

*This is the 19<sup>th</sup> Issue of TechWatch, a publication designed to alert members to topics and issues that impact on accountants and their working environment. We welcome your comments and feedback. Comments and suggestions on TechWatch should be addressed to Stephen Chan, Deputy Director (Ethics & Assurance), Professional & Technical Development (email: < [commentletters@hksa.org.hk](mailto:commentletters@hksa.org.hk) >).*

*This issue (and all back issues) is available online at the Society's website < <http://www.hksa.org.hk/professionaltechnical/techwatch/> >.*

*Members have been informed by a circular dated 18 September 2003 that TechWatch has been incorporated into The Hong Kong Accountant, and will no longer appear in printed form as a publication in its own right. If you have previously elected to receive only the printed version of TechWatch, you will need to refer to The Hong Kong Accountant for future issues. Electronic version will be published on the HKSA website generally prior to publication in The Hong Kong Accountant. If you are currently not receiving the electronic edition of TechWatch but would like to receive it in future, you may choose to do so by entering this option online at the "Members Only" section of HKSA web page under "Personal Profile – Publications Preferences". If you have any questions, please contact Karen Moy, Administrative Officer, Professional & Technical Department at: < [karen\\_moy@hksa.org.hk](mailto:karen_moy@hksa.org.hk) > or Tel: 2287 7089.*

## **Headlines Of This Issue**

### **Accounting & Financial Reporting**

1. New Preface To Hong Kong Financial Reporting Standards
2. New HKFRS 1, First-Time Adoption Of Hong Kong Financial Reporting Standards
3. Disposal Of Non-current Assets And Presentation Of Discontinued Operations, And Insurance Contracts – HKSA Comments On IASB EDs
4. 'Provisional Final' Versions Of Improved IAS
5. FASC Meeting - 15 October 2003

### **Audit & Assurance**

6. New Audit Risk SASs
7. Proposed PN 1014 "Reporting By Auditors On Compliance With International Financial Reporting Standards" For Consultation
8. Mainland Audit Issues
9. AASC Meeting - 28 October 2003

### **Ethics**

10. Request For Comments On IFAC's Proposed Revision Regarding Listed Entities' Audit Partner Rotation

### **Innovation & Technology**

11. HKSA Anti-Fraud Symposium Received Wide Media Coverage
12. Anti-fraud CD Available For Ordering
13. Trust Services Sub-licence Open For Application
14. IT Risk Management Executive Programme Open For Enrolment

### **Banking**

15. New HKMA Guidance For Bank Auditors

### **Insurance**

16. Revised IA Guidance Note On Actuarial Review

### **Corporate Governance**

17. Results Of HKSA Best Corporate Governance Disclosure Awards

### **Corporate Restructuring & Insolvency**

18. Companies (Corporate Rescue) Bill - HKSA Comments On The Proposals Relating To The Trust Account Arrangement
19. Bankruptcy (Amendment) Bill 2003 Introduced To Facilitate ORO's Outsourcing Of Bankruptcy Cases

### **Taxation**

20. Inland Revenue (Amendment) Bill 2000 - HKSA Comments On Draft Committee Stage Amendments
21. HKSAR Enters Into Comprehensive Double Tax Agreement With Belgium

### **Comment Key Dates**

### **Appendices**

- (i) Financial Accounting Standards Committee Meeting Summary - October 2003
- (ii) Auditing And Assurance Standards Committee Meeting Summary - October 2003

## **Accounting & Financial Reporting**

### **1. New Preface To Hong Kong Financial Reporting Standards**

The HKSA has issued a new Preface to Hong Kong Financial Reporting Standards. The Preface replaces the Foreword to Statements of Standard Accounting Practice (SSAP), Interpretations and Accounting Guidelines and attains convergence with the IASB's Preface to International Financial Reporting Standards.

The Preface sets out the Council's objectives, procedures and due process in respect of setting final reporting standards following the adoption of the policy to converge HKFRSs (the collective term that includes SSAPs) with IFRSs. Other significant features of the Preface include:

- ✓ The 'benchmark treatment' and the 'allowed alternative treatment' in HKFRSs are of equal standing;
- ✓ Paragraphs in bold typeface in HKFRSs indicate main principles but paragraphs in bold typeface and plain typeface have equal authority;
- ✓ A member of the HKSA who assumes responsibilities in respect of financial statements prepared on a basis or standard of accounting other than HKFRSs must observe that other basis or standard of accounting and justify departures.

The Preface is substantially unchanged from the ED released earlier in 2003. The comment letters on the ED have been made available on the HKSA website at:

< <http://www.hksa.org.hk/professionaltechnical/accounting/rm> >.

The Preface has been published in the HKSA Members' Handbook.

### **2. New HKFRS 1, First-Time Adoption Of Hong Kong Financial Reporting Standards**

The HKSA has issued HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, which explains how an entity should make the transition to HKFRSs from another basis of accounting. HKFRS 1 becomes effective for financial statements that are prepared *for the first time* in accordance with HKFRSs for periods that begin on or after 1 January 2004 with earlier application encouraged. HKFRS 1 is converged with the equivalent IASB Standard, IFRS 1, First-time Adoption of International Financial Reporting Standards.

HKFRS 1 requires an entity to comply with every SSAP or HKFRS in force in the first year when the entity first adopts HKFRSs, with some targeted and specific exceptions after consideration of the cost of full compliance. Accordingly, an entity's first HKFRS-compliant financial statements will include both amounts for the current period as well as comparatives that conform to the requirements of HKFRS 1. Under HKFRS 1, an entity must explain how the transition to HKFRSs affects its reported financial position, financial performance and cash flows.

HKFRS 1, and the accompanying implementation guidance and basis for conclusions, have been published in the HKSA Members' Handbook.

