



# TechWatch

News at a glance

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TechWatch updates you on technical developments in financial reporting, auditing, regulation and business. The Institute welcomes your comment, emailed to [commentletters@hki CPA.org.hk](mailto:commentletters@hki CPA.org.hk). Click [here](#) for past issues.

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## Spotlight

### 1. Handbook Updates 33 and 34

**Update 33** encloses:

- Two new Hong Kong Standards on Auditing (“HKSA”), which are effective for auditor’s reports dated on or after 31 December 2006:
  - HKSA 700 *The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements*
  - HKSA 701 *Modifications to the Independent Auditor’s Report*
- Conforming amendments to the following HKSAs, as a result of HKSA 700:
  - HKSA 200 (Revised) *Objective and General Principles Governing an Audit of Financial Statements* – effective for audits of financial statements for periods beginning on or after 15 December 2005 and where the auditor’s report is dated on or after 31 December 2006
  - HKSA 560 (Revised) *Subsequent Events* – effective for auditor’s report dated on or after 31 December 2006
  - Appendix 3 to HKSA 210 *Terms of Audit Engagements* – effective date not yet determined

Further details are set out in the “Audit & Assurance” section below.

**Update 34** encloses:

- Revised Statement 1.101 *Disciplinary Committee Proceedings Rules*
- Code of Ethics for Professional Accountants Section 290 (Revised) *Independence – Assurance Engagements*

Revised Statement 1.101 reflects a recent Court of Appeal decision that while a Disciplinary Committee must adhere to the legal requirements for standards of fairness and natural justice, it is not itself a court. The

“adversarial” procedure inherent under the old rules has been replaced by an “inquisitorial” procedure whereby a Disciplinary Committee inquires into an issue to establish what has occurred and plays a proactive role in controlling the process.

Section 290 (Revised) of the Code of Ethics for Professional Accountants introduces the concept of a network and revises the definition of a network firm. Further details are set out in the “Ethics” section below.

### 2. Extended Due Dates for “M” Code Tax Returns under Block Extension Scheme

As previously announced on the “What’s New” section of the Institute’s website, and in the e-circular, the Inland Revenue Department has issued a **circular letter**, announcing the further extension of the due date for filing of the 2005/06 “M” code returns under the Block Extension Scheme from 15 November 2006 to 22 November 2006, and the due date for filing of the 2005/06 “M” code loss returns, under the Block Extension Scheme, from 31 January 2007 to 7 February 2007.

This special extension was granted in response to a request from the Institute, in order to allow practitioners extra time to prepare the 2005/06 accounts and returns in compliance with the new accounting standards.

## Financial Reporting

### 3. Institute Comments on IASC Foundation’s Consultation Document – Due Process of the IFRIC: Draft Handbook

When the Trustees of the IASC Foundation initiated a review of the organisation’s Constitution in November 2003, they identified the resources and effectiveness of the International Financial Reporting Interpretations Committee (“IFRIC”) as one of the major issues to review. This paper provides an opportunity to comment to the IASC Foundation about the IFRIC’s due process and the recommended improvements.

The Institute's **submission** to the IASB, in general, supports the provisions in the draft Handbook. The submission also highlights that there should be more transparency in the agenda setting process of the IFRIC and suggests that the comment period for a draft interpretation should be at least 60 days unless there is a justification for having a shorter comment period.

#### 4. FRSC Meeting Summary – 13 September 2006

This **FRSC meeting summary** covers:

- Proposed revised Preface to HKFRSs
- HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*
- IASB Exposure Draft of Proposed Amendments to IAS 23 *Borrowing Costs*
- IASC Foundation's Consultation Document – Due Process of IFRIC: Draft Handbook
- Report from the SME Financial Reporting Framework Sub-Committee

### Audit & Assurance

#### 5. The New Audit Report Standards – HKSA 700 and HKSA 701

The Institute has issued **HKSA 700 *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*** and **HKSA 701 *Modifications to the Independent Auditor's Report***.

