



STANDARDS & TECHNICAL

NEWS AT A GLANCE

TechWatch is a publication designed to alert members to topics and issues that impact on CPAs and their working environment. We welcome your comments and feedback. Comments and suggestions on TechWatch should be addressed to Stephen Chan, Executive Director by [email](#).

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Members' Handbook

1. Institute Issues Handbook Update No. 15

The Institute issued 20 new Hong Kong Standards on Auditing and a new Hong Kong Standard on Review Engagements, under the International Standards Convergence Project, as **Update No. 15**.

The 20 new Hong Kong Standards on Auditing apply to all audits of financial statements for periods beginning on or after 15 December 2004. They adopt their latest international equivalents issued by the International Auditing & Assurance Standards Board, covering 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
- Auditors' Consideration of Going Concern

The Institute's previous Statements of Auditing Standards are applied for audits of financial statements for periods commencing before 15 December 2004.

The new Hong Kong Standard on Review Engagements (HKSRE 2400) is effective upon issue (i.e. June 2005). It adopts its international equivalent, which establishes standards and provides guidance for an engagement to review financial statements. Notwithstanding the issue of HKSRE 2400, SAS 700, "Engagements to review interim financial reports" is applicable for engagements where 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.

The Institute issued exposure drafts of the new Standards on Auditing and Review Engagements for consultation in November 2004, and is pleased that there was strong support for the new Standards.

The adoption of the new Standards will enable audits in Hong Kong to benefit efficiently from the improvements to International Standards on Auditing and Review Engagements.

CPD & Events

2. Professional Development Activities For July To December 2005

Enrol early to secure a seat in the following popular CPD events, as several of the seminars and workshops are already full:

➤ HKFRS Training

- Issues in Applying HKFRS 3, HKAS 36 and HKAS 38 (22 July)
- Issues in Applying HKAS 16, HKAS 17 and HKAS 40 (Re-run) (26 July)
- HKAS 40 and HKAS 17 (30 July) **FULL**
- A Closer Look on HKAS 21 (8 August)
- Issues in Applying HKFRS 5 and HKAS 27, HKAS 28 and HKAS 31 (9 August)
- HKAS 19 and HKFRS 2 (27 August) **FULL**

- Issues in Applying HK Interpretations 1, 2 and 3 (5 September)
 - HKAS 16 and HKAS 36 (17 September) **FULL**
 - HKFRS 6 and HKAS 41 (5 October)
 - HKAS 38 and HKAS 2 (15 October) **FULL**
 - Overview of HK(IFRIC) Interpretations 1, 2, 3, 4 and 5 (1 November)
 - HKAS 21, HKAS 18, HKAS 20, HKAS 11 and HKAS 23 (26 November) **FULL**
 - HKAS 12 (10 December) **FULL**
- Other CPD events
- The Role of Accountants in Arbitration (4 July)
 - Tax Planning and Investigation in One Lesson (8 July)
 - Development in China and Challenges to a Corporate Treasurer (11 July)
 - Securities and Futures (Financial Resources) Rules (12 July)
 - Investment in the Mainland - Operation & Taxation (14 July)
- Other programmes organised for the summer months
- Insolvency Interest Group Seminar on “Recently Changes to US Bankruptcy Code” (13 July). *Click [here](#) to enroll*
 - Technical Update Evenings (TUE) seminar on “21 Replacement Hong Kong Auditing Standards” (2 August). *Click [here](#) to enroll*
 - Practice Review Seminars on “Audit Documentation – Lessons from Practice Review Cases”(6 August and re-run on 3 September). *Click [here](#) to enroll*

Financial Reporting

3. Institute Responds To IASB Questionnaire On SMEs

The Institute submitted a **response** to the IASB Staff Questionnaire on questions about possible simplification of recognition and measurement principles for small and medium-sized enterprises (SME), and topics addressed in IFRSs that may be omitted from SME Standards.

