



STANDARDS & TECHNICAL

NEWS AT A GLANCE

TechWatch is 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 Stephen Chan, Technical Director (Ethics & Assurance) & Head of Standards & Technical Department Coordination [by email](#).

ISSUE 27 • AUGUST/SEPTEMBER 2004

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Further information on the [HKICPA Standards & Technical Department](#) and [previous issues of TechWatch](#) are available at the HKICPA's website.

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Members' Handbook Updates

1. Updates 4, 5 and 6 Issued

[Update No. 4](#) encloses revised and new Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards. Details of these Standards were set out in [TechWatch Issue No. 26](#).

[Update No. 5](#) encloses new Statement 1.213 "Use of designations and Institute's logo", which sets out the use of new designations for members, member practices, and International Affiliates introduced by the Professional Accountants (Amendment) Ordinance 2004 which became effective on 8 September 2004. It also sets out restrictions on the use of the HKICPA logo.

Statement 1.213 became effective on 8 September 2004. Statement 1.202 "Descriptions" was replaced by Statement 1.213 and withdrawn on 8 September 2004.

[Update No. 6](#) encloses revised and new pages of the Members' Handbook as a result of the passage of the Professional Accountants (Amendment) Ordinance 2004. The changes made to the Members' Handbook include:

1. change of name from Hong Kong Society of Accountants (HKSA) to Hong Kong Institute of Certified Public Accountants (HKICPA);
2. new designations for members and member practices; and
3. new CPD requirements.

The [electronic Members' Handbook](#) has been updated to reflect the Updates. For those who have subscribed to the [Hard Copy Update package](#), they will receive the Updates by post.

Technical Update Evening

2. New Programme Issued Featuring A Number Of Important New Auditing Standards

The latest [TUE Programme](#) includes:

- New Audit Risk Standards (27 September 2004), a re-run session
- New Quality Control Standards for Auditors (5 October 2004)
- Shape your profile and be the CPA of choice! (19 October 2004)
- Revised Standards on Fraud Consideration and Audit Planning for Auditors (26 October 2004)
- An Introduction to the Companies (Amendment) Ordinance 2004 (9 November 2004)
- Don't underestimate the risk of a privacy breach (23 November 2004)
- New Hong Kong Auditing, Assurance and Related Services Standards (30 November 2004)

Seats are limited. To secure your seats, please register early by completing the [registration form](#) and returning it to the HKICPA.

ICAEW Faculties

3. Exclusive 3-Month Free Trial For HKICPA Members

The ICAEW (Institute of Chartered Accountants in England & Wales) Faculties are leaders in their fields of expertise and are subscribed to by ICAEW members in business and practice as well as many non-members who rely on the technical publications to keep them up to date with current issues and developments in the fields of Audit and Assurance, Corporate Finance, Finance & Management, Information Technology and Tax.

Under the Membership & Co-operation Agreement signed between the HKICPA and ICAEW on 8 September 2004, members of the HKICPA are offered a 3-month free trial of any 2 of the 5 ICAEW Faculties. Once signed up, you will receive your electronic mailing and get access to the members only areas of the websites for the faculties that you have joined, free of charge up to December 2004.

Click [here](#) to find out more about the 5 ICAEW Faculties and apply for this offer, which is only available through online applications.

Financial Reporting

4. HKICPA Issues SSAP Interpretation 22 *The Appropriate Policies for Infrastructure Facilities*

The HKICPA has issued [SSAP Interpretation 22 *The Appropriate Policies for Infrastructure Facilities*](#) which will take effect from 1 October 2004.

Interpretation 22 concludes that the sinking fund method is not an appropriate method of depreciating or amortising infrastructure assets, regardless of whether the asset (or components thereof) is classified as property, plant and equipment, intangible assets or operating prepayments.

Interpretation 22 is currently available on the HKICPA's website and will be published in the HKICPA Members' Handbook in October.

