

Let's get

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

Q. I understand that ISA 800 *The Auditor's Report on Special Purpose Audit Engagements* has not yet been adopted by the Institute as part of its international convergence programme. Where can we obtain some local guidance?

A. ISA 800 is currently being revised by the International Auditing and Assurance Standards Board and will be considered for adoption by the Institute's Auditing and Assurance Standards Committee once the revised ISA 800 is issued.

Until a new standard is issued, practitioners can apply many of the principles in HKSA 700 *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements* to other forms of reports provided by auditors that result from a full scope audit in accordance with Hong Kong Standards on Auditing.

An example of this is when an auditor is required to report on financial statements where a "properly prepared, in all material respects, in accordance with" opinion is to be given because the basis of preparation is other than Hong Kong Financial Reporting Standards or International Financial Reporting Standards. In that case, the auditor conducts a full scope audit and reports in a format based on the requirements of HKSA 700 or HKSA 701 *Modifications to the Independent Auditor's Report* where appropriate.

In addition, the Institute's draft discussion paper "Request for Special Purpose Reports" sets out some of the practical issues that may arise when undertaking such special-purpose report engagements and provides guidance on how to address them. The draft discussion paper can be viewed at: www.hkicpa.org.hk/professionaltechnical/assurance/exposedraft/ed_sp_reports.pdf.

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

technical

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. Answers received by 20 January will be considered for inclusion in the March issue of A Plus.

This month's question:

Q. I am preparing the financial statements for my company and its one subsidiary. The subsidiary is 90 percent owned by my company.

I have agreed with my friend who owns the remaining 10 percent of shares that I will let him run the company and that I will just appoint a nominee director to the board of directors. This means that I will not control the company on a day-to-day basis. I have been told that as I do not control the company, I do not have to prepare consolidated financial statements. I plan to treat the company as an associate because the agreement with my friend lets me tell him what I would like him to do, and so I have significant influence.

Is this correct, or should I treat the company as a joint venture as my friend and I have agreed to share control?

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

Q. I am a practising accountant and most of my clients prepare their financial statements in accordance with the Institute's Small and Medium-sized Entity Financial Reporting Standard. As an auditor, where can I find guidance about how I audit such financial statements? I presume that I can apply simpler audit procedures to match the simpler reporting requirements?

A. All Hong Kong Standards on Auditing (HKSA) apply whenever an audit is carried out, except where otherwise stated in the HKSA concerned. Accordingly, all HKSA are applicable to the audit of financial statements prepared in accordance with the Institute's Small and Medium-sized Entity Financial Reporting Standard (SME-FRS). Despite the simpler reporting requirements for SMEs, the audit must be of the same high quality as for larger companies.

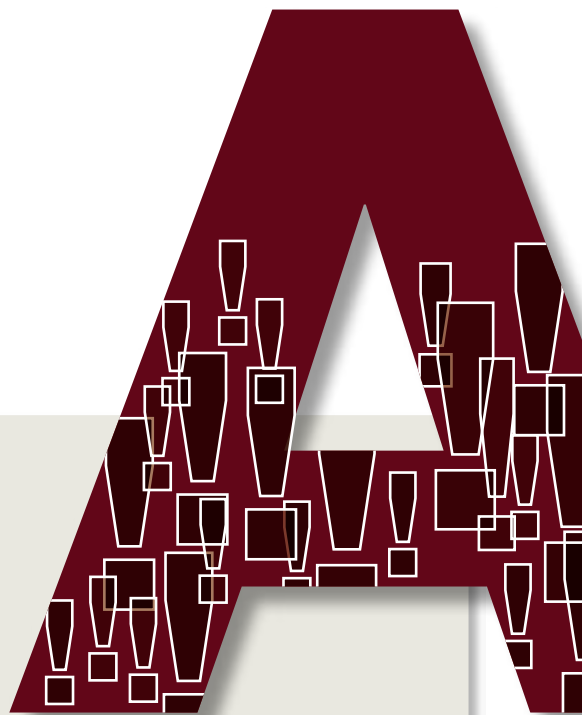
HKSA 200 *Objectives and General Principles Governing an Audit of Financial Statements* states that the auditor should conduct an audit in accordance with HKSA. The same procedures would be adopted for all audits regardless of the financial reporting framework adopted. However, for a simpler organization with simple transactions, it would

be easier to apply simpler audit procedures, as the difficulties caused by complex transactions would have been removed.

The Institute has issued Practice Note 900 *Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard* to provide guidance on the applicability of HKSA to the audit of financial statements prepared in accordance with the SME-FRS. An example of an unqualified auditors' report is also provided for reference.

