



KEMENTERIAN PERDAGANGAN DALAM NEGERI  
DAN KOS SARA HIDUP



SURUHANJAYA SYARIKAT MALAYSIA  
COMPANIES COMMISSION OF MALAYSIA

## **Consultative Document on the Proposed Review of Audit Exemption Criteria for Private Companies in Malaysia**

Companies Commission of Malaysia (SSM) invites comments on the questions as set out in this Consultative Document on the **Review of Audit Exemption Criteria for Private Companies in Malaysia**. Please provide your name and the organisation you represent (where applicable) together with your comments.

We welcome comments to be submitted by email by 28 February 2023 to [lrpia@ssm.com.my](mailto:lrpia@ssm.com.my).

**Confidentiality:** Any confidentiality disclaimer that may be generated by your organisation's IT system or included as a general statement in your fax cover sheet will be taken to apply only to information in your response for which confidentiality has been requested.

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## SECTION A : INTRODUCTION

1. On 5 August 2017, Suruhanjaya Syarikat Malaysia (SSM) issued Practice Directive No. 3/2017 (PD 3/2017) - Qualifying Criteria for Audit Exemption for Certain Categories of Private Companies. The objective of PD3/2017 is to reduce regulatory burden and cost of doing business for small and medium sized companies by allowing certain categories of private companies to be exempted from having their financial statements being audited.
2. PD3/2017 sets out the qualifying criteria for private companies incorporated in Malaysia from having to appoint an auditor in a financial year pursuant to subsection 267(2) of the Companies Act 2019 ("CA 2016").
3. Table 1 shows the qualifying criteria for types of private companies as specified in PD 3/2017.

<b>Table 1:</b> Types of Qualifying Criteria of Private Companies		
<b>No.</b>	<b>Types of private companies</b>	<b>Criteria</b>
1	Dormant companies	Companies must have either been dormant since the time of incorporation, or dormant during the immediate past and current financial year.
2	Zero-revenue companies	Companies must fulfil the following three (3) requirements: (a) No revenue during the current financial year; (b) No revenue in the immediate past two financial years; and (c) Total assets do not exceed RM300,000 for the current Statement of Financial Position as well as in the immediate past two financial years.
3	Threshold-qualified companies	Companies must fulfil the following three (3) requirements: (a) Annual revenue not exceeding RM100,000 during the current financial year and the immediate past two (2) financial years;

<b>Table 1: Types of Qualifying Criteria of Private Companies</b>		
<b>No.</b>	<b>Types of private companies</b>	<b>Criteria</b>
		(b) Total assets in the current Statement of Financial Position of RM300,000 or less and in the immediate past two financial years; and (c) Has not more than five (5) employees at the end of its current financial year and in the immediate past two (2) financial years.

4. Additionally, there are also built-in safeguards which allows shareholders holding not less than 5% of the total voting shares to require the company to have its accounts audited. On top of that, the Registrar is also given the power to direct companies to have their accounts audited.

**ANALYSIS ON THE TAKE UP RATE**

5. As at 30 November 2022, SSM received 420,692 financial statements lodged by companies for the year ended 2020. Analysis was made on the turnover and assets reported in the financial statements to identify the eligibility of those companies to the audit exemption (AE). However, the analysis does not take into consideration the number of employees employed by the companies as such data is not available to be included as part of the eligibility analysis.

6. The analysis indicated that 31% of the companies are eligible for audit exemption based on the criteria set in PD 3/2017. Companies eligible for audit exemption are mostly from the Zero Revenue category which constitute 64% of the total companies eligible for audit exemption. 24% of companies which lodged financial statements to SSM are eligible for audit exemption under the Threshold Qualified category and 12% eligible under the Dormant Companies category. However, only 6% of the total companies eligible for audit

exemption had lodged unaudited financial statements with SSM with the remaining had submitted audited financial statements.

7. Table 2 shows the statistics of audit exemption eligibility and the percentage of unaudited accounts submission for the financial year ended 2020.

