

# Professional and Technical



News at a glance



## Issue No. 15

June 2003

This is the 15<sup>th</sup> 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/professionaltechnical/techwatch/> >.

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.

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# TECHWATCH

## Accounting & Financial Reporting

### **1. FASC Releases An Invitation To Comment On The IFRIC's Draft Interpretation D1, Emission Rights**

The International Financial Reporting Interpretations Committee (IFRIC) has released proposals for new accounting requirements for companies participating in government schemes aimed at reducing green house gas emissions. The proposals are set out in a draft IFRIC Interpretation D1, Emission Rights.

The proposals in the draft interpretation would require companies to account for emission allowances they receive from governments as intangible assets, recorded initially at fair value. Emissions of pollutant would then give rise to a liability for the obligation to deliver allowances to cover those emissions.

Under the HKSA's due process for setting accounting standards, the HKSA has issued an Invitation to Comment on the IFRIC's draft interpretation with comments requested by 27 June 2003. The Invitation to Comment has been posted on the HKSA's website at < <http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/> > and a copy of the draft interpretation has been sent to HKSA members and others who are on the Members' Handbook (paper version) mailing list.

### **2. FASC Meeting - 11 April 2003**

The FASC met on 11 April 2003 and discussed the following items:

- ✓ Proposed revision of SSAP 13, Investment Properties
- ✓ Referral from Accountants' Report Task Force (ARTF)
- ✓ Report on attendance at the IASB Financial Instruments roundtable
- ✓ SAC agenda survey - for comment and feedback to our representative on the SAC

A copy of the meeting summary is attached to this issue of TechWatch. The meeting summary has also been posted on the HKSA website at: < <http://www.hksa.org.hk/professionaltechnical/accounting/fascupdate/> >.

### **3. Q+A On Accounting Standards, Standards Setting Process And Addressing Technical Queries Updated**

An updated Q+A document, containing useful links and general information on the accounting standards, standards setting process and answering technical queries, has been posted on the HKSA financial reporting reference materials page at: < <http://www.hksa.org.hk/professionaltechnical/accounting/rm/gpfr-q&a.pdf> >.

## Audit & Assurance

### **4. Professional Risk Management Bulletin Number 2 "Auditors' Duty Of Care To Third Parties And The Audit Report"**

Further to the publication of an article in the March edition of TechWatch on recent legal development on auditors' duty of care to third parties in the UK Bannerman Case, the HKSA's Auditing and Assurance Standards Committee and Professional Risk Management Committee have jointly issued Professional Risk Management Bulletin Number 2 (PRMB2) "Auditors' Duty of Care to Third Parties and The Audit Report". PRMB2 is available on-line at: < <http://www.hksa.org.hk/professionaltechnical/riskmanagement/index.php> >.

PRMB2 is issued to provide guidance to assist practising members manage their risk of inadvertently assuming a duty of care to third parties following the Bannerman Case. The guidance is issued based on Counsel's advice and contains the following salient points:

- ✓ It is recommended that a clarification wording is included in the statement of auditors' responsibility of the audit report. Examples of unqualified audit reports with the recommended clarification wording for Hong Kong incorporated companies are provided in the Bulletin, which can be accessed at: < [http://www.hksa.org.hk/professionaltechnical/techwatch/techwatch15\\_PRMB2\\_Example\\_reports.pdf](http://www.hksa.org.hk/professionaltechnical/techwatch/techwatch15_PRMB2_Example_reports.pdf) >.

- ✓ What the recommended clarification wording seeks to do is to clarify that the responsibilities of the auditors are owed to the shareholders as a body in accordance with section 141 or section 141D of the Companies Ordinance, and not to any other persons or for any other purpose.
- ✓ The clarification wording does not affect the auditors' obligations to their clients and auditors will have the same duties and liabilities to their clients as they have always had.
- ✓ The clarification wording does not mean that auditors will never agree to take on responsibilities to third parties such as lenders. All it does is to make clear that auditors will only accept duties that are expressly agreed.
- ✓ There is no single measure capable of adoption by an auditor which will give assured protection, in all circumstances, against liability to a third party. The recommended clarification language will be subject to a test of reasonableness and it is for the auditors to show that it is reasonable, failing which it will be void.
- ✓ The best risk management practice continues to be carrying out quality audits. The recommended clarification language does not remove auditors' obligation to carry out an audit of the financial statements in accordance with Statements of Auditing Standards, and that auditors should therefore plan, control and record their work appropriately.

##### **5. New Practice Note 871 "Engagement To Report On Compliance With The Billing And Metering Integrity Scheme Of OFTA"**

The HKSA has issued new PN 871 "Engagement to report on compliance with the Billing and Metering Integrity Scheme of OFTA" < <http://www.hksa.org.hk/professionaltechnical/assurance/practicenotes/index.php> >, which is unchanged from the proposal in the exposure draft.

