Professional and Technical News at a glance

HKSA TechWatch

Hong Kong Society of Accountants
香港會計師公會

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This is the Fourth Issue of TechWatch, a publication designed to alert members to topics and issues that impact on accountants and their working environment. We welcome your comments and feedback. Comments and suggestions on TechWatch should be addressed to Ms. Winnie Cheung, Senior Director, Professional & Technical Development, Hong Kong Society of Accountants (email:<commentletters@hksa.org.hk>).

This issue (and all back issues) is available online at the Society's website <http://www.hksa.org.hk/professional/> under "TechWatch (Members only)".

If you would prefer to receive future issues electronically via email or in hard copy format, you may register or alter your option online at the Members Only section of HKSA web page under "Personal Profile – Publications Preferences". If you have any questions, please contact Karen Moy, Administrative Officer, Professional & Technical Department at <karen_moy@hksa.org.hk> or tel: 2287 7089.

Headlines Of This Issue

Accounting & Financial Reporting

FASC Proposes A New SSAP On Agriculture

The Financial Accounting Standards Committee (FASC) has published an exposure draft new SSAP on Agriculture. Comments on this exposure draft are requested by 15 June 2002.

The exposure draft is in all material respects verbatim with the equivalent International Accounting Standard, IAS 41, Agriculture, which prescribes the accounting treatment (under a fair value model), financial statement presentation and disclosures related to agricultural activity.

The paper version of the ED was released on 22 March 2002. A copy of the ED and the FASC's invitation to comment has also been posted on the HKSA website at <http://www.hksa.org.hk/professional/>.

SSAP Reference Material Posted On The HKSA Website

Articles on SSAP 31, Impairment of Assets, and SSAP 33, Discontinuing Operations, were published in recent editions of The Hong Kong Accountant and have now been posted on the HKSA website at <http://www.hksa.org.hk/professional/> for reference purposes. As more articles such as these are published, we will make them available on the website for future reference.

Changes To The Exposure Draft Process

In the April 2002 edition of The Hong Kong Accountant, readers will see an announcement of the new due process operated by the Society's Financial Accounting Standards Committee (FASC) in setting Hong Kong's accounting standards.

One of the Society's roles is to approve high quality standards of financial reporting for application in Hong Kong. A key element in the standard setting due process is that views on proposed accounting standards are sought at various stages. The publication of an exposure draft (ED) is one such important stage, especially now that exposure drafts issued by the IASB will typically be the final consultation document prior to the adoption of a Hong Kong SSAP that complies with the IASB's Standard.

As explained further in a follow-up article to appear in the May 2002 edition of The Hong Kong Accountant in the future, apart from publishing an ED in electronic form, **paper copies of an ED will now be published, not as part of a Members' Handbook supplement but, instead, will be published in A4 format**. Paper versions of EDs, which will be typically in A4 size, can be folded and hole punched and filed at the back of a Members' Handbook binder, at the discretion of the Handbook subscriber.

To date, the HKSA has published two EDs electronically: the IASB's Limited Revision to IAS 19 (SSAP 34), and ED/SSAP Agriculture. Both documents have been posted on the Society's website at <http://www.hksa.org.hk/professional/>.

Audit & Assurance

<u>IRD Clarifies The Role And Responsibilities Of Auditors In Relation To The Electronic Filing Of Tax Returns</u>

IRD has launched its new arrangements for off-line electronic filing of Profits Tax Returns on 2 April 2002.

In the last issue of TechWatch, members were informed of the Society's concern over the potential implications of the requirement for auditors to affix their digital signatures to the e-BIR 51, rather than the audited accounts. As a result of discussions between the Society and the IRD, the IRD has issued a letter to the Society clarifying the role and responsibilities of the auditors in affixing their digital signatures to the e-BIR 51. The IRD has also undertaken to review the signing arrangements for the tax returns for the fiscal year ending 31 March 2003 with the aim of withdrawing the requirement for the auditors to affix their digital signatures to the e-BIR 51.

A copy of the letter dated 22 March 2002 issued by the Commissioner of the Inland Revenue (CIR) to the Society in respect of the above is attached in the Appendices. If considered necessary, you may copy the CIR's letter to your clients for information.