Salient features of these New Audit Report Standards are:

##### Effective dates and background

- HKSA 700 and HKSA 701 are effective for auditor's reports dated on or after 31 December 2006 and SAS 600 continues to apply for auditor's reports dated before 31 December 2006.
- HKSA 700 establishes standards and provides guidance on circumstances when

the auditor is able to express an unqualified opinion.

- HKSA 701 establishes standards and provides guidance on circumstances when the independent auditor's report should be modified and the form and content of the modifications.
- HKSA 700 and HKSA 701 are issued as part of the Institute's International Convergence Programme to converge with International Standards on Auditing – ISA 700 *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements* and ISA 701 *Modifications to the Independent Auditor's Report*, with local guidance for Hong Kong included in footnotes and appendices.

##### Form and contents of Audit Report

- The report's title should clearly indicate that it is the report of an independent auditor.
- The introductory paragraph should identify the title of each of the financial statements that comprises the complete set of financial statements and refer to the summary of significant accounting policies and other explanatory notes.
- Respective responsibilities of directors and auditors are presented more clearly in two separate paragraphs.
- The directors' responsibility paragraph should state that directors are responsible for the preparation and fair presentation of financial statements in accordance with the applicable financial reporting framework and that this responsibility includes:
  - Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
  - Selecting and applying appropriate accounting policies; and

- Making accounting estimates that are reasonable in the circumstances.
- The auditor's responsibility paragraph should explain that the auditor is required to comply with ethical requirements and that the auditor plans and performs the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- The auditor's opinion identifies the applicable financial reporting framework on which the financial statements give a true and fair view, e.g., Hong Kong Financial Reporting Standards.
- When the auditor addresses other reporting responsibilities within the auditor's report on the financial statements, these other reporting responsibilities should be addressed in a separate section following the opinion paragraph (see examples 2 and 3 in the Appendix to HKSA 701 in relation to report on matters under sections 141(4) and 141(6) of the Hong Kong Companies Ordinance).
- Three local example auditor's reports are provided in HKSA 700 and four local example auditor's reports are provided in HKSA 701.
- Revised draft proposed Practice Note "The Audit of Accounts of Owners' Corporation of Building"
- Reporting on School Accounts under the Education (Amendment) Ordinance 2004
- Proposed HKICPA/HKEx Working Group to consider Listing Rule requirements of reporting on Continuing Connected Transactions
- Proposed HKICPA/Law Society Working Group to consider revisions to Practice Note 840 "The Audit of the Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules" and Report on Gross Fee Income under Rule 8(i)(a) of the Solicitors (Professional Indemnity Rule)
- ISAE 3400 "The Examination of Prospective Financial Information"

## 6. AASC Meeting Summary – 27 September 2006

This [AASC meeting summary](#) covers:

- The New Audit Report Standards – HKSA 700 and HKSA 701
- Conforming amendments to HKSA 200, HKSA 210 and HKSA 560 as a result of HKSA 700
- IAASB's Policy Position Paper (July 2006) – Guide for National Standard Setters that adopt the IAASB's International Standards but find it necessary to make limited modifications

## Ethics

### 7. Revised Definition of a Network Firm

The Institute has issued [Code of Ethics for Professional Accountants Section 290 \(Revised\) Independence – Assurance Engagements](#), which is adopted verbatim from Code of Ethics for Professional Accountants Section 290 (Revised) issued by the International Ethics Standards Board for Accountants in July 2006 to clarify the definition of a network firm.

The concept of a network firm is often used in evaluating the significance of threats to independence since network firms are subject to specific independence requirements in respect of assurance engagements under the Code of Ethics.

Section 290 (Revised) is effective for assurance reports dated on or after 31 December 2008. The extended application period is to allow affected firms to develop the necessary monitoring systems.

## 8. Ethics Committee Meeting Summary – 12 September 2006

This [meeting summary](#) covers the following sections of the Code of Ethics for Professional Accountants:

- Section 290 (Revised) *Independence – Assurance Engagements: Revised Definition of a Network Firm*
- Section 250 *Marketing Professional Services*
- Section 240 *Fees and Other Types of Remuneration*
- Section 210 *Professional Appointment*

### Banking

## 9. Institute Comments on Draft Banking (Disclosure) Rules

The Draft Banking (Disclosure) Rules (DRs) are being made pursuant to section 60A of the Banking Ordinance as amended by the Banking (Amendment) Ordinance 2005, which empowers the Hong Kong Monetary Authority (HKMA) to make DRs for the purpose of implementing the requirements of the new Capital Adequacy Framework (commonly referred to as “Basel II”).

