



Auditing and Assurance Standards Committee
Meeting Summary – October 2005

The Auditing and Assurance Standards Committee (Committee) met on 26 October 2005.

Members present at the meeting were: Carlson Tong (Chairman), Charles Chow (Deputy Chairman), Richard George (Deputy Chairman) (represented by Derek Broadley), Deborah Annells, Patrick Cheng, William Crowe, Charles Grieve, Dr. Thomas Lau, Lucia Li, Man Mo Leung, Keith Pogson Paul F. Winkelmann, Thomas Wong and Desmond Yuen.

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

The following agenda items were discussed:

1. Invitations to Comment on IAASB EDs of ISA 701 on The Independent Auditor's Report on Other Historical Financial Information and ISA 800 on The Independent Auditor's Report on Summary Audited Financial Statements
2. New/Other IAASB Auditing Standards not yet adopted in Hong Kong
3. Working Group on Audit Report – Progress Report
4. Exposure Draft of guidance for auditors regarding preliminary announcements of annual results
5. Proposed Practice Note 900 "Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard"
6. Mainland Audit Issues
7. Working Group on Types of Reporting – Progress Report

1. **Invitations to Comment on IAASB EDs of ISA 701 on The Independent Auditor's Report on Other Historical Financial Information and ISA 800 on The Independent Auditor's Report on Summary Audited Financial Statements**

The Committee considered the Institute's draft submissions to the IAASB prepared by the secretariat based on the key points of the submissions received and suggested certain editorial changes. The secretariat was requested to revise the draft submissions incorporating the Committee's comments.

[Post meeting note: The revised Institute's draft submissions were endorsed by the Committee by circulation for submission to Council for approval as final submissions to the IAASB.]

2. **New/Other IAASB Auditing Standards not yet adopted in Hong Kong**

The Committee considered the following IAASB Auditing Standards not yet adopted in Hong Kong:

- ISA 230 (Revised) "Audit Documentation"
- ISRE 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity"
- ISAE 3400 "The Examination of Prospective Financial Information"

The Committee deliberated on the IAASB Auditing Standards and agreed that ISA 230 should be adopted as HKSA 230 to replace SAS 230 "Documentation" and that ISRE 2410 should be adopted as HKSRE 2410 to replace SAS 700 "Engagements to review

interim financial reports". In relation to ISAE 3400, it was agreed that the standard should be referred to the Institute's Accountants' Report Task Force for consideration together with the Hong Kong Standards on Investment Circular Reporting Engagements project. The issue to be considered is whether it would be appropriate for the report by an auditor to include a statement of negative assurance as to whether the assumptions made by management provide a reasonable basis for the prospective financial information.

3. Working Group on Audit Report – Progress Report

The Committee noted that the Working Group had met to consider the comments received from a member firm on the ED of proposed HKSA 700 "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements" and a recommendation that SAS 600 "Auditors' report on financial statements" should be amended to refer to Hong Kong Financial Reporting Standards rather than accounting principles generally accepted in Hong Kong.

The Committee agreed with the Working Group's suggestions to take up the majority of the comments from the member firm on the proposed HKSA 700. The secretariat was requested to prepare a draft HKSA 700 based on comments agreed for the Committee's further consideration. The proposed HKSA 700 would be effective for auditor's reports dated on or after 31 December 2006.

The Committee noted that members of the Working Group were of the view that they would not object to changing the term "Accounting principles generally accepted in Hong Kong" to "Hong Kong Financial Reporting Standards" in SAS 600 but did not see the urgent need for such a change to SAS 600 at present for 2005 reports.

Upon a detailed deliberation, it was generally agreed that the proposed HKSA 700 would adopt the phrase "Hong Kong Financial Reporting Standards" but there would not be an immediate need to change SAS 600 in this regard.

4. Exposure Draft of guidance for auditors regarding preliminary announcements of annual results

The Committee noted the issuance of the Exposure Draft for consultation until 31 October, after obtaining Council's approval.

5. Proposed Practice Note 900 "Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard"

The Committee noted that the consultation period of the ED of Practice Note 900 expired on 15 October and one comment letter was received from a member firm.

The Committee considered the comment letter received and agreed that no changes would be required to the draft Practice Note. The Committee endorsed that the draft Practice Note be submitted to Council for approval for issue as a final Practice Note to be effective upon issue.

6. Mainland Audit Issues

The Committee considered the draft Q&As on related parties transactions prepared by the Mainland Audit Issues Working Group and requested the Working Group to take the opportunity to link some of the issues raised on related parties transactions to the auditing standard on fraud consideration, HKSA 240 "The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements". Furthermore, it was agreed that the Q&As should also mention that the exemption from disclosure of related party transactions by state-owned enterprises in the Mainland was lifted in HKAS 24 "Related Party Disclosures".

7. Working Group on Types of Reporting – Progress Report

The Committee noted that a draft guidance paper on the types of reporting in Hong Kong was being finalized by the Working Group. The Committee agreed to the proposed structure of the guidance paper and that the guidance paper once endorsed by the Committee, can be issued as a Consultation Paper prior to the document's issuance in final form. This would help to:

- (a) alert requestors, users, and preparers of various financial and non-financial information as well as those that are requested to report on such, as to the issues and problems that may typically arise;
- (b) enable, in particular, requestors and users of such reports (for example Government and regulatory bodies) to provide comments prior to finalization; and
- (c) allow preparers of reports to comment and identify any additional issues that may be considered for inclusion in the publication.

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Meeting Summaries are provided for the information and convenience of those who wish to follow the Committee's deliberations. Decisions reported are tentative and may be changed or modified by the Committee at a later date. Decisions become final only after completion of the formal due process required to finalize and release documents. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this Meeting Summary, or for any errors or omissions in it.