4. FRSC Meeting Summary – 9 May 2005

This **FRSC meeting summary** covers:

- Draft Interpretation 25 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
- Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions*
- Guidance on measurement of deferred tax on the revaluation of investment property in Hong Kong
- First Financial Reporting Standards Forum to be held on 9 June 2005
- Depreciation Accounting for tunnels in Hong Kong
- IFRIC Draft Interpretations D12, D13 and D14 on *Service Concession Arrangements*
- IFRIC Draft Interpretation D15 on Reassessment of Embedded Derivatives

Audit & Assurance

5. Status Of Institute's International Auditing Standards Convergence Project

The Institute has fully converged its Auditing Standards with International Auditing Standards with the following exceptions due to revisions currently being considered by the IAASB:

- a. ISA 230 "Documentation" / SAS 230 "Documentation"
- b. ISA 600 "Using the Work of Another Auditor" / SAS 510 "Principal auditors and other auditors"
- c. ISA 700 "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements" / SAS 600 "Auditors' reports on financial statements"
- d. ISA 701 "Modifications to the Independent Auditor's Report" / SAS 600 "Auditors' reports on financial statements"
- e. ISA 800 "The Auditor's Report on Special Purpose Audit Engagements" (no HK equivalent)

These five ISAs will be adopted by the AASC once they are revised by the IAASB.

Click [here](#) for the Comparison Table of Hong Kong Auditing Standards and International Auditing Standards.

6. AASC Meeting Summary – 19 April 2005

This [AASC meeting summary](#) covers:

- Proposed Work Plan for 2005
- Draft submission on ED of ISA 230 (Revised) "Audit Documentation"
- 21 Proposed Hong Kong Standards on Auditing and Review Engagements
- Invitation to Comment on IAASB ED of ISA 320 (Revised) on Materiality and ISA 540 (Revised) on Accounting Estimates
- Proposed ED of PN "Acting as scrutineer at a general meeting of a listed issuer"
- Proposed PN "Guidance to Auditors with Regard to Preliminary Announcements of Results for the Full Year"
- Referral from the Small and Medium Practitioners Committee on the Audit of Building Owners' Corporations
- Referral from the Financial Reporting Standards Committee on the Valuation Standard issued by the Hong Kong Institute of Surveyors
- Issues Paper – Types of Reporting in Hong Kong
- Referral from the Continuing Professional Development Committee on a proposed Structured Training Programme
- Draft comments from FRSC on the proposed SEHK Draft Announcement – Impact of adopting new accounting standards in initial listing documents and circulars

7. Mainland Audit Issues Q&A

The AASC Working Group on Mainland Audit Issues published the fourth set of Q&As on "[Consignment Sales](#)", which addresses some of the common issues on the recognition of consignment sales by Mainland enterprises and the audit procedures that may be performed by auditors to address those issues.

Corporate Governance

8. Institute Issues New Internal Control And Risk Management Guide

The Institute launched its latest corporate governance guide, entitled “**Internal Control and Risk Management – A Basic Framework**”, at a **press conference** held on 29 June 2005. This newly-released guide provides a basic conceptual framework, general principles and recommendations for a system of internal control and risk management. It also outlines the responsibilities of the board and senior management in this regard, and the role that other parties, such as the audit committee and internal auditors, can play.

The guide should help listed companies to understand and fulfil the requirements on internal controls contained in the revised Code on Corporate Governance Practices (“the Code”) and the disclosure requirements of the new Corporate Governance Report (Appendices 14 and 23 of the Main Board and 15 and 16 of the GEM Listing Rules, respectively). The introduction of the guide was timed to coincide with the introduction of the relevant Code provisions relating to internal controls, which come into effect for accounting periods starting on or after 1 July 2005.

The guide emphasises that establishing effective internal controls should not be seen as an exercise in compliance but is about putting in place processes that will help a business to achieve its corporate objectives and to identify, assess and manage the significant risks that could otherwise prevent it from doing so. It is also a question of being more transparent and accountable to shareholders and other stakeholders about how the business is being run.

The principles and recommendations contained in the guide will provide a useful reference for companies that aim to implement or enhance a system of internal control.