<u>Audit Implications Of Amendments To The Solicitors' Accounts Rules</u>

The Solicitors' Accounts (Amendment) Rules 2002 were gazetted on 1 February 2002 and became effective from that date. The revised Rules introduced new provisions as follows:

(a) impose a duty on the principals of a firm of Solicitors to remedy any breach of the Rules promptly upon discovery;

(b) require a solicitor to keep clients' books and accounts, ledgers and records in Hong Kong; and

(c) require a solicitor to prepare monthly reconciliation statements on balances of client accounts.

Practising members who perform an audit of the solicitors' accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules would need to ensure that their examination work covers their client's compliance with these new provisions from the effective date, 1 February 2002. PN 840 "The audit of solicitors' accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules" is in the process of being revised to reflect the above amendments.

<u>IFAC Board Names Members Of New International Auditing And Assurance Standards Board</u>

The International Federation of Accountants (IFAC) named last month the members of the International Auditing and Assurance Standards Board (IAASB). IAASB, which replaces the International Auditing Practices Committee, is responsible for establishing International Standards on Auditing for the world's accountants. Its eighteen members include practising accountants, academics, and representatives of the business community and the public (governmental) sector. A full list of IAASB members and further information on IAASB are available at the IAASB's website <http://www.iaasb.org>.

Tax

<u>Antony Leung Presents His Maiden Budget</u>

The Financial Secretary (FS) delivered his maiden Budget speech on 6 March 2002. While his overall outlook for the economy was positive in the medium term with GDP growth of 1% forecast for 2002-03 and a trend growth rate of 3%, he indicated that in 2001 the growth rate had been only 0.1% in real terms. Meanwhile the consolidated deficit in 2001-02 was expected to reach $62.6 billion (although there are now indications that the final figure may be lower).

The FS announced limited one-off concessions which were aimed at keeping down the costs of doing business in Hong Kong and provide some relief for the community generally. These concessions were:

- waiver of business registration fee for one year (although that part of the fee, i.e. a HK$250 levy, used to fund the Protection of Wages on Insolvency Fund, will continue to be payable. In fact proposals are afoot to increase this levy to $600 as a result of the significant demand on the Fund);

- increase in the maximum amount of the rates concession announced in the 2001 Policy Address from $2,000 to $5,000 per rateable tenement;

- waiver of charges for use of fresh water for domestic purposes and non-domestic purposes subject to a ceiling of $800 and $3,200 respectively, and waiver of charges for use of fresh water for flushing purposes, subject to a ceiling of $800 for one year;

- waiver of sewage charges for water supplied for domestic purposes and non-domestic purposes subject to a ceiling of $200 and $800 respectively for one year;

- reduction of the trade effluent surcharge by 30% for one year; and

- extension of the moratorium on increase in ultra-low sulphur diesel duty up to 31 March 2003.

In the light of a projected deficit of $45.2 billion for 2002-03, concessions of a one-off nature are considered more appropriate than further permanent benefits, given the widening gap between government revenue and expenditure.

In the HKSA's Budget submission to the FS, we pointed to the need for the Government to look critically at and control its own expenditure. It is noted that the FS, referring to the recent findings of the Task Force on Review of Public Finances (Task Force), emphasised the need for the Government to prudently manage public finances. In order to help achieve the target of a balanced budget by 2006-07, the Government will be looking to measures such as the ongoing efforts to reduce the overall size of the civil service and the projected salary reduction of 4.75% in the Civil Service and subvented section, that has been assumed in the Budget's underlying financial figures.

On the other hand, this Budget introduced only very modest revenue measures comprising:

- proposed introduction of Boundary Facilities Improvement Tax of $18 in 2003-04 for departures by land from Hong Kong;

- increase of duty rate on wine from 60% to 80%; and

- reduction of the duty-free quantities of tobacco and still wine brought into Hong Kong by local residents by 40% and 25% respectively.

As regards the need for broader-based taxation, the FS apparently accepted the findings of the Task Force that the fiscal shortfalls are the result, at least in part, of structural problems, not simply cyclical causes, and that less reliance should be placed on land revenues and investment income. However, he rejected the idea of introducing a goods and services tax in the present climate and proposed not to make any changes to the salaries tax allowances, nor to the marginal tax rates or tax bands.

When the former FS introduced the benchmark of 18 months of government expenditure for fiscal reserves, he indicated that it would be reviewed in due course. The new FS has now reviewed this benchmark and has concluded that a significantly lower level of reserves, i.e. 12 months of government expenditure would be sufficient. By 2006-07, the time at which operating and consolidated balances are projected to be achieved in the Budget, the reserves are forecast to stand at $271.2 billion, equivalent to 12 months of government expenditure.

