



Auditing and Assurance Standards Committee
Meeting Summary – February 2006

The Auditing and Assurance Standards Committee (Committee) met on 28 February 2006.

Members present at the meeting were: Carlson Tong (Chairman), Richard George (Deputy Chairman), Keith Pogson (Deputy Chairman), Debbie Annells, Patrick Cheng, Charles Chow, William Crowe, Charles Grieve, Thomas Lau, Amy Lau, Lucia Li, Michael Sim, Wilfred Wong, Thomas Wong and Desmond Yuen (Represented by Kannie Wu).

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

The following agenda items were discussed:

1. Meeting schedule for the rest of 2006
2. Term of Reference and Proposed Work Plan for 2006
3. IAASB March 2006 Meeting in Hong Kong – 6th March to 10th March 2006
4. Invitations to Comment on IAASB ED of Improving the Clarity of IAASB Standards
5. Progress Report on the draft Discussion Paper on “Requests For Special Purpose Reports”
6. Professional Pronouncements under the Accountants’ Report Project
7. Issues arising from entities preparing accounts under the Building Management Ordinance and Education Ordinance
8. Assistance to sponsors in reporting on internal controls

1. Meeting schedule for the rest of 2006

The Committee approved the following meeting schedule for the rest of the year:

27 March (Monday)
25 April (Tuesday)
23 May (Tuesday)
21 June (Wednesday)
20 July (Thursday)
27 September (Wednesday)
26 October (Thursday)
29 November (Wednesday)
21 December (Thursday)

2. Terms of Reference and Proposed Work Plan for 2006

The Committee considered the terms of reference brought forward from 2005 and suggested some minor changes given that the Committee would be responsible for the project on Investment Circular Reporting Standards due to the disbandment of the Accountants’ Report Task Force (ARTF). The secretariat was requested to prepare a revised schedule of the terms of reference for the Committee’s consideration at its next meeting.

The Committee endorsed the proposed Work Plan which is aimed at achieving the following key objectives:

- (i) To maintain a concurrent agenda with that of the IAASB; and
- (ii) To develop local guidance in response to local regulatory requirements or market developments, in particular the finalization and issuance of the Hong Kong Standards on Investment Circular Reporting Engagements.

3. IAASB March 2006 Meeting in Hong Kong – 6th March to 10th March 2006

The Committee noted that there would be a welcoming dinner for the IAASB on 6 March and agreed the list of topics of common interest for discussion with the IAASB on 10 March.

[Post meeting note: The welcoming dinner for the IAASB delegates and accompanying persons were successfully held on 6 March attended by the HKICPA President, Vice Presidents and members. A Special Meeting of the AASC was held with the IAASB Deputy Chairman, Denise Esdon, and Technical Director, Jim Sylph, on 10 March 2006.]

4. Invitations to Comment on IAASB ED of Improving the Clarity of IAASB Standards

The Committee noted that the consultation period of the Institute's Invitation to Comment ended on 10 February and comments were received from a Committee member and a member firm.

The Committee considered the Institute's draft submissions to the IAASB based on the key points of the submissions received and suggested certain editorial changes.

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

5. Progress Report on the draft Discussion Paper on "Requests For Special Purpose Reports"

The Committee noted that on 24 February, the Convenor of the Working Group on Types of Reporting met with certain Committee members and the secretariat to discuss a revised draft reflecting the comments received. It was noted that a further meeting would be held on 13 March to finalize the paper and thereafter the paper will be submitted to the Committee for their consideration ahead of the next AASC meeting on 27 March.

6. Professional Pronouncements under the Accountants' Report Project

The Committee noted that the ARTF had completed its review of the comments received from public consultation on the remaining six proposed pronouncements under the Accountants' Report Project and has revised the proposed pronouncements accordingly. The Committee considered the ARTF's proposal to finalise the proposed HKSIR 100 "Investment Circulars and Reporting Accountants" and HKSIR 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars", in the light of the proposed Accounting Guideline (AG) 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" which has already been endorsed by the Financial Reporting Standards Committee subject to the clearance of a few comments.

The Committee requested the secretariat to prepare a discussion paper summarising the major issues that have been deliberated by the ARTF for consideration by the Committee.

The Committee noted that the UK APB Bulletin 1998/8 "Reporting on Pro Forma Financial Information Pursuant to the Listing Rules", which is the "UK equivalent" of the proposed HKSIR 300, would be withdrawn by the end of March 2006 and agreed that a working group, be formed to finalise the proposed HKSIR 300 and AG 7, with the objective of submitting the documents to Council for approval for issuance as final standard and guideline.

[Post meeting note: Revised draft HKSIR 300 and AG 7 were approved by circulation by the Committee and the Financial Reporting Standards Committee respectively and by Council on 21 March.]

7. Issues arising from entities preparing accounts under the Building Management Ordinance and Education Ordinance

The secretariat reported that there have been a number of enquiries received as to whether entities incorporated under the Building Management Ordinance ("BMO") and the Education Ordinance ("EO") can prepare their accounts under the Small and Medium-sized Entity Financial Reporting Standard and if so, how the auditors would be reporting on these entities. The Committee noted that under the requirements of both the BMO and the EO, auditors are required to report as to whether the financial statements "present fairly" the financial transactions of the entities during the period.

The Committee considered the subject matter and decided that it would seek the views of the IAASB in relation to its development of the proposed ISA 701 "The Independent Auditor's Report on Other Historical Financial Information" before committing a position on the subject matter.

8. Assistance to sponsors in reporting on internal controls

The Committee noted that in the course of developing HKSIR 400 "Comfort Letters on Financial and Non-financial Information", the ARTF had earlier considered whether it would be appropriate to provide guidance on listing applicants' internal controls on financial reporting and compliance with the Listing Rules in response to sponsors' request to support them in making a declaration to the Stock Exchange under Listing Rule 3A.15(5) which was issued in 2005. It was also noted that the ARTF decided that the matter should be dealt with separately from HKSIR 400. The Committee considered the previous deliberations by the ARTF and its communications with the Securities and Futures Commission and the Stock Exchange, and decided that a working group should be formed for the purpose of developing a proposal to deal with the matter.

The Chairman requested members of the Committee, in particular those from the larger accounting firms, to provide nominations for the Working Group.

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