



Auditing and Assurance Standards Committee
Meeting Summary – June 2006

The Auditing and Assurance Standards Committee (Committee) met on 21 June 2006.

Members present at the meeting were: Carlson Tong (Chairman), Richard George (Deputy Chairman), Keith Pogson (Deputy Chairman), Deborah Annells, Colin Chau, Charles Chow, William Crowe, Charles Grieve, Thomas Lau, Amy Law, Michael Sim, Wilfred Wong, Thomas Wong and Desmond Yuen.

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

The following agenda items were discussed:

1. Proposed HKSA 700 “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements” and HKSA 701 “Modifications to The Independent Auditor’s Report”
2. Social Welfare Department on Audit Reports for Public Subscription Permits
3. HKICPA Exposure Draft of Discussion Paper “Requests For Special Purpose Reports” – draft consultation programme
4. Proposed Annual Auditing Update Conference – 21 October 2006
5. Accountants’ Report Project – Progress Report
6. Referrals from the Financial Reporting Standards Committee

1. **Proposed HKSA 700 “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements” and HKSA 701 “Modifications to The Independent Auditor’s Report”**

The Committee considered the proposed HKSA 700 and HKSA 701 prepared by the secretariat, which adopted verbatim the revised ISA 700 and ISA 701 issued by the IAASB.

The Committee discussed the proposed HKSAs at length and agreed that further guidance should be provided in an appendix section of the HKSAs on the following:

- sample example auditor’s reports; and
- the Institute’s position on ISA 800 “The Independent Auditor’s Report on Special Purpose Audit Engagements”.

In addition, the Committee agreed that clarification should be provided in the proposed HKSA 700 and HKSA 701, where appropriate, in relation to the following:

- IAASB’s proposed new ISA 701 “The Independent Auditor’s Report on Other Historical Financial Information” to replace the extant ISA 800; and
- IAASB’s proposed new ISA 705 “Modifications to the Opinion in the Independent Auditor’s Report” and ISA 706 “Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor’s Report on Other Historical Financial Information” to replace the extant ISA 701.

The Committee requested the secretariat to amend the proposed HKSA 700 and 701 to reflect the Committee’s suggestions for consideration at the next meeting.

2. Social Welfare Department on Audit Reports for Public Subscription Permits

The Committee noted that a technical enquiry was received by the secretariat from the Social Welfare Department (SWD) on Audit Reports for Public Subscription Permits. The SWD requested for clarification as to the type of reports that practitioners should be providing as some practitioners have reported under the assurance engagement framework while others have reported under the related services engagement framework.

The Committee agreed that a meeting should be arranged to meet the SWD and the matter should be resolved in accordance with the principles set out in HKICPA Exposure Draft of Discussion Paper "Requests For Special Purpose Reports".

[Post meeting note: A meeting has been arranged to discuss the subject matter with the SWD on 13 July 2006.]

3. HKICPA Exposure Draft of Discussion Paper "Requests For Special Purpose Reports" – draft consultation programme

The Committee endorsed the draft consultation programme drawn up by the secretariat to explain the Institute's Discussion Paper to stakeholders. The forthcoming events noted were:

- 23 June – Hong Kong Monetary Authority
- 27 June – Technical Update Evening for members
- 27 July – Treasury
- 21 October - Annual Auditing Update Conference

Various meetings with other stakeholders would be arranged over the next few months.

[Post meeting note: Hard copies of the HKICPA Exposure Draft were forwarded to various local and overseas stakeholders with the covering letter signed by the HKICPA Chief Executive & Registrar.]

4. Proposed Annual Auditing Update Conference – 21 October 2006

The Committee noted that the date of the Conference was confirmed for 21 October 2006 at the JW Marriott Hotel Hong Kong. The proposed revised programme would cover the following:

- HKSA 240 on Fraud Consideration – Richard George
- HKSA 230 on Improving Audit Documentation – Wilfred Wong
- The proposed HKSA 700 and 701 on the New Audit Report Standards – Mabel Cheung
- HKICPA Exposure Draft of Discussion Paper "Requests For Special Purpose Reports" – William Crowe
- HKSIR 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" – Rebecca Chan
- HKSIR 400 "Comfort Letters and Due Diligence Meetings on Financial and Non-financial Information" – Paul Hebditch

In relation to a suggestion by the Small and Medium-sized Practitioners Committee to hold a session on the application of HKSA 545 "Auditing Fair Value Measurements and Disclosures", it was agreed that a separate CPD seminar to discuss the HKSA might be more appropriate.

5. Accountants' Report Project – Progress Report

The Committee noted that the Accountants' Report Sub-Committee, chaired by Richard George, held its third meeting on 12 June 2006. The Committee agreed with the Sub-Committee's views on the following:

- division of responsibilities between preparers of historical financial information and reporting accountants would be necessary in order to comply with the independence requirement of the Code of Ethics;
- the Institute's HKSIR proposals would not constitute a wholesale switch of preparation responsibilities from the reporting accountants to the directors;
- listing applicants would be deemed to be "listed" for the purposes of independence and as such reporting accountants would not provide accounting and bookkeeping services;
- the advice and assistance that reporting accountants would give listing applicants in practice in connection with historical financial information would not, under normal circumstances, threaten independence so long as the responsibilities for the preparation of accounting records and financial statements rest with the audit client and the firm only assumes an advisory role; and
- there would be no reason why HKSIR proposals would give rise to any general need for listing applicants to involve a second firm of accountants in preparing the historical financial information, although that would not exclude the possibility that there might be a specific need in some instances for listing applicants to involve a second firm of accountants to provide accounting and bookkeeping services.

Given the above endorsement by the Committee, it was agreed that the Sub-Committee would re-table the proposed HKSIR 100 "Investment Circulars and Reporting Accountants" and HKSIR 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" to seek the Committee's approval for resubmitting these pronouncements to the regulators.

In relation to the guidance on assistance to sponsors on internal control reporting, the Committee agreed with the Sub-Committee that the proposed guidance would be drafted on the basis that the engagement is an agreed-upon procedures engagement covering both corporate level controls and key operational level controls. The secretariat would prepare a revised draft for consideration.

6. Referral from the Financial Reporting Standards Committee (FRSC)

Consideration of providing a "True and Fair View" in accordance with the SME-FRS framework

The Committee was requested to consider the issue of whether a "true and fair view" in accordance with the SME-FRS framework could be given under the current auditing framework or whether it would have to wait until the finalization of the proposed ISA 701 "The Independent Auditor's Report on Other Historical Financial Information" by the IAASB.

The Committee discussed the matter and requested the secretariat to carry out further research on the subject matter for the Committee's consideration.

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