



## TechWatch 49

The latest standards  
and technical  
developments

### ► Spotlight

#### Handbook updates 33 and 34

##### Update 33 encloses:

- Two new Hong Kong Standards on Auditing (HKSAAs), which are effective for auditor's reports dated on or after 31 December 2006:
  - HKSA 700 *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*.
  - HKSA 701 *Modifications to the Independent Auditor's Report*.
- Confirming amendments to the following HKSAAs, as a result of HKSA 700:
  - HKSA 200 (revised) *Objective and General Principles Governing an Audit of Financial Statements* – effective for audits of financial statements for periods beginning on or after 15 December 2005 and where the auditor's report is dated on or after 31 December 2006.
  - HKSA 560 (revised) *Subsequent Events* – effective for auditor's report dated on or after 31 December 2006.
  - Appendix 3 to HKSA 210 *Terms of Audit Engagements* – effective date not yet determined.

##### Update 34 encloses:

- Revised Statement 1.101 *Disciplinary Committee Proceedings Rules*.
- Code of Ethics for Professional Accountants Section 290 (revised) *Independence – Assurance Engagements*.

Revised Statement 1.101 reflects a recent Court of Appeal decision that while a disciplinary committee must adhere to the legal requirements for standards of fairness and natural justice, it is not itself a court. The “adversarial” procedure inherent under the old rules has been replaced by an “inquisitorial” procedure, whereby a disciplinary committee inquires into an issue to establish what has occurred and plays a proactive role in controlling the process.

Section 290 (revised) of the Code of Ethics for Professional Accountants introduces the concept of a network and revises the definition of a network firm.

### ► Audit and assurance

#### The new audit report standards – HKSA 700 and HKSA 701

The Institute has issued **HKSA 700** *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements* and **HKSA 701** *Modifications to the Independent Auditor's Report*.

Salient features of these new audit report standards are:

### Effective dates and background

- HKSA 700 and HKSA 701 are effective for auditor's reports dated on or after 31 December 2006, and SAS 600 continues to apply for auditor's reports dated before 31 December 2006.
- HKSA 700 establishes standards and provides guidance on circumstances when the auditor is able to express an unqualified opinion.
- HKSA 701 establishes standards and provides guidance on circumstances when the independent auditor's report should be modified, and the form and content of the modifications.
- HKSA 700 and HKSA 701 are issued as part of the Institute's International Convergence programme to converge with International Standards on Auditing – ISA 700 *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements* and ISA 701 *Modifications to the Independent Auditor's Report*, with local guidance for Hong Kong included in footnotes and appendices.

### Form and contents of the audit report

- The report's title should clearly indicate that it is the report of an independent auditor.
- The introductory paragraph should identify the title of each of the financial statements that comprises the complete set of financial statements and refer to the summary of significant accounting policies and other explanatory notes.
- Respective responsibilities of directors and auditors are presented more clearly in two separate paragraphs.
- The directors' responsibility paragraph should state that directors are responsible for the preparation and fair presentation of financial statements in accordance with the applicable financial reporting framework, and that this responsibility includes:
  - Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
  - Selecting and applying appropriate accounting policies.
  - Making accounting estimates that are reasonable in the circumstances.
- The auditor's responsibility paragraph should explain that the auditor is required to comply with ethical requirements and that the auditor plans and performs the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- The auditor's opinion identifies the applicable financial reporting framework on which the financial statements give a true and fair view, e.g., Hong Kong Financial Reporting Standards.
- When the auditor addresses other reporting responsibilities within the auditor's report on the financial statements, these other reporting responsibilities should be addressed in a separate section following the opinion paragraph (see examples two and three in the Appendix to HKSA 701 in relation to report on matters under sections 141(4) and 141(6) of the Hong Kong Companies Ordinance).
- Three local example auditor's reports are provided in HKSA 700 and four local example auditor's reports are provided in HKSA 701.

## ► Ethics

### Revised definition of a network firm

The Institute has issued Code of Ethics for Professional Accountants Section 290 (revised) *Independence – Assurance Engagements*, which is adopted verbatim from Code of Ethics for Professional Accountants Section 290 (revised) issued by the International Ethics Standards Board for Accountants in July 2006 to clarify the definition of a network firm.

The concept of a network firm is often used in evaluating the significance of threats to independence since network firms are subject to specific independence requirements in respect of assurance engagements under the Code of Ethics.

