



Auditing and Assurance Standards Committee
Meeting Summary – November 2005

The Auditing and Assurance Standards Committee (Committee) met on 29 November 2005.

Members present at the meeting were: Carlson Tong (Chairman), Charles Chow (Deputy Chairman), Richard George (Deputy Chairman), Deborah Annells, Patrick Cheng, William Crowe, Lucia Li, Man Mo Leung, Keith Pogson Paul F. Winkelmann and Thomas Wong.

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

The following agenda items were discussed:

1. Draft Discussion Paper on “Understanding the Types of Reports prepared by Auditors and Accountants In Hong Kong”
2. Proposed HKSA 230 “Audit Documentation”
3. Proposed Practice Note “Guidance for Auditors Regarding Preliminary Announcements of Annual Results”
4. Proposed Example Report on the Calculation of the Fund Expense Ratio pursuant to the Code on Disclosure for MPF Investment Funds
5. Example Disclosure Note on Regulatory Reserve for Banks
6. HKAS 27 Convergence Issue and Audit Reporting

1. **Draft Discussion Paper on “Understanding the Types of Reports prepared by Auditors and Accountants in Hong Kong”**

The Convenor of the Working Group on Types of Reporting, William Crowe, briefed the Committee on the purpose and contents of the draft discussion paper developed by the Working Group and sought the Committee’s comments as to whether it had addressed the issues previously identified.

The Chairman and a Committee member commended the Working Group on developing an excellent discussion paper and suggested certain improvements.

It was agreed that Committee members who did not have a chance to read the draft discussion paper could provide their comments, if any, to the secretariat after the meeting.

2. **Proposed HKSA 230 “Audit Documentation”**

The Committee considered the proposed HKSA 230 prepared by the secretariat, which adopted verbatim the revised ISA 230 “Audit Documentation” issued by the IAASB, and endorsed its submission to Council for approval for issue as a final standard, together with the required amendments to HKSA 200, HKSA 330 and HKSQC 1, to be effective for audits of financial information for periods beginning on or after 15 June 2006.

The Committee also requested the secretariat, when issuing the standard, to draw to practising members’ attention in a covering memorandum the following new key requirements:

- (a) HKSQC 1 (revised) requires firms to establish policies and procedures for the timely completion of the assembly of audit files, and 60 days after the date of the auditor’s report is ordinarily an appropriate time limit within which to complete the assembly

of the final audit file; and

- (b) After the assembly of the final audit file has been completed, the auditor should not delete or discard audit documentation before the end of its retention period, and HKSQC 1 (revised) states that the retention period for audit engagements ordinarily is no shorter than five years from date of the auditor's report, or, if later, the date of the group auditor's report.

3. Proposed Practice Note "Guidance for Auditors Regarding Preliminary Announcements of Annual Results"

The Committee noted that the consultation period of the ED expired on 31 October and two comment letters were received. One comment letter was received from a member firm which supported the proposed Practice Note. The second comment letter was from the Stock Exchange of Hong Kong Limited (SEHK).

The Committee considered the comment letter from the SEHK and agreed certain suggestions proposed by the SEHK, where appropriate. The secretariat was requested to finalise the proposed Practice Note with the SEHK based on the decisions of the Committee and thereafter to submit the proposed Practice Note to Council for approval for issue as a final Practice Note to be effective upon issue.

The Committee also requested the secretariat when issuing the Practice Note to draw to practising members' attention that whilst the Practice Note allows draft financial statements to form the basis of the preliminary announcements, it expects the draft financial statements to be in very final form and the audit to be more or less completed subject only to minor outstanding matters.

[Post meeting note: On 8 December, the Chairman of the Committee together with the secretariat finalise the proposed Practice Note with the SEHK based on the decisions of the Committee. The proposed Practice Note was submitted to Council for approval at its December meeting for issue as a final Practice Note.]

4. Proposed Example Report on the Calculation of the Fund Expense Ratio pursuant to the Code on Disclosure for MPF Investment Funds

The Committee considered and endorsed the draft Example Report developed by the Expert Panel on Insurance in consultation with the Mandatory Provident Fund Authority (MPFA). It was noted that the final draft has yet to be approved by the MPFA but agreement had already been obtained that the engagement would be an agreed-upon procedures engagement in accordance with HKSRS 4400 "Engagements To Perform Agreed-upon Procedures Regarding Financial Information".

5. Example Disclosure Note on Regulatory Reserve for Banks

The Committee noted that the Expert Panel on Banking, in consultation with the Hong Kong Monetary Authority and the Financial Reporting Standards Committee (FRSC) had developed an example disclosure note for regulatory reserve for financial statements for the purpose of satisfying a requirement under the Banking Ordinance.

6. HKAS 27 Convergence Issue and Audit Reporting

The Committee noted that a referral had been made by a member of the FRSC of whether local guidance should be issued by the HKICPA in providing an example modified audit report for an "intermediate parent company" on its failure to provide consolidated financial statements. It was reported that many "intermediate parent company" would no longer be eligible to take advantage of the exemption for non-preparation of consolidated financial statements due to paragraph 10 of HKAS 27 "Consolidated and Separate Financial Statements" and that many such companies

would continue not to prepare consolidated financial statements notwithstanding the requirements of the HKAS.

The Committee agreed that there would not be a need to issue any further guidance on the modifications of audit reports as there is sufficient guidance in the existing auditing standards and practice notes on how and when to modify an audit report in different circumstances. Professional judgement would need to be exercised when issuing a modified audit report.

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Meeting Summaries are provided for the information and convenience of those who wish to follow the Committee's deliberations. Decisions reported are tentative and may be changed or modified by the Committee at a later date. Decisions become final only after completion of the formal due process required to finalize and release documents. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this Meeting Summary, or for any errors or omissions in it.