The 2002/03 Budget speech may be accessed and downloaded at the Government website at <http://www.budget.gov.hk/2002/cframe2.htm>.

Legislation & Government Initiatives

Information Technology And Broadcasting Bureau Consults On Review Of The Electronic Transactions Ordinance

The Electronic Transactions Ordinance ("ETO") came into effect in April 2000. The Information Technology and Broadcasting Bureau is currently conducting a review of the ETO and requesting the submission of views by 30 April 2002. The consultation paper issued by the Bureau proposes various changes to the ETO to take into account technological developments since its adoption. The main changes proposed include:

- the use of personal identification numbers (PIN) as a form of digital signature which will then have the same status as the public key-private key type digital signature based on public key infrastructure currently backed by the ETO. The use of a PIN is generally more appropriate for certain transactions where a lower level of security is adequate. The proposed change would result in two types of digital signatures having the same status as paper-based signatures;

- the requirement of "delivery by post or in person" under certain statutory provisions for documents to be submitted will be automatically construed as covering "delivery by electronic means" as well;

- splitting the assessment of certification authorities (CA) into two parts:

  (i) the first part concerns trustworthiness (e.g. system security, procedural safeguards, financial viability, etc.) of the certification service that has to be prepared by a qualified and independent person approved by the Director of Information Technology ("the Director");

  (ii) the second part concerns provisions which are not related to trustworthiness of the certification service (e.g. adoption of any discriminatory practices in the procedures of the CA) that can be dealt with through a declaration made by an authorised person of the CA concerned; and

- empowering the Director to require a recognised CA to furnish an assessment report to be prepared by a qualified person approved by the Director, when there are or will be major changes in the operation of the CA in between two annual assessments that may affect its trustworthiness (e.g. its financial status, the arrangements to cover the liability of the CA, or the system, procedure, security arrangements and standards used by the CA to issue certificates to its subscribers). The assessment report so required should focus only on the concerns raised by the Director.

Currently, a Certified Public Accountant who meets the following requirements is considered acceptable for approval by the Director as a person to conduct an assessment of certification service:

1. independent of the recognised CA under assessment;

2. accredited by a recognised professional organisation, i.e. the HKSA; and

3. proficient in:
    - the assessment of public key infrastructure and related technologies, such as digital signature and certificate, etc;
    - applying information security tools and techniques;
    - performing financial reviews;
    - performing security reviews; and
    - performing third-party reviews.

The proposals regarding the assessment of CAs, which would better clarify the assessment scope, are welcome.

The consultation paper may be accessed and downloaded at <http://www.info.gov.hk/policy_f.htm>. Members may forward their comments, if any, to John Tang, HKSA's Assistant Director (Business & Practice) by 20 April 2002.

Securities and Futures Bill Finally Passed

The passing of the Securities and Futures Bill marks the end of a 10-year debate about securities law reform. The newly enacted Securities and Futures Ordinance ("SFO"), which was gazetted on 28 March 2002, consolidates and modernises the 10 existing ordinances regulating the securities and futures markets which were written over the past 25 years.

Apart from the broad changes necessary to address the developments in the securities and futures markets brought about by globalisation and advances in technology, the SFO introduces a number of key initiatives aimed at enhancing the quality of markets and lowering compliance costs by market participants. The main features include:

- a new streamlined single licensing regime;
- new proportionate disciplinary sanctions to combat market misconduct;
- new measures to protect the interests of investors, such as personal rights of action through the civil courts for losses caused by market misconduct or false or misleading public statements concerning securities;
- a new and comprehensive investor compensation scheme; and
- a tighter regime for disclosure of interests in listed companies.

There are two sections of the SFO which are of particular importance to the auditors of listed corporations. Section 179 facilitates Securities and Futures Commission ("SFC") inquiries into misconduct by listed corporations by conferring power on the SFC to request access to the working papers of the corporations' auditors. Section 381 provides auditors of listed corporations with statutory immunity from common law civil liability if they report any suspected fraud or misconduct in the management of a listed corporation to the SFC. The choice to report remains entirely voluntary. As a result of the above provisions in the SFO, the Society will provide guidance to members on the protocol to be observed by the SFC and the auditors in the event that the SFC decides to exercise its power under section 179 to request access to audit working papers, and matters that auditors would pay attention to if they choose to report under the protection of section 381.