A CPD seminar on HKFRS 1 will be held on 30 January 2004. Further details are available on-line at:  
< <http://www.hksa.org.hk/membership/cpd/activities/activities.php> >.

For those who are unable to attend the seminar, a copy of the seminar materials may be purchased from the HKSA - further details are available at:

< [http://www.hksa.org.hk/publications/pub\\_forsale/pubforsale\\_coursenotes.pdf](http://www.hksa.org.hk/publications/pub_forsale/pubforsale_coursenotes.pdf) >.

3. **Disposal Of Non-current Assets And Presentation Of Discontinued Operations, And Insurance Contracts – HKSA Comments On IASB EDs**

The HKSA comment letters on ED 4, Disposal of Non-current Assets and Presentation of Discontinued Operations, and ED 5, Insurance Contracts, have been posted on the HKSA website at < <http://www.hksa.org.hk/professionaltechnical/accounting/submissions> >.

4. **‘Provisional Final’ Versions of Improved IAS**

The IASB aims to conclude, in the first quarter of 2004, its work on revising the IASs included in the Improvements Project. The IASB intends that these revised versions should be applied for financial periods beginning on or after 1 January 2005 with earlier application encouraged.

The twelve IASs that were included in the IASB Exposure Draft of May 2002 (see list below) will be formally issued in revised form as a single publication. Some of the revised standards will be finalised a few weeks before others but cannot be published until all are completed. In Hong Kong, the FASC’s Invitation to Comment (see < <http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/edimprovements.pdf> >) on the IASB’s ED (see < <http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/02-imp-ed.pdf> >) was issued concurrently with the IASB ED.

The IASB has been posting each revised standard on its website as and when the Board has approved it for issue. Although the standard will then be in virtually final form, readers are cautioned that it will be subject to review and possible minor editorial changes and corrections because of the interrelationship of the standards (for example, amended cross-references) up to the point when the IASB has approved the final standard for issue. The revised standards are not provided as part of any exposure process. They are provided solely to increase the time available to prepare for their introduction. The texts will be available in the secure online services area of the IASB’s website (< <http://www.iasb.org.uk/onlineservices/onlinehome.asp> >), for access by subscribers to the IASB’s Comprehensive Subscription Service. As at 10 December 2003, nine provisional final improved IASs have been published (IAS 2, 10, 16, 17, 21, 24, 28, 33 & 40).

*IASs subject to improvements (new titles)*

- IAS 1, Presentation of Financial Statements
- IAS 2, Inventories
- IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10, Events after the Balance Sheet Date
- IAS 16, Property, Plant and Equipment
- IAS 17, Leases
- IAS 21, The Effects of Changes in Foreign Exchange Rates
- IAS 24, Related Party Disclosures
- IAS 27, Consolidated and Separate Financial Statements
- IAS 28, Investments in Associates
- IAS 33, Earnings per Share
- IAS 40, Investment Property

As indicated in the FASC’s Invitation to Comment on the IASB ED, once the IASB has finalised publication of all revised IASs resulting from the Improvements ED, the FASC intends to recommend the adoption of revised SSAPs, so that Hong Kong SSAPs maintain conformity with the IASB Standards. The FASC also intends at the same time to develop an exposure draft proposing the convergence of Hong Kong SSAPs with IFRSs and the elimination of significant textual differences in SSAPs not revised from the Improvements Project vis-à-vis the equivalent IASs.

## 5. FASC Meeting – 15 October 2003

The FASC met on 15 October 2003 and discussed the following items:

- ✓ IASB ED 4, Disposal of Non-current Assets and Presentation of Discontinued Operations
- ✓ IASB ED 5, Insurance Contracts, draft comment letter
- ✓ IFAC Proposed Statements of Membership Obligations (SMO) – discussion on SMO 5 & SMO 7

A copy of the October meeting summary is attached to this issue of TechWatch. The meeting summary has also been posted on the HKSA website at:

< <http://www.hksa.org.hk/professionaltechnical/accounting/fascupdate> >.

### **Audit & Assurance**

## 6. New Audit Risk SASs

The HKSA has issued three new Audit Risk SASs as part of the HKSA International Standards Convergence Programme:

- (a) new SAS 315 “Understanding the entity and its environment and assessing the risk of material misstatement” adopting the new ISA 315;
- (b) new SAS 330 “The auditor’s procedures in response to assessed risks” adopting the new ISA 330; and
- (c) new SAS 500 “Audit evidence” adopting the revised ISA 500. The extant SAS 400 “Audit evidence” which continues to be in effect for audits of financial statements for periods beginning before 15 December 2004 is attached to the new SAS 500.

The new Audit Risk SASs are substantial documents and are fundamental to the way audits will be conducted. They enable auditors to more clearly focus on areas where there is a greater risk of misstatement of the financial statements. Implementation of the new Audit Risk SASs will increase the quality of audits by improving the linkage of audit procedures and assessed risks. In addition to other new requirements, auditors will be required to:

- perform audit procedures to obtain a broader understanding of the entity and its environment, including its internal control;
- make assessments of the risks of material misstatements in all cases and perform more rigorous assessments; and
- design and perform further audit procedures that are linked to the assessed risks.

The HKSA has also issued a revised SAS 100 “Objective and general principles governing an audit of financial statements” adopting the conforming changes to ISA 200.

The new Audit Risk SASs and the revised SAS 100 are effective for audits of financial statements for periods beginning on or after 15 December 2004. The extant SAS 100 and the following SASs continue to be in effect for audits of financial statements for periods beginning before 15 December 2004:

- SAS 210 – Knowledge of the business;
- SAS 300 – Audit risk assessments and accounting and internal control systems; and

- SAS 310 – Auditing in a computer information systems environment.