Taxation

9. Institute Launches Taxation Interest Group

The Institute formally launched its new **Taxation Interest Group (TIG)** at an inaugural cocktail reception held on 10 June 2005, at which the Commissioner of Inland Revenue (CIR), Mrs. Alice Lau, was the guest of honour. Giving strong support to the establishment of the TIG, as a forum for practitioners and the Inland Revenue Department (IRD) to exchange views on issues of common concern, Mrs. Lau pledged in her **keynote speech** closer cooperation between the IRD and tax practitioners. Her speech included an important announcement on the subject of discussions to be held between the Hong Kong SAR Government and the Mainland Government on a comprehensive double taxation agreement. She also touched on some possible topics for discussion in the TIG, including tax penalty policy and issues relating to cross-border taxation.

The TIG will host a range of activities, including forums, seminars and networking events. **Membership** is open to members of the Institute and the staff of member firms who work in the tax field.

10. LegCo Passes Revenue (Allowances For Tax) Bill 2005

The Revenue (Allowances for Tax) Bill 2005 was passed by the Legislative Council (LegCo) on 8 June 2005. The Bill seeks to amend the Inland Revenue Ordinance (Cap.112) to implement two concessionary measures relating to allowances under salaries tax and personal assessment, as announced in the 2005/06 Budget:

- (1) to increase the child allowance from \$30,000 per child to \$40,000; and

- (2) to introduce two allowances for taxpayers maintaining parents/grandparents aged between 55 and 59. They will be granted a basic allowance of \$15,000 a year, with an additional allowance of the same amount if their parents or grandparents are residing with them continuously.

Both measures will take effect from the 2005/06 year of assessment.

11. Institute Invited To Comment On Expanding DTA With Mainland

As announced by the Commissioner of Inland Revenue at the cocktail to launch the Taxation Interest Group (see item 9 above), a meeting is scheduled to take place in early September 2005 between the Hong Kong SAR Government and the Mainland on the possibility of expanding the existing Arrangement for the Avoiding of Double Taxation on Income.

The Institute has been invited to submit its views. The Taxation Committee of the Institute is considering the matter, on which members will be kept informed of significant developments.

Insolvency & Corporate Restructuring

12. ORO Notifies Contracts Awarded For The Taking Up Of Appointment To Complete Preliminary Examination In Bankruptcy Cases

The Official Receiver's Office (ORO) published a [Notice of Award of Contract](#), which sets out the contracts awarded by tender during the month of March 2005 for the taking up of appointment to complete preliminary examination in bankruptcy cases.

13. Bankruptcy (Amendment) Bill 2004 To Be Passed By LegCo

The resumption of the second reading debate and the third reading of the Bankruptcy (Amendment) Bill 2004 (see [TechWatch Nos. 32 and 30](#)) are scheduled to take place on 6 July 2005. The bill will provide for bankruptcy cases to be contracted out by the Official Receiver's Office to private sector insolvency practitioners. The Official Receiver has indicated that the aim is to contract out debtor-petition cases under the legislation.

Corporate Finance

14. Institute Comments On The Revised Draft Listing Rules Regarding Sanctions Against Professional Advisers

As reported in [TechWatch No. 32](#), the Institute made a [submission](#) to Hong Kong Exchanges and Clearing Limited (HKEx) on the proposed new structure for listing decision-making.

The Institute made a [further submission](#) to HKEx in relation to the proposed Rule 2B.12 of the Listing Rules, which provides for sanctions that the Adjudicator or the Disciplinary Review Panel may, under the proposed new structure for listing decision-making, impose against a professional adviser. The term "professional adviser" includes, inter alia, sponsors and accountants.

The Institute expressed concern over the proposed Rule 2B.12(4) and, in particular:

- (1) The expansion of the grounds for taking disciplinary action against a professional adviser, to include negligence; and

- (2) the severity of the sanctions, which could have the effect of indirectly blacklisting a professional adviser for an indefinite period.