Before the SFO can come into effect, work needs to continue on the substantial body of subsidiary legislation that will cover the detailed operation of the SFO. The SFC has expressed its intention to bring the SFO into force before the end of this year. The paper version of the SFO can be found in Legal Supplement No.1 to Government Gazette No.13 Vol.6 issued on Thursday 28 March 2002, which should be obtainable from the Government Publications Centre, Ground Floor, Low Block, 66 Queensway. The SFO may also be accessed and downloaded at the SFC's website at <http://www.hksfc.org.hk>.

Listing & Securities Matters

SFC Consults On Draft Keeping Of Records Rules

The SFC recently conducted a one-month consultation exercise on the draft Securities and Futures (Keeping of Records) Rules ("draft Rules"). The draft Rules are to be made under the new SFO as subsidiary legislation. The SFC states that in essence the draft Rules require intermediaries and their associated entities to keep records that are sufficient to explain their business activities and operations and to account for their client assets.

In response to the consultation exercise, the Society submitted comments on the proposals on 28 March 2002, which reflected, amongst other points, a concern that the draft Rules were too general and broad in scope.

The lack of specific guidance contained in the draft as to which particular types of records must be retained, could result in intermediaries in effect being obliged to record and retain for up to 7 years a considerable amount of detail relating to individual transactions and advice, including, in addition to financial records, copies of all contracts, order forms, confirmations, statements, registers, records, memoranda and correspondence created or received by them. Failure to comply could result in criminal sanctions being imposed.

The Society's submission may be viewed at the HKSA website at <http://www.hksa.org.hk/professional/> under "HKSA Submissions" and the SFC's Consultation Paper may be located at the SFC's website <http://www.hksfc.org.hk> under "Bills, Legislation and Codes".

SFC Proposes Amendments To The Financial Resources Rules

The SFC also recently conducted a short public consultation on proposed amendments to the Financial Resources Rules ("FRR") under section 28 of the Securities and Futures Commission Ordinance.

The proposed amendments relate to margin financing and in particular aim to deal with two practices that the SFC regard as "risky and imprudent", namely: (a) accepting as collateral for margin loans a high quantity of stocks that are low quality, illiquid, or thinly traded; and (b) re-pledging the more liquid and higher quality stocks from "inactive" margin clients in order to obtain bank loans to fund the firm's own working capital.

The SFC believes that in the longer term an increase in the capital requirement for firms engaging in securities margin financing is desirable. However, the Commission considers that urgent action is needed to help measure and manage the relevant risks. As interim measures therefore it is proposing to introduce (a) an "illiquid collateral haircut" and (b) a "firm borrowing to margin loan ratio trigger".

The Society submitted comments on the proposed amendments to the FRR, on 26 March 2002. The submission raised certain questions about the effectiveness of the first proposed measure in dealing with the risky practices identified by the SFC, and also about the ability of margin financing firms to implement adequate procedures for continuous monitoring of their positions that the second proposed measure would necessitate.

The possible practical difficulties in complying with these proposed measures could have implications for auditors who may have to report on the procedures and systems that the relevant firms have in place.

The Society's submission may be viewed at the HKSA website under "HKSA Submissions" (see above) and the SFC's consultation document as well as the Society's submission may be found at <http://www.hksfc.org.hk> under "Bills, Legislation and Codes".

SFC Promotes Electronic Investor Resources Centre

The SFC wishes to make it more widely known that it operates an Electronic Investor Resources Centre (eIRC), located at the following website <http://www.hkeirc.org>, to provide investors with a one-stop website on investment and related education information, and to help investors to conduct research on their investments. The SFC informs us that it has recently revamped the eIRC by adding new interactive games and enhanced features.

The eIRC has five main sections, namely –

- monthly focus: a monthly e-newsletter on topical issues can be obtained free upon signing up for this service;
- features section: providing key facts on areas of special focus and topical interest;
- games zone: which inter alia aims to help prospective investors learn how to make informed decisions and understand market jargon;
- eLibrary: containing an extensive list of links to websites on investor education, market information and market institutions; and
- studio: providing online multi-media resources, including investor education videos and radio segments on subjects of investor interest.

Comment Key Dates

30 April 2002 – Deadline for submissions to the Administration on Consultation Paper on the Review of the Electronic Transactions Ordinance [Views to the Society by 20 April 2002].

30 April 2002 - Proposed SSAP Interpretations 14, 15, 16, 17 & 18. Please send comments to: <commentletters@hksa.org.hk>.

