



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 >. Click [here](#) for past issues.

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Spotlight

1. Handbook Update No. 44

Update No. 44 encloses:

- (i) An updated Professional Accountants Ordinance (Cap. 50), including amendments arising from the enactment of the Financial Reporting Council Ordinance.
- (ii) A new "Glossary of Terms Relating to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services".

2. Joint Forum with HKEx – 13 November 2007

The Institute will hold a joint forum with Hong Kong Exchanges and Clearing Limited ("HKEx") on 13 November 2007 on the evolution of financial reporting and its role in fostering better market communication.

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

Financial Reporting

3. Institute Comments on IFRIC Draft Interpretation: D21 *Real Estate Sales*

IFRIC Draft Interpretation D21 aims to standardise accounting practices among real estate developers for sales of units, such as apartments or houses "off plan", i.e., while construction is still in progress or even before construction has begun. It proposes that revenue should be recorded as construction progresses only if the developer is providing construction services, rather than selling goods (completed real estate units).

The Institute's [submission](#) strongly supports the proposals in D21. It agrees that the applicable accounting standard should depend on the nature of the sale agreement. An entity should firstly determine whether the sale agreement meets the definition of a construction contract in IAS 11 *Construction Contracts* or sale of goods in IAS 18 *Revenue* in order to decide the

appropriate accounting treatment. The fact that real estate construction may be planned, under construction or completed is irrelevant to the classification of the contract. Only where the sale agreement meets the definition of a "construction contract" under IAS 11 can IAS 11 be applied.

4. Invitation to Comment on IASB ED 9 *Joint Arrangements*

The Institute has issued an [Invitation to Comment](#) on IASB ED 9 *Joint Arrangements*, with comments requested by **14 December 2007**.

The exposure draft proposes a replacement to the existing standard IAS 31 *Interests in Joint Ventures*. The main focus of the proposals is on the two aspects of current accounting for joint arrangements that the IASB considers as an impediment to high quality reporting:

- The current accounting for joint arrangements follows the legal form in which the activities take place. This does not always reflect the contractual rights and obligations agreed to by the parties. Shifting the focus to these rights and obligations will provide a more realistic reflection of the joint arrangements in the financial reports of the parties involved.
- The existing standard gives preparers a choice when accounting for interests in jointly controlled entities, making it difficult to compare financial reports. ED 9 *Joint Arrangements* proposes to remove that choice by requiring parties to recognise both the individual assets to which they have rights and the liabilities for which they are responsible, even if the joint arrangement operates in a separate legal entity. If the parties only have a right to a share of the outcome of the activities, their net interest in the arrangement will be recognised using the equity method.

In addition, ED 9 proposes new requirements for disclosing information about the operations an entity conducts through joint arrangements – including a description of the nature of joint

arrangements and summarised financial information relating to its interests in joint ventures. It also proposes, as consequential amendments to IAS 27 *Consolidated and Separate Financial Statements* and IAS 28 *Investments in Associates*, to provide more consistent disclosure requirements across that range of investment types.

Audit & Assurance

5. Invitation to Comment on IAASB Consultation Paper on Proposed Strategy for 2009 – 2011

The Institute has issued an **Invitation to Comment** on the IAASB Consultation Paper on proposed strategy for 2009 – 2011, with comments requested by **12 November 2007**.

In February 2007, the Institute **responded** to the IAASB Strategy Review Survey. The survey formed part of an extensive consultation process to obtain the widest possible input into determining the IAASB's future priorities.

The current IAASB Consultation Paper forms the final stage of the consultation process and presents the proposed strategy for 2009-2011, possible actions to implement the proposed strategy, and the basis for them. The introduction to the IAASB Consultation Paper provides further background information and explanation of the proposals. In summary, the IAASB will work to promote acceptance of International Standards on Auditing ("ISAs") as an appropriate benchmark of audit quality by the world's capital markets, and to facilitate the implementation of ISAs to the extent possible and consistent with the role of an international standard setter. The future strategy of the IAASB therefore focuses on:

- (i) Contributing to the effective operation of the world's capital market;
- (ii) Assisting with the implementation of standards; and
- (iii) Addressing the needs of SMEs.