Section 290 (revised) is effective for assurance reports dated on or after 31 December 2008. The extended application period is to allow affected firms to develop the necessary monitoring systems.

*Extracts from TechWatch 49. The entire publication is available as a PDF on the Institute's website.*

### Quick link

► **TechWatch:**  
[www.hkicpa.org.hk/  
professionalttechnical/  
techwatch/](http://www.hkicpa.org.hk/professionalttechnical/techwatch/)

# Let's get technical

*This column is dedicated to answering questions submitted by members regarding Institute standards*

**Q.** I understand that the Institute has recently issued the new standards covering the audit report – HKSA 700 *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements* and HKSA 701 *Modifications to the Independent Auditor's Report* – and that these standards replace SAS 600 *Auditors' Reports on Financial Statements*. My firm will be signing and dating some audit reports in late December 2006 and early January 2007. Can I apply the new standards – HKSA 700 and HKSA 701 – for all of these audit reports?

**A.** HKSA 700 and HKSA 701 specifically state that they are effective for auditor's reports dated on or

after 31 December 2006, which is the same effective date as International Standards on Auditing 700 (revised) and 701.

Under Members' Update 33, the Institute has amended SAS 600 *Auditors' Reports on Financial Statements* to state that it is applicable for auditors' reports dated before 31 December 2006. You should carefully apply the relevant standards, depending on the effective date of the audit report – early adoption of HKSA 700 and HKSA 701 is not permitted.

You can find a summary of the key points of the new audit report standards – HKSA 700 and HKSA 701 – in TechWatch 49 on the Institute's website.

*Please note that the answers address general issues and provide general guidance. The answers do not constitute professional or legal advice. Base your decisions on frameworks, standards and other documents approved by the Council of the Institute, after taking account of your specific circumstances.*

## Members helping members

Do you want to help your fellow members? Try answering this question from a member and send an email to [hkicpa@hkicpa.org.hk](mailto:hkicpa@hkicpa.org.hk). Answers received by 20 December will be considered for inclusion in the February issue of *A Plus*.

This month's question:

**Q.** I have been preparing financial statements for my company using the SME Financial Reporting Framework and Financial Reporting Standard. My company now wants to be able to recognize its investment property at fair value and has decided to apply Hong Kong Financial Reporting Standards. How does the company make this change?

Here is the answer to the question we asked members to help with in the October edition of *A Plus*:

**Q.** I often use materials from Volume II of the Members' Handbook, which contains financial reporting pronouncements. I wonder what sort of materials are in Volumes I and III. Are they relevant to all members of the Institute or only to certain groups of members?

**A.** The Institute's Members' Handbook contains three volumes:

- Volume I: Professional Accountants Ordinance, Professional Ethics, General Guidance, Practice Review, Continuing Professional Development and Insolvency Guidance Notes
- Volume II: Financial Reporting Standards
- Volume III: Auditing and

Assurance Standards  
**Volume I** contains sections covering all of the professional pronouncements issued by the Institute to its members, other than financial reporting and auditing, and assurance pronouncements.

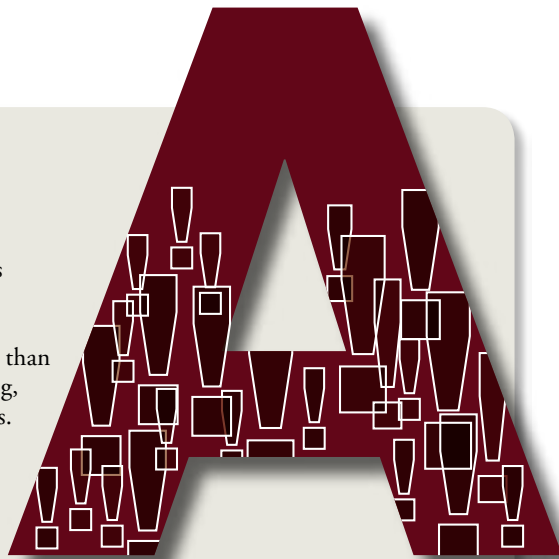
The **Professional Accountants Ordinance** (PAO) and the Professional Accountants By-laws and Rules made under the PAO: These are laws and rules establishing the Institute and providing for the registration and control of the accountancy profession. The revised Statement 1.101 *Disciplinary Committee Proceedings Rules* issued in October 2006 falls under this section.