<b>Table 2: Percentage of Companies Eligible for Audit Exemption (AE) and Unaudited Financial Statements lodged for the Financial Year Ended 2020</b>				
	Dormant Companies	Zero-Revenue Companies	Threshold-Qualified Companies	<b>Overall</b>
(a) Eligible for AE <i>(% out of total companies eligible for AE)</i>	12%	64%	24%	<b>100%</b>
(b) Submit Unaudited Account <i>(% out of total companies submitted unaudited account)</i>	19%	69%	13%	<b>100%</b>
Percentage of AE submission $[(b)/(a)]$	9%	6%	3%	<b>6%</b>

*Statistics as at 30 November 2022*

8. Additional analysis were made to financial statements lodged by companies for the year ended 2018 and 2019. The analysis demonstrated a low take up rate from year 2018 and 2019 where only 4% and 7% of companies eligible for audit exemption had submitted unaudited Financial Statements for the respective financial year end (Refer to Table 3).

**Table 3:** Percentage of Companies Eligible for Audit Exemption (AE) and Unaudited Financial Statements lodged for the Financial Year Ended 2018 and 2019

	Dormant Companies	Zero-Revenue Companies	Threshold-Qualified Companies	Overall
<b>2018</b>				
(a) Eligible for AE <i>(% out of total companies eligible for AE)</i>	13%	67%	21%	<b>100%</b>
(b) Submit Unaudited Account <i>(% out of total companies submitted unaudited account)</i>	16%	70%	14%	<b>100%</b>
Percentage of AE submission [(b)/(a)]	5%	4%	3%	<b>4%</b>
<b>2019</b>				
(a) Eligible for AE <i>(% out of total companies eligible for AE)</i>	12%	66%	22%	<b>100%</b>
(b) Submit Unaudited Account <i>(% out of total companies submitted unaudited account)</i>	18%	66%	17%	<b>100%</b>
Percentage of AE submission	11%	7%	6%	<b>7%</b>

Statistics as at 30 November 2022

## **POSSIBLE REASONS ON THE LOW TAKE UP RATE**

### **(a) Awareness of companies on the eligibility for audit exemption**

9. SSM has conducted a survey from 23 November 2022 – 2 December 2022 on awareness on Audit Exemption and the Qualifying Criteria for Private Companies. 924 respondents provided feedback on the survey.

10. The feedback from the respondents are as follow :

<b>Table 4 : Feedback on Survey</b>		
<b>Question</b>	<b>Yes</b>	<b>No</b>
Do you know that certain category of private companies are exempted from having to audit their financial statement?	91%	9%
Are you aware of the existence of Practice Directive 3/2017 which sets the qualifying criteria for audit exemption of private companies?	84%	16%

**Note:** 54% of the respondents are solely involved as company secretary in private companies and 14% are directors for at least 1 private company. Meanwhile, the rest of the respondents hold various positions e.g. accountant & director, company secretary & director, auditors etc.

11. Based on the feedback, there are significant level of awareness among companies and directors on the audit exemption benefit, which indicate there may be other possible barriers which prevent companies to opt for audit exemption.

**(b) Procedure imposed by licensing and regulatory authorities, financial institutions, trade creditors, etc. which require companies to furnish audited Financial Statement.**

12. At the moment, only Inland Revenue Board of Malaysia (IRB) have streamlined the requirement with SSM's policy to allow certain category of companies to submit unaudited Financial Statements upon filing tax returns.

13. There may be other authorities/agencies that are still imposing the requirements for companies to furnish audited financial statements when dealing with them for the purpose of obtaining licenses, permit and etc. In addition, financial institutions, trade creditors and other loan providers may also require audited financial statements to be provided as supporting documents when processing loans or credit facilities.

14. Therefore, these companies may decide that they would not benefit from taking up audit exemption as they are still required to fulfil the requirements by other authorities/agencies/organisations including when obtaining loan, permits or renewal of licences.

