



Auditing and Assurance Standards Committee
Meeting Summary – August 2005

The Auditing and Assurance Standards Committee (Committee) met on 31 August 2005.

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

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

The following agenda items were discussed:

1. Invitations to Comment on IAASB EDs of ISA 260 on Communications with Those Charged with Governance, ISA 600 on Group Financial Statements, ISA 705 on Modifications to the Auditor's Report and ISA 706 on Emphasis of Matter Paragraphs
2. ED of proposed HKSA 700 "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements"
3. Issuance of Practice Note 720 "Acting as Scrutineer at a General Meeting of a Listed Issuer" and Exposure Draft of Practice Note 900 "Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Financial Reporting Standard"
4. Proposed Exposure Draft of guidance for auditor regarding preliminary announcements of annual results
5. Proposed revision to the Notes for Auditors of Recipient Organizations of the Innovation and Technology Fund
6. Working Group on Types of Reporting – Progress Report
7. Proposed 2nd Auditing Update Conference 2005

1. **Invitations to Comment on IAASB EDs of ISA 260 on Communications with Those Charged with Governance, ISA 600 on Group Financial Statements, ISA 705 on Modifications to the Auditor's Report and ISA 706 on Emphasis of Matter Paragraphs**

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. Upon obtaining Council's approval at its September meeting, the final submissions were submitted to the IAASB.]

2. **ED of proposed HKSA 700 "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements"**

The Committee noted that the consultation period of the Institute's Exposure Draft had ended and comments were received from a member firm which supported that HKSA 700 should conform, in all material respects, with the equivalent ISA 700. However, there are a few regulatory requirements where, in the member firm's opinion, local guidance is required:

- Auditor's duty of care
- Reporting on the balance sheet of the separate financial statements
- Reference on true and fair view
- Guidance on true and correct view
- Guidance on Other Matters paragraphs

The Chairman proposed that an Audit Report Working Group be set up to consider the comments received including an earlier 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 Chairman's proposal.

3. Issuance of Practice Note 720 "Acting as Scrutineer at a General Meeting of a Listed Issuer" and Exposure Draft of Practice Note 900 "Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Financial Reporting Standard"

The Committee noted the issuance of Practice Note 720 as a final statement and the Exposure Draft of Practice Note 900 for consultation until 15 October, after Council's approval. It was noted that the existing Practice Note 600.2 "Audit approach to companies applying section 141D of the Companies Ordinance" would still be retained as it is applicable to the audits of companies applying section 141D that cover a period beginning before 1 January 2005.

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

The Committee considered a further Working Draft of the proposed guidance prepared by the secretariat including an example report drafted in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures Regarding Financial Information".

The Committee endorsed that the draft proposed Exposure Draft can be submitted to the Stock Exchange of Hong Kong and the Securities and Futures Commission for comments and also for Council's approval for issuance as an Exposure Draft for a consultation period of one month.

[Post meeting note: Upon considering the comments received from the Stock Exchange of Hong Kong and the Securities and Futures Commission and obtaining Council's approval by circulation, the Exposure Draft was issued on 30 September for a consultation period of one month.]

5. Proposed revision to the Notes for Auditors of Recipient Organizations of the Innovation and Technology Fund

The Committee noted that the secretariat had a meeting with the Innovation and Technology Commission (ITC) and that it was proposed that the notes for Auditors of Recipient Organizations of the Innovation and Technology Fund prepared in 2002 be updated to reflect the new developments in Auditing and Assurance Standards and others, such as:

- Change of the reference "Standard on Assurance Engagements" to "Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information"
- Change of the term "high level assurance" to "reasonable assurance"

- Change of name from “Hong Kong Society of Accountants” to “Hong Kong Institute of Certified Public Accountants”
- Change of the sentence “Auditors are expected to follow the specimen auditors’ report as attached at the Annex” to “Auditors are required to follow the specimen auditors’ report”.

The Committee noted that the last bullet point was requested by the ITC for ease of review of the audit reports received by the ITC such that all audit reports received should be the same as the specimen auditors’ report without any differences. The Committee suggested some editorial changes to the proposed revised notes.

6. Working Group on Types of Reporting – Progress Report

The Convenor of the Working Group, William Crowe, briefed the Committee on the issues set out in a high level summary on the reviews of the Practices Notes relating to Banking, Securities and Insurance.

The Committee agreed to the findings of the Working Group and that any referrals to the Expert Panels on Banking, Securities and Insurance should await the issuance of the general guidance to be provided by the Working Group.

7. Proposed 2nd Auditing Update Conference 2005

The Committee noted that the Institute’s Member Services department had proposed that a second Auditing Update Conference be held in November or December 2005. It was of the view that given the previous Auditing Update Conference was held in April, consideration to hold a second 2005 Auditing Update Conference should be put on hold for the time being.

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