
Effective for audits of financial statements for periods
beginning before 15 December 2009

Practice Note 900 (Revised)

Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard

1. This PN900 (Revised) is applicable for audits of financial statements for periods beginning before 15 December 2009.
2. For audits of financial statements for periods beginning on or after 15 December 2009, PN900 (Clarified) "Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard" is applicable.



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

PRACTICE NOTE 900 (REVISED)

AUDIT OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE SMALL AND MEDIUM-SIZED ENTITY FINANCIAL REPORTING STANDARD

(Issued December 2006; revised June 2010; Effective for audits of financial statements for periods beginning before 15 December 2009)

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Practice Note (PN) 900 (Revised) “Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard” should be read in the context of the “Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services” which sets out the application and authority of PNs.

Introduction

1. In this Practice Note all the sections mentioned below are in respect of the Companies Ordinance unless otherwise stated.
2. This Practice Note gives guidance on the applicability of Hong Kong Standards on Auditing (HKSA) to the audit of financial statements prepared in accordance with the Small and Medium-sized Entity Financial Reporting Standard (SME-FRS). The Small and Medium-sized Financial Reporting Framework (SME-FRF) sets out the conceptual basis and qualifying criteria for the preparation of financial statements in accordance with the SME-FRS.

Qualifying Entities

3. In accordance with the SME-FRF:
 - a. a company incorporated under the Companies Ordinance qualifies for reporting under the SME-FRF if it satisfies the criteria set out in section 141D of that Ordinance; and
 - b. an entity, other than a company incorporated under the Companies Ordinance, subject to any specific requirements imposed by the law of the entity's place of incorporation and subject to its constitution, qualifies for reporting under the SME-FRF when the entity does not have public accountability as defined in the SME-FRF, and:
 - i. all of its owners agree to prepare the financial statements in accordance with the SME-FRS; and
 - ii. the entity is considered to be an SME in terms of its size under the SME-FRF.
4. The definition of an SME is set out in paragraphs 16 to 26 of the SME-FRF.

Section 141D Exemptions and “True and Correct View”

5. Section 141D exempts certain private companies from complying with the full disclosure requirements of the Companies Ordinance. In particular, companies which take advantage of these exemptions do not have to produce financial statements which show a true and fair view of the state of the company's affairs and of its profit or loss for the year. Instead the auditor is required to report on whether the company's balance sheet and accompanying notes show a true and correct view of the state of the company's affairs.
6. There is no statutory definition of a “true and correct view”. In accordance with paragraph 16 of the SME-FRF, compliance with the SME-FRF and SME-FRS is necessary in order for financial statements to give a “true and correct view” when a Hong Kong incorporated company prepares its financial statements in accordance with section 141D.

Applicability of Hong Kong Standards on Auditing

7. HKSA apply whenever an audit is carried out, except where otherwise stated in the HKSA concerned. It follows that all HKSA are applicable to the audit of financial statements prepared in accordance with the SME-FRS.

Audit Procedures

8. It is management's responsibility to ensure that the entity qualifies for reporting under the SME-FRF. An auditor would design and perform audit procedures to obtain sufficient appropriate audit evidence as to whether the entity qualifies for reporting under the SME-FRF.
9. Paragraph 6 of HKSA 200 (Revised) "Objectives and General Principles Governing an Audit of Financial Statements" states that the auditor should conduct an audit in accordance with HKSAs. The same procedures would be adopted for all audits regardless of the financial reporting framework adopted.
10. For a company incorporated in Hong Kong applying section 141D, in addition to carrying out the audit procedures required by HKSAs, the auditor would ensure:
 - a. that the company is entitled to take advantage of the exemptions permitted under section 141D(3);
 - b. that the shareholders have entered into a new unanimous written agreement for the particular financial year under review; and
 - c. that the balance sheet and accompanying notes contain the information required under the Eleventh Schedule of the Companies Ordinance.

Auditor's Report

11. An auditor is required to comply with the requirements of 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" .
12. In an auditor's report on the financial statements prepared in accordance with the SME-FRS, the auditor expresses an opinion as to whether the financial statements have been properly prepared, in all material respects, in accordance with the SME-FRS.
13. In addition, for a company incorporated in Hong Kong applying section 141D, section 141D(1)(e) also requires the auditor's report to state:
 - a. whether or not the auditor has obtained all the information and explanations which they have required; and
 - b. whether, in their opinion, the balance sheet (together with the notes thereon) referred to in the report is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them, and as shown by the books of the company.
14. The Appendix contains an example of an unqualified auditor's report on the financial statements prepared in accordance with the SME-FRS based on HKSA 700.
15. Where the auditor is unable to give an unmodified opinion, the requirements relating to modified auditor's reports in HKSA 701 should be complied with.
16. It should be noted that, whilst the suggested auditor's report makes no reference to compliance with the disclosure provisions of the Companies Ordinance, the auditor still has an obligation under sections 161 and 161B to give details in their report of directors' remuneration and loans to officers to the extent that the information is not provided in the financial statements of a company applying section 141D.

APPENDIX

**Example Unqualified Auditor's Report on Financial Statements
Prepared in Accordance with the SME-FRS based on HKSA 700 "The
Independent Auditor's Report on a Complete Set of
General Purpose Financial Statements"
- effective for audits of financial statements for periods beginning before
15 December 2009**

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF SME LIMITED**

(incorporated in [country or place] with limited liability)

Report on the Financial Statements

We have audited the financial statements of SME Limited set out on pages to , which comprise the balance sheet as at 31 December 200X, and the income statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and presentation of these financial statements in accordance with the Small and Medium-sized Entity Financial Reporting Standard (SME-FRS) issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

[In addition, section 141D of the Companies Ordinance requires that the balance sheet together with the notes thereon should be prepared in accordance with the requirements of the Eleventh Schedule to that Ordinance.]¹

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit². We conducted our audit in accordance with Hong Kong Standards on Auditing and with reference to PN 900 (Revised) "Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard" issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly prepared, in all material respects, in accordance with the SME-FRS. [In addition, in our opinion the balance sheet together with the notes thereon is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs as at 31 December 200X according to the best of our information and explanations given to us, and as shown by the books of the company.]¹

Report on other matters under section 141D of the Hong Kong Companies Ordinance

[We report that we have obtained all the information and explanations which we have required.]¹

ABC & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Address]

Date

Footnote 1 – This additional wording is required for companies incorporated in Hong Kong applying section 141D of the Companies Ordinance.

Footnote 2 – Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".