need to be balanced against possible safeguards. The Code identifies three categories of safeguards to mitigate threats.

In addition, the updated Code provides examples of situations on how the conceptual approach to independence is to be applied to specific circumstances and relationships. A discussion of “provision of non-assurance services to assurance clients” is set out in sections 8.155 to 8.202 of the Code, dealing separately with ten categories of non-audit services, including preparation of accounting records and financial statements, tax services, valuation services, internal audit services, IT systems services, litigation support services, legal services, corporate finance, provision of staff assignment and recruiting senior management.

There is no specific banning based on types of services, but rather, based on the principles set out in the Code, a firm should not accept an appointment where the threat to independence is so significant that no safeguard could reduce the threat to an acceptable level. There are specific examples that this will be so including specific types of legal, corporate finance and valuation services, and accounting records and financial statement preparation for listed audit clients.

It is stated at the outset of the IFAC Code that “... A conceptual framework that requires firms and members of assurance teams to identify, evaluate and address threats to independence, rather than merely comply with a set of specific rules which may be arbitrary, is . . . . . in the public interest.” (Section 8.10).

This approach requires both companies and their auditors to exercise professional judgement in the public interest.

The Code may be downloaded from IFAC’s Website at <<http://www.ifac.org>>.

### **New SAS 110 – Auditing Standard On Fraud And Error**

HKSA has issued SAS 110 “The auditors’ responsibility to consider fraud and error in an audit of financial statements” which is the equivalent of International Standard on Auditing 240 of the same title. The Statement establishes standards and provides guidance on the auditors’ responsibility to consider fraud and error in an audit of financial statements, and also establishes standard and provides guidance on the communications of auditors with regulatory and enforcement authorities in respect of suspected fraud which could have a material effect on the financial statements.

SAS 110 replaces Auditing Guideline 3.271 “The auditor’s responsibility in relation to fraud, other irregularities and errors”, which has now been withdrawn. Consequential amendment has also been made to SAS 100 “Objective and general principles governing an audit of financial statements” by replacing the existing paragraph 10 with an expanded paragraph on “an attitude of professional scepticism”.

The SAS 110 was issued with Members’ Handbook Update 1/02 and is available at the Society’s website <<http://www.hksa.org.hk/professional/>> under “Professional Pronouncements” and “Volume III-A”.

### **Revised PN 870 On Assessments Of Certification Authorities Under The Electronic Transactions Ordinance**

At the request of the Information Technology Services Department (ITSD) of the HKSAR Government, PN 870 has been amended to provide further guidance to members on the issues of “confidentiality and copyright of an assessment report”. These are included in the new paragraphs 74A and 74B, and revisions to the example engagement letter (Appendix 1) and example assessment report (Appendix 2). The ITSD has been consulted on the amendments.

The revised PN was issued with Members’ Handbook Update 1/02 and is available at the Society’s website <<http://www.hksa.org.hk/professional/>> under “Professional Pronouncements” and “Volume III-B”.

### **HKSA Comments On SFC’s Draft Securities And Futures (Accounts And Audit) Rules**

The HKSA has sent a submission on the draft Rules to the Securities and Futures Commission (SFC) on 29 January 2002. The proposed Rules, which form part of the

Subsidiary Legislation to the Securities and Futures Bill to be enacted, prescribe the financial statements and other reporting requirements for intermediaries licensed by the SFC for carrying on regulated activities (Licensed Corporation).

The HKSA has commented on the proposed requirement for the auditors' report to contain an opinion as to whether there has been any contravention of the Securities and Futures (Financial Resources) Rules by the Licensed Corporation during the financial year.

The HKSA has also commented on the proposed requirement for the Licensed Corporation or its associated entity to prepare the document on internal controls for submission to the SFC, and for the auditors to report on it. The HKSA has requested the SFC to establish an industry benchmark on the minimum internal controls that are required to be maintained by the Licensed Corporation or its associated entity in order to facilitate such reporting.

The submission can be accessed at the HKSA's website <<http://www.hksa.org.hk/professional/>> under "HKSA Submissions".

### **WebTrust**

#### **Applying Hong Kong Assurance Standards**

Following the issue of Hong Kong Attestation Standards (namely SAE 100 "Framework for assurance engagements intended to provide either a high or moderate level of assurance" and SAE 200 "High level assurance engagements"), the HKSA has obtained AICPA/CICA's consent to change the definition of "Attestation Standards" in the WebTrust License Agreement to refer to the Hong Kong SAEs (in place of the CICA attestation standards – section 5025 "Standards for assurance engagements").