15 June 2002 - Proposed SSAP on Agriculture. A copy of the ED has been posted on the HKSA website at: <http://www.hksa.org.hk/professional/>. Please send comments to: <commentletters@hksa.org.hk>.

15 July 2002 - Proposed SSAPs and Implementation Guidance on Financial Instruments. Please send comments to: <commentletters@hksa.org.hk>.

Members ask …

SSAP 34 requires an enterprise to account for its obligations under the established terms of a defined benefit retirement savings plan.

An enterprise makes contributions towards a post-employment defined benefit scheme that is separate, both legally and operationally, from the reporting enterprise. Prior to the introduction of SSAP 34 in 2002, the post-employment defined benefit scheme as a separate entity had appropriately not been

included into the enterprise's balance sheet and/or consolidated financial statements.

Under paragraph 24, an enterprise applies SSAP 34 to all such arrangements whether or not they involve the establishment of a separate entity to receive contributions and to pay benefits. Furthermore, paragraph 49 suggests that it is often the case that an enterprise is, in substance, underwriting the defined benefit plan and paragraph 50 appears to suggest that the enterprise accounts for the defined benefit plan.

Does SSAP 34 have the effect of requiring such post-employment benefit schemes to be either brought onto the employer's balance sheet or consolidated into the financial statements?

No. SSAP 34 is concerned solely with the recognition, measurement, presentation and disclosure of employee benefit-related expenses and liabilities so far as the reporting enterprise is concerned.

In the case where a retirement benefit scheme was previously and appropriately excluded from an enterprise's balance sheet and/or consolidated financial statements on the basis that the scheme is legally and otherwise separate from the enterprise, SSAP 34 does not have the effect of now requiring such a scheme to be recognised or consolidated into the enterprise's financial statements.

SSAP 34 broadly requires an enterprise to account for its obligations towards such a scheme or arrangement (typically referred to as a "plan" in the SSAP) and to recognise, as both a current period expense and a liability, any amount that is considered due to the retirement benefit plan. This is what is meant in paragraphs 24, 49, 50 and others when the SSAP makes reference to the reporting enterprise's accounting for such plans.

The requirements under SSAP 34 do not equate with a supposed need to consolidate the financial statements of the retirement benefit scheme itself.

It should also be noted that, in Hong Kong, the Occupational Retirement Schemes Ordinance requires that such retirement benefit schemes be established as separate legal entities that are not under the control of the employer (reporting enterprise). It is therefore inappropriate, both in terms of the law and the accounting standards, to suggest that the financial performance and financial position of such schemes be recognised in the employer's financial statements.

The HKSA Professional and Technical Department is headed by Ms. Winnie Cheung, Senior Director. Section heads of the Professional and Technical Department are:

Mr. Simon Riley, Deputy Director (Accounting)
Mr. Stephen Chan, Deputy Director (Assurance)
Mr. Peter Tisman, Deputy Director (Business & Practice)

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Comments may be submitted to HKSA by e-mail to <commentletters@hksa.org.hk>.

Appendices

Accounting Standards –
Update On HK Interpretations vs SIC Interpretations

SIC No.	Name of SIC Interpretation (SIC)	SIC adopted in Hong Kong	Outstanding	SIC targeted completion date
1	Consistency - Different Cost Formulas for Inventories		Not adopted in Hong Kong	
2	Consistency - Capitalisation of Borrowing Costs		Not adopted in Hong Kong	
3	Elimination of Unrealised Profits and Losses on Transactions with Associates	Incorporated into SSAP 10		
5	Classification of Financial Instruments - Contingent Settlement Provisions		[Incorporated into the proposed SSAP based on IAS 32]*	Before end of 2002
6	Costs of Modifying Existing Software	Interpretation 1		
7	Introduction of the Euro		Not adopted in Hong Kong	
8	First-Time Application of IASs as the Primary Basis of Accounting		Not adopted in Hong Kong	
9	Business Combinations - Classification either as Acquisitions or Unitings of Interests		Not adopted in Hong Kong	
10	Government Assistance - No Specific Relation to Operating Activities	Incorporated into SSAP 35		
11	Foreign Exchange - Capitalisation of Losses Resulting from Severe Currency Devaluations		On hold until IAS 21 is adopted in Hong Kong	
12	Consolidation - Special Purpose Entities	Incorporated into SSAP 32		
13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers	Interpretation 6		
14	Property, Plant and Equipment - Compensation for the Impairment or Loss of Items	Interpretation 5		
15	Operating Leases - Incentives	Incorporated into SSAP 14		
16	Share Capital - Reacquired Own Equity Instruments (Treasury Shares)		[Incorporated into the proposed SSAP based on IAS 32]*	Before end of year 2002

