



Auditing and Assurance Standards Committee
Meeting Summary – March 2005

The Auditing and Assurance Standards Committee (Committee) met on 15 March 2005.

Members present at the meeting were: Carlson Tong (Chairman), Richard George (Deputy Chairman), Deborah Annells, William Crowe, Thomas Lau, Lucia Li, Man Mo Leung, Keith Pogson, Paul F. Winkelmann, Thomas Wong, Lesley Yeung and Desmond Yuen (represented by Mabel Cheung).

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

The following agenda items were discussed:

1. Meeting Schedule for the Rest of 2005
2. Invitation to Comment on IAASB ED of ISA 230 (Revised) “Audit Documentation”
3. Proposed Practice Note “Guidance to Auditors with Regard to Preliminary Announcements of Results for the Full Year”
4. Mainland Audit Issues Working Group – Progress Report
5. Annual Auditing Update Conference 2005 – Saturday, 23 April 2005
6. A referral from the Corporate Finance Committee on the Consultation Paper on Proposed Amendments to the Securities and Futures (Stock Market Listing) Rules
7. Proposed ED/1.207A “Change of Auditors of a Listed Issuer of the Stock Exchange of Hong Kong”
8. Continuing Connected Transactions
9. Auditors’ Report on Financial Statements of Investment Funds Authorized under the SFC Code on Unit Trusts and Mutual Funds
10. Update on the Progress of the Proposed HKSIR 400

1. Meeting Schedule for the Rest of 2005

The Committee approved the meeting schedule for the rest of the year.

2. Invitation to Comment on IAASB ED of ISA 230 (Revised) “Audit Documentation”

The Committee noted that there was no submission received in response to the Invitation to Comment.

The Committee considered the IAASB ED and was of the view that a submission should be made to the IAASB based on the following:

- there needs to be further clarification on the documentation that should be completed at the date of the audit report; and
- there needs to be further clarification on the reference to “demonstrate that the audit was performed in accordance with ISAs and applicable legal regulatory requirements” as it might be construed as an expectation that the audit documentation contains a record that maps each requirement in the ISAs to the relevant audit work. This could result in the development and reliance on standardized checklists and detailed forms for all aspects of the audit. A checklist approach would result in an audit that is mechanical and would be detrimental to the achievement of a high quality audit.

3. **Proposed Practice Note “Guidance to Auditors with Regard to Preliminary Announcements of Results for the Full Year”**

The Committee considered a working draft of proposed Practice Note prepared based on the UK Bulletin “The Auditors’ Association with Preliminary Announcements”. The Committee had discussion on a number of areas. The secretariat was requested to revise the draft Practice Note based on the Committee’s discussions.

4. **Mainland Audit Issues Working Group – Progress Report**

The Committee noted the issuance of the third set of Q&As on Revenue Recognition for Software Companies and that drafting of Q&As on related party transactions was in progress.

The Committee considered the draft Q&As on consignment sales and agreed to provide comments to the secretariat after the meeting.

The Committee agreed that after the Working Group had completed its drafting of all the Q&As in the pipeline, it would develop a special issue on the proper application of the high level auditing standards on audit risks and fraud consideration in the audit of Mainland enterprises.

5. **Annual Auditing Update Conference 2005 – Saturday, 23 April 2005**

The Committee agreed the programme for the Annual Auditing Update Conference 2005 covering the following areas:

- Status of Convergence with International Auditing Standards
- New Audit Risk Standards Introducing Risk-Based Audit Approach (HKSA 315, 330 and 500)
- Revised Fraud Consideration Standard (HKSA 240)
- New and Revised Quality Control Standards for Auditors (HKSQC 1 and HKSA 220).

6. **A referral from the Corporate Finance Committee on the Consultation Paper on Proposed Amendments to the Securities and Futures (Stock Market Listing) Rules**

The Committee considered a referral from the Corporate Finance Committee to consider the SFC’s Consultation Paper on Proposed Amendments to the Securities and Futures (Stock Market Listing) Rules and considered that:

- a. the Institute should support the SFC’s proposal that it would not adopt the current listing rule requirement for an issuer, other than a Mainland issuer, adopting International Financial Reporting Standards (IFRS) to disclose and explain the differences between IFRS and Hong Kong Financial Reporting Standards that have significant effect on its financial statements; and
- b. the proposed amendments to Schedule 3 in Appendix 1 entitled “Accountants’ Report and Financial Information” should be referred to the Accountants’ Report Task Force for consideration.

7. **Proposed ED/1.207A “Change of Auditors of a Listed Issuer of the Stock Exchange of Hong Kong”**

The Committee endorsed the final draft of the proposed ED/1.207A, subject to a minor amendment, be submitted to the Council for approval for issuance as an Exposure Draft for a consultation period of one month.

[Post meeting note: ED/1.207A was issued for public consultation on 23 March 2005 for comments by 22 April 2005.]

8. Continuing Connected Transactions

A member raised a concern that there might be an expectation gap about the auditors' role in respect of Listing Rule 14A.39 which requires auditors to confirm certain matters relating to continuing connected transactions. It was noted that auditors are currently performing an agreed-upon procedures engagement for the purpose of the confirmation while the market seemed to expect an assurance engagement to be performed on the relevant information.

It was agreed that the matter should be considered together with the proposed issues paper on the different types of reporting engagements undertaken by practising members.

9. Auditors' Report on Financial Statements of Investment Funds Authorized under the SFC Code on Unit Trusts and Mutual Funds

The Committee considered a potential reporting issue raised by a member with respect to auditors' reporting responsibilities on investment funds authorized under the SFC Code on Unit Trusts and Mutual Funds. It was noted that a number of the revised/newly issued financial reporting standards affect investment funds significantly and the valuation provisions as they currently stand in the constitutive documents of many investment funds would not be compliant with GAAP. This would pose a problem for auditors having to give a true and fair view opinion on the accounts that have been prepared in accordance with the SFC Code on Unit Trusts and Mutual Funds. It was agreed that a meeting be arranged with the SFC to resolve this matter.

[Post meeting note: A meeting was arranged with the SFC on 11 April 2005. It was agreed that an example of how a reconciliation between a GAAP NAV and a Trust Deed NAV be provided to the SFC for their consideration of the reporting issue.]

10. Update on the Progress of the Proposed HKSIR 400

The Committee noted the view of the Accountants' Report Task Force (ARTF) that the proposed HKSIR 400 "Comfort Letters and Other Assistance to Sponsors" should be finalised as a priority.

The Committee also noted that the Institute would conduct an internal consultation with the Corporate Finance Committee (CFC) prior to the finalisation of the proposed HKSIR 400 as some of its members are sponsors.

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