Licensed WebTrust practitioners are required to follow the Hong Kong SAEs in conducting WebTrust engagements.

### **HKSA/HKIAC Launch Local Arbitration Rules For E-commerce Disputes**

The HKSA and the Hong Kong International Arbitration Centre (HKIAC) jointly announced on 29 January 2002 the launch of the HKIAC Electronic Transaction Arbitration Rules (the Rules) developed to provide a local third-party arbitration framework for use and adoption by online merchants to handle consumer disputes.

Due to the anonymity of the web, many online customers are concerned about resolving problems arising from e-commerce transactions. To small businesses, going to Court to resolve consumer disputes will also increase transaction costs significantly and in practical terms it is not an appealing option in many cases.

WebTrust which sets the international best practice benchmark for e-commerce stipulates the requirement that online merchant must both disclose its procedures for consumer recourse for issues not resolved by it, and commit to the use of third-party resolution of disputes with its customers.

The HKSA and HKIAC have collaborated to develop a local independent arbitration mechanism that is now available for use/adoption by e-commerce merchants.

The Rules form an important part of the implementation of the WebTrust e-commerce best practice standard in Hong Kong, and further reinforce the strength of the WebTrust Programme for Consumer Protection. They can be accessed at the HKIAC's website <<http://www.hkiac.com.hk>> under "Rules".



## **Tax**

### **IRD To Introduce E-filing Of Profits Tax Returns**

The IRD is planning to introduce a facility for off-line electronic filing of profits tax returns as from April 2002.

Salient features of the arrangements to be implemented include:

- E-versions of the corporate and non-corporate profits tax return (BIR 51 and 52 respectively) will be downloadable from the IRD website and the Government E-form website.
- The forms can be used with software that will be downloadable from the Government E-form website.
- Attachments (e.g. audited accounts) may be added to the forms and the software will provide for encryption before transmission.

- Digital signatures will be required for authentication and non-repudiation. In addition to the taxpayer, the auditors submitting the audit report as an attachment to the BIR 51 will be required to attach their digital certificate to the tax return in place of the original signature on the paper version of the audit report.

The IRD outlined the intended procedures and e-forms to the Society at a meeting held in late February 2002, and indicated that further information will be provided at the annual tax representatives briefing to be held in April 2002.

While the Society supports the principle of introducing e-filing, clear concerns were identified and expressed over certain aspects of the e-form and filing, in particular in relation to the potential implications of the requirement for auditors to digitally sign the tax form, rather than the audited accounts. Questions were also raised about the security of the proposed system. We are continuing to liaise with the IRD on these matters and will inform members of further developments as appropriate.



## Corporate Restructuring & Insolvency

### Tendering for ORO "T" Panel

By notice in the Gazette and certain newspapers published on 25 January 2002, the Official Receiver's Office (ORO) invited tenders for taking up appointments as provisional liquidator under s194(1A) of the Companies Ordinance. The closing date for submission of tenders was 25 February 2002.

The OR has also indicated that he is considering a scheme for contracting out personal bankruptcy work to the private sector. However, the precise nature or scope of such a scheme and also the means by which the work can be funded (given that most bankruptcy cases have limited assets) remain unclear. Members will be updated when further, more specific, developments occur in relation to this matter.



## Legislation & Government Initiatives

### Proposed Changes To Company Law Go To LegCo

The Companies (Amendment) Bill 2002 was gazetted on 18 January 2002. The Bill seeks to implement some of the recommendations made in "The Report of the Standing Committee on Company Law Reform on the Recommendations of a Consultancy Report of the Review of the Hong Kong Companies Ordinance" dated February 2000 (the "SCCLR Report").

The SCCLR Report contains recommendations on a range of legislative proposals to enhance shareholders' protection, update the requirements regarding directorships, simplify the requirements for registration of foreign companies and make structural changes to modernise the Companies Ordinance.