Legislation & Government Initiatives

15. Statute Law (Miscellaneous Provisions) Bill 2005 Passed By LegCo

The function of the Statute Law (Miscellaneous Provisions) Bill 2005 was, as the title suggests, to make a range of miscellaneous amendments to various pieces of primary and subsidiary legislation under one omnibus bill. One of the changes, contained in clause 219 of the bill, was to make consequential amendments to the Companies (Amendment) Ordinance 2004 insofar as it amended paragraphs 3 and 6 of the Companies (Forms) Regulations. The Companies (Amendment) Ordinance 2004, which was passed by LegCo on 9 July 2004, made changes to the Regulations by providing for, amongst other things, a professional accountant practising in Hong Kong to be able to certify true copies and translations of documents of non-Hong Kong companies required to be delivered under Part XI of the Companies Ordinance.

With the passage of the Professional Accountants (Amendment) Ordinance 2004, also in July 2004, the term “professional accountant” became obsolete and a consequential change was required to be made to the Companies (Amendment) Ordinance 2004.

The Statute Law (Miscellaneous Provisions) Bill 2005, which was passed by LegCo on 29 June 2005, proposed to amend the term “professional accountant practising in Hong Kong” to “Certified Public Accountant (Practising) within the meaning of section 2 of the Professional Accountants Ordinance (Cap.50)”. The Institute wrote to the government to suggest that the term originally introduced into Companies (Forms) Regulations by the Companies (Amendment) Ordinance 2004 was ambiguous and did not necessarily confine the power to certify true copies and translations to holders of practising certificates. The Institute suggested that a Committee Stage Amendment (CSA) should be made to the Statute Law (Miscellaneous Provisions) Bill 2005 to delete “(practising)”, so that all certified public accountants would be able to perform the function of certifying the relevant documents. However, in its reply, the Financial Services and the Treasury Bureau (FSTB) considered that the proposal put forward by the Institute was not consistent with the legislative intent of the relevant provisions in the Regulations and that, under the circumstances, it was not justifiable to propose a CSA. The FSTB suggested that if the Institute wished to pursue this further, the proposal could be considered in the context of a future review of the Companies Ordinance (Cap. 32). The Institute will further consider the next step and will keep members informed of any significant developments.

For Information

16. Consumer Council Issues Good Corporate Citizen’s Guide

The Consumer Council issued a [Good Corporate Citizen's Guide](#) in a drive to promote industry self-regulation, corporate quality and consumer confidence.

The Guide provides guidance for companies in adopting good business practices to address corporate rights and responsibilities in the market place. Businesses are encouraged to observe, adopt and incorporate the basic principles and the suggested rules on trade practices outlined in the Guide as a reference in developing their own codes of practices.

17. XBRL Revived In A Firm Footing

The Securities and Futures Commission facilitated the establishment of a Preparatory Working Group with a view to revive the XBRL (eXtensible Business Reporting Language) initiative in Hong Kong. An information sharing session was co-hosted with the Hong Kong Monetary Authority on 1 March 2005 for interested parties. A workshop was also held on 26 May 2005 to showcase the latest tools to enable access to financial data of listed companies across the Internet. Details of the latest XBRL Hong Kong development can be found on the [SFC's website](#).

18. PCAOB Releases Guidance For Attest Engagements Regarding XBRL

The Public Company Accounting Oversight Board (USA) **announced** on 25 May 2005 the release of staff questions and answers related to attest engagements regarding XBRL data furnished under the SEC's XBRL Voluntary Financial Reporting Program on the EDGAR System. This is a prelude of a new challenge for the accounting profession to get prepared for the XBRL enabled financial reporting process.

Comment Due Dates

DATE	SUBJECT
30 June 2005	Invitation to Comment on IAASB EDs of Proposed ISA 600 (Revised) "The Audit of Group Financial Statements" and Proposed ISA 260 (Revised) "The Auditor's Communication with Those Charged with Governance"
8 July 2005	Invitation to Comment on Exposure Draft of proposed HKSA 700 "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements" and IAASB Exposure Drafts of proposed ISA 705 "Modifications to the Opinion in the Independent Auditor's Report" and ISA 706 "Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor's Report"
Please send comments to commentletters@hkicpa.org.hk	