



Auditing and Assurance Standards Committee
Meeting Summary – November 2006

The Auditing and Assurance Standards Committee (Committee) met on 29 November 2006.

Members present at the meeting were: Keith Pogson (Deputy Chairman – Acting Chairman), Richard George (Deputy Chairman – Represented by Derek Broadley), Debbie Annells, Colin Chau, Patrick Cheng, Charles Chow, William Crowe, Charles Grieve, Lucia Li, Michael Sim, Wilfred Wong, Thomas Wong, Kelvin Wong and Desmond Yuen (Represented by Victoria Pau).

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

The following agenda items were discussed:

1. Adoption of HKSRE 2410 “Review of Interim Financial Information performed by the Independent Auditor of the Entity”
2. Proposed draft Circular on Reporting on the Audit of Incorporated Management Committee Schools
3. Proposed Q&A circular on Audit of Accounts of Owners’ Corporations of Buildings
4. PN 900 (Revised) “Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard”
5. Proposed Chinese version of an unqualified audit report based on HKSA 700
6. Draft provisions of the Companies (Revision of Accounts and Reports) Regulation
7. Working Group on Continuing Connected Transactions

1. **Adoption of HKSRE 2410 “Reviewed of Interim Financial Information performed by the Independent Auditor of the Entity”**

The Committee considered the revised draft HKSRE prepared by the secretariat reflecting the comments made by the Committee at the last meeting, where appropriate. The Committee recommended the secretariat to consider further the following matters before finalizing the Standard:

- Incorporating the requirements of the GEM Listing Rules in the proposed Standard, where appropriate
- Incorporating some guidance on the example reports to be used if a practitioner is engaged to carry out a review of interim financial information under the Listing Rules and he is not an auditor of the entity and has to perform the review in accordance with HKSRE 2400, “Engagements to Review Financial Statements”.

2. **Proposed draft circular on Reporting on the Audit of Incorporated Management Committee Schools**

The Committee considered the comments received from the EMB on 28 November on the draft circular and proposed certain revisions to the proposed example report. The Committee requested the secretariat to revised the proposed example report and forward the revised draft to the Committee for endorsement by circulation.

3. Proposed Q&A circular on Audit of Accounts of Owners' Corporations of Buildings

The secretariat reminded the Committee of its earlier request that the secretariat and the AASC/SMPC Joint Working Group consider carefully as to whether it would be more efficient to issue guidance to members on audit of accounts of Owners' Corporations of Buildings in the form of a Bulletin or as a Q&A circular, rather than as a Practice Note.

It was reported that upon further consideration, the secretariat is of the view that a Q&A circular would be a more efficient way to issue guidance for practising members (similar to the Mainland Audit Issues Q&A series) and had drafted a proposed Q&A circular which was agreed by the AASC/SMPC Joint Working Group. A draft example audit report based on the new Audit Report Standard - HKSA 700 "The independent Auditor's Report on a Complete set of General Purpose Financial Statements" was also included.

A Committee member suggested certain improvement changes to the proposed circular and the Committee agreed that the proposed Q&A circular would be posted on the HKICPA website by end of 2006 in order that it can provide some guidance to practising members in relation to their 31 December 2006 audits of owners' corporations of buildings.

[Post meeting note: A final version of the proposed Q&A circular was forwarded to the AASC for endorsement by circulation and was noted by Council at its meeting on 13 December. The Q&A circular was posted on the HKICPA website on 15 December.]

4. PN 900 (Revised) "Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard"

The Committee considered the proposed PN 900 (Revised) prepared by the secretariat applicable for auditor's report dated on or after 31 December 2006. It was noted that the revision is necessary due to the issuance of the new Audit Report Standards, HKSA 700 and HKSA 701 "Modifications to the Independent Auditor's Report".

A Committee member suggested some editorial changes and the Committee endorsed the proposed PN 900 (Revised) for submission to Council for approval at its meeting in December for issuance as a final Practice Note.

[Post meeting note: PN 900 (Revised) was approved by Council at its meeting on 13 December and posted on the HKICPA website on 15 December.]

5. Proposed Chinese version of an unqualified audit report based on HKSA 700

The Committee noted that comments were received from two members of the Committee. The Committee requested the secretariat to incorporate the comments received where appropriate and forward a revised version for the Committee's endorsement by circulation.

6. Draft provisions of the Companies (Revision of Accounts and Reports) Regulation

The Committee noted that the Institute was requested by the Financial Services and the Treasury Bureau (FSTB) to provide comments on the draft provisions of the Companies (Revision of Accounts and Reports) Regulation which will complement the implementation of the Financial Reporting Ordinance. The proposed Regulation intends to introduce a new regime for company directors to voluntarily revise accounts (and consequentially the relevant summary financial reports and directors' reports) where it appears to the directors that the original accounts did not comply with the Companies

Ordinance. Sections 10 and 11 of the draft Regulation deal with Audit Report on Revised Accounts and Supplementary provisions for Audit Report on Revised Accounts respectively.

Committee members were requested to consider the draft Regulation and provide their comments, if any, to the secretariat by Friday, 8 December 2006 so that a submission can be made to the FSTB.

[Post meeting note: Comments were received from two Committee members which expressed concerns on a practical issue relating to the dating of the audit report on the revised accounts and the need to consider all post balance events up to the date of approval of the accounts.]

7. Working Group on Continuing Connected Transactions

The Committee noted that the Working Group held its first meeting on 17 November and the following was reported arising from the first meeting of the Working Group:

- Audit firms would performed an agreed-upon procedure engagement pursuant to the Listing rule requirement 14A.38 as “completeness” of the connected transactions list would present a major issue for auditors
- There may be an expectation gap in respect of the engagement type expected by the Stock Exchange and the actual engagement carried out by the auditors
- The SEHK representative was requested to consult within the SEHK as to what exactly the SEHK expects given the inherent limitation of the “completeness” of the list of continuing connected transactions provided to the auditors and the cost and benefits of requesting an assurance engagement
- The secretariat was requested to collect sample reports from audit firms for discussion at the next meeting.

There was a suggestion that the Working Group could consider whether it would be feasible to provide a reasonable assurance report on the work performed subject to a qualification on the completeness of the list of continuing connected transactions provided to the auditors. The secretariat was requested to include this as an item on the agenda for consideration by the Working Group at its next meeting.

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