The recommendations which the Bill seeks to implement include:

- to permit the formation of a company by one person;
- to permit a private company to have a minimum of one director;
- to give every shareholder of a company a personal right to enforce the terms of the memorandum and articles of association;
- to reduce the threshold for requisitioning the circulation of a proposal to shareholders entitled to notice of general meetings, under s115A of the Ordinance, to holders of not less than 2.5% (now 5%) of the voting rights or not less than 50 (now 100) shareholders holding shares on which there has been paid an average sum of not less than \$2,000 per person;

- to permit the removal of a director by an ordinary resolution instead of a special resolution, notwithstanding any provision in the company's constitution;
- to relocate the definition of "shadow director" to the general interpretation section of the Ordinance and to extend the definition; to define the term "manager", which is currently contained in the definition of "officer";
- to restate that provisions in a company's articles or a contract granting exemptions or indemnities by a company to its officers or auditors against liability for negligence, default, breach of duty or breach of trust to the company or a related company are void; at the same time to relax the prohibition on the purchase by a company of insurance for its directors and officers under s165 of the Ordinance;
- to extend the prohibition against a company making a loan to a director, or providing a guarantee or security for such a loan, to cover more modern forms of credit e.g. quasi-loans and credit transactions; and
- to change the time limit for the completion of transfers of shares by a public company from 2 months to 10 business days.

The Bill makes other technical and procedural changes to modify certain filing requirements, improve the charge registration procedures in the Companies Ordinance and to make amendments to certain winding-up provisions.

The Bill may be accessed and downloaded at the LegCo website at <http://www.legco.gov.hk/general/english/bills/bill0102.htm>. Members are welcome to send their comments, if any, to John Tang, HKSA's Assistant Director (Business & Practice) by 31 March 2002.



## Information Technology

### **The HKSA 5<sup>th</sup> Information Technology Conference – A Full House**

Nearly 500 members, information technology professionals, academics and others turned out for the Society's 5<sup>th</sup> Information Technology Conference ("IT<sup>2</sup> - "Information Technology Innovation Trends") held at the Hong Kong Polytechnic University Jockey Club Auditorium on 2 February 2002, despite the wind and rain that hit Hong Kong on that morning. In the first panel session, attendees were fortunate in being able to hear 3 excellent overseas speakers, who are at the forefront of innovation in accountancy products and services. This was followed by an impressive array of local speakers

addressing different aspects of the conference theme. The Society hopes that the positive attendance and feedback from the conference is evidence that the profession in Hong Kong remains forward-looking and receptive to change as the accountancy sector evolves and progresses globally.

Attendees of the conference who wish to obtain those speakers' handouts that were unavailable on the day should contact Karen Moy, Administrative Officer (Professional and Technical) at the Society. Members who did not attend but who wish to obtain the conference handouts can purchase a set from the reception counter at the Society.



## Corporate Governance

### **New HKSA Guide For Effective Audit Committees Published**

The HKSA launched its latest recommended guidance on audit committees, entitled "A Guide For Effective Audit Committees", at a press conference held on 5 February 2002. Now that audit committees are a well-established part of the corporate landscape, the new guide aims to move the development of good corporate governance in Hong Kong further forward by focusing on how to ensure that audit committees can operate effectively.

The latest guide, which is the seventh in a series of corporate governance publications issued by the Society since December 1995, supersedes the Society's December 1997 publication entitled, "A Guide For The Formation Of An Audit Committee". It addresses issues such as the committee composition and procedures and practices that can help to strengthen the role and operation of an audit committee within a company's organisational structure.

The guide can be accessed at the HKSA's website at <<http://www.hksa.org.hk/publications>>.

### **HKEx Consults On Proposed Listing Rules Changes Relating To Corporate Governance**

The Hong Kong Exchanges and Clearing Limited (HKEx) is proposing to amend the Listing Rules to enhance the corporate governance of companies listed on the Main Board and GEM.

The Consultation Paper was issued in January 2002 for comment by 22 April 2002. It comprises 66 major proposals and a questionnaire with 169 questions. The Consultation Paper discusses the rationale behind various proposed changes but does not set out specific detailed changes to the Listing Rules. It is divided into three main

sections: (1) protection of shareholders' rights; (2) directors and board practices; and (3) corporate reporting and disclosure of information.

Regarding the issue of protection of shareholders' rights, views are sought on matters relating to areas such as the voting process, dilution of shareholders' interests, material changes in the nature of business and notifiable and connected transactions.

In relation to directors and board practices, proposals include amendments to the Listing Rules to strengthen the role of independent non-executive directors as well as revisions to the Code of Best Practice, which sets out the recommended minimum standard of good board practices. It is proposed to make audit committees mandatory and that the establishment of other governance committees, in particular remuneration and nomination committees, should become recommended practice. Issues of securities dealing by directors and directors' contracts are also considered.