## 7. **Proposed PN 1014 “Reporting By Auditors On Compliance With International Financial Reporting Standards” For Consultation**

The HKSA has issued an Exposure Draft (ED) of proposed PN 1014 for consultation as part of the HKSA International Standards Convergence Programme. The proposed PN assists auditors by providing guidance on the application of SAS 600 “Auditors’ reports on financial statements” in cases where they are reporting on the financial statements that are asserted by management to be prepared:

- (a) Solely in accordance with International Financial Reporting Standards (IFRSs);
- (b) In accordance with IFRSs and a national financial reporting framework; or
- (c) In accordance with a national financial reporting framework with disclosure of the extent of compliance with IFRSs.

The proposed PN is identical to the equivalent International Auditing Practice Statement (IAPS) issued by the IAASB except that it has not adopted the guidance in paragraph 11 of the IAPS in relation to a modified audit report with an “emphasis of matter” paragraph. This is because SAS 600 has more stringent requirements than the equivalent International Standard on Auditing in this respect by restricting the use of “emphasis of matter” paragraph to only four exceptional situations such as misleading “other information” included with the audited financial statements and misstated comparatives.

The ED has been posted on the HKSA website at:

< [http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/ed-pn1014\\_cover.pdf](http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/ed-pn1014_cover.pdf) >.

To allow your comments on the ED to be considered, they are requested to be received by the HKSA on or before **14 February 2004**.

## 8. **Mainland Audit Issues**

The HKSA Auditing and Assurance Standards Committee has set up a Working Group to develop Questions and Answers (Q&As) and/or articles for publication in The Hong Kong Accountant to raise practising members’ awareness of the common audit issues that may be encountered by auditors in the audits of Mainland enterprises.

The first set of Q&As addresses some of the common issues relating to revenue recognition for Mainland enterprises, including potential sales cut-off errors, the traditional practice of recognising sales on a cash basis and accounting for sales returns. The next set of Q&As will be on audit issues relating to Value-added Tax Invoices (增值稅專用發票). Other topics that are on the Working Group’s agenda include consignment sales, off-book transactions and external confirmations.

The Q&As are also available on-line on the HKSA’s website at:

< <http://www.hksa.org.hk/professionaltechnical/assurance/rm/index.php> >.

## 9. **AASC Meeting – 28 October 2003**

The meeting summary of the AASC meeting held in October 2003 is attached to this issue of TechWatch. The meeting summary has also been posted on the HKSA website at:

< <http://www.hksa.org.hk/professionaltechnical/assurance/aasc/index.php> >.

## **Ethics**

### **10. Request For Comments On IFAC’s Proposed Revision Regarding Listed Entities’ Audit Partner Rotation**

The International Federation of Accountants (IFAC) has issued an exposure draft (ED) of a proposed revision to the IFAC Code of Ethics for Professional Accountants to clarify guidance pertaining to lead engagement partner rotation for audits of listed entities.

The proposed revision is to make it clear that an individual who has completed a pre-defined period (normally no more than seven years) in the role of the lead engagement partner for an audit of a listed entity should not participate in the assurance engagement until a further period, normally two years, has elapsed.

The HKSA has issued an Invitation to Comment to request comments on the IFAC’s latest proposed revision by **16 January 2004** so that the comments can be considered and included in the HKSA’s submission to the IFAC. The Invitation to Comment and the IFAC ED have been posted on the HKSA’s website at: < <http://www.hksa.org.hk/professionaltechnical/ethics/exposedraft/> >.

As the new HKSA Independence Requirements (Statement 1.203A “Independence for assurance engagements” and Guidance 1.308 “Independence for assurance engagements”) are based on and achieve compliance with the IFAC Code, the HKSA intends to revise the HKSA Independence Requirements to adopt the new IFAC guidance upon its finalization so that the HKSA Independence Requirements maintain conformity with the current IFAC Code at all times.

## **Innovation & Technology**

### **11. HKSA Anti-Fraud Symposium Received Wide Media Coverage**

The HKSA Anti-Fraud Symposium was held on 25 October 2003 with over 400 members attending. It was widely publicized by the media including TV and radio news programme.

The Symposium has raised members and the public’s awareness of the nature and scope of occupational fraud in the workplace, and how to prevent, deter and detect fraud. It is the corporate responsibility of businesses to build an enterprise-wide anti-fraud framework to enhance the quality of business activities and to rebuild investors' confidence in the market.

The HKSA President, Mr. David Sun, addressed the audience in his opening remarks that the event marked the beginning of a campaign. The HKSA would like to impress on the community that the accounting profession is fully committed to help re-build and protect the public’s confidence in the capital market.

The Commissioner of Police, Mr. Tsang Yam Pui, GBS delivered the keynote speech titled “Business fraud as an intelligent crime and its impact on the community, business activities and professional life”. The Commissioner put the spotlight on how the society responds to the threats that dishonest employees and managers alike have posed in perpetrating serious commercial fraud.

Mr. Paul MacKellar of KPMG Forensic for Greater China presented “An ounce of prevention is worth a pound of cure”. His presentation highlighted the key steps that one can take in the prevention, deterrence and early identification of fraud and misconduct.

Mr. Bernie Macht of ACL Services Ltd. presented “Building a better mousetrap: using transactional analysis for effective fraud detection and prevention”. He has demonstrated how computerized data analysis techniques can assist in fraud detection by learning about typical frauds, symptoms and tests.

Mr. Alvin Wong of HKSA Auditing and Assurance Standards Committee provided an update on the impact of the Financial Action Task Force's 40 Recommendations (FATF 40) and local ordinances on the work of the profession and businesses. He also discussed areas of auditor's obligation in reporting fraud, immunity to report under legislation, and SFC's right of access to auditors' working papers under the Securities and Futures Ordinance and the proposed HKSA's guidance in this area.

Mr. Rod Diaz of the Hong Kong Police Commercial Crime Bureau discussed different types of common fraud in Hong Kong, and how pre-report action can assist in a successful prosecution.