The Billing and Metering Integrity Scheme (BMIS) of the Office of Telecommunications Authority

(OFTA) became effective on 1 January 2003. Under the BMIS, the OFTA Document "Requirements on the Assurance, Reporting and Monitoring Procedures for the Billing and Metering Integrity Scheme" < [http://www.ofta.gov.hk/b\\_m\\_issues/210602\\_5.pdf](http://www.ofta.gov.hk/b_m_issues/210602_5.pdf) > requires operators to engage a CPA at least once a year to conduct an examination of the operators' compliance with the procedures set out in the "Quality Assurance Manual for Billing and Metering Integrity Scheme" < <http://www.ofta.gov.hk/b%5Fm%5Fissues/210602%5F4.pdf> > and their Detailed Operation Manual, in the preparation of the Monthly Test Results and Self-Declaration Forms on their billing and metering systems.

The PN provides guidance to practising members on the scope, conduct and reporting requirements of such engagements and gives examples of the engagement letter and the compliance report.

Upon completion of each examination, practising members produce a compliance report addressed to the operator. This compliance report would be sent by the operator to OFTA by 30 April in the year subsequent to the examination period. The examination period is a calendar year (i.e., from 1 January to 31 December) for existing operators. In the case of new operators re-entering the BMIS, the examination period is from the designated re-entry date to 31 December. The first compliance report produced by practising members will be for the examination period from 1 January to 31 December 2003, for filing by operators with OFTA by 30 April 2004.

##### **6. AASC Invites Comments On**

###### *(i) IAASB ED On Quality Control*

The International Auditing and Assurance Standards Board (IAASB) issued an Exposure Draft (ED) of Quality Control which includes a proposed new ISQC 1 "Quality Control for Audit, Assurance and Related Services Practices" and a proposed revised ISA 220 "Quality Control for Audit Engagements".

The IAASB's ED is the result of the IAASB's decision to undertake a project to review

its standards and guidance on quality control in response to increasing public demands in strengthening the quality of audits and firms' quality control practices over the provision of audit, assurance and related services. The project was also undertaken in response to a number of initiatives by national standard setters to strengthen and improve standards and guidance relating to quality control.

Further details of the IAASB's ED can be found in the explanatory memorandum of the ED.

In accordance with the HKSA's ISA Convergence Due Process, the HKSA Auditing and Assurance Standards Committee (AASC) has issued an invitation to comment to solicit the views of members and interested parties on the IAASB's ED in preparing the HKSA's submission to the IAASB. The invitation to comment and the IAASB's ED have been posted on the HKSA's website at: <http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/>.

Members and interested parties are requested to submit their comments on the IAASB's ED to the HKSA on or before **8 August 2003** so that they can be considered and included in the HKSA's submission to the IAASB.

Upon finalization of the IAASB's ED, the AASC intends to adopt them as local standards so that Hong Kong Auditing and Assurance Standards maintain conformity with current International Auditing and Assurance Standards at all times.

*(ii) HKSA EDs Of Eight Proposed Practice Notes Adopting International Auditing Practice Statements*

The AASC issued eight HKSA Exposure Drafts (EDs) of proposed Practice Notes (PNs) for consultation as part of the HKSA's international convergence programme:

PN 1000 "Inter-Bank Confirmation Procedures"

PN 1001 "IT Environments - Stand-Alone Personal Computers"

PN 1002 "IT Environments - On-Line Computer Systems"

PN 1003 "IT Environments - Database Systems"

PN 1009 "Computer-Assisted Audit Techniques"

PN 1010 "The Consideration of Environmental Matters in the Audit of Financial Statements"

PN 1012 "Auditing Derivative Financial Instruments"

PN 1013 "Electronic Commerce - Effect on the Audit of Financial Statements"

The proposed PNs adopt the equivalent International Auditing Practice Statements issued by the IAASB.

The EDs have been posted on the HKSA website at: [http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/practice\\_notes.pdf](http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/practice_notes.pdf).

To allow your comments on the EDs to be considered, they are requested to be received by the HKSA on or before **5 September 2003**.

**7. AASC Meeting - 18 March 2003**

The AASC met on 18 March 2003 and the items discussed included:-

1. Terms of Reference
2. Work Plan for 2003
3. Auditors' Duty of Care to Third Parties
4. Audits of Mainland Private Enterprises
5. HKSA's Submission on IAASB's Audit Risk Exposure Drafts
6. ISA 800 "The Auditor's Report on Special Purpose Audit Engagements"
7. Exposure Draft of Proposed PN 871 "Engagement to report on compliance with the Billing and Metering Integrity Scheme of OFTA"

A copy of the meeting summary is attached to this issue of TechWatch. The meeting summary has also been posted on the HKSA website at:

< <http://www.hksa.org.hk/professionaltechnical/assurance/aasc/index.php> >.