5. HKICPA Issues SSAP Interpretation 23 *The Appropriate Policies for Hotel Properties*

The HKICPA has issued [SSAP Interpretation 23 *The Appropriate Policies for Hotel Properties*](#). An entity should apply Interpretation 23 for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

Interpretation 23 concludes that, under the present Statements of Standard Accounting Practice (SSAPs), a hotel property may have been accounted for either as investment property or as property, plant and equipment depending on the circumstances relevant to a specific property. A hotel property must be accounted for under either SSAP 13 *Accounting for Investment Properties* or SSAP 17 *Property, Plant and Equipment* and therefore may not be presented in financial statements in a category other than either investment property or property, plant and equipment.

After the revision of SSAP 13 to more closely align with IAS 40 *Investment Property*, all owner-operated hotel property would be property, plant and equipment and therefore should be accounted for under SSAP 17 (or HKAS 16 as applicable) and therefore must apply depreciation regardless of whether the property is carried at impaired cost or revalued amount. The depreciable amount of the

hotel building would be depreciated over its remaining useful life and, when the hotel property is located on land held under operating lease, the carrying amount of the leasehold land would be amortised over the remaining life of the lease. It is highly likely that the residual value (as defined in HKAS 16) of a building situated on leasehold land will be insignificant relative to the depreciable amount. The residual value of land held under an operating lease would typically be zero.

Interpretation 23 is currently available on the HKICPA's website and will be published in the HKICPA Members' Handbook in October.

6. **IASB Survey Of The Accounting For Interests In Joint Venture Arrangements**

The International Accounting Standards Board (IASB) has embarked on a research project on joint ventures that is expected to culminate in the revision of IAS 31 *Interests in Joint Ventures*. The Australian Accounting Standards Board is leading a team of standard setters from Hong Kong, Malaysia and New Zealand to progress this research project.

In order to identify various structures of joint venture arrangements worldwide, a questionnaire has been developed. It is important that entities involved in joint venture arrangements actively participate in providing information on prevailing joint venture arrangements structures. Participation in the survey will help ensure that the forthcoming accounting treatments of interests in joint ventures are conceptually sound and can provide useful information to the users of financial reports.

The questionnaire can best be answered [online](#) or by printing a [hard copy](#) (pdf supplied). The information provided through this questionnaire will be used for research purposes only and will be treated confidentially.

Responses should be sent directly to the Joint Ventures Project Leader, the contact details of whom can be found in the questionnaire, on or before 30 September 2004.

7. **FASC Meeting Summary – 14 July 2004**

The FASC met on 14 July 2004 and discussed the following items:

- Implementation Guidance on IAS 39 – equivalent guidance proposed for publication in Hong Kong
- Proposed HKAS 26 *Accounting and Reporting by Retirement Benefit Plans*
- HKFRS 3 *Business Combinations*
- HKFRS 4 *Insurance Contracts*
- HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- Urgent Issues and Interpretations Sub-Committee

The [FASC meeting summaries](#) are available on the HKICPA's website.

Audit & Assurance

8. Circular On Audit Report Following Change Of Name From HKSA To HKICPA

The change of name from HKSA to HKICPA on 8 September 2004 affects the wording of audit report in the “Basis of opinion” section where there is a reference to the professional standards issued by the HKICPA.

The Auditing and Assurance Standards Committee agreed that as a matter of best practice the following should be adopted:

- For audit reports dated before 8 September 2004, reference to HKSA should continue to be made in audit reports.
- For audit reports dated on or after 8 September 2004, reference should be made to the new name, HKICPA.

[A Circular dated 24 August 2004](#) was issued by the Chief Executive and Registrar to Practising Members and Member Practices advising them of the above, which contains a specimen audit report with a revised reference to the professional standards issued by the HKICPA in the “Basis of opinion” section, and also explanatory notes on the use of the description “Certified Public Accountants (Practising)”.

9. Exposure Draft Of Proposed Banking Practice Note For Auditors

The HKICPA issued an [Exposure Draft of a proposed Practice Note \(PN\) 830 “Reporting responsibilities of auditors under the Banking Ordinance”](#) for consultation by 6 November 2004. It is intended that the proposed PN will replace the extant Industry Auditing Guideline (IAG) 3.401 “Authorized institutions in Hong Kong” upon its finalisation.