Regarding corporate reporting and disclosure of information, three main themes are addressed, namely the frequency of timely disclosure of financial information, the adequacy of information disclosed in issuers' documents, announcements and circulars; and the quality of information disclosed in issuers' documents. Proposals include reference to the introduction of quarterly reporting.

The HKSA's Corporate Governance Committee is now reviewing the Consultation Paper in conjunction with other relevant Committees/Expert Panels with a view to preparing a submission to the HKEx.

The full consultation document can be accessed at the HKEx's website at <<http://www.hkex.com.hk>>. If members have any views on it they are welcome to send these to Elaine Chan, Assistant Director (Business and Practice) at the Society by 31 March 2002.



## Listing & Securities Matters

### SFC Consults on Proposals For A Scripless Securities Market

The Securities and Futures Commission (SFC) is undertaking a three-month consultation exercise on proposals for a scripless securities market. A Consultation Paper was issued in February 2002 for comment by 8 May 2002.

The main objectives of the proposals are to enable shares to be issued and transferred electronically and to integrate Hong Kong's Central Clearing and Settlement System (CCASS) with the share registrars who maintain registers of shareholders for listed companies.

The main proposals are that CCASS participants and their shareholdings in CCASS should be reflected on listed companies' registers of members and that existing registered holders with share certificates should have the option of delivering their certificates to the share registrar for cancellation and creation of a scripless registered holding on the "Issuer register". The legislative changes required as a consequence of the proposals are discussed in the Consultation Paper.

The Consultation Paper is available online on the SFC's website at <http://eapp01.hksfc.org.hk/apps/som/>

[scriplesssecmkt.nsf/main?openform](http://scriplesssecmkt.nsf/main?openform)>. If members have any views on this please send them to Elaine Chan at the Society by 31 March 2002.

### HKEx Guide On Disclosure Of Price-sensitive Information Issued

The HKEx issued "Guide on Disclosure of Price-sensitive Information" in January 2002.

The guide is intended to help issuers and their directors fulfil their obligations under the Listing Rules while allowing them to actively inform the market of company developments. It sets out the guiding principles and criteria in disclosing price-sensitive information, what "price-sensitive information" is and when and how such information should be disclosed. It advocates the establishment of a communications policy and procedure to assist the systematic dissemination of price-sensitive information. Guidance on particular situations and issues, such as incomplete negotiations, and inadvertent dissemination of information, is also given.

The full document can be accessed at the HKEx's website at <http://www.hkex.com.hk> under "Rules and Regulations" of the "Corporate" section.



## Technical Queries

### HKSA issues a policy on Technical Queries

The Professional and Technical Department receive a large number of queries on the application of professional pronouncements and law. To deal with these queries in an appropriate manner, the HKSA Council has approved a policy on the handling of technical queries. The main features of the policy are that:

- ✓ Queries will be entertained only from HKSA members. Guidance for others will be provided as to alternative sources of information for queries.

- ✓ Queries must be in writing.
- ✓ Responses to queries will also be in writing and will be appropriately disclaimed in a number of respects.
- ✓ Queries and responses may be posted on the Society's website subject to the same conditions under which an original response is provided.

The policy is attached to this issue of TechWatch and will be published in the Hong Kong Accountant and on the HKSA website.



## Comment Key Dates

Outlined below are the submission closing dates for exposure drafts, discussion papers and other matters:

25 March 2002 – IASB Exposure Draft: Limited Revision to IAS 19. Please send comments to: [commentletters@iasb.org.uk](mailto:commentletters@iasb.org.uk) and copy to: [commentletters@hksa.org.hk](mailto:commentletters@hksa.org.hk)

31 March 2002 – Companies (Amendment) Bill 2002

22 April 2002 – Deadline for submissions to HKEx on Consultation Paper on Proposed Changes to the Listing Rules Relating to Corporate Governance Issues [Views to the Society by 31.3.2002]

30 April 2002 – Proposed SSAP Interpretations 14, 15, 16, 17 & 18. Please send comments to: [commentletters@hksa.org.hk](mailto:commentletters@hksa.org.hk)

8 May 2002 – Deadline for submissions to the SFC on Consultation Paper on Proposals for a Scripless Securities Market [Views to the Society by 31.3.2002]

15 July 2002 – Proposed SSAPs and Implementation Guidance on Financial Instruments. Please send comments to: <commentletters@hksa.org.hk>