6. Invitation to Comment on IAASB EDs of Proposed ISAs 505 and 620

The Institute has issued an **Invitation to Comment** on the IAASB exposure drafts of ISA 505 (Revised and Redrafted) *External Confirmations* and ISA 620 (Revised and Redrafted) *Using the Work of an Auditor's Expert*, with comments requested by **25 January 2008**.

The Explanatory Memorandum to the exposure drafts provides background information and explanation of the proposed ISAs. In summary, the IAASB's intentions in developing the revisions to the ISAs are set out below.

Proposed ISA 505

The proposed ISA 505 addresses concerns about the use and reliability of external confirmations as audit evidence. Recent experience has indicated that external confirmations may not always be as reliable as expected, giving rise to requests for more rigorous requirements governing the auditor's use of external confirmations.

The key changes are:

- The proposed ISA does not mandate the use of external confirmation requests in any particular circumstances or in response to any particular risk of material misstatement. The IAASB concluded that making external confirmations requests mandatory would conflict with the audit risk model, may not improve audit quality, and would suffer from significant operational disadvantages having regard to the international context in which the ISAs are applied.
- It is no longer a requirement in the proposed ISA for auditors to determine whether the use of external confirmations is necessary to obtain sufficient appropriate audit evidence at the assertion level. The IAASB concluded that the auditor's consideration of whether, and to what extent, to use external confirmation procedures when performing an audit of financial statements is inherent in the

requirements of ISA 315 (Redrafted) *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment* and ISA 330 (Redrafted) *The Auditor's Responses to Assessed Risks*, and that these ISAs provide adequate guidance to auditors in that regard.

- The proposed ISA does not prohibit the use of negative confirmation requests in an audit of financial statements. However, it includes requirements and application and other explanatory material limiting the extent to which an auditor may use them.

Proposed ISA 620

The proposed ISA deals with the auditor's use of the work of a person or organisation possessing expertise in a field other than accounting or auditing, employed or engaged by the auditor to assist the auditor to obtain sufficient appropriate audit evidence. It places particular emphasis on the need for the auditor to evaluate the expert's objectivity, and to establish a proper understanding with the expert of the expert's responsibilities for the purposes of the audit.

The key change is that the proposed ISA deals exclusively with considerations relevant to using the work of an auditor's expert. The extant ISA deals with both an auditor's expert and a management's expert. Material dealing with the work of a management's expert is presented in the conforming amendments to the proposed ISA 500 (Redrafted) *Considering the Relevance and Reliability of Audit Evidence*.

In addition, there is no change to the definition of "expert" from the extant ISA, which excludes persons or organisations possessing expertise in accounting or auditing. The IAASB is of the view that it is normally expected that an auditor accepting an engagement would possess any required specialised accounting and auditing expertise. Similarly, the definition of "management's expert" in the conforming amendments to proposed ISA 500 (Redrafted) excludes persons or organisations possessing expertise in accounting or auditing.

7. Institute Invites Comments on ED of Discussion Paper "Assistance Options to New Applicants and Sponsors in Connection with Internal Controls over Financial Reporting"

The draft [Discussion Paper](#), developed by the Institute's Auditing and Assurance Standards Committee, sets out the options that are available to reporting accountants when they are requested by listing applicants to provide assistance in connection with its sponsors' responsibility to make a declaration on the adequacy of the listing applicant's internal controls over financial reporting under the Listing Rules. It also discusses the nature of assistance that reporting accountants would provide under each option.

Comments are requested by **31 January 2008**.

8. AASC Meeting Summary – 11 September 2007

This [AASC meeting summary](#) covers:

- Draft submissions on IAASB ED of ISA 200 (Revised and Redrafted) *Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing* and ISA 500 (Redrafted) *Considering the Relevance and Reliability of Audit Evidence*
- Adoption of the IAASB Glossary of Terms in Volume III of the HKICPA Members' Handbook
- Proposed Circular on Reporting on General Charitable Fund-Raising Activities (Other than Flag Days)
- Annual Auditing Update Conference 2007
- Proposed draft Notes for Auditor for the District Council Election Financial Assistance Scheme
- HKEx Consultation Paper on Periodic Financial Reporting

Ethics

9. Institute Comments on IESBA ED of Proposed Additional Requirements in relation to Internal Audit Services, Relative Size of Fees & Contingent Fees

The Institute's [submission](#) to the IESBA ED of sections 290 and 291 of the Code of Ethics for Professional Accountants on auditor independence indicates that it is supportive of the current work of the IESBA, which seeks to consider what revisions to auditor independence requirements might be needed given the changing environment in the past few years. However, we are concerned that the proposals in the ED are geared more towards providing an optimal solution for larger firms and engagements. This focus has resulted in proposals that, in many cases, may result in impractical requirements and/or disadvantageous cost-benefit outcomes for Small and Medium-sized Enterprises ("SMEs") in that the cost of the audit is significantly greater than the benefits to the users of the auditor's report.