**(c) Companies elected to submit audited financial statement.**

15. The Board of Directors may continue electing to carry out audit of its financial statements to ensure transparency between shareholders and directors. This is especially in cases where members of the Board and shareholders are not the same persons. Furthermore, shareholders still have the right to require companies to have its account audited.

**(d) Other contributing factors**

16. As highlighted in paragraph 6, the number of companies eligible for audit exemption did not include the analysis of data on the number of employees. There are possibilities that the companies do not meet the employees threshold, thus these companies are still required to submit their financial statements audited.

**Question 1:**

In your opinion, what are the reasons for a company not to take up the audit exemption route? Please provide clarifications to your response.



## **HIGHLIGHT ON SURVEY FINDING BY THE MALAYSIAN INSTITUTE OF ACCOUNTANTS**

17. In 2021, The Malaysian Institute of Accountants (MIA) conducted a survey on “The Impact of Audit Exemption on Small Companies and Audit Firms”. Based on the findings in the report, the most common reasons for companies not taking up audit exemption and continuing to undergo audits are:

- (a) Request from shareholders and 37% respondents opined that audit provides a check on the records and systems of the company and improves the quality of financial information;
- (b) To meet the requirements imposed by lender and 17% opined that audit conducted has improved the company’s ability to raise funds;
- (c) To meet the requirements required by trade creditor and major customers; and
- (d) Perceptions that audits represent good financial practise based on history of undergoing audits.

18. On the other hand, private companies opined that audit exemption has helped to ease the burden of their business and decided to take-up audit exemption for the following reasons:

- (a) To save money spent on audits, with 89% respondents agreed;
- (b) To save time from not having interact with auditors, with 68% respondents agreed;
- (c) 39% respondent reckoned that audit process is too complicated and confusing; and
- (d) The company is dormant and too small in terms of company size.

19. While taking audit exemption route, companies are driven to do some form of additional scrutiny, mainly with more accounting or book-keeping

capacity either internally or externally where 91% of those companies reported that they still made overall savings despite additional cost incurred.

20. The MIA also reported in their survey findings that the majority of respondents agreed the threshold for revenue, assets and employees should be increased. The suggested threshold are as follows:

- (a) Revenue: from RM100,000 to RM500,000 (26% of respondents).
- (b) Assets: from RM300,000 to RM600,000 (34% of respondents);  
and
- (c) Employees: from five (5) to ten (10) by (53% of respondents).

## SECTION B : COMPARATIVE STUDY

21. A comparative study on the development and changes in respect of audit exemption thresholds in other jurisdictions was carried out towards proposing a revision of the current qualifying criteria on audit exemption threshold in Malaysia.

22. The United Kingdom (UK), Australia and Singapore developed and made several changes in respect of the audit exemption thresholds in line with their current needs and economic development. Development and changes for each jurisdictions are specifically discussed below.

### UNITED KINGDOM

23. The UK made several changes and gradually increased their threshold in line with their needs and economic development. Table 5 shows various threshold starting from 1994 when it was first introduced for small companies.

<b>Table 5 : Financial Criteria for Company to Qualify as a Small Company in the UK</b>			
<b>Year</b>	<b>Turnover</b>	<b>Total Assets</b>	<b>Total Employees</b>
<b>1994</b>	£90K	£1.4 mil	50
<b>1997</b>	£350K	£1.4 mil	50
<b>2000</b>	£1 mil	£1.4 mil	50
<b>2004</b>	£5.6 mil	£2.8 mil	50
<b>2009</b>	£6.5 mil	£3.3 mil	50
<b>2019</b>	£10.5 mil	£5.1 mil	50

24. A company must qualify as small company during the financial year and the past two consecutive years to be entitled for audit exemption. This include subsidiaries with certain conditions stated in the Companies Act 2006.

25. The number of companies registered in the UK in 1994 was approximately 1.1 million and increased to 4.89 million in March 2022 (*Source: Incorporated companies in the UK – Companies House*). As at the end of March 2022, the number of companies on the effective register (which excludes those in the course of removal or liquidation) was 4,499,342.

