



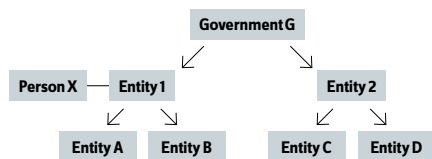
Tech

Q The revised **HKAS 24 Related Party Disclosures** simplifies disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government (referred to as government-related entities), and clarifies the definition of a related party. What are the new requirements?

A The revised HKAS 24 *Related Party Disclosures* provides partial exemption from the disclosure requirements for government-related entities and simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. The revised standard is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted.

The following illustration relates to partial exemption for government-related entities:

Government G directly controls entities 1 and 2, which in turn control entities A, B, C and D. Person X is a member of the key management of entity 1.



For entity A's financial statements, the exemption in HKAS 24.25 applies to transactions with government G and transactions with entities 1, 2, B, C and D. The exemption does not apply to transactions with person X.

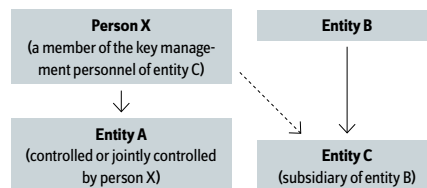
Until now, if a government controlled or significantly influenced an entity, the entity was required to disclose information

about all transactions with other entities controlled or significantly influenced by the same government.

The revised standard still requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users. Revised disclosure requirements when the exemption applies are contained in HKAS 24.26.

The following illustrates some related parties under the revised standard:

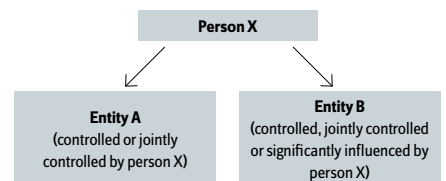
Key management personnel



Entity C is a related party of entity A for the purposes of the financial statements of entity A. Previously, it was only the reciprocal of this relationship that was treated as a related party (that is, entity A is a related party for the purposes of the financial statements of entity C only).

Therefore, the definition of a related party removed the inconsistency shown above by ensuring that entity A and entity C are treated as related parties in the financial statements of both entities.

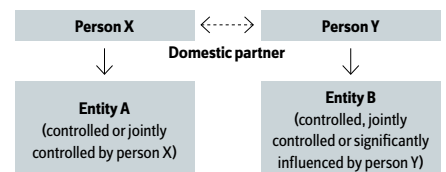
Person as investor



Entity A and entity B are related parties for the purposes of the financial statements of both parties.

The revised standard also makes it clear that common investment in two associates is not sufficient to conclude that the two associates are related parties.

Close members of the family holding investments



Entity A and entity B are related parties for the purposes of the financial statements of both entities.

Moreover, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture. For example, an associate's subsidiary and an investor with significant influence over the associate are related to each other.

Q&A

Q The clarified **Hong Kong Standards on Auditing** state that they are effective for audits of financial statements for periods beginning on or after 15 December 2009. How should the effective date provision be applied in the first year of implementation to audits of financial statements for a period of less than one year beginning on or after 15 December 2009?

A The International Auditing and Assurance Standards Board has answered this in the Frequently Asked Questions section of the IAASB Clarity Centre.

As part of the Institute's international convergence programme with auditing standards issued by the IAASB, the Institute has adopted word for word the international standards with the same effective date. Accordingly, the suggested answer set out below by the IAASB also applies to practitioners in Hong Kong in relation to the effective date provision to be applied in the first year of implementation of the clarified Hong Kong Standards on Auditing to audits of financial statements for periods of less than one year beginning on or after 15 December 2009.

The IAASB has not established specific transitional measures for the implementation of the clarified International Standards on Auditing once they come into effect. However, the IAASB's intent when setting the effective date of the clarified ISAs was to allow auditors a reasonable period for

implementation preparation.

The IAASB anticipated that the necessary implementation efforts would in most cases occur in both 2009 and 2010 for activities such as: changing audit methodologies, manuals and software; developing or updating training programmes; and updating audit programmes and procedures.

The IAASB did not expect auditors would be in a position to apply the full suite of clarified ISAs to audits of financial statements for periods ending before 14 December 2010 that are shorter than 12 months in the first year the clarified ISAs are effective. Setting the effective date to periods beginning on or after 15 December 2009 was intended to provide an implementation period of approximately 24 months from the finalization of the last clarified ISA and therefore allow for a reasonable, stable period, which stakeholders could use to further adoption or convergence, training and implementation activities.

Accordingly, based on the IAASB's considerations referred to above, for transitional purposes in the first year of implementation,

For transitional purposes in the first year of implementation, the effective date of the clarified ISAs may be read as not including audits of financial statements for periods (whether annual or shorter) ending before 14 December 2010.

the effective date of the clarified ISAs may be read as not including audits of financial statements for periods (whether annual or shorter) ending before 14 December 2010. This, however, does not restrict earlier application of the clarified ISAs, including application to engagements to audit financial statements of past years, based on consideration of the circumstances.

You can access the IAASB's FAQs through the Institute's HKSA

Clarity Centre at: www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/hksa-clarity-centre/



Send your questions and comments to commentletters@hkicpa.org.hk for the attention of Steve Ong, the Institute's director of standard setting. The standard setting team will answer these questions in accordance with its policy, posted on the Institute's website.