## Banking

### **8. HKMA's Consultation of Proposed Supervisory Policy Manual IC-3 "Reporting Requirements Relating To Authorized Institutions' External Auditors Under The Banking Ordinance"**

The Hong Kong Monetary Authority (HKMA) has issued for consultation till 13 June 2003 proposed Supervisory Policy Manual (SPM) IC-3 "Reporting requirements relating to authorized proposed institutions' external auditors under the Banking Ordinance", which can be found at the HKMA's website at: < <http://www.info.gov.hk/hkma/eng/bank/spma/attach/IC-3.pdf> >.

The HKSA Expert Panel on Banking (EPB) has worked closely with the HKMA in its development of the proposed SPM and its preliminary comments have already been incorporated into the consultation draft by the HKMA. The HKSA made a submission with some further minor comments to the HKMA on 11 June 2003, which has been posted on the HKSA's website at: < <http://www.hksa.org.hk/professionaltechnical/banking/submission/HKMA-SPMIC3.pdf> >.

This proposed SPM aims to provide guidance in respect of the reporting obligations of authorized institutions' external auditors under the Banking Ordinance. On finalization, it will supersede a number of existing HKMA guidelines relating to reporting by external auditors.

Major new guidance included in the proposed SPM concerns reporting requirements under the new sections 63A and 63B of the Banking Ordinance which came into effect on 1 April 2003.

The new section 63A requires the auditors of authorized institutions to submit a report in writing to the HKMA if they become aware of any matter in the course of performing their duties as auditors that in their opinion adversely affects an authorized institution's financial position to a material extent.

The new section 63B requires auditors of registered institution (i.e. an authorized institution that is registered with the Securities and Futures Commission to carry on the regulated activity under the Securities and Futures Ordinance (SFO)) to submit a report in writing to the HKMA if they become aware of any matter in the course of performing their duties as auditors that in their opinion constitutes on the part of the registered institution a failure to comply with certain provisions of rules made under the SFO.

In addition, the proposed SPM also seeks to provide guidance on the HKMA's criteria for approval of the appointment of auditors for the purposes of reporting under the Banking Ordinance.

## Listing & Securities Matters

### **9. HKSA Comments On SFC Consultation Paper On The Draft Code On Real Estate Investment Trusts (REITs)**

The HKSA has commented on the above Securities and Futures Commission (SFC) Consultation Paper (CP) < <http://eapp01.hksfc.org.hk/apps/ip/reit.nsf/Main?openform> > which was issued in March 2003. The CP seeks to set standards and rules for the authorization and regulation of REITs. These Trusts are new investment products established either as companies or trusts that are involved in the business of owning and managing property offered to the investing public in Hong Kong.

The HKSA made a submission to the SFC on 11 June 2003 which has been posted on the HKSA's website at: < <http://www.hksa.org.hk/professionaltechnical/assurance/submission/reits.pdf> >. The main points are relating to the proposed auditors' reporting requirements and the taxation implications of the proposals in the CP.

Clarifications were sought on the proposed auditors' reporting requirements in three areas, namely (a) reporting on the financial statements of a REIT; (b) Compliance reporting; and (c) reporting on liquidation of a REIT or merger of

REITs. The HKSA suggested that the SFC and the HKSA should discuss and agree on the appropriate reporting framework and the type of audit report that can be provided by auditors for such engagement so that they meet the requirements of the SFC.

The HKSA cautioned that there are potential complications in relation to the taxation aspects of the proposals in the CP in terms of profits tax, property tax and stamp duty, and suggested that more thought needs to be given to the possible implications.

### **Professional Accountants In Business**

#### **10. IFAC To Strengthen Code Of Ethics For Professional Accountants In Business**

In October 2002, HKSA issued an exposure draft of a proposed HKSA Code of Ethics, which was closely modelled on the existing IFAC Code of Ethics for Professional Accountants ("IFAC Code"). The existing IFAC Code however, contains only very limited guidance for professional accountants in business (PAIBs), in Part C, which is considered to be insufficient by a number of IFAC PAIBs representatives, particularly in view of the large proportion, and the importance, of PAIBs within IFAC and many IFAC member bodies.

Consequently, the Society, via its representative on the IFAC Professional Accountants in Business (PAIB) (formerly known as the IFAC "Financial and Management Accounting Committee (FMAC)"), amongst others, has pressed for a more extensive ethics code for PAIBs to be produced by IFAC. As a result of these representations, the IFAC Ethics Committee, with the assistance of the IFAC PAIB, is currently undertaking a revision to expand Part C of the IFAC Code.

Given that the proposed HKSA Code of Ethics is modelled on the IFAC Code, HKSA is taking an active part in putting forward comments to IFAC at the drafting stage of the revised Part C to ensure its applicability to/suitability for Hong Kong.

At the request of IFAC PAIB, the Society has given some initial comments on pre-exposure draft of the revised Part C of the Code, via its representative on the IFAC PAIB, at the IFAC PAIB meeting held in Rome at the end of March 2003. The Society's Professional Accountants in Business Committee will continue its review of further (pre-)exposure drafts to be released.