For members who were not able to attend the Symposium, they can view the video footage of the event which has been posted at the News Bureau of the HKSA Homepage [http://202.64.59.203/hksaNews/details\\_frame.asp?ID=53&pos=start](http://202.64.59.203/hksaNews/details_frame.asp?ID=53&pos=start).

The entire session will be available under the HKSA E-learning menu and announcements will be made shortly.

## **12. Anti-fraud CD Available For Ordering**

The anti-fraud educational CD entitled "How fraud hurts you and your organization" has been issued to all members previously. It discussed about the most common types of occupational fraud and ways of detecting such frauds in the work place. Members are welcome to obtain further copies at a cost of HK\$10 each for promotion to clients and associates. Please log on the following link for details. <http://www.hksa.org.hk/antifraud/antifraud.php>.

The CD can also be downloaded and viewed online via the above link.

## **13. Trust Services Sub-licence Open For Application**

The Trust Services programme is a new set of standards developed by the AICPA and the CICA comprising Principles & Criteria that set world standards on Information Systems & On-line, E-commerce Business. The HKSA has obtained the exclusive rights in administering the programme and granting sub-licenses to members in Hong Kong.

The standards covered reliability, security, processing integrity, availability, privacy & confidentiality that all business should adopt. It is organized into four broad areas with illustration controls in policies, communications, procedures and monitoring.

### **The Principles & Criteria may be used for:**

- A consulting / business advisory service engagement
- An agreed-upon procedures engagement
- An audit / assurance engagement
- A seal programme, supported by a high level assurance

### **Sub-licensing is now open for application by members**

- holding a practising certificate; and
- who wish to use the Trust Services Marks, including "WebTrust™" and "SysTrust™", and/or issue seals in their service offerings.

Licensing will not be required if members plan to offer advisory services only without involving the use of Trust Services Marks nor issue seals in their Trust Services offerings. Accordingly, any advertising and marketing activities involving the use of the Trust Services Marks will be prohibited.

HKSA Trust Services Licensing Kit will be available for members which comprise:

1. Application Form for Trust Services licence (Form TS-1) and Explanatory Memorandum (Form TS-3).
2. Trust Services Licence – Hong Kong Practitioner’s Sub-licence Agreement in duplicate.
3. Guide to Assessment of Competency for Trust Services.

The HKSA is in the course of adapting the Trust Services Principles and Criteria as HKSA Standards. Product orientation training is under preparation and will be introduced shortly.

Further information about the Trust Services can be obtained from <http://www.aicpa.org/assurance/trustservices/index.asp>.

All enquires on the application can be directed to Gary Wong, Project Director (Innovation & Technology) at Tel: 2287-7233 or email at [gary@hksa.org.hk](mailto:gary@hksa.org.hk).

#### **14. IT Risk Management Executive Programme Open For Enrolment**

This training course is offered by the HKSA in collaboration with Hewlett Packard and University of Hong Kong (HKU SPACE).

The training course is designed to enable members to enhance their awareness and understanding of information technology related concepts and practices, as well as for them to acquire specific technical skills regarding system applications, control and security relevant to the accountants’ work.

The course objective is to enhance the proficiency of members:

- In public practice – in providing IT-related assurance services to their clients
- In business and industry – in providing IT risk management skills to their employers.

By putting the knowledge into practice, professional accountants can further their role as trusted business advisor in the information age.

The course comprises the Essential Level and the Professional Level. Upon completing both Levels, participants are invited to attend the end-of-course project so as to simulate the work from the knowledge that they learn from the course. Participants who complete the entire course will be awarded the HKSA Executive Certificate in IT Risk Management for Accountants. This will be a valuable asset for the participants to demonstrate his/her achievement in the proficiency needed to manage IT risks and to identify solutions.

This course will be offered year round with course schedules updated quarterly. For further information about the course, log on to:

[http://www.hksa.org.hk/professionaltechnical/IT\\_training/ITRisk\\_Master%202909.pdf](http://www.hksa.org.hk/professionaltechnical/IT_training/ITRisk_Master%202909.pdf).

### **Banking**

#### **15. New HKMA Guidance For Bank Auditors**

The Hong Kong Monetary Authority (HKMA) has issued a new Supervisory Policy Manual (SPM): IC-3 “Reporting requirements relating to authorized institutions’ external auditors under the Banking Ordinance (BO)”, which has been posted on the HKMA’s website at:

< <http://www.info.gov.hk/hkma/eng/bank/spma/attach/IC-3.pdf> >.

The new SPM provides guidance in respect of the following auditors' reporting requirements:

- reporting on banking returns under section 63 of the BO;
- reporting on systems of control under section 63(3A) of the BO;
- duty to report to the HKMA on matters affecting an authorized institution's financial position to a material extent under the new section 63A of the BO which came into effect on 1 April 2003; and
- duty to report to the HKMA on matters constituting a failure by the registered institution to comply with the requirements of the Securities and Futures Ordinance under the new section 63B of the BO which came into effect on 1 April 2003.

The new SPM supersedes the following HKMA Guidelines:

- Guideline 9.1 "Banking Ordinance: Auditors and reporting under section 61 to the Commissioner of Banking" dated 31 December 1990;
- Guideline 9.2 "Auditors' certificates on statistical returns" dated 23 July 1991; and
- Guideline 9.3 "Internal control systems" dated 15 August 1992.

## **Insurance**

### **16. Revised IA Guidance Note On Actuarial Review**

The Insurance Authority (IA) has amended GN9 on Actuarial Review of Insurance Liabilities in respect of Employees' Compensation and Motor Insurance Businesses by:

- including a pro-forma actuarial certificate; and
- revising the definition of "outstanding claims liabilities" to include "indirect claims expenses" so that it is consistent with general accounting practice.

The revised GN9 will be effective for actuarial reviews for financial years ending on or after 31 December 2003.