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## Appendices

### **Statement of Due Process – Setting Hong Kong’s accounting standards**

1. The Hong Kong Society of Accountants (HKSA) Financial Accounting Standards Committee (FASC) procedures ensure that Hong Kong Statements of Standard Accounting Practice (SSAPs) are of high quality and are introduced only after giving the FASC’s constituency opportunities to make their views known during the standards-setting due process.
2. The FASC has a mandate to achieve convergence (as far as practicable) with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). Within this remit, the HKSA Council permits the FASC to work in whatever way it considers most effective and efficient and this may include forming advisory sub-committees or other forms of specialist advisory groups to give advice in preparing new and revised SSAPs.

#### **The procedures for developing SSAPs are as follows:**

3. The FASC determines the scope and priority of any projects formally added to its agenda and reviews these with the HKSA’s Accounting Standards Advisory Panel (ASAP).
4. The process for the development of SSAPs will involve the following steps:
  - During the early stages of a project, the FASC may establish an advisory sub-committee to give advice on the issues arising in the project. Consultation with the advisory sub-committee occurs when required throughout the project;
  - The FASC may prepare and publish discussion documents for public comment;
  - The FASC will publish an Exposure Draft for public comment;
  - The FASC considers all comments received and, when appropriate, prepares a comment letter to the IASB; and
  - Following publication of the finalised IFRS, the FASC considers the changes made (if any) by the IASB and will recommend to the HKSA Council the approval of a SSAP.

#### **Additional Elements of the Due Process**

##### *Meetings*

5. Meetings of the FASC, the ASAP and Sub-Committees of the FASC (including the Urgent Issues and Interpretations Sub-Committee) are not open to public observation. However, as discussed further below, the constituency is kept updated on the FASC’s deliberations and correspondence from the constituency on the FASC’s technical agenda is welcomed at all times.
6. The Secretariat will publish a summary of the decisions made at such meetings promptly thereafter.
7. When the HKSA publishes a SSAP, it may also publish a Basis for Conclusions to explain publicly how the conclusions were reached and to give background information that may help users of the SSAPs to apply them in practice.

##### *Comment Periods*

8. The FASC issues Exposure Drafts of Proposed SSAPs, Discussion Documents and other similar consultation documents for public comment. To facilitate the FASC providing timely comment to the IASB, the usual comment period is between sixty (60) and ninety (90) days. Draft Interpretations are usually exposed for a comment period of sixty (60) days.

## Coordination with International Due Process

9. Close co-ordination between the FASC's and IASB's due processes is important to the success of both the HKSA's and IASB's mandates.
10. In its due process statement, the IASB states that it is exploring ways in which it can integrate its due process more closely with national due process (such as that operated in Hong Kong by the FASC).
11. In particular, the IASB states that it is exploring the following procedure for projects that have international implications:
  - IASB and national standard setters would co-ordinate their work plans so that when IASB starts a project, national standard setters would also add it to their own work plans so that they can play a full part in developing an international consensus. Similarly, where national standard setters start projects, IASB would consider whether it needs to develop a new IFRS or revise its existing IFRSs. Over a reasonable period, IASB and national standard setters should aim to review all standards where significant differences currently exist, giving priority to the areas where the differences are greatest;
  - National standard setters would not be required to vote for IASB's preferred solution in their national standards, since each country remains free to adopt IASB standards with amendments or to adopt other standards. However, the existence of an international consensus is clearly one factor that members of national standard setters would consider when they decide how to vote on national standards;
  - IASB would continue to publish its own Exposure Drafts and other documents for public comment;
  - National standard setters would publish their own exposure documents at approximately the same time as IASB Exposure Drafts and would seek specific comments on any significant divergences between the two exposure documents. In some instances, national standard setters may include in their exposure documents specific comments on issues of particular relevance to their country or include more detailed guidance than is included in the corresponding IASB document; and
  - National standard setters would follow their own full due process, which they would, ideally, choose to integrate with IASB's due process. This integration would avoid unnecessary delays in completing standards and would also minimise the likelihood of unnecessary differences between the standards that result.

The HKSA supports the integration of its standard setting process with that of the IASB as outlined above by adopting these procedures.