The **Professional Ethics** section contains the Code of Ethics for Professional Accountants adopted from the Code of Ethics for Professional Accountants issued by the International Federation of Accountants. Part D of the Code of Ethics covers the additional local ethical requirements that were previously issued by the Institute. It may in future contain other ethics standards developed locally by the Institute.

The **General Guidance** section addresses matters relating to the business operations of member practices.

The **Practice Review** section covers the requirements that are expected of members during the conduct of a practice review under the PAO, and a brief description of the practice review process.

The **Continuing Professional Development** (CPD) section prescribes the CPD requirements for members of the Institute.



The **Insolvency Guidance Notes** provide guidance on best practices in carrying out insolvency work.

The sections on PAO, Professional Ethics and CPD are relevant to all members. The General Guidance section is currently only applicable to practising members although, in the future, it may contain guidance that is applicable to non-practising members. The Practice Review section is only applicable to practising members while the Insolvency Guidance Notes section is only applicable to insolvency practitioners.

**Volume II** contains financial reporting standards, interpretations and guidance. It is the most widely used volume in the Members' Handbook as it is relevant to both practising and non-practising members.

The **Preface** and **Framework** set out the objective and due process of the Council of the Institute in respect of setting Hong Kong Financial Reporting Standards, the scope and authority of Hong Kong Financial Reporting Standards, and the concepts underlying the preparation and presentation of financial statements.

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## Technical Q&A

The sections on **Hong Kong Accounting Standards, Hong Kong Financial Reporting Standards, Hong Kong (IFRIC) Interpretations, Hong Kong (SIC) Interpretations** contain standards and interpretations that are adopted from the equivalent international pronouncements issued by the International Accounting Standards Board. The Institute developed the **Hong Kong Interpretations**.

The **Small and Medium-Sized Entity (SME) Financial Reporting Framework and Financial Reporting Standard** is a locally developed financial reporting framework and standard for SMEs.

The sections on **Accounting Guidelines** and **Accounting Bulletins** contain locally developed accounting guidance.

**Volume III** contains auditing and assurance standards, practice notes and auditing guidelines to be applied by practising members.

The **preface** sets out the objective and due process of the Council of the Institute in respect of setting Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services, and the scope and authority of those standards.

**Hong Kong Standards on Quality Control, Hong Kong Framework for Assurance Engagements, Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements, Hong Kong Standards on Assurance Engagements** and **Hong Kong Standards on Related Services** are adopted from the equivalent pronouncements issued by the International Auditing and Assurance Standards Board (IAASB).

**Hong Kong Standards on Investment Circular Reporting Engagements** contain locally developed standards for investment circular reporting engagements.

The sections on **Statements of Auditing Standards and Standards on Assurance Engagements** contain standards that were issued prior to the convergence with standards issued by the IAASB and will soon be withdrawn from the Members' Handbook.

The **practice notes** section contains both statements adopted from the equivalent international auditing practice statements issued by the IAASB and locally developed auditing guidance.

The sections on **Auditing Guidelines** and **Industry Auditing Guidelines** contain locally developed guidance that was originally issued prior to the introduction of the practice notes section.

*You can submit questions on technical issues by sending an email to [hkicpa@hkicpa.org.hk](mailto:hkicpa@hkicpa.org.hk). The standard setting team will answer these questions in accordance with the policy on handling members' technical questions which is posted on the Institute's website.*

## ▶▶▶ People on the move

### Horwath Hong Kong Group



**Monica Wan** joined the firm's business services department as manager in November 2006. She has over 12 years experience in the trading industry with expertise in shipping, sourcing, logistics, accounting, human resources and management. Monica can also communicate in Italian.



**Sharon Sum** has been promoted to director of audit and assurance. She started her career in Hong Kong with an international accounting firm and has worked as the financial controller of a manufacturer of electro-acoustic products before moving to Beijing for two years where she worked for a company engaging in system integration. After a year's stint at Horwath in 1999 as an audit manager, she rejoined the firm in 2002.

### Moores Rowland Mazars



**James Ye** has been appointed partner of business risk services. He worked for Shanghai Finance and Tax Bureau during the early stage of his career and subsequently joined leading international accounting firms in the U.S. and Hong Kong. James has over 10 years experience on internal and external auditing, and specializes in corporate governance, risk management and risk-based internal audit services.

Email your announcements to [geraldine@eightpublishing.com](mailto:geraldine@eightpublishing.com). The deadline for the January issue of *A Plus* is 11 December 2006.