The revised GN9 is available at the IA's website < <http://www.info.gov.hk/oci/corner/content.htm> >.

## **Corporate Governance**

### **17. Results Of HKSA Best Corporate Governance Disclosure Awards**

The 2003 Best Corporate Governance Disclosure Awards (the "Awards") has been successfully completed. The results below were announced by the President, Mr. David Sun, the Chairman of the Corporate Governance Committee, Mr. Edward Chow, and the Chairman of the Awards Organising Committee, Mr. Jim Wardell, at a press conference held on 11 November 2003. CFOs and other senior representatives from most of the winning companies and organisations also attended the press conference and briefly addressed the audience on the subject of corporate governance in their companies/organisations.



(Corporate Rescue) Bill that, before a rescue (formally called “provisional supervision”) could commence, a trust account had to be set up containing all the Employment Ordinance liabilities for all employees who could be laid off. As an alternative, therefore, the HKSA proposed in November 2001 that the amounts required to be contained in the trust account should be capped at levels similar to those payable under the Protection of Wages of Insolvency Fund (“PWIF”) in the event of a winding up.

As further reported in TechWatch (Issue No.17, October 2003), the Government subsequently issued a consultation paper in which it was proposed, amongst other things, to cap the sum payable to each employee in respect of his accrued entitlements under the trust account, to the amount that would have been payable to that employee by the PWIF. Under the proposals, any additional amounts accrued to employees should then be paid off within 12 months of a voluntary arrangement being approved, as part of that voluntary arrangement.

In the HKSA’s submission on the consultation paper, the HKSA restated its support for the introduction of a corporate rescue procedure in Hong Kong, and the principle of setting a ceiling on the amount to be paid from the trust account to individual employees. However, the HKSA did not consider that a provisional supervisor who retained employees should have personal liability imposed on him for e.g. employees’ accrued entitlements above and beyond the amounts contained in the trust fund. In general terms it was considered that he should not be held personally liable when acting in accordance with his duties and/or terms of his appointment, but if he is to be made personally liable, then for the proposals to be workable, his liability for employees’ entitlements should be limited to the ongoing wages of continuing employees.

The HKSA’s submission contained a number of other technical points on matters such as the priority of the PWIF as a creditor if a company undergoing provisional supervision ultimately goes into liquidation and employees claim against the PWIF.

The HKSA submission has been posted on the HKSA website at:  
< <http://www.hksa.org.hk/professionaltechnical/insolvency/submissions/021203.pdf> >.

**19. Bankruptcy (Amendment) Bill 2003 Introduced To Facilitate ORO’s Outsourcing Of Bankruptcy Cases**

The Bankruptcy (Amendment) Bill 2003 was introduced to the Legislative Council on 10 December 2003 to facilitate the outsourcing by the Official Receiver’s Office (ORO) of bankruptcy cases to private sector insolvency practitioners.

According to the Financial Services and the Treasury Bureau, outsourcing bankruptcy cases will enhance the efficiency of dealing with the heavy caseload. The court has made over 22,700 bankruptcy orders this year up to October 2003.

The Bill gives the Official Receiver the authority to appoint directly a private sector insolvency practitioner to administer a summary bankruptcy case (where the value of the bankrupt’s estate is unlikely to exceed \$200,000), without the need to convene a creditors’ meeting. The insolvency practitioner appointed to provide trusteeship for the estate of the bankrupt is to be remunerated from the assets of the estates.

The HKSA Insolvency Practitioners Committee will review the Bill and consider the need to make a submission on it. Members will be informed of any significant developments on the matter.

## Taxation

### 20. Inland Revenue (Amendment) Bill 2000 – HKSA Comments On Draft Committee Stage Amendments

Introduced in late 2000, the Inland Revenue (Amendment) Bill 2000 gave rise to concerns on the part of the HKSA and various other professional and industry bodies over clause 5 introducing the proposed section 15(1)(ba) to the Inland Revenue Ordinance (IRO), which appeared to extend the reach of the royalty provisions in a way that was inconsistent with the rules on “source” of profits under the Hong Kong tax regime, and, more particularly, clause 6 (covering sections 16(2)(d), (e) and (f) of the IRO), i.e. the anti-avoidance provisions relating to deduction of interest expenses.

The IRD was subsequently asked by the Bills Committee to address the concerns of professional and industry bodies. In 2002, the IRD consulted interested parties, including the HKSA, on certain draft Committee Stage Amendments (CSAs) to the Bill prior to submitting them to the Bills Committee. The HKSA’s submission on the CSAs, dated 18 September 2002, was reported in TechWatch (Issue No.9, October 2002) and is accessible at the HKSA website at:

< [http://www.hksa.org.hk/professionaltechnical/whatsnew/docs/company\\_bill\\_180902.pdf](http://www.hksa.org.hk/professionaltechnical/whatsnew/docs/company_bill_180902.pdf) >.

The Bills Committee recently invited the HKSA to comment on the revised draft CSAs. In a submission dated 8 December 2003, the HKSA welcomed the fact that the changes to clause 6 of the Bill, as introduced by the revised draft CSAs, defined more clearly the scope of the anti-avoidance provisions under section 16. At the same time, the submission proposed extending the grandfather provisions for existing arrangements. The HKSA also noted that no changes had been made to address the concerns it had previously raised in relation to clause 5 of the Bill which seeks to amend section 15 of the IRO in respect of the taxation of royalty payments. The HKSA therefore reiterated its disagreement with the proposed amendment to section 15.

A copy of the HKSA’s submission to the Bills Committee may be assessed at the HKSA website at:

< [http://www.hksa.org.hk/professionaltechnical/whatsnew/docs/company\\_bill\\_081203.pdf](http://www.hksa.org.hk/professionaltechnical/whatsnew/docs/company_bill_081203.pdf) >.