17	Equity - Costs of an Equity Transaction		[Incorporated into the proposed SSAP based on IAS 32]*	Before end of year 2002
18	Consistency - Alternative Methods		Not adopted in Hong Kong	
19	Reporting Currency - Measurement and Presentation of Financial Statements under IAS 21 and IAS 29		On hold until IAS 21 and IAS 29 are adopted in Hong Kong	
20	Equity Accounting Method - Recognition of Losses	Incorporated into SSAP 10 (revised)		
21	Income Taxes - Recovery of Revalued Non-Depreciable Assets		[Incorporated into the proposed SSAP based on IAS 12]*	30 April 2002
22	Business Combinations - Subsequent Adjustment of Fair Values and Goodwill Initially Reported	Interpretation 12		
23	Property, Plant and Equipment - Major Inspection or Overhaul Costs	Incorporated into SSAP 17 (revised)		
24	Earnings Per Share - Financial Instruments and Other Contracts That May Be Settled in Shares	Interpretation 10		
25	Income Taxes - Changes in the Tax Status of an Enterprise or its Shareholders		[Incorporated into the proposed SSAP based on IAS 12]*	30 April 2002
27	Evaluating the Substance of Transactions in the Legal Form of a Lease		[Draft Interpretation 14]*	31 May 2002
28	Business Combinations - "Date of Exchange" and Fair Value of Equity Instruments		[Draft Interpretation 15]*	31 May 2002
29	Disclosure – Service Concession Arrangements		[Draft Interpretation 16]*	31 May 2002
30	Reporting Currency – Translation from Measurement Currency to Presentation Currency		On hold until IAS 21 is adopted in Hong Kong	
31	Revenue – Barter Transactions Involving Advertising Services		[Draft Interpretation 17]*	31 May 2002
33	Consolidation and Equity Method - Potential Voting Rights and Allocation of Ownership Interests		[Draft Interpretation 18]*	31 May 2002

* Statement / Interpretation not yet finalised

** The following Interpretations have been issued by the HKSA for which there is no equivalent SIC:

Interpretation 8, Presentation of financial statements - current assets: classification of restricted and appropriated cash balances

Interpretation 13, Goodwill - continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves

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By Fax and By Post

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22 March 2002

Dear Sirs,

Electronic Filing of Tax Returns

Government would like to enlist the help of your Members in relation to the rollout of the Government Electronic Forms scheme. In particular, we refer to the electronic version of the corporate profits tax return (e-BIR 51), to be introduced on 2 April 2002. As it is currently proposed that the lodgement of e-BIR 51 other than by "SMALL" Corporations will involve the auditors affixing their Hongkong Post digital certificate for authentication purposes, at your request, we wish to clarify the role and responsibilities of auditors in this regards. This letter does not relate to the role and responsibilities of tax representatives, which are not the subject of concern here.

We would state as follows:

1. It has never been, nor is it now intended that auditors have any responsibility either for lodgement of tax returns or the contents or completeness of the tax return or its accompanying tax computation.

2. In the case of a paper tax return accompanied by audited accounts, the accounts filed are either an original (bearing the auditor's handwritten signature covering the Auditor's Report) or a copy certified as such by either the auditor or an officer of the company. In order to replicate this authentication process, it will be necessary for the auditor to affix his digital signature to section 16 of e-BIR 51. The purpose of this process is solely to confirm that the audited accounts attached to e-BIR 51 are a true copy of the manually signed audited accounts of the taxpayer.

3. Security is built into the IRD's system to protect the integrity of e-BIR 51 and its attachments. Neither the taxpayer nor the auditor will be responsible for any breaches in security, encryption problems or corruption of data once their respective digital signatures have been affixed.

We shall review the signing arrangements for the tax returns for the fiscal year ending 31 March 2003 with the aim of withdrawing the requirement for the auditors to affix their digital signature to the e-BIR 51.

We confirm that you may circulate this letter to your Members who may copy it to their taxpayer clients.

Yours faithfully,

Alice Lau

(Mrs LAU MAK Yee-ming, Alice)
Commissioner of Inland Revenue