



# TechWatch

News at a glance



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TechWatch updates you on technical developments in financial reporting, auditing, regulation and business. The Institute welcomes your comment, emailed to < [commentletters@hki CPA.org.hk](mailto:commentletters@hki CPA.org.hk) >. Click [here](#) for past issues.

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## Spotlight

### 1. New Technical Update Evening (TUE) Programme – May to July 2007

The new **TUE programme** covering the period from May to July 2007 features a number of important financial reporting and auditing topics, which include:

- 706 (15 May) Companies (Revision of Accounts and Reports) Regulation – What should the Auditors do?
- 707 (29 May) The IASB's International Convergence Programme – Borrowing costs and related parties
- 708 (12 June) Consultation Paper on the Rewrite of the Accounting and Auditing Provisions of the Companies Ordinance – Highlights of the Proposals
- 709 (26 June) Insurance Contracts
- 710 (17 July) Exposure Draft of IFRS for SMEs – Is it suitable for Hong Kong?

To secure your seats, please register early by completing the [registration form](#) and returning it to the Institute.

## Financial Reporting

### 2. Invitation to Comment on IASC Foundation Consultation Document

The Institute has issued an [Invitation to Comment](#) on the IASC Foundation Consultation Document on Proposed Amendments to the IASC Foundation Constitution and the Preface to International Financial Reporting Standards – *Enlarging the IFRIC*, with comments requested by **10 July 2007**.

The Consultation Document proposes to increase the size of the International Financial Reporting Interpretations Committee ("IFRIC") from 12 to 14 voting members. From the comments received in the consultations on the IFRIC Due Process Handbook, the Trustees of

the IASC Foundation concluded that the IFRIC would benefit from a greater diversity of members with practical experience in the application of International Financial Reporting Standards ("IFRSs") and analysis of financial statements using IFRSs.

### 3. High Level Comparison between IASB Exposure Draft of proposed IFRS for SMEs and HK SME-FRF & SME-FRS

To facilitate local constituents in providing their comments on the [IASB exposure draft of Proposed International Financial Reporting Standard for Small and Medium-sized Entities \(IFRS for SMEs\)](#), the SME Financial Reporting Framework Sub-Committee of the Institute has developed a high level comparison between the IASB exposure draft of proposed IFRS for SMEs and the current Hong Kong SME Financial Reporting Framework and Financial Reporting Standard.

Click [here](#) for the comparison.

### 4. Policy on Providing Interpretations or Rulings on Financial Reporting Issues

The Institute has set out a policy on when to provide interpretations or rulings on financial reporting issues with reference to IFRIC guidelines.

Click [here](#) for the detail.

### 5. National Standard Setters in Hong Kong

National Standard Setters Group ("NSS") comprises the major standard setters round the world, including standard setters from UK, US, Canada, France, Germany, India, Japan, Australia, New Zealand and Hong Kong. The NSS meeting provides an opportunity to discuss forward-looking financial reporting issues and ways in which co-operation between the IASB and NSS could be strengthened going forward.

For the first time, NSS met in Hong Kong at the Institute on 24 and 25 March 2007. Topics discussed at the meeting included the

conceptual framework, IFRS for SMEs, impairment, pensions, equity and liabilities.

Representatives from the IASB and the European Financial Reporting Advisory Group also attended the meeting. The Institute was represented by the chairman of the Financial Reporting Standards Committee, the executive director and staff of the Standard Setting Department.

## 6. FRSC Meeting Summary – 14 March 2007

This [FRSC meeting summary](#) covers:

- Revised proposed work plan for 2007
- Proposed limited revisions to HKFRS 3 *Business Combinations* and HKAS 27 *Consolidated and Separate Financial Statements*
- Dinner with National Standard Setters meeting participants and meeting with IASB Conceptual Framework project team
- Invitation to Comment on IASB Exposure Draft of Proposed IFRS for Small and Medium-sized Entities
- Report on international committees
- IASB exposure draft of proposed amendments to IAS 24 *Related Party Disclosures – State-controlled Entities and the Definition of a Related Party*
- Comments on IASB Discussion Paper and Exposure Draft

### Audit & Assurance

## 7. Institute Comments on IAASB Exposure Drafts of Proposed Redrafted ISAs

The Institute made [submissions](#) to the IAASB on the following exposure drafts resulting from the redrafting of ISAs under the IAASB's Clarity project:

- ISA 230 (Redrafted) *Audit Documentation*

- ISA 560 (Redrafted) *Subsequent events*
- ISA 610 (Redrafted) *The Auditor's Consideration of the Internal Audit Function*
- ISA 720 (Redrafted) *The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements*

The Institute is supportive of the redrafting and that, generally, the objective to be achieved by the auditor, as stated in each of the proposed redrafted ISAs, is appropriate. Furthermore, it considers that the criteria identified by the IAASB for determining a requirement has been applied appropriately and consistently such that the resulting requirements will promote consistency and the use of professional judgement by auditors.