IAG 3.401 was originally issued in September 1991 and revised in November 1992 to provide guidance to auditors on specific factors to be considered in the application of auditing standards to the audits of authorized institutions and reporting under the Banking Ordinance. In light of the developments in banking business practices, changes in statutory and regulatory requirements and developments in the framework for setting of auditing standards and guidelines, the HKICPA has decided to update this guideline.

The proposed PN primarily covers the following audit reporting responsibilities under the Banking Ordinance:

- a. Reporting on banking returns under section 63(3);
- b. Reporting on systems of internal control under section 63(3A);
- c. Ad hoc reporting commissioned by the HKMA under section 59(2);
- d. Reporting of significant adverse matters and non-compliance with the Securities and Futures Ordinance under sections 63A and 63B respectively; and
- e. Reporting in relation to voluntary revocation of authorization of an authorized institution.

10. Mainland Audit Issues Q&As Issued

The Audit and Assurance Standards Committee Working Group is tasked to develop Questions and Answers (“Q&As”) and/or articles for publication to raise practising members’ awareness of the common audit issues that may be encountered in the audits of Mainland enterprises.

The Working Group has issued the third set of Q&As on [“Revenue Recognition for Software Companies”](#) which addresses some of the common issues relating to revenue recognition for software companies in the Mainland, including some background information on issues that are specific to software companies in the Mainland, the basic principles for revenue recognition, suggested audit procedures and the recognition of fees for system maintenance, upgrade and enhancement.

11. AASC Meeting Summary – 9 July 2004

The [Meeting Summary](#) is available on the HKICPA’s website.

Legislation & Government Initiatives

12. HKICPA Comments On The Law Reform Commission’s Proposed Reform To The Doctrine Of Privity Of Contract

As reported in [TechWatch Issue No. 25](#), the Law Reform Commission’s Privity of Contract Subcommittee released a consultation paper on proposals to reform the doctrine of privity of contract, on which the HKICPA’s views were sought.

The privity doctrine has two aspects: as a general rule, (i) a person cannot acquire and enforce rights under a contract to which he is not a party; and (ii) a person who is not a party to a contract cannot be made liable under it. Whilst the second aspect is generally regarded as just and sensible, the first aspect has been subject to widespread criticism in a number of common law jurisdictions.

The main concern of the consultation paper was therefore with the first aspect of the doctrine, covering the following questions:

- whether the anomalies of the privity doctrine were serious enough to warrant its reform (Chapters 1 and 2); if so,
- whether ad hoc reforms, either by the courts on their own initiative or by legislation, were adequate in the Hong Kong context, or whether comprehensive legislative reform was necessary (Chapter 3); and
- if comprehensive legislative reform was necessary, what the main elements of the proposed legislative scheme should be (Chapter 4).

The consultation paper also noted that in Australia (Queensland, Western Australia, and Northern Territory), England, New Zealand and Singapore, the privity doctrine has been abrogated by legislation.

The Privity of Contract Sub-committee considered that the privity doctrine frustrated contracting parties' intention to benefit third parties, and therefore the Sub-committee recommended a general and wide-ranging statutory exception to the doctrine. The underlying principle of the reform would be to respect contracting parties' freedom of contract and, where appropriate, to give effect to their intention to benefit a third party. If the parties preferred, they would be able to make it clear in their contract that the proposed legislation would not apply to their contract. The Sub-committee's recommendations were summarised in Chapter 5 of the consultation paper.

The HKICPA's submission expressed support in principle for the proposal to reform the law relating to privity of contract and for the approach advocated in the consultation paper. The HKICPA agreed that strict adherence to the privity doctrine could frustrate the contracting parties' intention to benefit a third party, although the point has also made that, in the process of reform, care needed to be taken not to introduce uncertainty into contracts or to make unwarranted inroads into freedom of contract. The HKICPA considered that a detailed legislative scheme by way of a general statutory exception to the privity doctrine that allowed the contracting parties to confer legally enforceable rights or benefits on a third party in a comprehensive, systematic and coherent manner, would represent the most appropriate way forward.