### **Corporate Governance**

#### **11. HKSA Best Corporate Governance Disclosure Awards 2003 - Start To Invite Entries**

The Best Corporate Governance Disclosure Awards (Awards") competition has enjoyed a positive reception over the past three years. The Society is committed to continue improving corporate governance standards and awareness in Hong Kong through this event.

The generally improved quality of the annual reports submitted in last year's Awards is also a testament to the growing importance of the issue of corporate governance amongst the local business community. We believe that continuing progress is essential in order to ensure that Hong Kong maintains its status as a leading financial and commercial centres of the world.

Plans are now under way to launch the 2003 Best Corporate Governance Disclosure Awards. This will be the fourth consecutive year that the Awards have been held and we are hoping to generate another good response to this year's competition.

The objective of the Awards is to encourage and promote good corporate governance disclosures in the annual reports of listed companies and public sector organisations in Hong Kong, and to give recognition to those companies/organisations that demonstrate the best corporate governance practices.

In making their assessments, panels of reviewers and judges will examine entrants' latest annual reports for financial years ended on or before 31 March 2003. Following the introduction of the overall Significant Improvement Award for the first time in 2002, this year even greater

emphasis will be placed on encouraging improvements in the standards of voluntary corporate governance disclosures and practices.

As previously, the Awards competition will be open to companies listed on the Main Board of the Stock Exchange and the Growth Enterprise Market, as well as to public sector/not-for-profit organisations. The details of this year's Awards are being finalised and will be announced publicly in due course.

We hope that members working in companies/organisations that are eligible to enter the Awards, or who are working as auditors of such companies will show their support for the competition by encouraging their employer companies/organisations or clients, respectively, to participate in the 2003 Best Corporate Governance Disclosure Awards. Members who wish to obtain more details about the Awards should contact Mary Lam, Assistant Director (Business & Practice) at the Society.

## **12. OECD/World Bank 5th Asian Roundtable and White Paper on Corporate Governance**

The OECD/World Bank Asian Roundtable on Corporate Governance ("Roundtable"), which held five meetings during the period March 1999 - March 2003, aims to provide a regional forum for discussion on improving corporate governance in the Asian region. The 5<sup>th</sup> Roundtable was held on 26-28 March 2003 at Kuala Lumpur.

Hong Kong sent a strong delegation to the 5<sup>th</sup> Roundtable - with representatives from the HKSA, HKSAR Financial Services and Treasury Bureau, SFC and the Stock Exchange, as well as a private sector financial services provider. Hong Kong representatives also contributed positively to the discussions on a draft Asian Corporate Governance White Paper ("White Paper"), a non-binding consultative document reflecting the discussions and recommendations of the Asian Roundtable. Subsequent to the 5<sup>th</sup> Roundtable meeting the Society's representatives, as well as other participants, submitted further views to the organisers on the draft White Paper.

The conclusions of the 5<sup>th</sup> Roundtable meeting were as follows:

- a) Release the White Paper in mid-June 2003. There will be a formal Official Presentation of the White Paper in Tokyo at a date still to be fixed.
- b) Continue the Asian Corporate Governance Roundtable forum, notwithstanding the fact that the original aim - to produce the White Paper - has been completed.
- c) Review and update the OECD principles on corporate governance, which were first published in 1999, in the light of further developments since that time.

Members will be kept informed of further significant developments in relation to the White Paper and the Roundtable.

## **Corporate Restructuring & Insolvency**

### **13. A Good Reception For HKSA Individual Voluntary Arrangements (IVA) In Bankruptcy Seminar**

Around 350 people turned out for a seminar on Individual Voluntary Arrangements in Bankruptcy (IVAs) on the evening 13 May 2003 organised by the Society's Business & Practice Division. Given the continuing concern over atypical pneumonia, the large audience was a clear reflection of the interest in this topic and in opportunities for new areas of business for the profession.

As reported in TechWatch (Issue No.8, September 2002), according to the Official Receiver's Office (ORO), private sector practitioners have been appointed in most of the recent IVA cases to act as the nominee to oversee and implement the terms of the arrangement. Given the increasing number of bankruptcies and the resource constraints facing the ORO, the Official Receiver (OR) has in any case announced that his department will no longer accede to requests to act as the nominee in IVAs and that debtors who approach the ORO will, instead, be asked to find their own private sector nominee.

The HKSA seminar provided a good opportunity for participants to understand the framework for the implementation of IVAs and, in particular, the function performed by the nominee within that framework. The speaker, Mr. Michael Cheung, who heads the IVA Section of the ORO, focused on the following aspects of IVAs:

- What is an “IVA”?
- Drafting of a Proposals and the role of the Nominee;
- Nominee’s Report and Application for the Interim Order;
- Creditors’ Meeting and Approval of the Proposal; and
- Implementation of the Proposal and the Responsibilities of the Nominee.

A large number of questions were raised during the Q and A session and were addressed by the speaker together with Mr. John Lees, who also chaired the session in his capacity as Chairman of the Insolvency Practitioners Committee.