The Institute has also suggested improvements to, or further clarifications of, the proposals relating to:

### ISA 230

- Documentation relating to significant judgments made.
- Documentation of departure from a requirement.
- Documentation of compliance with ISAs.

### ISA 560

- The restriction of subsequent events procedures.
- Dual dating of the auditor's report for amended financial statements.

### ISA 610

- The objective of the standard to provide a clear differentiation between the need to:
  - obtain an understanding of the internal audit function for risk assessment purposes; and

- determine the extent to which the auditor may use the work of the internal audit function.

#### ISA 720

- Actions that may be appropriate when an amendment is necessary to the other information and the entity refuses to make the amendment.

### 8. AASC Meeting Summary – 13 March 2007

This [AASC meeting summary](#) covers:

- Revised terms of reference and work plan for 2007
- Proposed HKSRE 2410 *Review of Interim Financial Information performed by the Independent Auditor of the Entity*
- Proposed HKSA 240 (Redrafted) *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, HKSA 300 (Redrafted) *Planning an Audit of Financial Statements*, HKSA 315 (Redrafted) *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment* and HKSA 330 (Redrafted) *The Auditor's Responses to Assessed Risks*
- HKICPA Invitation to Comment on IAASB Exposure Drafts of Proposed ISA 550 (Revised and Redrafted) *Related Parties* and ISA 570 (Redrafted) *Going Concern*
- Accountants' Report Project
- Continuing Connected Transactions Project – Progress Report
- Request from Insolvency Interest Group Management Committee

#### Ethics

### 9. Institute Comments on Exposure Draft of Sections 290 and 291 of the Code of Ethics on Independence

The Institute's [submission](#) to the International Ethics Standards Board for Accountants ("IESBA") on the ED of sections 290 and 291 of the Code of Ethics on Independence indicates that it is supportive of the work of the IESBA, which seeks to consider the revisions to auditor independence requirements.

However, having considered the proposals as drafted, the Institute's principle concern is that the IESBA is considering the independence requirements relating to "Entities of Significant Public Interest" (ESPIs) before the IESBA or the reporting community fully understands what is meant by ESPIs. Entities that might be classified as ESPIs can range from entities that are clearly of significant public interest such as listed companies to entities where the public has an interest, such as charities and schools, but the public interest may not be classified as significant.

If ESPIs are limited to listed entities and regulated financial institutions such as banks and insurance companies, the proposals as drafted appear acceptable. At the other end of the spectrum, if ESPIs are extended to include all regulated entities such as charities, schools and accounts of owners' corporation of buildings, the Institute has concerns as to whether the proposals as drafted would be in the public interest and provide benefits to the public when compared with the additional costs to such entities.

The Exposure Draft's process requires that the Institute should consider the independence requirements first without clarifying the application of the proposed definition of ESPIs. As the Institute will need to develop a consultation paper to identify those entities that should be classified as ESPIs in Hong Kong, it is of the view that determining independence requirements first may distort the later determination of ESPIs.

The other significant modifications to the Code in the proposed Exposure Draft that are expected to affect accountants in Hong Kong include:

- Introducing a new term - "key audit partner" which is to include lead partners on significant subsidiaries or divisions who are responsible for key decisions or judgements on the financial statements on which the firm will express an opinion;
- Extending the partner rotation requirements to all key audit partners on an audit of an ESPI; and
- Updating requirements related to the provision of non-assurance services, including setting out additional guidance on the provision of tax services to audit clients.

## 10. Institute's Response to the International Ethics Standards Board for Accountants Strategic Review Questionnaire

The IESBA is conducting a review to develop a new strategic and operational plan for the period 2008-2009. It therefore seeks views to identify key issues for discussion.

The Institute's **submission** recommends that the IESBA should develop more guidance on:

- fraud and illegal acts;
- independence in respect of legal protection clauses;
- independence in respect of compilation and agreed upon procedures engagements; and
- conflicts of interest for professional accountants in business.

