



Minutes of the 391st Meeting of the Auditing and Assurance Standards Committee

- Date: Tuesday, 20 April 2021 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: Ms. Loretta Fong (Chairman)
Mr. Paul Hebditch (Deputy Chairman)
Mr. Derek Broadley
Mr. Edmond Chan (dial-in)
Prof. Koon-Hung Chan (dial-in)
Mr. Ivan Chan (dial-in)
Mr. Tony Ching (dial-in)
Ms. Angela Choi (dial-in)
Mr. Louis Lau (dial-in)
Mr. Gary Stevenson (dial-in)
Mr. William Wong (dial-in)
Ms. Basilia Wong (dial-in)
Mr. Thomas Wong (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
Ms. Grace Lau, Manager, Standard Setting
Ms. Phoebe To, Manager, Standard Setting
- Observer: Ms. Cynthia Leung, Financial Reporting Council (dial-in)
- Apologies: Ms. Susanna Lau (Deputy Chairman)

Action

2982. Minutes of the 390th meeting

The Committee approved the minutes of the 390th meeting.

2983. Work plan status report and update from working groups

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

2984. HKICPA input for the IAASB-NSS meeting in May

The next International Auditing and Assurance Standards Board (IAASB) National Standards Setters (NSS) meeting would be held in May virtually. The Committee noted that Standard Setting Department (SSD) would provide updates of the Institute's work and progress relevant to the international trends and issues, such as the Institute's recently released technical bulletin AATB 5 to provide guidance on environmental, social and governance (ESG) assurance reporting; converging the new and revised quality management standards for local adoption and the local implementation plan.

2985. IAASB Exposure Draft Proposed Conforming and Consequential Amendments to the IAASB's Other Standards as a Result of the New and Revised Quality Management Standards

In February, the IAASB issued Exposure Draft *Proposed Conforming and Consequential Amendments to the IAASB's Other Standards as a Result of the New and Revised Quality Management Standards* for public comment. SSD provided an overview of the Exposure Draft and considered the proposed changes were aimed at enhancing consistencies between the IAASB's Other Standards and the new and revised quality management standards without changing the requirements or objectives of the IAASB's Other Standards.

Due to the conforming and straight forward nature of the proposed amendments in the Exposure Draft, the Committee agreed that no submission to the IAASB would be developed.

2986. IESBA Exposure Draft Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code

In January, the International Ethics Standards Board for Accountants (IESBA) issued an Exposure Draft *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* for public comments. SSD provided an overview of the Exposure Draft and feedback solicited from the outreach activities held in April.

The Committee discussed the Exposure Draft on matters related to IESBA's coordination with the IAASB on this initiative, as the definition of listed entity and public interest entity (PIE) concept are also relevant to IAASB standards. The key proposals included the proposed overarching objective of defining a class of entities for which the audits require additional independence requirements; proposed factors to assist determination of the level of public interest of entities and proposed disclosure within the auditor's report where an entity is treated by the auditor as a PIE.

The Committee had the following comments:

- Members had no objection to the proposed overarching objective and welcomed the alignment of the PIE definition between standards issued by the IESBA and IAASB. However, more elaboration should be given on how to adopt the principles locally.
- Members considered that an entity might be considered as a PIE because of its non-financial attributes, rather than having a significant public interest in their financial conditions as proposed in the Exposure Draft. It was proposed to seek clarification from the IESBA in this regard.
- Members considered the proposed factors to determine the extent of public interest in the financial condition too judgmental which would be difficult to set an effective threshold. More guidance would be needed should those factors be adopted.
- The principle and proposed factors might not be able to capture non-regulated entities operating in high-risk businesses perceived as having public interest, such as entities investing in or trading of cryptocurrencies.
- Members did not recommend the proposed disclosure within the auditor's report where an entity was treated by the auditor as a PIE due to the following:
 - The disclosure might not be meaningful to users of the auditor's report unless they understand the implication of the definition.