### 21. HKSAR Enters Into Comprehensive Double Tax Agreement With Belgium

The Government has announced that the first comprehensive double tax agreement (DTA) with another jurisdiction was concluded on 10 December 2003.

Subject to the completion of ratification procedures for both sides, the Hong Kong/Belgium DTA will take effect with respect to Hong Kong taxes from 1 April 2004, and with respect to Belgian taxes from 1 January 2004. The DTA may be accessed at the Inland Revenue Department website at:

< [http://www.info.gov.hk/ird/eng/pdf/dt\\_belgium.pdf](http://www.info.gov.hk/ird/eng/pdf/dt_belgium.pdf) >.

Aware that the Government was in the process of negotiating DTAs with other jurisdictions, the HKSA wrote to the Government to highlight the fact that Hong Kong’s territorial source-based tax regime was different from most other jurisdictions in that tax was not imposed on the basis of domicile, incorporation, or management and control. Moreover, a relatively much higher proportion of businesses were organised as branches of foreign companies in Hong Kong than in other jurisdictions. These considerations gave rise to problems in relation to the OECD model of DTAs, because, e.g:

- Under the standard form of DTA, benefits are available to residents of one of the contracting parties. For this purpose, residence is normally defined by reference to the taxpayer’s residence, domicile, place of effective management or other similar criterion, in accordance with the laws of the relevant jurisdiction. However, a business is liable for profits tax in Hong Kong where it is carried on in Hong Kong and derives Hong Kong-sourced profits.

- To harmonise with common law principles and international trends, it may be necessary to define a Hong Kong resident by reference, in the case of a company, to its place of effective central management and control, rather than by reference to liability to Hong Kong profits tax.
- Adopting such a definition of a Hong Kong “residency” would also address the position of businesses organised as branches of non-Hong Kong companies, that are established to conduct business solely or predominantly in Hong Kong.

A copy of the HKSA’s letter may be accessed at the HKSA website at:

[http://www.hksa.org.hk/professionaltechnical/whatsnew/docs/double\\_tax\\_agreement.pdf](http://www.hksa.org.hk/professionaltechnical/whatsnew/docs/double_tax_agreement.pdf).

The Taxation Committee will review the Hong Kong/Belgium DTA to find out to what extent the agreement has taken into account the HKSA’s proposals.

### **Comment Key Dates**

<b><u>Date</u></b>	<b><u>Subject</u></b>
16 January 2004	Invitation to Comment on IFAC Exposure Draft of Ethics Code Revision on Audit Partner Rotation, which has been posted on the HKSA’s website at: <a href="http://www.hksa.org.hk/professionaltechnical/ethics/exposedraft/audit_partner_rotation.pdf">http://www.hksa.org.hk/professionaltechnical/ethics/exposedraft/audit_partner_rotation.pdf</a> .  [IFAC deadline: 15 February 2004]
21 January 2004	Exposure Draft of General Guidance 1.307 “Production of audit working papers to the Securities and Futures Commission under section 179 of the Securities and Futures Ordinance”, which has been posted on the HKSA’s website at: <a href="http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/ed-gg1.307_cover.pdf">http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/ed-gg1.307_cover.pdf</a> .
14 February 2004	Exposure Draft of PN 1014 “Reporting by Auditors on Compliance with International Financial Reporting Standards”, which has been posted on the HKSA’s website at: <a href="http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/ed-pn1014_cover.pdf">http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/ed-pn1014_cover.pdf</a> >.
Please send comments to < <a href="mailto:commentletters@hksa.org.hk">commentletters@hksa.org.hk</a> >	

*TechWatch is prepared by the Professional and Technical Department of the HKSA and intended for general guidance only. Professional advice should be taken before applying the content of this publication to your particular circumstances. While the Society endeavours to ensure that the information in this publication is correct, no responsibility for loss to any person acting or refraining from action as a result of using any such information can be accepted by the HKSA.*

*The HKSA Professional and Technical Department is headed by Ms. Winnie Cheung, Senior Director. Section heads of the Professional and Technical Department are:*

*Mr. Simon Riley, Deputy Director (Accounting)*

*Mr. Stephen Chan, Deputy Director (Ethics & Assurance)*

*Mr. Peter Tisman, Deputy Director (Business & Practice)*

*Mr. Gary Wong, Project Director (Innovation & Technology)*

Hong Kong Society of Accountants  
4<sup>th</sup> Floor, Tower Two, Lippo Centre, 89 Queensway, Hong Kong  
Tel: (852)2287 7228 Fax: (852)2865 6776  
E-mail: < [hksa@hksa.org.hk](mailto:hksa@hksa.org.hk) >  
Website: < <http://www.hksa.org.hk> >  
Comments may be submitted to HKSA by email to  
< [commentletters@hksa.org.hk](mailto:commentletters@hksa.org.hk) >

## **Appendices**

### **(i) Financial Accounting Standards Committee** **Meeting summary – October 2003**

The HKSA Financial Accounting Standards Committee (Committee) met on 15 October 2003.

Present at the Committee's meeting were: Messrs. Roger Best (Chairman), Paul F. Winkelmann (Deputy Chairman), Chan Lok Sang, Choy Chung-foo (represented by Mr. Vingle Yuen), William Crowe, Raphael Ding, Robert Gibson, Andrew Huke, Nigel Reid, Tommy Tam, Stephen Taylor, Tom Wu, Ms. Olivia Cheung, Ms. Susanna Lau, Mr. Simon Riley (HKSA Deputy Director, Accounting) and Ms. Elsa Ho (HKSA Assistant Director, Accounting).