Members who did not attend the seminar but wish to obtain speaker's handouts can purchase a set from the reception counter at the Society.

#### **14. The High Court Issued Procedural Guides For Taxation/Determination Of Liquidators’ Bills**

In view of the steadily increasing number of winding-up cases, the Judges and Masters have been considering how to streamline the process of taxation and/or determination of the remuneration of the liquidators, provisional liquidators, and their agents including solicitors.

The Registrar of the High Court recently issued two sets of procedural guides for liquidators and provisional liquidators, and for their agents including solicitors, and the Society has been invited to comment on them. The Society's Insolvency Practitioners Committee is considering the guides with the view to submitting comment to the Registrar as requested by the end of June 2003. Further developments in relation to this limited consultation exercise will be covered in future issue of TechWatch.

#### **15. Government Measures To Relieve The Impact Of SARS On The Economy**

The Government recently announced a package of relief measures to help tide the community over the difficulties following the outbreak of the Severe Acute Respiratory Syndrome (SARS) in Hong Kong and elsewhere in the region, and to help to revive the economy after the disease is under control. The proposed package, with a total maximum cost of \$11.8 billion, includes the following measures:

- Refund of 50% of 2001/02 final tax on salaries tax and personal assessment, subject to a cap of \$3,000 per taxpayer. According to press release issued by the IRD, the refund will be issued in batches from July 10.
- Waiver of rates payments for 380,000 non-domestic properties with a cap at \$5,000 and for 2.34 million domestic properties with a cap at \$1,250 for the quarter from July to September 2003.
- Reduction of water and sewage charges for each registered customer covering a four-month period starting from August 2003.
- Reduction of trade effluent surcharges by 15,000 accounts in 30 designated trades and businesses by 60% for the four-month period starting from August 2003.
- Rent concessions for commercial tenants of the Housing Authority and government departments, except supermarkets and superstores, for 3 months from May or July this year, depending on individual tenancies.
- Waiver of licence fees for a maximum of one year in respect of travel agents, hotel and guesthouses, restaurants, liquor licences, restricted food permits, karaoke licences and permits, as well as licences for cinemas, taxis and school buses, public light buses and various other coaches, and also for hawkers.
- Establishment of a \$3.5 billion low-interest Loan Guarantee Scheme for loans extended by Authorised Institutions under the Banking

Ordinance to businesses in industries badly hit by SARS, e.g. tourism, restaurants, retail businesses, cinemas and karaoke establishments to provide short-term cash flow relief. Loans under the Scheme must be used to pay staff salaries. Each application will require a personal guarantee from shareholders holding a total of 90% or more equity in the business. Further details of the scheme may be found on the Labour Department's homepage at: < <http://www.info.gov.hk/labour> >.

- Creating new jobs and training places.
- Setting aside a provisional sum of \$1.5 billion to implement further disease control measures, and setting aside \$1 billion for measures to revive the economy after the disease is under control.

The Government press release on the proposed package may be accessed and downloaded at its website at <<http://www.info.gov.hk/gia/general/200304/23/0423227.htm>>.

#### **16. HKSA Requests CIR To Consider Taking Measures To Alleviate The Effects Of SARS On Taxpayers And Tax Representatives**

While there are some very positive signs that the outbreak of SARS is now under control in Hong Kong, nevertheless it will still take some time for the economy to fully recover from its effects. It is envisaged that a significant number of businesses will encounter difficulties in meeting deadlines for tax filing and payment.

The Society has recently written to the Commissioner of Inland Revenue (CIR) to suggest that the Inland Revenue Department (IRD) should consider taking steps to reduce the burden of the situation on taxpayers and tax representatives by giving some administrative concessions, in deserving cases, in relation to tax filing deadlines and delayed payments. The Society further proposed that consideration be given to deferring for a limited period the normal due dates for the payment of profits and salaries taxes.

The Society's letter can be accessed at the Society's website at: < [http://www.hksa.org.hk/professionalttechnical/whatsnew/special\\_measure.pdf](http://www.hksa.org.hk/professionalttechnical/whatsnew/special_measure.pdf) >. Further developments in relation to the matter will be covered in future issue of TechWatch.