26. In 2015, The Department of Business, Energy and Industrial Strategy (BEIS) conducted a study on “The Impact of Exempting Small Companies from Statutory Audit”. The study revealed that in 2014/2015, 1,814,900 companies in the UK did not have their individual accounts audited. It represent 90% of all dormant companies that had registered annual accounts at Companies House in 2014/2015. The number of active companies in the UK in 2015 was 3,464,155.

## **AUSTRALIA**

27. Australia first introduced audit exemption for small companies in 1971. The thresholds for determining whether a proprietary company is small or large was changed as a result of amendments to the Corporations Regulations 2001 in 2019.

28. Under the latest policy, a proprietary company will be classified as small if it meets at least two of the thresholds set under section 45A of the Corporations Act 2001 in respect of a given financial year. The thresholds are shown in Table 6.

<b>Table 6 : Financial Criteria for Company to Qualify as a Small Company in Australia</b>			
Year	Turnover	Total Assets	<b>Total Employees</b>
<b>Prior to 2019</b>	A\$25 million	A\$12.5 million	50
<b>2019</b>	A\$50 million	A\$25 million	100

29. The justifications for the increase in thresholds in 2019 are:

- (a) To justify with the nominal economic growth since the 2007;

- (b) To increase the employee threshold and make it as a relevant indicator of the size and significance of an entity; and
- (c) To ensure financial reporting obligations are targeted at economically significant companies, while reducing costs for smaller sized companies.

30. The Explanatory Statement explained that the Australian Treasury expects around one third of large proprietary companies will be reconsidered as small proprietary companies under the new threshold.

31. ASIC reports in its Annual Report 2020-2021 that total companies registered in 2021 was 2.92 million. The Australian Bureau of Statistics reported that there were 2,402,254 actively trading businesses in the Australian as at June 30 2021.

32. In terms of turnover, 93.0% of businesses had turnover of less than \$2 million between year 2020-2021 (2019-2020: 93.0% ; 2017-2018 : 93.1%). No report found on the number of companies submitting unaudited accounts to ASIC.

## **SINGAPORE**

33. In 2003, Singapore adopted the Australian Private Exempt Company regime, exempting certain private companies from being audited. Only exempt private companies with yearly revenue of less than SGD2.5 million (increased to SGD5 million in 2004) were exempt from being audited.

34. Exempt private companies refers to companies that have less than 20 individual members (shareholders) and not having corporate shareholders (shares held by another company).

35. In 2015, Companies (Amendment) 2014 introduced new criteria for qualification as a "small company" for audit exemption. In order to qualify as a "small company", a company must be a private company that fulfils at least two of the following three quantitative criteria in each of the immediate past two financial years:

- (a) Total annual revenue of not more than \$10 million;
- (b) Total assets of not more than \$10 million; and
- (c) Number of employees of not more than 50.

36. The reliance on the concept of Exempt Private Company for audit exemption has since been removed. Now, companies with more than 20 shareholders and has corporate shareholders but fulfils the criteria are entitled as small company and exempt for audit.

37. The new audit exemption was intended to help reduce regulatory costs for smaller companies that do not have wide market impact and resulted in a reduction in compliance costs for at least 25,000 small companies which previously do not qualify for audit exemption.

38. Table 7 shows the changes of qualifying threshold in Singapore for audit exemption.

<b>Table 7 : Financial Criteria for Company to Qualify as a Small Company in Singapore</b>			
<b>Year</b>	<b>Turnover</b>	<b>Total Assets</b>	<b>Total Employees</b>
<b>2003</b>	S\$2.5 million	NA	NA
<b>2004</b>	S\$5 million	NA	NA
<b>2015</b>	S\$10 million	S\$10 million	50

39. As at 31 May 2022, there were 396,206 companies registered with ACRA. Singapore Small and Medium Enterprises (SMEs) statistics for year 2020 released by The Singapore Department of Statistics reported that there are 291,600 SMEs in Singapore which are defined as companies with a turnover of less than S\$100 million or employ 200 or fewer employees. No report found on the status of accounts (whether audited or non-audited) lodged to ACRA.