It also recommends the IESBA to review the status of the project on *Ethical Guidance for Professional Accountants in Business when encountering Fraud or Illegal Acts*.

## 11. Ethics Committee Meeting Summary – 23 March 2007

This **Ethics Committee meeting summary** covers:

- Meeting schedule for 2007
- Terms of reference and proposed work plan for 2007
- Draft policy on providing interpretations or rulings on ethical issues

### International Meetings

## 12. International Accounting Standards Board

The IASB met in London on 17 – 20 April 2007 and discussed the following topics:

- Business Combinations
- IAS 37 redeliberations
- Conceptual framework
- Financial instruments
- Financial instruments puttable at fair value and obligations arising on liquidation
- Discontinued operations
- Post-employment benefits
- Annual improvements process
- Short-term convergence: income taxes
- Short-term convergence: joint ventures

Click [here](#) to view the April 2007 IASB Update. The IASB next meets on 14 – 18 May 2007.

### 13. International Financial Reporting Interpretations Committee

The IFRIC will meet in London on 3 and 4 May 2007. Further details about the meeting will be reported in the next issue of TechWatch.

### 14. International Auditing and Assurance Standards Board

The IAASB will meet in Warsaw, Poland (to be confirmed) from 9 - 13 July 2007. Click [here](#) for the background papers of the April 2007 meeting held in Sydney.

### 15. International Ethics Standards Board for Accountants

The IESBA will meet in Berlin on 25 - 27 June 2007. Click [here](#) for registration and for the background papers and meeting summary of the March 2007 meeting held in New York.

#### For Information

### 16. Companies Registry News Update

#### New Performance Targets 2007-08

The Companies Registry's new performance targets for 2007-08 have been posted on its website under the section "[About Us > Performance Pledges](#)".

#### New categories of statistics

New statistics have been posted to the Companies Registry's website under the section "[Statistics](#)". These include

- the number of private and public local companies incorporated and the total number of such companies on the register;
- a list of companies that have failed to comply with directions to change their company names; and

- under the heading 'Prosecution', new statistics on convictions, total fines imposed and recent prosecutions of listed companies have been added.

#### Implementation of legislative amendments

Two announcements and two Companies Registry External Circulars relating to amendments to the Companies Ordinance (Cap. 32), and to subsidiary legislation under the ordinance, have been uploaded onto the Companies Registry's website. The amendments concern (a) the new statutory framework for the revision of accounts and reports, and (b) changes to the procedures for certification and translation of documents of non-Hong Kong companies. For further information see the following:

- (i) Announcements:
  - "Implementation of Provisions and Regulation on Revision of Accounts and Reports"; and
  - "Implementation of the Companies (Forms) Regulations-related provisions in the Companies (Amendment) Ordinance 2004"

(Under the section: "[What's New > Highlights](#)").

- (ii) Circular No. 1/2007 – Revision of Accounts and Reports:
  - (1) New sections 141E and 336A of the Companies Ordinance
  - (2) Companies (Revision of Accounts and Reports) Regulation
  - (3) New Specified Forms

Circular No. 2/2007 – Companies Registered under Part XI of the Companies Ordinance (Cap. 32) Certification and Translation of Documents

(Under the section : "[Publications and Press Releases > Circulars/Guidelines > External Circulars](#)")

- (iii) Two new specified Forms AC3 and F7  
“Statement of Revision of Accounts or  
Reports”

(Under the section : "[Public Forms > Specified Forms](#)").

#### Comment Due Dates

**4 May 2007: IASB Exposure Draft** of Proposed Amendments to IAS 24 *Related Party Disclosures – State-controlled Entities and the Definition of a Related Party*.

**18 May 2007: IAASB Exposure Draft** of ISA 570 (Redrafted) *Going Concern*.

**30 May 2007: Consultation Paper** on proposals to improve the accounting and auditing provisions of the Companies Ordinance.

**15 June 2007: IAASB Exposure Draft** of ISA 550 (Revised and Redrafted) *Related Parties*.

**10 July 2007: IASC Foundation Consultation Document** on Proposed Amendments to the IASC Foundation Constitution and the Preface to International Financial Reporting Standards – *Enlarging the IFRIC*.

**1 September 2007: IASB Exposure Draft** of Proposed IFRS for Small and Medium-sized Entities.

Please send comments to  
< [commentletters@hkcipa.org.hk](mailto:commentletters@hkcipa.org.hk) >