

HONG KONG SOCIETY OF ACCOUNTANTS
Auditing and Assurance Standards Committee
Meeting summary – March 2004

The HKSA Auditing and Assurance Standards Committee (Committee) met on 24 March 2004.

Members present at the meeting were: Carlson Tong (Chairman), Charles Chow (Deputy Chairman), Richard George (Deputy Chairman), Deborah Annells, Andrew Bennett, Arthur Chan, William Crowe, Lucia Li, Man Mo Leung, Phyllis Mo, Paul F. Winkelmann and Thomas Wong.

Secretariat staff present at the meeting were: Stephen Chan and Steve Ong.

The following agenda items were discussed:

1. IAASB Exposure Draft on Proposed revision to ISA 700 on Auditor's Report
2. IAASB Exposure Draft on Proposed revision to ISA 600 on Audit of Group Financial Statements and Proposed new IAPS on Group Audit
3. Working Draft of proposed new Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services
4. Progress Report on "Mapping Exercise of HKSASs with ISAs"
5. Proposed example report by auditors on Form HKL1 "Hong Kong Long Term Insurance Business – Revenue Account"
6. PN 840 "The audit of solicitors' accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules" – proposed amendment to paragraph 19(b)
7. Working Group on Mainland Audit Issues – progress report
8. A referral from FASC – Company-only balance sheet
9. A referral from SMPC – Sample Engagement Letter in relation to audit requirements for LegCo Election Financial Assistance Scheme
10. Listing Rule amendments on pro forma financial information

1. IAASB Exposure Draft on Proposed revision to ISA 700 on Auditor's Report

The Committee considered the IAASB Exposure Draft and the two comment letters received in response to the Committee's Invitation to Comment. The Committee is supportive of the proposed revision to ISA 700 which is very timely.

The Committee requested the secretariat to prepare a draft submission based on the comments received for endorsement by the Committee by circulation before its submission to Council for approval.

[The HKSA submission is available on-line at:

http://www.hksa.org.hk/professionaltechnical/assurance/submission/docs/IAASB_EDISA700.pdf]

2. IAASB Exposure Draft on Proposed revision to ISA 600 on Audit of Group Financial Statements and Proposed new IAPS on Group Audit

The Committee considered the IAASB Exposure Draft and the two comment letters received in response to the Committee's Invitation to Comment. The Committee does not support the proposal to elevate the option of divided responsibility between the primary and secondary auditors for the audit opinion on the group financial statements as an equally valid alternative approach to sole responsibility for the primary auditors.

The Committee requested the secretariat to prepare a draft submission based on the comments received for endorsement by the Committee by circulation before its submission to Council for approval.

[The HKSA submission is available on line at:

http://www.hksa.org.hk/professionaltechnical/assurance/submission/docs/IAASB_EDISA600.pdf]

3. **Working Draft of proposed new Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services**

The Committee agreed that the consideration of the proposed Preface should be deferred until after the Committee had considered the mapping exercise of HKSASs with ISAs.

4. **Progress Report on “Mapping Exercise of HKSASs with ISAs”**

The Committee noted that, as agreed, the secretariat had prepared an allocation of work and issued instructions to members of the Committee who were requested to assist in the mapping exercise for completion by 16 April. The purpose of the mapping exercise is to identify major differences between HKSASs and their equivalent ISAs.

5. **Proposed example report by auditors on Form HKL1 “Hong Kong Long Term Insurance Business – Revenue Account”**

The Committee endorsed the proposed example report and agreed that it should be submitted to the Insurance Authority (IA) for comments.

The Committee considered the IA’s completion instructions “Guide to Forms HKL1, HKL2 and HKL3” issued on 26 February 2004 and agreed that clarifications should be sought from the IA on certain definitions in the completion instructions.

[Post meeting notes: A meeting was held with the IA on 6th April and its agreement was obtained on the proposed example report by auditors. In addition, the IA issued on 7 April 2004 a Circular to provide further clarifications on certain definitions in the completion instructions, after discussion with the HKSA. The example report was posted on the HKSA website at: <http://www.hksa.org.hk/professionaltechnical/insurance/index.php> .]

6. **PN 840 “The audit of solicitors’ accounts under the Solicitors’ Accounts Rules and the Accountant’s Report Rules” – proposed amendment to paragraph 19(b)**

The Committee considered and accepted the Law Society’s suggested amendments to the HKSA’s proposed revision to paragraph 19(b) concerning the reporting requirements of contraventions of Practice Direction J “Interest on clients’ account” and endorsed that the final draft revision be submitted to Council for approval without the need for exposure.

[Post meeting notes: The revised paragraph 19(b) of PN 840 was issued after its approval by Council.]

7. **Working Group on Mainland Audit Issues – progress report**

The Committee noted that the Working Group had revised the draft Q&As on VAT by providing further guidance on certain areas discussed at the last meeting, and that the revised draft had been submitted to the SFC for input which had some minor comments. The Working Group was requested to address the SFC’s comments before finalizing the draft Q&As on VAT for publication in The Hong Kong Accountant.

[Post meeting notes: The Q&As were posted on the HKSA’s website at: <http://www.hksa.org.hk/professionaltechnical/assurance/rm/index.php> after incorporating the SFC’s suggestions. The Q&As will be published in the May 2004 issue of the Hong Kong Accountant.]

8. **A referral from FASC – Company-only balance sheet**

The Committee considered the referral from the FASC on whether the Companies Ordinance requirement for the parent company’s balance sheet to be presented together with consolidated accounts would give rise to a non-compliance with accounting standards if a full company set of accounts with notes are not included. The Committee concurred with the views of the FASC that this is an anomaly

and the company balance sheet is a Companies Ordinance requirement that overrides accounting standards.

9. A referral from SMPC – Sample Engagement Letter in relation to audit requirements for LegCo Election Financial Assistance Scheme

The Committee considered the referral from the SMPC requesting the Committee to provide a sample engagement letter of audit engagements to report on the election returns of candidates running for the 2004 LegCo Election who are seeking LegCo Election Financial Assistance from the Government.

It was agreed that it would not be appropriate for the Committee to issue any enterprise-specific or engagement-specific audit engagement letters as the key principles and guidance in SAS 140 “Engagement letters” should be tailored to specific circumstances.

10. Listing Rule amendments on pro forma financial information

The Committee noted that the Listing Rules had recently been amended to require the preparation of pro forma financial information for inclusion in investment circulars in certain cases and the reporting thereon by the reporting accountants. It was further noted that in recent IPOs, the reporting accountants were required to report on the statement of adjusted Net Tangible Assets included in prospectuses as HKEx took the view that such a statement represents pro forma financial information under the revised Listing Rules.

The Committee agreed that this matter should be further considered after having established whether the requirements in the UK Listing Rules and the HK Listing Rules are similar, and whether the UK Listing Authority had imposed a similar requirement on the reporting accountants.

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