In summary, we recommend that the IESBA reconsiders the proposals in the ED and provides more guidance on safeguards applicable to sole practitioners and small accounting firms to ensure that the benefits of the changes outweigh the costs to SMEs. Under a principles-based approach, there should be safeguards and practical relief for all practitioners rather than rules-based outright prohibitions. The rewrite of this Independence component of the Code is substantially rules-based rather than principles-based.

The submission also sets out specific comments on Internal Audit Services, Relative Size of Fees and Contingent Fees.

Taxation

10. Agenda Items Invited for 2008 Annual Meeting with Commissioner of Inland Revenue

The next regular [annual meeting](#) between the Institute and Commissioner of Inland Revenue will be held in January 2008 to discuss matters

of common interest or concern in relation to tax practice and procedure.

Please use this [form](#) for any suggestions for agenda items, together with a reasonably brief and clear explanation of the issue, and return it to the Institute via fax (2865-6603) or e-mail <elena@hkicpa.org.hk> by **19 November 2007**. Issues raised at the previous annual meeting are recorded in the minutes of the [2007 Annual Meeting with the IRD](#) published on the Institute's website.

11. Inland Revenue Chief Speaks on Exchange of Information

The Commissioner of Inland Revenue, Mrs. Alice Lau spoke at the Taxation Interest Group cocktail reception on 15 October 2007 on the Comprehensive Double Taxation Arrangement with the Mainland and in particular, the exchange of information mechanism. Please click [here](#) for the speech.

Corporate Finance

12. Institute Launches Corporate Finance Interest Group

The Institute formally launched its new [Corporate Finance Interest Group](#) ("CFIG") at a cocktail reception held on 26 October 2007. Mr. Paul Chow, chief executive of Hong Kong Exchanges and Clearing, was the guest of honour. 250 members of the Institute, lawyers and other professionals have signed up as members of the CFIG, and around 150 CFIG members and other prominent guests attended the launch.

The CFIG will provide a forum for CPAs, and other professionals working in the corporate finance field, to network, exchange views on matters of common interest or concern and reflect their views to the Institute on key issues that impact on this sector.

The new interest group will host a range of activities, including discussion forums, seminars and networking events. [Membership](#) is open to members of the Institute, and to non-members who are working in corporate finance and related sectors.

International Meetings

13. International Accounting Standards Board

The IASB met in London on 16 – 19 October 2007 and discussed the following topics:

- Conceptual framework
- Fair value measurements
- Financial instruments
- Puttable financial instruments and obligations arising on liquidation
- Financial statement presentation
- IAS 37 redeliberations
- Leases
- Annual improvement process
- Post-employment benefits
- IAS 24 *Related Party Disclosures*
- Share-based payment
- XBRL

The IASB also met with the Financial Accounting Standards Board in a joint meeting on 22 and 23 October 2007, where they discussed the following topics:

- Conceptual framework
- Financial statement presentation
- Revenue recognition
- Derecognising assets and liabilities

Click [here](#) to view the October 2007 IASB Update. The IASB next meets on 12 – 16 November 2007.

14. International Financial Reporting Interpretations Committee

The IFRIC will meet in London on 1 – 2 November 2007. Click [here](#) for the meeting papers. Further details about the meeting will be reported in the next issue of TechWatch.

15. International Auditing and Assurance Standards Board

The IAASB will meet in Washington DC, USA from 10 – 14 December 2007. Click [here](#) for the background papers, meeting summary and audio recording of the September 2007 meeting held in Madrid, Spain.

16. International Ethics Standards Board for Accountants

The IESBA will meet in Amsterdam, Netherlands from 21 – 23 January 2008. Click [here](#) for the background papers and the forthcoming meeting summary of the October 2007 meeting held in Toronto, Canada.