## **HKSA Staff Policy on Handling Technical Queries**

### **Introduction**

1. The Hong Kong Society of Accountants (“Society”) Council is empowered, in relation to the practice of accountancy, to issue or specify any:
  - (a) statement of professional ethics; and/or
  - (b) standards of accounting and auditing practices;required to be observed, maintained or otherwise applied by any professional accountant<sup>1</sup>.
2. Statements of professional ethics and standard accounting and auditing practices (collectively “Professional Pronouncements”), together with relevant interpretative and other guidance approved by the Society’s Council, are published in the Society Members’ Handbook.
3. From time to time, the Society receives queries in relation to the application and interpretation of its Professional Pronouncements and also receives queries in relation to such other matters as the application of the law (for example, in relation to company or taxation law) or the accounting or other professional requirements applying in jurisdictions other than Hong Kong.
4. Outlined below is the Society’s policy in relation to dealing with members’ technical queries such that they may be dealt with in an orderly manner. The policy may be modified from time to time as a result of our experience.

### **Addressing Technical Queries with the Society**

5. The Society will receive queries on the application and interpretation of the Society’s Professional Pronouncements.
6. The Society’s staff will respond to such queries subject to the conditions outlined below:
  - ✓ The query should come from a member of the Society<sup>2</sup> (with limited exceptions for regulatory bodies and the media) – guidance for others as to alternative sources of information for queries is provided in para. 15 below;
  - ✓ The query should be in writing and addressed to the Society’s Senior Director via mail, e-mail or fax;
  - ✓ The query should include the member’s name, address, contact telephone number during normal office hours and membership number;
  - ✓ The query should include a written statement of all relevant facts and assumptions, and refer to available authoritative support and supporting rationale<sup>3</sup>. Sufficient information on the situation and circumstances to which the query pertains must be provided but the query should be generic in nature and not relate to a specific enterprise or transaction (either actual or contemplated). The query should preferably provide a suggested conclusion consistent with the authoritative support and other references cited;
  - ✓ Members should include details as to whether or not others have been consulted in respect of the query and, if so, the facts provided to that person, and the details of their response. The query to the Society should, however, be kept generic and not refer to a specific enterprise and/or fact situation.
7. If in the Society’s view, the above conditions have not been met, the member may be asked to resubmit the query, as appropriately raised, or the query may not be responded to, at the Society’s discretion. In the latter case the member will be informed of the decision.
8. The Society’s staff will not respond to queries on the application and interpretation of material not published by the Society, including matters of law and regulation (for example, company law, taxation law, Stock Exchange Listing Rules), as well as

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<sup>1</sup> Professional Accountants Ordinance, section 18A(1).

<sup>2</sup> Reference to “member” means an Associate or Fellow of the Society.

<sup>3</sup> For example, the requirements of the relevant SSAP.

accounting, auditing and other professional requirements applying in jurisdictions other than Hong Kong.

9. As a matter of policy, the Society's staff do not respond to the following requests:
  - × Providing advice on enterprise-specific and/or detailed fact-specific questions;
  - × Suggesting the appropriate audit opinion to be given;
  - × Acting as an arbitrator regarding any issue or dispute;
  - × Assisting in research for student assignments.
10. The Society staff will provide only written responses to queries on the following basis:
  - ✓ The response is essentially the personal view of the staff member providing the response and intended for general guidance only. It does not constitute an authoritative response on behalf of the Society;
  - ✓ The staff member's response is based on the facts and assumptions provided and may not apply if there is a change or discrepancy in those facts or assumptions;
  - ✓ Reliance on the staff member's response is entirely at the enquirer's own risk;
  - ✓ Neither the Society nor its staff can accept any responsibility for the accounting treatment or for the application of auditing or other professional standards in the particular circumstances (as applicable) applied consequent to the staff member's response;
  - ✓ Reference to the query and response, if any, may not be made – and shall not be permissible as evidence – in the case of any complaint furnished to the Society.
11. Because of the Society's limited resources to deal with members' queries, it is generally not possible for Society staff to attend to all queries necessarily in a timely manner. Staff will strive to answer 95% of queries, which contain all of the information specified in this policy, within 10 working days of receipt.