Comment Key Dates	
Date	Subject
27 June 2003	<p>Hong Kong Invitation to Comment on IFRIC Draft Interpretation: D1, Emission Rights, which has been posted on the IASB website at: &lt; <a href="http://www.iasc.org.uk/docs/ifric-d01/d-01.pdf">http://www.iasc.org.uk/docs/ifric-d01/d-01.pdf</a> &gt;.</p> <p>(IFRIC deadline: 14 July 2003)</p> <p>The Invitation to Comment and a copy of the IFRIC's Draft Interpretation have been posted on the HKSA website at &lt; <a href="http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/">http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/</a> &gt;.</p>
15 July 2003	<p>Exposure Draft (ED) of a Proposed Preface to Hong Kong Financial Reporting Standards and Accounting Guidelines which has been posted on the HKSA website at: &lt; <a href="http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/">http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/</a> &gt;.</p>
8 August 2003	<p>HKSA Invitation to Comment on IAASB's Exposure Draft:</p> <ul style="list-style-type: none"> <li>• Proposed New ISQC 1 "Quality Control for Audit, Assurance and Related Services Practices"</li> <li>• Proposed Revised ISA 220 "Quality Control for Audit Engagements", which has been posted on the HKSA's website at: &lt;&lt; <a href="http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/index.php">http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/index.php</a> &gt;&gt;.</li> </ul>
5 September 2003	<p>HKSA Exposure Drafts of Eight Proposed Practice Notes adopting International Auditing Practice Statements, which have been posted on the HKSA's website at: &lt;&lt; <a href="http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/index.php">http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/index.php</a> &gt;&gt;.</p>
Please send comments to < <a href="mailto:commentletters@hksa.org.hk">commentletters@hksa.org.hk</a> >	

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Comments may be submitted to HKSA by e-mail to < [commentletters@hksa.org.hk](mailto:commentletters@hksa.org.hk) >.

**(i) Auditing And Assurance Standards Committee**  
**Meeting summary - March 2003**

The Society's Auditing and Assurance Standards Committee (Committee) met on 18 March 2003.

Members present at the meeting were: Wong Tak Wai, Alvin (Chairman), Charles Chow (Deputy Chairman), Richard George (Deputy Chairman), Albert Au, Andrew Bennett, Patrick Cheng, Kim Chong, William Crowe, Charles Grieve, Raymond Li, Man Mo Leung, Phyllis Mo and Desmond Yuen.

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

The agenda items were:

1. Composition of the Committee
2. Meeting Schedule for 2003
3. Terms of Reference
4. Work Plan for 2003
5. Minutes of the 241<sup>st</sup>, 242<sup>nd</sup> (special), 243<sup>rd</sup> (special) and 244<sup>th</sup> (special) Meetings
6. CPD Seminar - Annual Auditing Update 2003
7. Matters Requiring Ratification
8. Auditors' Duty of Care to Third Parties
9. Audits of Mainland Private Enterprises
10. HKSA's Submission on IAASB's Audit Risk Exposure Drafts
11. ISA 800 "The Auditor's Report on Special Purpose Audit Engagements"
12. Exposure Draft of Proposed PN 871 "Engagement to report on compliance with the Billing and Metering Integrity Scheme of OFTA"
13. Date of Next Meeting

**1. Composition of the Committee**

The Chairman welcomed Charles Grieve (nominee of the Securities and Futures Commission), Man Mo Leung (nominee of the Hong Kong Institute of Directors), Raymond Li (nominee of the Hong Kong Association of Banks) and Phyllis Mo (nominee of the Hong Kong Polytechnic University) to their first meeting of the Committee.

It was noted that the appointments of members from the regulators and business communities were made to adopt the recommendations on the composition of the Committee set out in the Corporate Governance Review Consultation Paper of July 2001 issued by the Standing Committee on Company Law Reform.

## **2. Meeting Schedule for 2003**

The Committee approved the following meeting schedule for the rest of the year:

- 29 April 2003
- 20 May 2003
- 17 June 2003
- 22 July 2003
- 19 August 2003
- 16 September 2003
- 14 October 2003
- 18 November 2003
- 16 December 2003

## **3. Terms of Reference**

The Committee confirmed that there would be no changes to the current terms of reference.

(The terms of reference are available on-line at: < <http://www.hksa.org.hk/professionaltechnical/committees/AASC.pdf> >)

## **4. Work Plan for 2003**

The Committee endorsed the Work Plan for 2003 which includes the following major projects:

### (a) Convergence with International Standards on Auditing (ISAs)

- "Product Convergence" - HKSAs Improvement Project, ISA 800 and ISA 810
- "Process Convergence" - New or revised ISAs based on the IAASB's Action Plan 2003 - 9 projects

### (b) Adoption of International Auditing Practice Statements (IAPs)

- "Product Convergence" - Existing IAPs - 7 projects
- "Process Convergence" - New or revised IAPs based on the IAASB's Action Plan 2003 - 3 projects

### (c) Local Guidance - New or Revised Local Audit/Assurance Guidance in response to new law and regulations and market developments

- 7 projects in progress

## **5. Minutes of the 241<sup>st</sup>, 242<sup>nd</sup> (special), 243<sup>rd</sup> (special) and 244<sup>th</sup> (special) Meetings**

The Committee endorsed the Minutes.

## **6. CPD Seminar - Annual Auditing Update 2003**

The Committee agreed that based on the speakers nominated by the Committee for the past 3 years, nominations for this year's seminar should be from Deloitte Touche Tohmatsu and Ernst & Young. The Chairman of the Committee agreed to be chairman for the seminar.

## **7. Matters Requiring Ratification**

The Committee ratified the following:

- HKSA's Submission dated 19 February 2003 on IAASB's Operations and Preface to IAASB's

Statements Exposure Draft.