### **Summary on the jurisdiction study**

40. In summary, United Kingdom (UK), Australia and Singapore implemented audit exemption with the aim to reduce the financial burdens

faced by small companies especially by saving money and time for having to interact with auditor. Those jurisdictions monitored and reviewed the thresholds over time to ensure they remain consistent and relevant with wider definition of small companies and remain at an appropriate level to benefit small companies.

41. In the UK, more than 50% of companies which had registered annual accounts at Companies House did not have their individual accounts audited and 90% of the companies are dormant (based on the UK's study in 2014/2015).

42. Australia increased the turnover, assets and employees threshold in 2019 to give opportunity to additional one third of large proprietary companies to be reconsidered as small proprietary companies.

43. Singapore introduced new criteria of small company for audit exemption in 2014 and expect reduction in compliance costs for at least 25,000 small companies which did not qualify for audit exemption.

44. In terms of threshold, the UK and Australia uses higher turnover criteria compared to assets, but Singapore sets equal value for turnover and assets as qualifying criteria.

<b>Table 8 : Summary of current threshold for audit exemption for United Kingdom, Australia and Singapore</b>			
<b>Jurisdiction</b>	<b>Turnover</b>	<b>Total Assets</b>	<b>Total Employees</b>
<b>United Kingdom</b>	£10.5 mil	£5.1 mil	50
<b>Australia</b>	A\$50 million	A\$25 million	100
<b>Singapore</b>	S\$10 million	S\$10 million	50

## SECTION C : PROPOSAL FOR NEW THRESHOLD

### RECOMMENDATION

45. Despite the current take up rate and the need to increase awareness on audit exemption eligibility on the part of users of financial statements, the threshold should be reviewed to ensure it is relevant to achieve the objective of audit exemption, which is to facilitate companies towards reducing compliance costs especially in cases of owner-managed companies.

46. To ensure maximum number of companies could benefit from the audit exemption, the new threshold should:

- (a) Allow small and medium-sized enterprises (SMEs) to focus on improving their business, reducing their regulatory and financial burden;
- (b) Help small and medium-sized practitioners (SMPs) transform the current landscape to one that is progressive and able to move up the value chain of professional services to better serve the needs of SMEs; and
- (c) Ease the burden on the current shortage of auditors (including their staff) in Malaysia.

47. Therefore, the new thresholds are proposed as below:

**(a) Dormant companies**

- No changes

**(b) Zero-revenue companies**

- Turnover: RM0 (No changes)
- Total assets: To increase total assets from RM300,000 to RM500,000 for the current Statement of Financial Position as well as in the immediate past two financial years.



**(c) Threshold-Qualified companies:**

- Turnover: To increase annual revenue from RM100,000 to RM1,000,000 during the current financial year and the immediate past two (2) financial years.
- Total assets: To increase total assets in the current Statement of Financial Position from RM300,000 to RM1,000,000 in the immediate past two financial years
- Employees: To increase from not more than five (5) to not more than thirty (30) employees at the end of its current financial year and in the immediate past two (2) financial years.

**JUSTIFICATION**

48. The above proposed new thresholds are in line with the objective to support the growth of small and medium-sized enterprises (SMEs) in Malaysia especially under micro and small enterprises categories.

