

JUNE 2012 SUPPLEMENT

Qualification Programme

Module C

Business Assurance



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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Introduction

This Supplement has been produced for those candidates preparing for the June 2012 examination session of the HKICPA Qualification Programme.

It is designed to be used in conjunction with the 2011 edition of the Learning Pack, and it will bring you fully up to date for developments that have occurred in the period since publication of the Learning Pack and 28 December 2011, the cut-off date for examinable standards and legislation for the June 2012 examination.

The Supplement comprises a technical update on developments that will be examinable in June 2012 that are not currently covered in the Learning Pack. The topics covered are listed on the contents page, and are covered in chapter order.

In each case the text in the supplement explains how the Learning Pack is affected by the change, for example whether the new material should be read in addition to the current material in the Learning Pack, or whether the new material should be regarded as a replacement.

Careful study of both the Learning Pack and this Supplement should ensure that you are fully prepared for the June 2012 examination session.

Good luck with your studies!

Chapter 2 Corporate governance reports and practice

On 28 October 2011, HKEx published its consultation conclusions on the review of the Code on Corporate Governance Practices and associated listing rules. HKEx explained that given the broad market support, most of the proposals outlined in the consultation paper would be adopted, subject to certain modifications as set out in the consultation conclusions. Most of the listing rule amendments will be effective on 1 January 2012 or on 1 April 2012.

Under the proposals, some Code Provisions ('CPs') will be upgraded to become Rules and a number of existing Recommended Best Practices (RBPs) will be upgraded to become CPs. The principal aim of the amendments is to encourage better accountability of issuers and directors.

A summary of the changes is set out in the Appendix to this Supplement and should be added to section 3.7 of Chapter 2 of the Learning Pack.

Chapter 10 Fraud and irregularities

The following additional points should be added to section 3 in the Learning Pack, as a new section 3.3.5.

The Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Bill

In 2010, the Hong Kong Government gazetted the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Bill ('the Bill'). The Bill is being considered by a Bills Committee. Targeted for implementation by 2012, the Bill includes new legislation for customer due diligence (CDD) and record-keeping requirements for financial institutions (FIs).

The Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Bill seeks to improve Hong Kong's anti-money laundering (AML) regime by better alignment of the financial sector with prevailing international standards.

The major proposals covered by the Bill include:

- codifying the customer due diligence requirements, which refer to the measures enabling financial institutions to establish the identity of each customer, and record-keeping requirements in line with the prevailing international standards as promulgated by the Financial Action Task Force (FATF);
- subjecting specified financial institutions, namely banks and deposit-taking companies (collectively referred to as authorised institutions), licensed corporations in the securities sector, authorised insurers, appointed insurance agents, authorised insurance brokers, money service operators and the Postmaster General to the statutory requirements provided in the new legislation;

- empowering the Monetary Authority (MA), the Securities and Futures Commission (SFC), the Insurance Authority (IA) and the Customs and Excise Department (C&ED) as the respective relevant authorities to supervise compliance with the statutory requirements by the specified financial institutions;
- providing for supervisory and criminal sanctions for contravention of the statutory customer due diligence and record-keeping requirements;
- putting in place a licensing regime for money service operators to be administered by C&ED; and
- establishing an independent review tribunal to review decisions made by the relevant authorities to impose supervisory sanctions and decisions related to money service operator licensing matters.

The proposed statutory customer due diligence and record-keeping requirements largely reflect the existing requirements set out in the administrative guidelines issued by MA, SFC and IA.

Key changes made to the earlier proposals include removing the across-the-board requirements to conduct customer due diligence on all pre-existing accounts and the removal of personal civil liability of officers of financial institutions. Customer due diligence requirements for beneficiaries of life insurance policies have also been clarified.

Chapter 19

Audit-related services and other assurance engagements

Practice Note 860.2 *Reports on Internal Control of Investment Custodians Made Available to Third Parties* has been superseded by HKSAE 3402 *Assurance Reports on Controls at a Service Organisation*. The reference to this Practice Note in section 2.1.1 should therefore be deleted. HKSAE 3402 is covered in the Learning Pack in section 2.1.3.

HKSIR 400 *Comfort Letters and Due Diligence Meetings* was revised in October 2011. The following text replaces section 5 in the Learning Pack.

Comfort letters and due diligence meetings on financial and non-financial information

HKSIR 400 Comfort Letters and Due Diligence Meetings on Financial and Non-Financial Information

The revised standard is effective for comfort letters and due diligence meetings in respect of investment circulars dated on or after 1 January 2012.

Reflecting the increasing trend in the globalisation of capital market transactions, HKSIR 400 has been revised to be more closely in line with international practices.

One of the most significant changes is that a limited assurance approach, commonly referred to as negative assurance, is now permitted when reporting on subsequent changes. Previously, the reporting was done in the form of agreed-upon procedures.

According to the previous HKSIR 400, no assurance is expressed in a comfort letter or due diligence meeting on financial or non-financial information. Under the revised HKSIR, it can be an assurance engagement.

HKSIR 400 requires that, in providing a comfort letter and formulating responses to questions asked by sponsors, reporting accountants should note that:

- only the sponsors can determine what is sufficient for a reasonable due diligence investigation
- the sponsors can rely on any statements made by the reporting accountant
- the reporting accountant needs to possess adequate knowledge on the subject matters before making any statements and act with due care and with an objective mind
- there must be supporting evidence to support the statements made.

Appendix:
Changes in the Code on
Corporate Governance
Practices and associated
listing rules in Hong Kong



Area of changes	Brief description of changes
Directors' training and ratio of INEDs	<ul style="list-style-type: none"> • Directors should undertake eight hours of training per year on developments in law, regulations and topics relevant to their duties. • At least one-third of an issuer's board should be independent non-executive directors (INEDs). Issuers must comply with the Listing Rule by 31 December 2012 (implementation date).
Board evaluation	<ul style="list-style-type: none"> • The board to conduct a regular evaluation of its performance.
Board meetings	<ul style="list-style-type: none"> • Clarified that, subject to the issuer's constitutional documents and the laws and regulations of its place of incorporation, it may count attendance by electronic means (including telephonic or video-conferencing) as attendance at a physical board meeting.
INED who has served nine years	<ul style="list-style-type: none"> • Shareholders vote on a separate resolution to retain an INED who has served on the board for more than nine years.
Board committees	<ul style="list-style-type: none"> • Modifications in compositions and arrangements in remuneration committee, audit committee and nomination committee. • Introduction of corporate governance committee.
New amendments in other areas	<ul style="list-style-type: none"> • Disclosure of chief executive's remuneration • Greater emphasis on the roles and responsibilities of the chairman • Directors' insurance • Shareholders' general meetings • Voting by poll • Appointment and removal of auditors • Company secretary's qualifications and experience requirements • Shareholders' rights • Communication with different parties.

Most of the listing rule amendments will be effective on 1 January 2012 or on 1 April 2012. Under the QP examination six-month rule, these changes will not be examined in detail in June 2012, however, students should be aware of the impact of these changes.