The proposed DRs set out the minimum standards for public disclosure that the HKMA expects of authorized institutions (AIs). They will replace the annual and interim financial disclosure requirements currently set out in the guidelines issued by the HKMA as modules of the Supervisory Policy Manual, and will apply to both Hong Kong incorporated and overseas incorporated AIs. The proposed DRs are intended to come into effect on 1 January 2007 to apply to all disclosure statements issued by AIs for the interim or annual reporting periods beginning on or after 1 January 2007. There are no specific audit requirements on the proposed DRs.

In its [submission](#) to the HKMA, the Institute expressed concerns about the need to change

the wording of the definitions in Hong Kong Financial Reporting Standards in order to bring them into the DRs, although it accepted the HKMA’s advice that changes would be necessary for legal reasons.

### Insolvency & Corporate Restructuring

## 10. ORO Invites Submission of Bids for Completing Preliminary Examinations in Bankruptcy Cases

The Official Receiver’s Office (“ORO”) has issued a notice to invite interested parties to submit quotations by noon on 24 November 2006 in relation to taking up of appointments to complete preliminary examinations in bankruptcy cases. The contract period will be 9 months from January to September 2007.

Further information and the quotation form can be obtained from the ORO at 10<sup>th</sup> Floor, Queensway Government Offices, 66 Queensway, Hong Kong or downloaded from the [ORO’s website](#).

### International Meetings

## 11. International Accounting Standards Board

The IASB met in London on 16 to 20 October 2006 and discussed the following topics:

- Business Combinations II
- Insurance
- Financial statement presentation
- Accounting standards for small and medium-sized entities
- Conceptual framework
- IAS 37 redeliberations
- Financial instruments – hedge accounting
- IFRS 2 *Share-based payment*
- Post employment benefits
- IAS 24 *Related Party Disclosures*

- Annual improvements process
- Intangible assets research project
- Extractive activities
- Revenue recognition
- Short-term convergence: segment reporting
- IFRIC D17 IFRS 2 *Share-based payment*
- IFRIC Service concession arrangements

The IASB also met with the Financial Accounting Standards Board in a joint meeting on 23 and 24 October when they discussed:

- Insurance
- Conceptual framework
- Business Combinations II
- Revenue recognition
- Memorandum of Understanding
- Financial statement presentation
- Liability and Equity

Click [here](#) to see the October 2006 IASB Update. The IASB next meets on 13 – 17 November 2006.

## 12. International Financial Reporting Interpretations Committee

The IFRIC will be meeting in London on 1 – 3 November 2006. Further details about the meeting will be reported in the next issue of TechWatch.

## 13. International Auditing and Assurance Standards Board

The meeting summary for the September 2006 IAASB meeting held in Montreal has been posted on the IAASB website. Click [here](#) for further details.

The IAASB met in New York from 25 to 27 October 2006, as reported in [TechWatch No. 48](#), and discussed the following topics:

- The Auditor's Responsibilities relating to Fraud (Approval of Final Clarified ISA)
- Special Reports (Approval of Close Off Document)
- Written Representations (Approval of Exposure Draft)
- Materiality and Misstatements (Approval of Clarity Exposure Draft)
- Other Information in Documents containing Audited Financial Statements (Approval of Clarity Exposure Draft)
- Communication with Those Charged with Governance (Approval of Clarity Exposure Draft)
- Using the Work of an Expert (Approval of Exposure Draft)
- Material Weaknesses in Internal Control (Discussion of Issues)

Click [here](#) for further details.

## 14. International Ethics Standards Board for Accountants

The IESBA met in Sydney from 16 – 18 October 2006 to discuss the proposed revisions to Section 290 "Independence – Assurance Engagements" of the Code of Ethics for Professional Accountants. The [meeting summary](#) has now been posted onto the IESBA website.

The IESBA will next meet in London on 18 and 19 December 2006.