(The submission is available on-line at: < <http://www.hksa.org.hk/professionaltechnical/assurance/submission/index.php> >)

- HKSA's Letter dated 7 March 2003 to the Information Technology Services Department on the proposed splitting of the assessment of a Certification Authority into two parts.

### **8. Auditors' Duty of Care to Third Parties**

The decision taken by Council for the time being was that an article would be published in the March edition of TechWatch.

(The article is available on-line at: < <http://www.hksa.org.hk/professionaltechnical/techwatch/techwatch13.pdf> >)

### **9. Audits of Mainland Private Enterprises (“Minying”)**

The Committee agreed that it would be unnecessary to issue separate auditing guideline on the subject as all audits have to be conducted in accordance with SASs, and that the SFC should consider holding a forum for auditors drawing their attention to the issues identified by the SFC. The Committee also agreed that it would be appropriate for the HKSA to publish articles/bulletins drawing practising members' attention to the Minying audit and practice issues.

### **10. HKSA's Submission on IAASB's Audit Risk Exposure Drafts**

The Committee endorsed the submission to the IAASB.

(The submission is available on-line at: < <http://www.hksa.org.hk/professionaltechnical/assurance/submission/index.php> >)

### **11. ISA 800 “The Auditor's Report on Special Purpose Audit Engagements”**

The Committee agreed that the project to adopt ISA 800 in Hong Kong should be put on hold as a result of the IAASB secretariat's reply to the HKSA's enquiry advising that:

- staff at the IAASB is of the preliminary view that consideration should be given to the need to revise ISA 800, its appendices and ISA 120 to exclude the expression of a “true and fair” opinion on special purpose financial information; and
- the matter will be presented to the IAASB for deliberation.

### **12. Exposure Draft of Proposed PN 871 “Engagement to report on compliance with the Billing and Metering Integrity Scheme of OFTA”**

A late comment letter was received. The comments would be considered by the Committee at its next meeting before finalizing the proposed Practice Note.

### **13. Date of Next Meeting**

The Committee's next scheduled meeting date is 29 April 2003.

**This meeting summary is provided for the information and convenience of those who wish to follow the Committee's deliberations. Except where indicated otherwise, all conclusions reported are tentative and may be changed at future meetings.**

**(ii) Financial Accounting Standards Committee**  
**Meeting summary - April 2003**

The Society's Financial Accounting Standards Committee (Committee) met on 11 April 2003.

Present at the Committee's meeting were: Messrs. Roger Best (Chairman), Carlson Tong (Deputy Chairman), Paul F. Winkelmann (Deputy Chairman), Edward K.F. Chow, William Crowe, Raphael Ding, Tommy Fung, Robert Gibson, Philip Hilliard, Andrew Huke, Tommy Tam, Stephen Taylor, Ms. Susanna Lau, Mr. Simon Riley (HKSA Deputy Director, Accounting) and Ms. Elsa Ho (HKSA Assistant Director, Accounting).

The Chairman welcomed Messrs. Andrew Huke and Tommy Tam to their first meeting as members of the Committee.

The Committee noted that the HKSA had sent a comment letter to the IASB on ED 3, Business Combinations, and the proposed revision of IAS 36 and IAS 38 and that a copy of the comment letters are available on the HKSA website. The Committee also discussed the following items:

- ✓ Proposed revision of SSAP 13, Investment Properties
- ✓ Referral from Accountants' Report Task Force (ARTF)
- ✓ Report on attendance at the IASB Financial Instrument roundtable
- ✓ SAC agenda survey - for comment and feedback to our representative on the SAC

Proposed revision of SSAP 13, Investment Properties

The Committee considered a draft ED of a proposed revision to SSAP 13, Accounting for Investment Properties, and Invitation to Comment thereon. The ED is based primarily on IAS 40, Investment Property. The Committee noted that the IASB's finalisation of proposed improvements to IAS 17, Leases, and IAS 40, Investment Property, is expected in due course and, accordingly, the ED should not be published for comment until it could reflect the IASB's finalised requirements especially with regard to leasehold classification and the application of the fair value and cost models in certain circumstances. The draft ED also proposes to carry forward a number of requirements presently found in SSAP 13, primarily concerning the treatment of valuation changes from one period to the next, pending developments on the IASB's income statement project. The Committee tentatively agreed to the following:

- ✓ The cost model should not necessarily be restricted to only those entities that presently qualify under the SSAP 13 exemption to open market value measurement.
- ✓ The present requirement for an independent valuer under SSAP 13 should be retained.
- ✓ The present SSAP 13 requirement for recognising value changes in reserves should be retained but that the Invitation to Comment should request comment on whether these changes should be accounted for on a portfolio basis.
- ✓ As a consequence of retaining the present SSAP 13 treatment of changes in fair value, the ED should similarly differ from IAS 40 in respect of value changes arising on the reclassification of assets to or from investment property.
- ✓ The ED should propose to supersede the 'transfers between categories of assets' provisions presently found in SSAP 17.
- ✓ Any revaluation gain realised on the disposal of an investment property should be recycled through the income statement.