## **Limitations**

### **Society's Professional Pronouncements**

12. Note should be taken that the staff member's response is provided on a generic basis and should not be considered necessarily relevant to a specific enterprise or transaction. A query provides typically only a selected summary of the scenario about which advice is being sought and it is inevitable that the staff member will be less well informed, and consequently less able to provide appropriate advice, than an advisor who has become familiar with all the relevant facts regarding the matter in question.
13. The Society's staff are able to assist members by providing information that guides them to the most appropriate source of information (such as the relevant Professional Pronouncements). To enable meaningful discussions, members are expected to consult and understand the relevant Professional Pronouncements themselves first before further questions are raised.
14. The Society appreciates that judgement may be involved in applying Professional Pronouncements and suggests members seeking specific answers to detailed fact-specific questions investigate other avenues for opinion, such as seeking an opinion from a fellow member, before making up their own judgement.
15. As a last port of call for members' queries on Professional Pronouncements, the Society encourages both members and non-members to use other sources of information available, which may include:
  - ✓ For members of the public → a professional accountant<sup>4</sup>, the Society's Free Public Advisory Service Scheme<sup>5</sup>;

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<sup>4</sup> Note that the Society does not respond to queries on the application and interpretation of the Society's Professional Pronouncements from members of the public because it is inappropriate for the Society to be in competition with its members.

<sup>5</sup> Refer to the Society's website:  
[http://www.hksa.org.hk/corporate\\_relations/community/index.php?item=aap](http://www.hksa.org.hk/corporate_relations/community/index.php?item=aap)

- ✓ For financial statement preparers → your external auditor;
- ✓ For professional accountants → colleagues, fellow members, the Society's website including the discussion forum;
- ✓ For students → library, lecturers, textbooks (see attached reference list), and the Society's website where you will find electronic copies of the Society's standards and details of other professional literature published by the Society;
- ✓ For enterprise-specific queries → the enterprise concerned<sup>6</sup>.

#### Legal interpretations and Professional Pronouncements applying in other jurisdictions

16. The Society's staff are not in a position to respond to queries on the application and interpretation of the law or of professional pronouncements not issued or specified by the Society. In the case of queries relating to the law, members are advised to seek independent legal advice.

#### Enterprise-specific queries

17. It is Society policy not to comment on the specific facts pertaining to a company or its financial statements. Enterprise-specific queries should be raised with the enterprise concerned.
18. On occasion, queries in respect of a specific enterprise may be, or become, part of a matter of complaint to the Society about the conduct of a member. Queries connected with an actual or proposed complaint should be directed to the Society's Director of Professional Compliance.

#### Disclaimer

19. As a matter of policy, the Society disclaims responsibility for any private comment or statement by any of its staff. The views expressed by a staff do not necessarily reflect the views of the Society, the Society's Council, or other members of the Society's staff. The Society's staff response to a query on the Society's Professional Pronouncements reflects only the staff's personal views in the light of the particular circumstances described by and the limited information provided by the enquirer and is purely for reference and discussion purpose only, and should not be regarded as the official interpretation of the Society Professional Pronouncements. Official interpretations of the Society's Professional Pronouncements can only be established after extensive deliberation and due process, and with the approval of the Society's Council.

#### Society's Official Response

20. Where members consider that there are deficiencies in certain Professional Pronouncements that give rise to the ambiguities or difficulties in the application of Professional Pronouncements, suggestions are most welcome.
21. Any such suggestions should be directed to the Registrar of the Society. These suggestions will be referred to the relevant standard-setting Committees for consideration, and the relevant Professional Pronouncements will be amended, where appropriate.
22. Owing to limited resources, the Society does not give individual responses to these suggestions.

#### Publication of Queries and Responses

23. To widen the help to members, the Society may, where appropriate, publish, or post on the Society's website, frequently asked technical questions and answers.
24. These will be published in generic terms without disclosing the identity of the enquirer.

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<sup>6</sup> Auditors, who are under a duty of confidentiality, are generally not permitted to respond to queries from third parties in relation to queries on a client.

**Update on Hong Kong Statements of Auditing Standards (HKSASs)/  
Hong Kong Standards on Assurance Engagements (HKSAEs)  
Vs  
International Standards on Auditing (ISAs)**

