



**Ethics Committee**  
**Meeting Summary – June 2006**

The Ethics Committee (Committee) met on 6 June 2006.

Members of the Committee present were: Mark Fong (Chairman), Doug Oxley (Deputy Chairman), Keith Pogson (Deputy Chairman), Albert Au, Barbara Chan, Chew Fook Aun, Eric Fok, Alex Lai, Quinn Law, Lucia Li, Raymond Ng, Sheila Pattle, Kenny Tam and Christopher To.

Secretariat staff present were: Patricia McBride (Director, Standard Setting) and Elaine Chan (Assistant Director, Standard Setting).

The Committee discussed the following agenda items of the International Ethics Standards Board for Accountants (IESBA) Meeting which would be attended by the Chairman as the Institute's representative and the Director, Standard Setting as the Technical Advisor:

- a. Network firm
- b. Independence

**IESBA Meeting – 13-14 June 2006 in Prague, Czech Republic**

**a. Network firm**

- i. Sharing of “profit or cost” vs sharing of “profit or loss”

The Committee considered that firms which share incidental non-professional costs, such as having a common receptionist, should not be regarded as network firms.

- ii. Use of common brand name

A member advised that some firms entered into cooperative arrangement with firms in the Mainland to use a common brand name although the association is very loose. He considered that such an arrangement should not render the firms being regarded as network firms as the network exists in form only but not in substance; otherwise, it would impact the ability of Hong Kong firms entering into the Mainland market.

The Committee generally considered that the use of a common brand name would fail the “independence in appearance” test and therefore it would be hard to justify that firms using a common brand name are not network firms. It was considered that sharing of a common brand name with another firm which is “unrelated” in substance could pose a high risk to the firm and such a practice should not be encouraged as it is not regarded as good risk management.

**b. Independence**

- i. Provision of non-assurance services – the concept of “informed management”

The Committee generally agreed with the principle of the concept of “informed management” and considered that the current draft needed further clarification as to the basis for assessing whether management would be regarded as “informed”.

ii. Provision of non-assurance services – preparing accounting records and financial statements

The Committee had a lengthy discussion on the likelihood of creating a self-review threat if auditors were allowed to provide certain accounting services to their non-listed audit or review clients. Members had differing views in this respect.

The Committee considered that the concession granted under “emergency situations” for the provision of accounting service that would otherwise create a threat to independence should be expected only in very exceptional cases such as after an earthquake.

iii. Provision of non-assurance services – taxation services

A member queried the appropriateness of an assumption underlying the current draft that preparation of tax calculation for an assurance client would pose a greater threat to independence than provision of tax advisory service. The Committee noted that while the preparation of tax calculations in Hong Kong is fairly simple, this may not necessarily be the case in many other jurisdictions and therefore preparation of tax calculations could create a significant threat to independence.

iv. Splitting of Section 290 by type of engagement

The Committee generally agreed with the split of Section 290 by type of engagement, i.e. one addressing audit and review engagements and the other addresses other assurance engagements. While noting that additional guidance are provided for listed and non-listed clients in certain areas, some members considered that the additional guidance should also cover public interest entities.

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