The Committee agreed to further consider the proposed ED at its next meeting.

#### Referral from the Accountants' Report Task Force (ARTF)

The HKSA's Accountants' Report Task Force (ARTF) sought the Committee's endorsement of the proposed Accounting Guideline (AG) 2.211 "Preparation of historical financial information for inclusion in investment circulars" and the proposed AG 2.212 "Preparation of pro forma financial information for inclusion in investment circulars" and, in particular, whether these proposed AGs are consistent with the existing SSAPs and other AGs.

The Committee noted that the proposed AG 2.211 is based on the UK SIR 200 "Accountants report on historical financial information in investment circulars" and the proposed AG 2.212 is based on ICAEW Technical Release TECH 18/98 "Pro forma financial information". The Committee also noted that the proposals in these AGs, once adopted, would result in a change to the existing practice. Accordingly, some of the existing Listing Rules would have to be altered to accommodate these changes.

Since members generally considered that more background information would be needed from the ARTF, in particular as to how the ARTF established its principles in these proposed AGs, before the Committee could proceed further in commenting on these documents, the Committee agreed to adjourn the discussion until the next meeting.

#### Report on attendance at the IASB Financial Instrument roundtable

The Committee received and noted a written report from Mr. Charles Grieve on attendance at the IASB Financial Instrument roundtables that were held in Brussels and London from 10 to 13 March 2003. In his report, Mr. Grieve stressed the following points:

- ✓ The IASB appears to accept that its proposed new "control-based" recognition model will be dropped. Accordingly, the IASB may revert to the current IAS 39 model, which is a mixture of the "risks and rewards" and "control-based" models.
- ✓ IASB would unlikely give up the following basic principles:
  - Financial instruments must be recognised at fair value.
  - Gains or losses must go to equity.
- ✓ There was a general agreement that internal hedging contracts need to be eliminated on consolidation.
- ✓ The large investment banks were against the hierarchy for valuation of financial instruments. In particular they would like to give primacy to their in-house valuation models. They are concerned that prices of market transactions are often distorted by factors other than the "true" value of the product.

#### SAC agenda survey - for comment and feedback to our representative on the SAC

The Committee noted that a survey was being carried out by the IASB's Standards Advisory Council ("SAC") on the IASB agenda items. This survey invites the views of the members of the SAC and the Board on the current work programme and on the active research agenda of the IASB, and also on topics being addressed by national standard-setters with a request for responses by 28 May 2003. Its aim is to assist the Board in the ongoing development of its work programme.

The Committee was given the opportunity to communicate any agenda priorities via the Hong Kong representative on the SAC and would consider this in more detail at its next meeting.

#### Date of Next Meeting

The Committee's next meeting is tentatively scheduled to be held on 14 May 2003.

This meeting summary is provided for the information and convenience of those who wish to follow the Committee's deliberations. Except where indicated otherwise, all conclusions reported are tentative and may be changed at future meetings.

The IASB publishes summaries of its meetings and projects. These can be found on the IASB's website at < <http://www.iasb.org.uk> >.

The Committee welcomes comments on its technical agenda. Please e-mail us at < [commentletters@hksa.org.hk](mailto:commentletters@hksa.org.hk) >.

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**(iii) Upcoming CPD Programmes for HKSA Members**

<b>Date</b>	<b>Topic</b>
23 Jun Mon	Comparison of PRC GAAP to IAS & PRC Accounting Update (Re-run)
25 Jun Wed	PRC Qualified Foreign Institutional Investors ("QFII") - Business and Tax Considerations
26 Jun Thu	Due Diligence Review for the Companies in the PRC
<b>28 Jun Sat</b>	<b>Annual Auditing Update Conference</b>
03 Jul Thu	SSAP 12 "Income Taxes" (Part 1)
04 Jul Fri	E-filing of Profits Tax Returns & the Role and Responsibilities of Auditors in relation to E-filing of Tax Returns
07 Jul Mon	China Taxation & Regulatory Update
08 Jul Tue	Recent Development in Trust Administration
09 Jul Wed	WTO Matters
10 Jul Thu	SSAP 12 "Income Taxes" (Part 2)
12 Jul Sat	Managing EQ with Success (MDC Workshop)
14 Jul Mon	Update on the British Virgin Islands' (BVI) Bearer Shares - the New Law and its Implications and Verification of Corporate Existence
16 Jul Wed	Practical Approach to Business Valuations (Part II) - A Worked Example
31 Jul Thu	New Licensing Regime and Securities and Futures (Accounts and Audit) Rules under the Securities and Futures Ordinance
<b>09 Aug Sat</b>	<b>Annual Accounting Update Conference</b>

*Source: Education and Training Department (E & T)*

For more information, please visit HKSA's website at < <http://www.hksa.org.hk/membership/cpd/index.php> > or contact the Education & Training Department on 2287 7058.