Meanwhile it would create additional obligation and expectation to auditors and might change the auditor's reporting dynamics.

- In general, auditors follow the same auditing requirements in auditing both PIE and non-PIE entities. Differences between auditing a PIE and non-PIE mainly come from the ethical requirements such as independence requirements, rotation of auditors and provision of non-assurance services. Classifying an entity as a PIE does not imply that the auditing requirements are different. The proposed disclosure would create confusion to users of the auditor's report rather than being helpful.

SSD noted the Committee's comments and would incorporate them into the comment letter. The comment letter would be circulated to the Ethics Committee for approval. SSD

[Post meeting note: The submission as approved by the Ethics Committee was submitted to the IESBA on 6 May and is available at https://www.hkicpa.org.hk/-/media/HKICPA-Website/New-HKICPA/Standards-and-regulation/SSD/03_Our-views/PCD/2021/ec/ed_pie/pdf_hkicpapie.pdf]

2987. Revised Circular on Reporting to Grantees of the Language Fund and the proposed drafting approach for updating example AUP reports

SSD provided an overview of the *Circular on Reporting to Grantees of the Language Fund* and the proposed update to cover the new reporting requirements of the Language Fund and align with the new requirements in HKSRS 4400 (Revised) *Agreed-Upon Procedures Engagements* which would be effective for agreed-upon procedures (AUP) engagements with terms of engagement agreed on or after 1 January 2022.

In adopting HKSRS 4400 (Revised), the Committee noted SSD's drafting approach of the example report that regulators are not an engaging party to the engagements. Hence, regulators would be identified as one of the recipients of the report rather than an addressee in the report. SSD would carry forward the paragraph "Purpose of this Agreed-Upon Procedures Report and Restriction on Use and Distribution" in the extant Circular to the revised Circular.

Members noted and agreed with SSD's drafting approach of the AUP report which aligned with the existing practice. Members also agreed that the same drafting approach would be applied to example AUP reports of practice notes and local guidance requiring the adoption of HKSRS 4400 (Revised).

SSD would finalise the proposed revisions to the Circular and circulate it to the Committee for approval in due course. SSD

2988. Proposed conforming changes to practice notes and circulars to HKSRS 4400 (Revised)

Members noted SSD's proposal to update practice notes and circulars on AUP engagements for conforming changes to HKSRS 4400 (Revised). The proposed changes were mainly to align terminologies in HKSRS 4400 (Revised), update the example engagement letter following the illustration in HKSRS 4400 (Revised) and update the example AUP report following the drafting approach of the proposed revision to *Circular on Reporting to*

Grantees of the Language Fund.

Members agreed SSD's proposed conforming changes and provided some drafting comments. SSD would update the relevant practice notes and circulars for the Committee's approval in due course.

SSD

2989. Consider draft Alert

SSD had prepared a draft Alert to remind auditors of the purpose of an audit and certain topical matters for the reporting season such as reporting during the pandemic environment, fraud risk and going concern.

The Committee discussed the draft Alert with the following comments:

- As the Alert's main audience was aimed at auditors, some of the drafting language was extracted from extant auditing standards, without creating new languages to describe the relevant auditing requirements.
- Members suggested to enhance the introductory paragraph of the Alert by relating it to auditor's reporting under the pandemic environment. It was also suggested to make reference to the Institute's publication relating to auditor's reporting in the COVID-19 era.

SSD

SSD note the Committee's comments and would circulate a revised draft Alert for the Committee's approval in due course.

[*Post meeting note: A revised draft Alert was circulated to the Committee on 21 April for comments. It was issued on 29 April and is available at https://www.hkicpa.org.hk/-/media/HKICPA-Website/New-HKICPA/Standards-and-regulation/SSD/03_Our-views/Financial-Reporting-Auditing-and-Ethics-Alert/alert38.pdf*
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There being no further business, the meeting closed at 9:50 a.m.

LORETTA FONG
CHAIRMAN

10 May 2021