A copy of the submission can be accessed on the [HKICPA's website](#).

Taxation

13. HKICPA Seeks Comments On Estate Duty Review Consultation Document Issued By Government

Following the Financial Secretary's commitment in the 2004/05 Budget Speech to conduct a review on estate duty, as reported in [TechWatch Issue No. 22](#), the Financial Services and the Treasury Bureau ("FSTB") has issued a consultation document (which can be accessed at the [FSTB's website](#)), highlighting the salient features of Hong Kong's estate duty system, and inviting comments by 20 October 2004 to assist the Government in formulating proposals on estate duty for the 2005/06 Budget.

The HKICPA's Taxation Committee is currently considering the consultation document. Members are welcome to forward any views on the document to [Mary Lam](#), Assistant Director (Business Members & Specialist Practices) **by 4 October 2004**.

Corporate Restructuring & Insolvency

14. Insolvency Interest Group Beijing-Hong Kong Seminar Successfully Held

As part of the ongoing efforts to improve liaison on cross-border insolvency cases, 120 representatives from the HKICPA's Insolvency Interest Group (IIG) attended a one-day Beijing-Hong Kong Seminar on Corporate Restructuring and Liquidation, which took place at the Convention and Exhibition Centre on 3 September 2004. The seminar was held in conjunction with the 8th Beijing-Hong Kong Economic Cooperation Symposium and Olympic Economy Market Promotion Conference. The HKICPA and the Beijing Municipal Bureau of Commerce were the Main Sponsors of the seminar.

Mr. Roger Best, President of the HKICPA, gave some opening remarks, and other speakers included the Official Receiver, Mr. Eamonn O’Connell, and Vice Director of the Beijing Municipal Bureau of Commerce, Mr. Zhao Xin Xin. Further information on the event will be included in an IIG report to be published in “The Hong Kong Accountant”.

Innovation & Technology

15. IT Risk Management Executive Programme – 4th Intake Open For Enrolment

This training course is offered by the HKICPA in collaboration with Hewlett Packard and University of Hong Kong (HKU SPACE). The course is designed to enable members to enhance their awareness and understanding of information technology related concepts and practices, as well as for them to acquire specific technical skills regarding system applications, control and security relevant to the accountants’ work.

The course objective is to enhance the proficiency of members:

- In public practice – in providing IT-related assurance services to their clients
- In business and industry – in providing IT risk management skills to their employers

By putting the knowledge into practice, professional accountants can further their role as trusted business advisor in the information age.

The course comprises the Essential Level and the Professional Level. Upon completing both Levels, participants are invited to attend the end-of-course project so as to simulate the work from the knowledge that they learn from the course. Participants who complete the entire course will be awarded the HKICPA Executive Certificate in IT Risk Management for Accountants. This will be a valuable asset for the participants to demonstrate his/her achievement in the proficiency needed to manage IT risks and to identify solutions.

The 4th intake is now open for enrolment. Click [here](#) for further information about the course.

Comment key dates

DATE	SUBJECT
30 September 2004	<p>Hong Kong Invitation to Comment on three IASB Exposure Drafts proposing limited amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement</i>, which has been posted on the IASB's website. The Hong Kong Invitation to Comment has been posted on the HKICPA's website.</p> <p>[IASB deadline: 8 October 2004]</p>
4 October 2004	<p>Estate Duty Review Consultation Document, which has been posted on the FSTB's website.</p> <p>[FSTB deadline: 20 October 2004]</p>
8 October 2004	<p>Hong Kong Invitation to Comment on the IASB exposure draft ED 7 <i>Financial Instruments: Disclosures</i>, which has been posted on the IASB's website. The Hong Kong Invitation to Comment has been posted on the HKICPA's website.</p> <p>[IASB deadline: 22 October 2004]</p>
6 November 2004	<p>Exposure Draft of Proposed Practice Note 830 "Reporting responsibilities of auditors under the Banking Ordinance", which has been posted on the HKICPA's website.</p>
<p>Please send comments to commentletters@hkiipa.org.hk</p>	