The Committee discussed the following items:

- ✓ IASB ED 4, Disposal of Non-current Assets and Presentation of Discontinued Operations
- ✓ IASB ED 5, Insurance Contracts, draft comment letter
- ✓ IFAC Proposed Statements of Membership Obligations (SMO) – discussion on SMO 5 & SMO 7

#### **IASB ED 4, Disposal of Non-current Assets and Presentation of Discontinued Operations**

The Committee noted that comment letters were received from the following, in response to the Committee's Invitation to Comment on the IASB's Exposure Draft ED 4, Disposal of Non-current Assets and Presentation of Discontinued Operation:

- ✓ HK Association of Banks
- ✓ The DTC Association
- ✓ Mr. Tsang Wai Hung (HKSA member, commenting in his individual capacity)
- ✓ Mr. Wong Cheuk Lam (HKSA member, commenting in his individual capacity)

The comment letters, which will be made available on the HKSA website, raised substantive points in relation to the proposals contained in the IASB's exposure draft.

The Committee would consider a comment letter with a view to finalising it for submission to the IASB before end of October. The finalised comment letter will be made available on the HKSA website at <http://www.hksa.org.hk/professionaltechnical/accounting/submissions>.

#### **IASB ED 5, Insurance Contracts, draft comment letter**

The Committee noted that comment letters were received from the following, in response to the Committee's Invitation to Comment on the IASB's Exposure Draft ED 5, Insurance Contracts:

- ✓ The Actuarial Society
- ✓ The Hong Kong Federation of Insurers
- ✓ The Hong Kong Association of Banks
- ✓ The Office of the Commissioner of Insurance
- ✓ The DTC Association
- ✓ Mr. Tsang Wai Hung (HKSA member, commenting in his individual capacity)

The comment letters, which will be made available on the HKSA website, raised substantive points in relation to the proposals contained in the IASB's exposure draft.

The Committee noted that the HKSA Expert Panel on Insurance (EPI) would discuss the ED and an initial draft comment letter in late October. The draft comment letter, after incorporating the comments

made by the EPI, would be considered by the Committee with a view to finalising it for submission to the IASB in early November. The finalised comment letter will be made available on the HKSA website at <http://www.hksa.org.hk/professionaltechnical/accounting/submissions>.

#### IFAC Proposed Statements of Membership Obligations (SMO) – discussion on SMO 5 & SMO 7

The Committee considered the following two Statements of Membership Obligations (“SMO”) proposed under the exposure draft of Proposed Statements of SMO issued by the International Federation of Accountants (“IFAC”):

Proposed SMO 5 – Public Sector Accounting Standards and Other Pronouncements

Proposed SMO 7 – International Financial Reporting Standards

SMO 5 sets out the proposed obligation of member bodies of IFAC in relation to International Public Sector Accounting Standards (IPSASs) and other pronouncements developed by the Public Sector Committee of IFAC. It is proposed that, where responsibility for the development of national public sector accounting standards lies with third parties, the member body should be obligated to use its best endeavours to persuade those responsible for developing the requirements for financial reporting by governments and others in public sector organisation that public sector financial statements should comply with IPSASs and disclose the fact of such compliance. It is also proposed that member bodies should be required to use their best endeavours to monitor compliance with IPSASs by reviewing financial statements purporting to comply with IPSASs to the extent such engagements are included in the scope of the quality assurance review program.

SMO 7 sets out the proposed obligations of member bodies of IFAC in relation to International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). It is proposed that member bodies should be required to use their best endeavours to monitor compliance with IFRSs by reviewing the financial statements purporting to comply with IFRSs to the extent such engagements are included in the scope of the quality assurance review program.

Subject to a few minor comments on the wording of the SMOs, the Committee was generally satisfied with SMO 5 and SMO 7 proposed under the ED. The Committee’s comments would be taken into account when developing the HKSA’s response to the IFAC.

#### Date of Next Meeting

The Committee’s next meeting is tentatively scheduled to be held on 12 November 2003.

This meeting summary is provided for the information and convenience of those who wish to follow the Committee’s deliberations. Except where indicated otherwise, all conclusions reported are tentative and may be changed at future meetings.

The IASB publishes summaries of its meetings and projects. These can be found on the IASB’s website at <http://www.iasb.org.uk>.

The Committee welcomes comments on its technical agenda. Please e-mail us at [commentletters@hksa.org.hk](mailto:commentletters@hksa.org.hk).

**(ii) Auditing and Assurance Standards Committee**  
**Meeting summary – October 2003**

The HKSA Auditing and Assurance Standards Committee (Committee) met on 28 October 2003.

Members present at the meeting were: Wong Tak Wai, Alvin (Chairman), Albert Au, Kim Chong, William Crowe, Lucia Li, Charles Grieve, Raymond Li, Man Mo Leung, Phyllis Mo and Paul F. Winkelmann.

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

The following agenda items were discussed:

1. HKSA Submission on IAASB Exposure Draft on Quality Control: Proposed New ISQC 1 “Quality Control for Audit, Assurance and Related Services Practices” and Proposed Revised ISA 220 “Quality Control for Audit Engagements”
2. HKSA Submission on SCCLR Consultation Paper on Phase II of the Corporate Governance Review
3. Comment Letter to the Social Welfare Department on the Monitoring of Charitable Fund-raising Activities
4. Draft HKSA General Guidance 1.307 “Production of audit working papers to the Securities and Futures Commission under section 179 of the Securities and Futures Ordinance”
5. Eight proposed HKSA Practice Notes adopting International Auditing Practice Statements
6. IAASB Exposure Draft of Proposed ISA on Review of Interim Financial Information Performed by the Auditor of the Entity
7. IAASB Exposure Drafts of Proposed Revised ISA 240 “The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements” and Proposed Revised ISA 300 “Planning the Audit”
8. PN 840 “The audit of solicitors’ accounts under the Solicitors’ Accounts Rules and the Accountant’s Report Rules” – proposed amendment to paragraph 19(b)
9. Proposed PN 852 “Review of lottery accounts”
10. Working Group on Mainland audit issues

1. **HKSA Submission on IAASB Exposure Draft on Quality Control: Proposed New ISQC 1 “Quality Control for Audit, Assurance and Related Services Practices” and Proposed Revised ISA 220 “Quality Control for Audit Engagements”**

The HKSA sent the submission on 8 October 2003 after its approval by Council.

