



## Minutes of the 388<sup>th</sup> Meeting of the Auditing and Assurance Standards Committee

Date: Tuesday, 8 December 2020 at 8:30 a.m.

Location: Board Room of the Hong Kong Institute of Certified Public Accountants, 37/F., Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong (and via videoconference).

Present: Mr. Paul Lau (Chairman)  
Ms. Loretta Fong (Deputy Chairman)  
Mr. Derek Broadley (dial-in)  
Mr. Edmond Chan (dial-in)  
Ms. Hildy Chan (dial-in)  
Mr. Ivan Chan (dial-in)  
Prof. Koon-Hung Chan (dial-in)  
Mr. Paul Hebditch (dial-in)  
Ms. Fanny Hsiang (dial-in)  
Ms. Susanna Lau (dial-in)  
Mr. Gary Stevenson (dial-in)  
Miss. Basilia Wong (dial-in)  
Mr. Thomas Wong (dial-in)  
Mr. Steve Ong (dial-in)

In attendance: Mr. Chris Joy, Executive Director  
Ms. Cecilia Kwei, Director, Standard Setting  
Ms. Selene Ho, Deputy Director, Standard Setting  
Mr. Norman Chan, Associate Director, Standard Setting (dial-in)  
Ms. Grace Lau, Manager, Standard Setting (dial-in)  
Ms. Phoebe To, Manager, Standard Setting

Observer: Ms. Cynthia Leung, Financial Reporting Council (dial-in)

### Action

**2961. Minutes of the 387<sup>th</sup> Meeting**

The Committee approved the minutes of the 387<sup>th</sup> meeting.

**2962. Work Plan Status Report and Update from Working Groups**

The Committee considered the report and noted progress of various projects.

The comment period to Exposure Draft PN 730 (Revised), *Guidance for Auditors Regarding Preliminary Announcements of Annual Results* would close on 20 December. SSD would circulate the final draft of PN 730 (Revised) for the Committee's approval after the comment period.

Members were invited to provide suggestions to the 2021 work plan in areas such as enhancement to local reporting requirements, stakeholders' communication etc.

2963. **IAASB Discussion Paper, Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit**

SSD provided an overview to the IAASB Discussion Paper which explored the expectation gap between the public and the role of an auditor on auditors' responsibilities concerning fraud and going concern in an audit of financial statements. To solicit feedback, a roundtable on the Discussion Paper was held on 20 November with participation from AASC members, representatives from The Stock Exchange of Hong Kong Limited and practitioners from major and small and medium sized firms.

The Committee was updated on comments received from the roundtable and provided further comments:

- A Committee member commented on the lack of discussion in the Discussion Paper on strengthening the requirements of internal control weakness disclosure as weak internal controls may link to the increase of fraudulent activities. However, the extant auditing standards and local legislations do not require auditors to express an opinion on an entity's internal control. Imposing a requirement to do so would involve a comprehensive revision of the existing auditing standards.
- Members generally agreed that a good corporate culture is more likely to establish organisational integrity. The presence of an internal control system might not necessary prevent fraudulent financial reporting because management is in the position that can override control. The tone at the top sets forth a company's cultural environment and corporate values. On the other hand, the way frauds are committed nowadays could be different compared with years ago due to the evolving business environment and increased reliance on technology in entity's financial systems. Extant auditing research literature finds that culture affects audit-detected misstatements (Chan, Lin and Mo, Auditing: A Journal of Practice and Theory, 2003) It was suggested that the IAASB perform further study on the impact of culture to an audit.
- Auditors' disclosure on an entity's going concern by way of emphasis of matter paragraph, key audit matter paragraph etc. in auditor's reports would be an alert to users of financial statements. However, an audit involves professional judgement which varies among auditors. An expectation gap could arise where auditor's reports of companies subsequently entering into bankruptcy did not include the going concern disclosure under the prevailing auditing standards notwithstanding the perception of the stakeholders having the benefit of hindsight.

Members were invited to provide comments, if any on the Discussion Paper before the comment due date on 31 December. SSD would prepare a draft response for the Committee's consideration and approval in January 2021 before submitting to the IAASB.

[Post meeting note: The comment letter was submitted to IAASB on 1 February and is available at: <https://www.hkicpa.org.hk/en/Standards-and-regulation/Standards/Our-views/pcd/auditing-assurance-submissions/2021>]

**2964. Issuance of revised PN 820 (Revised), The Audit of Licensed Corporations and Associated Entities of Intermediaries**

SSD reported that the comment period for the Exposure Draft of PN 820 (Revised) had ended on 30 November without receiving written comments. SSD also reported that a webinar on the overview of PN 820 (Revised) revisions was held on 8 December with around 200 participants.

The Committee considered the final draft of PN 820 (Revised) and approved it for final issuance.

*[Post meeting note: PN 820 (Revised) was issued on 15 December in Members' Handbook Update No.251 and is available at: <https://www.hkicpa.org.hk/en/Standards-and-regulation/Standards/Members-Handbook-and-Due-Process/HandBook/Updates/Update-No-251> ]*

**2965. Issuance of AATB 5, Environmental, Social and Governance (ESG) Assurance Reporting**

SSD reported that the comment period for the Exposure Draft of AATB 5 had ended on 2 December. SSD received some editorial comments to the Exposure Draft which had been considered and incorporated into the final draft pronouncement as appropriate.

The Committee noted that the IAASB was in the process of developing a guidance on Extended External Reporting (EER) Assurance. Once it is finalised, the Institute would follow the International Convergence Programme to converge it as a local guidance. Contents of AATB 5 would be incorporated into the local version of the EER Assurance Guidance to provide information and guidance from a local perspective.

The Committee considered the final draft of AATB 5 and approved it for issuance. It was suggested that a webinar be held to draw awareness on AATB 5 and issues related to ESG reporting in Hong Kong.

*[Post meeting note: AATB 5 was issued on 10 December and is available at: <https://www.hkicpa.org.hk/en/Standards-and-regulation/Standards/Our-views/Technical-bulletins-and-circulars/Auditing-Bulletins-and-Circulars>.*

*A webinar on AATB 5 was held on 13 January with over 70 participants.]*

There being no further business, the meeting closed at 9:30 a.m.

PAUL LAU  
CHAIRMAN

4 February 2021