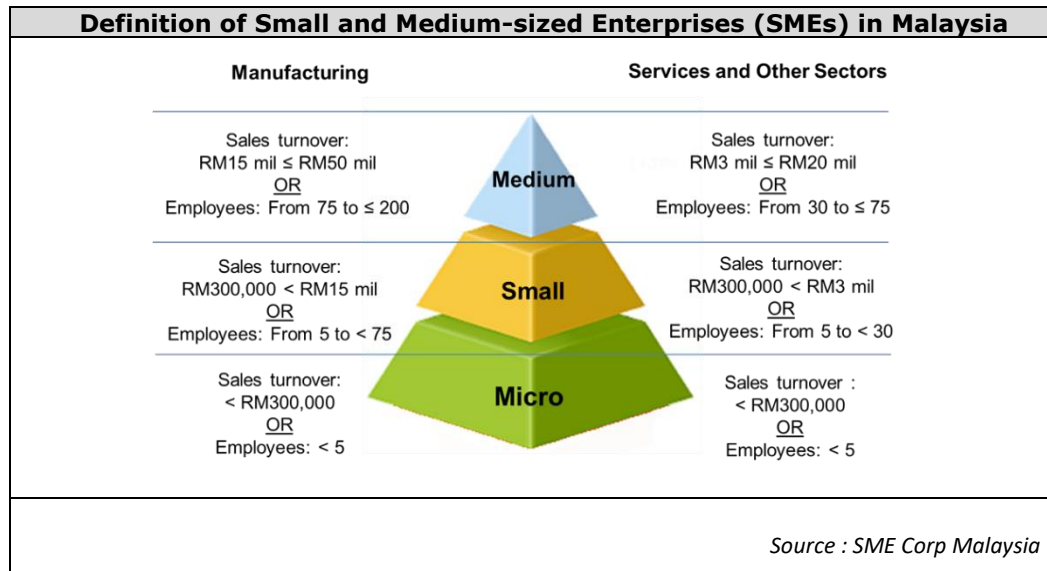
49. SMEs played a significant role in the process of industrialisation worldwide. Audit exemption regime in various advanced countries such as Australia, Singapore and the UK has been implemented with the aim to support the growth of SMEs<sup>1</sup>.

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<sup>1</sup>Definition of SMEs:

- (a) Australian Bureau of Statistics (ABS) considers any business with under 200 employees to be a medium business and any with under 20 employees to be a small business. However, for tax purposes, Australian Tax Office (ATO) classifies businesses as follows:
  - (i) small or micro enterprises: annual turnover of \$10 million or less; and
  - (ii) medium-sized enterprises: annual turnover of between \$10 million and \$250 million.
- (b) In the United Kingdom, SMEs encompasses:
  - (i) Micro: less than 10 employees and an annual turnover under €2 million;
  - (ii) Small: less than 50 employees and an annual turnover under €10 million; and
  - (iii) medium-sized: less than 250 employees and an annual turnover under €50 million.
- (c) Singapore SMEs are enterprises with an annual turnover of less than \$10m and employ less than 200 workers.

50. SMEs in Malaysia are defined by criteria as shown in the chart below:



51. The current threshold on revenue may benefit only part of enterprises under Micro category. An increase in turnover threshold from RM100,000 to RM1,000,000 and employee from 5 to 30 is expected to benefit all micro enterprises and part of the small enterprises category.

**Question 2:**

Do you agree that threshold on assets for Zero-Revenue Companies be increased to cater for larger companies including holding companies? Please provide clarifications to your response.

**Question 3:**

Do you agree that threshold on assets for Zero-Revenue Companies be increased from RM300,000 to RM500,000? Please provide clarifications to your response.

**Question 4:**

Do you agree on the threshold on turnover for Threshold-Qualified Companies be increased from RM100,000 to RM1,000,000? Please provide clarifications to your response.

**Question 5:**

Do you agree on the threshold on assets for Threshold-Qualified Companies be increased from RM300,000 to RM1,000,000? Please provide clarifications to your response.

**Question 6:**

Do you agree on the number of employees for Threshold-Qualified Companies be increased from not more than five (5) to not more than thirty (30) employees? Please provide clarifications to your response.

**Question 7:**

Do you have any suggestions on improving the take-up rate on audit exemption? Please provide clarifications to your response.

Issued by:

**Companies Commission of Malaysia (SSM)**

2 February 2023