	Title		Title	Remarks
--	Preface to ISAs and related services	<b>HKSAS 010</b>	The scope and authority of auditing pronouncements	
<b>ISA 120</b>	Framework of ISAs			
<b>ISA 100</b>	Assurance engagements	<b>HKSAE 100</b>	Framework for assurance engagements intended to provide either a high or moderate level of assurance	
		<b>HKSAE 200</b>	High level assurance engagements	
<b>ISA 200</b>	Objective and general principles governing an audit of financial statements	<b>HKSAS 100</b>	Objective and general principles governing an audit of financial statements	
<b>ISA 210</b>	Terms of audit engagements	<b>HKSAS 140</b>	Engagement letters	
<b>ISA 220</b>	Quality control for audit work	<b>HKSAS 240</b>	Quality control for audit work	
<b>ISA 230</b>	Documentation	<b>HKSAS 230</b>	Documentation	
<b>ISA 240</b>	The auditor's responsibility to consider fraud and error in an audit of financial statements	<b>HKSAS 110</b>	The auditors' responsibility to consider fraud and error in an audit of financial statements	
<b>ISA 250</b>	Consideration of laws and regulations in an audit of financial statements	<b>HKSAS 120</b>	Consideration of laws and regulations in an audit of financial statements	
<b>ISA 260</b>	Communications of audit matters with those charged with governance	<b>HKSAS 610</b>	Communications of audit matters of governance interest with directors or management	
<b>ISA 300</b>	Planning	<b>HKSAS 200</b>	Planning	
<b>ISA 310</b>	Knowledge of the business	<b>HKSAS 210</b>	Knowledge of the business	
<b>ISA 320</b>	Audit materiality	<b>HKSAS 220</b>	Audit materiality	
<b>ISA 400</b>	Risk assessments and internal control	<b>HKSAS 300</b>	Audit risk assessments and accounting and internal control systems	
<b>ISA 401</b>	Auditing in a computer information systems environment	<b>HKSAS 310</b>	Auditing in a computer information systems environment	
<b>ISA 402</b>	Audit considerations relating to entities using service organizations	<b>HKSAS 480</b>	Audit considerations relating to entities using service organizations	
<b>ISA 500</b>	Audit evidence	<b>HKSAS 400</b>	Audit evidence	
<b>ISA 501</b>	Audit evidence - additional considerations for specific items	<b>HKSAS 401</b>	Audit evidence - considerations for specific items	
<b>ISA 505</b>	External confirmations	<b>HKSAS 402</b>	External confirmations	
<b>ISA 510</b>	Initial engagements – opening balances	<b>HKSAS 450</b>	Opening balances and comparatives	
<b>ISA 520</b>	Analytical procedures	<b>HKSAS 410</b>	Analytical procedures	
<b>ISA 530</b>	Audit sampling and other selective testing procedures	<b>HKSAS 430</b>	Audit sampling	
<b>ISA 540</b>	Audit of accounting estimates	<b>HKSAS 420</b>	Audit of accounting estimates	

	Title		Title	Remarks
<b>ISA 550</b>	Related parties	<b>HKSAS 460</b>	Related parties	
<b>ISA 560</b>	Subsequent events	<b>HKSAS 150</b>	Subsequent events	
<b>ISA 570</b>	Going concern	<b>HKSAS 130</b>	Going concern	
<b>ISA 580</b>	Management representations	<b>HKSAS 440</b>	Representations by management	
<b>ISA 600</b>	Using the work of another auditor	<b>HKSAS 510</b>	Principal auditors and other auditors	
<b>ISA 610</b>	Considering the work of internal auditing	<b>HKSAS 500</b>	Considering the work of internal auditing	
<b>ISA 620</b>	Using the work of an expert	<b>HKSAS 520</b>	Using the work of an expert	
<b>ISA 700</b>	The auditor's report on financial statements	<b>HKSAS 600</b>	Auditors' report on financial statements	
<b>ISA 710</b>	Comparatives	<b>HKSAS 450</b>	Opening balances and comparatives	
<b>ISA 720</b>	Other information in documents containing audited financial statements	<b>HKSAS 160</b>	Other information in documents containing audited financial statements	
<b>ISA 800</b>	The auditor's report on special purpose audit engagements			On hold.
<b>ISA 810</b>	The examination of prospective financial information			In discussion. The Hong Kong equivalent is Auditing Guideline 3.341 "Accountants' report on profit forecasts".
<b>ISA 910</b>	Engagement to review financial statements	<b>HKSAS 700</b>	Engagements to review interim financial reports	
<b>ISA 920</b>	Engagements to perform agreed-upon procedures regarding financial information	<b>HKSAS 710</b>	Engagements to perform agreed-upon procedures regarding financial information	
<b>ISA 930</b>	Engagements to compile financial information	<b>HKSAS 720</b>	Engagements to compile financial information	
		<b>HKSAS 470</b>	Overall review of financial statements	No equivalent ISA.