[The HKSA submission is available on-line at: <  
[http://www.hksa.org.hk/professionaltechnical/assurance/submission/docs/IAASB\\_ED\\_QC.pdf](http://www.hksa.org.hk/professionaltechnical/assurance/submission/docs/IAASB_ED_QC.pdf) >].

2. **HKSA Submission on SCCLR Consultation Paper on Phase II of the Corporate Governance Review**

The HKSA sent the submission on 17 October 2003 after its approval by Council.

[The HKSA submission is available on-line at: <  
<http://www.hksa.org.hk/professionaltechnical/corporategov/index.php> >].

3. **Comment Letter to the Social Welfare Department on the Monitoring of Charitable Fund-raising Activities**

The HKSA sent the Comment Letter on 6 October 2003 after its endorsement by the Committee by circulation. This was in response to the invitation by the Social Welfare Department (SWD)

for the HKSA to comment on the draft “Reference Guide for Charities on Best Practice for Fund-raising Activities” which sets out the Government’s proposed plan in the monitoring of charitable fund-raising activities.

The Comment Letter mentioned that there was a very useful meeting between the HKSA and the SWD in September 2003, at which the HKSA obtained the clarification that it was not the intention of the SWD to replace the current practice in PN 850 “Review of flag day accounts” with the “audit” requirement of the draft Reference Guide. It also made the comments that it would be difficult for the event accounts to be “prepared in accordance with generally accepted accounting principles and standards established by the HKSA”, and that capping of fund-raising expenses at no more than 10% of the fund-raising revenue may cause difficulties for certain events.

The HKSA also confirmed in the Comment Letter that it would develop a generic PN covering all reporting engagements on the accounts of charitable fund-raising activities once the Social Welfare Department completed its review of the monitoring of charitable fund-raising activities. The new generic PN will replace the extant PN 850 and the proposed PN 852.

**4. Draft HKSA General Guidance 1.307 “Production of audit working papers to the Securities and Futures Commission under section 179 of the Securities and Futures Ordinance”**

The Committee finalized the draft Guidance after taking into account a suggested amendment by the SFC following its review of the draft Guidance.

It was agreed that upon its clearance with the SFC, the final draft should be submitted to Council for approval for issuance as an Exposure Draft.

After the meeting, the SFC confirmed that it had no further comments and the final draft was submitted to Council for approval for issuance as an Exposure Draft.

**5. Eight proposed HKSA Practice Notes (PNs) adopting International Auditing Practice Statements (IAPS)**

The Committee endorsed that the eight proposed HKSA PNs should be finalized in their present form for submission to Council for approval for issuance as final statements as there was no comment letter received on the Exposure Drafts.

**6. IAASB Exposure Draft (ED) of Proposed ISA on Review of Interim Financial Information Performed by the Auditor of the Entity**

The Committee considered the IAASB ED and the two comment letters received in response to the Committee’s Invitation to Comment and had a number of comments on the IAASB ED, the more significant of which are:

- the proposed ISA should be issued as an International Standard on Assurance Engagements (ISAE) instead of as an International Standard on Auditing (ISA);
- the applicability of other ISAs to review engagements;
- there is not a need to have two Standards (the proposed ISA and extant ISA 910) covering a similar subject; and
- it would be preferable for auditors to express the same conclusion on both a condensed set of interim financial information and a complete set of interim financial information.

The Committee requested the secretariat to prepare a draft submission based on the above comments for endorsement by the Committee by circulation before its submission to Council for approval.

[The HKSA submission is available on-line at: <  
[http://www.hksa.org.hk/professionaltechnical/assurance/submission/docs/IAASB\\_ED\\_IntFin.pdf](http://www.hksa.org.hk/professionaltechnical/assurance/submission/docs/IAASB_ED_IntFin.pdf)  
>].

**7. IAASB Exposure Drafts (EDs) of Proposed Revised ISA 240 “The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements” and Proposed Revised ISA 300 “Planning the Audit”**

The Committee indicated its support of the IAASB EDs and did not have any comments on them. The Committee noted that there was no comment letter received on the IAASB EDs.

The secretariat was requested to prepare a draft submission to Council for approval.

[The HKSA submission is available on-line at: <  
[http://www.hksa.org.hk/professionaltechnical/assurance/submission/docs/IAASB\\_ED\\_fraud\\_planning.pdf](http://www.hksa.org.hk/professionaltechnical/assurance/submission/docs/IAASB_ED_fraud_planning.pdf)  
>].

**8. PN 840 “The audit of solicitors’ accounts under the Solicitors’ Accounts Rules and the Accountant’s Report Rules” – proposed amendment to paragraph 19(b)**

The Committee considered the proposed amendment to paragraph 19(b) prepared by the secretariat as a result of the clarification obtained from the Law Society that it would not envisage reports or qualifications of Accountant’s Reports merely on a failure to account for very small amounts of interest particularly if those amounts of interest are less than a realistic administration fee.

The Committee suggested some improvement changes to the proposed amendment and requested the secretariat to present a further draft for the Committee’s consideration at the next meeting.

**9. Proposed PN 852 “Review of lottery accounts”**

The Committee considered the two comment letters received on the Exposure Draft and agreed that the proposed PN 852 should be finalized in its present form for submission to Council for approval for issuance as a final statement.

**10. Working Group on Mainland audit issues**

The Committee noted that the subject of “sales” would form the first series of the Questions and Answers in The Hong Kong Accountant. This series would feature the completeness of sales/deferral of sales recognition, VAT invoices and revenue recognition for entities engaged in the IT industry and agriculture activities.

**Copyright 2003 The Hong Kong Society of Accountants**

**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.**