



Auditing and Assurance Standards Committee
Meeting Summary – December 2005

The Auditing and Assurance Standards Committee (Committee) met on 21 December 2005.

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

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

The following agenda items were discussed:

1. Draft Discussion Paper: Issues Arising From Requests For Assurance, Agreed-upon Procedures and Compilation Reports
2. Request from the Stock Exchange of Hong Kong on the proposed type of reporting for Share Option Schemes Adjustments
3. Proposed development of Practice Note on Building Management Accounts
4. IAASB March 2006 Meeting in Hong Kong
5. Revised Example Report by the Auditors on Annual Return on Employees' Compensation Gross Premium and Example Report on the Calculation of Fund Expense Ratio for MPF Investment Funds

1. Draft Discussion Paper: Issues Arising From Requests For Assurance, Agreed-upon Procedures and Compilation Reports

The Chairman of the Working Group on Types of Reporting, William Crowe, briefed the Committee on the newly developed Appendix 3 of the draft discussion paper that provided practical examples of the issues addressed in the paper.

The Committee considered the newly developed Appendix 3 and suggested certain changes. It was agreed that, upon finalization of the draft discussion paper by the Committee, a soft consultation with the relevant authorities should be carried out before releasing it for general public consultation.

2. Request from the Stock Exchange of Hong Kong on the proposed type of reporting for Share Option Scheme Adjustments

The Committee considered a request from the Stock Exchange of Hong Kong (SEHK) on the proposed type of reporting for Share Option Scheme Adjustments pursuant to the Listing Rules, which permit restricted adjustments to be made to the exercise price of share options in the event of certain corporate activities. The SEHK is proposing to amend the Listing Rules to address certain ambiguity in the existing Rules and in relation to the proposed opinion to be given by auditors, SEHK would like to seek the views of the Committee as to whether a "fair and reasonable" opinion can be given on the adjustments made and under what framework.

The Committee's preliminary comments were that auditors would have to carefully consider the independence aspects before accepting the engagement and it may not be appropriate to give a "fair and reasonable" opinion. It would be more appropriate for a "fair and reasonable" opinion to be given by an independent financial adviser. For auditors of the company, it may be more appropriate if the engagement is an

agreed-upon type of engagement.

The secretariat was requested to prepare a draft reply to the SEHK for the Committee's consideration at its next meeting.

3. Proposed development of Practice Note on Building Management Accounts

The Committee noted that the secretariat had a meeting with certain members of the SMPC to form a Working Group in relation to the development of the proposed Practice Note on Building Management Accounts. It was proposed that to make the development of the Practice Note more effective, on the basis that the audits of Building Management Accounts are also performed by the larger accounting firms, the above Working Group should be represented by members from the larger accounting firms.

4. IAASB March 2006 Meeting in Hong Kong

The Committee noted that the IAASB would be hosting its March 2006 meeting (from 6th to 10th) in Hong Kong at the Harbour Plaza Hotel in Hunghom, Kowloon. The HKICPA, as the host Institute, would be organizing and hosting a welcoming dinner for those attending the meeting and their accompanying persons. This is expected to be on the evening of Monday, 6th March 2006.

Members of the Committee and Council members of the Institute would be invited to attend the function. It was agreed that the secretariat should prepare a list of items that should be brought to the attention of the IAASB at the March meeting, for the Committee's consideration at the next meeting.

5. Revised Example Report by the Auditors on Annual Return on Employees' Compensation Gross Premium and Example Report on the Calculation of Fund Expense Ratio for MPF Investment Funds

The Committee noted that the following letters have been received:

- a letter dated 13 December 2005 from the Commissioner of Insurance attaching the revised example report by Auditors on Annual Return on Employees' Compensation Gross Premium, which was endorsed by the Committee by circulation
- a letter dated 15 December 2005 from the Mandatory Provident Fund Schemes Authority agreeing to the Committee's proposed example report on the calculation of the Fund Expense Ratio for MPF Investment Funds.

The secretariat would arrange for the example reports to be posted on the Institute's website.

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