Practice Note 900 can be accessed at the Volume III of the Institute Members' Handbook at: www.hkicpa.org.hk/ebook/main.php.

You can submit questions on technical issues by sending an email to 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.





TechWatch 50

The latest standards
and technical
developments

► Spotlight

Handbook update 35

Update 35 encloses revised *Preface to HKFRSs*

Following the issuance of the information paper *Setting HKFRSs* in June 2006, the Institute has updated the *Preface to HKFRSs* to take account of the completion of phase I of the convergence programme to converge HKFRSs with IFRSs.

The revised preface places stronger emphasis on the alignment of the Institute's standard-setting due process with that of the IASB.

Practice review committee issues operations report

The Institute's practice review committee is responsible for reviewing, under the Institute's practice review programme, whether CPA practices observe, maintain or apply professional standards in their audit and assurance work. The committee recently issued its operations report 2005: *Enhancing Quality Through Practice Review*.

Two years ago, the Institute decided to design a new practice review programme aiming to assess whether a practice unit has an adequate system of quality control to ensure work quality is maintained in every assurance and related services engagement. The work of the committee in 2005 focused on the development of the new practice review programme ready for its launch in 2006. In 2005, the committee still continued in carrying out reviews of follow-up cases under its original practice review programme.

The operations report 2005 summarizes the main features of the new practice review programme and provides useful education points to practising members arising from the practice review programme.

► Financial reporting

Comments on IASB discussion paper on an improved conceptual framework for financial reporting

IASB discussion paper *Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information* contains the first results from the IASB joint project with the U.S. Financial Accounting Standards Board on an improved conceptual framework for financial reporting. It sets out their preliminary views on the first two chapters of an enhanced conceptual framework.

The Institute's submission to the IASB supports the joint project and suggests further consideration be given to a number of areas, including the authoritative status of the framework, its relevance to entities outside the private sector and the needs of

the users of financial reports, identifying the primary users of financial reports, and considering certain fundamental concepts such as stewardship, faithful representation and reliability.

Comments on IFRIC draft interpretation D20 *Customer Loyalty Programmes*

IFRIC draft interpretation D20 *Customer Loyalty Programmes* addresses accounting by entities that operate or otherwise participate in customer loyalty programmes for their customers. It addresses sales transactions in which the entities grant their customers award credits that, subject to meeting any further qualifying conditions, the customers can redeem in future for free or discounted goods or services.

The Institute's submission to the IASB comments that the accounting treatment proposed by D20 is appropriate for customer loyalty programmes, which are in substance part of a multiple sales transaction, but considers it inappropriate for those programmes that are of the nature of marketing activities.

► Audit and assurance

Invitation to comment on IAASB EDs of proposed ISA 260, ISA 320 and ISA 450

The Institute has issued an **invitation to comment** on the IAASB EDs of ISA 260 (revised and redrafted) *Communication with Those Charged with Governance*, ISA 320 (revised and redrafted) *Materiality in Planning and Performing an Audit* and ISA 450 (redrafted) *Evaluation of Misstatements Identified during the Audit*, with comments requested by **26 January 2007**.

The explanatory memorandum to the EDs provides background information and explanation of the proposed ISAs.

The IAASB is seeking comments **only** on changes resulting from applying the clarity drafting conventions and their effect on the content of the ISAs. Respondents are asked to respond, in particular, to the following questions:

- Is the objective to be achieved by the auditor, stated in each of the proposed redrafted ISAs, appropriate?
- Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and the use of professional judgment by auditors?

► Government legislation and other initiatives

Public consultation on the way forward for Hong Kong's competition policy

The government has released a discussion document *Promoting Competition – Maintaining Our Economic Drive* to seek public views on the pros and cons of various options for the future regulation of anti-competitive business practices in Hong Kong. The consultation period ends on **5 February 2007**.

The Institute's expert panel on legal matters is considering the discussion document and will inform members of further developments in due course.

► Compliance

Complaints oversight committee issues first operations report

The complaints oversight committee, established in 2005, is an outgrowth of the Institute's drive for reform designed to improve the transparency, independence and effectiveness of oversight of the accountancy profession. It replaces the complaints panel and complaints committee system, aims to enhance consistency and efficiency in the handling of complaints against members of the Institute.

The operations report 2005 sets out the changes to the complaints handling system and the processes undertaken in relation to the handling of complaints. The committee's work completed in 2005 is outlined and its composition in 2006 explained. The committee believes that the report will enhance the mutual understanding and the transparency of its work.

Extracts from TechWatch 50. The entire publication is available as a PDF on the Institute's website.

Quick link

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