For Information

17. Complaints Oversight Committee Issues Operations Report 2006

The Complaints Oversight Committee (“COC”), which was established by the Council of the Institute in 2005, has recently issued its [Second Operations Report](#). The report highlights the salient features of the complaint handling process of the Institute and outlines the work completed by the COC in 2006.

18. Companies Registry Trading Fund Publishes 2006-07 Annual Report

The Companies Registry Trading Fund (“CRTF”) has recently [announced](#) the publication of its [2006-07 annual report](#). According to the report, in 2006-07, the CRTF made a record surplus of HK\$118.6 million.

19. Implementation of New Provisions Concerning Non-Hong Kong Companies

The following provisions concerning non-Hong Kong companies will commence on 14 December 2007:

- Provisions concerning non-Hong Kong companies in the Companies (Amendment) Ordinance 2004 (**Ord. No. 30 of 2004 in Legal Supplement No. 1 to Gazette No. 30, Vol. 8**) – renaming of "overseas companies" as "non-Hong Kong companies" and modernising the registration regime for overseas companies, including the introduction of a requirement for a non-Hong Kong company to file a full annual return and a new service of issuing certificates of registration to non-Hong Kong companies.
- Companies Ordinance (Amendment of Eighth Schedule) Order 2007 (**Legal Notice 86 of 2007 in Legal Supplement No. 2 to Gazette No. 20, Vol. 11**) – giving effect to the amended statutory fees payable by overseas/non-Hong Kong companies.
- Section 64 of the **Financial Reporting Council Ordinance** (Cap. 588), which replaces the existing section 336A of the Companies Ordinance in relation to voluntary revision of accounts of overseas companies (renaming them as "non-Hong Kong companies").

Further information can be found in the [press release](#) issued by the Companies Registry.

20. Anti-money Laundering and Anti-Terrorist Financing

Government notice, **G.N.6271**, published in the gazette on 28 September 2007, pursuant to section 4 of the United Nations (Anti-Terrorism Measures) Ordinance (Cap. 575), provides an updated list of terrorists and terrorist associates designated by the United Nations Security Council Committee as of 14 September 2007. It revokes the previous notice published in the gazette on 20 July 2007.

For more background information, see the Institute's **Legal Bulletin 1** "Requirements on Anti-money Laundering, Anti-terrorist Financing and Related Matters" (paragraphs 54- 55).

21. New Publications

- (i) KPMG has published a **guide** for listed companies, which are required to prepare annual reports in accordance with the applicable disclosure provisions of the Main Board Listing Rules.
- (ii) Deloitte IFRS Global Office has published an updated **IAS Plus Guide to IFRS 2 Share-based Payment 2007**.

Comment Due Dates

12 November 2007: IAASB Consultation Paper on proposed strategy for 2009 – 2011

15 November 2007: IAASB Exposure Drafts of

- ISA 700 (Redrafted) *The Independent Auditor's Report on General Purpose Financial Statements*
- ISA 705 (Revised and Redrafted) *Modifications to the Opinion in the Independent Auditor's Report*
- ISA 706 (Revised and Redrafted) *Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor's Report*
- ISA 800 (Revised and Redrafted) *Special Considerations – Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*
- ISA 805 (Revised and Redrafted) *Engagements to Report on Summary Financial Statements*

19 November 2007: Suggestions for agenda items for annual meeting with the Commissioner of Inland Revenue

3 December 2007: IASB Exposure Draft of proposed Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Exposures Qualifying for Hedge Accounting*

14 December 2007: IAASB Exposure Drafts of

- ISA 220 (Redrafted) *Quality Control for an Audit of Financial Statements*
- ISQC 1 (Redrafted) *Quality Control for Firms that Perform Audits and Reviews of Financial Statement, and Other Assurance and Related Services Engagements*

14 December 2007: IASB Exposure Draft 9 *Joint Arrangements*

25 January 2008: IAASB Exposure Drafts of ISA 505 (Revised and Redrafted) *External Confirmations* and ISA 620 (Revised and Redrafted) *Using the Work of an Auditor's Expert*

31 January 2008: Discussion Paper

“Assistance Options to New Applicants and Sponsors in Connection with Internal Controls over Financial Reporting”

Please send comments to

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