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**Audit Exemption for Small Private Companies**

Section 267(2) of the Companies Act 2016 empowers the Registrar of Companies to exempt any private company from auditing its financial statements. Pursuant to this provision, the Companies Commission of Malaysia (CCM) published the Practice Directive No 3/2017 on 4 August 2017, which sets out the quantitative criteria for audit exemption.

Audit exemption will be available for three types of private companies:

Type	Criteria	Effective date
Dormant	No business has been carried on and no accounting transaction has occurred since incorporation or for two consecutive financial years.	A new company formed from 31 January 2017 onwards is immediately eligible.  For an existing company, election is available from 1 September 2017.
Zero revenue	No revenue for three consecutive financial years during which total assets do not exceed RM300,000.	Election is available from 1 January 2018.
Threshold-qualified	Annual revenue not exceeding RM100,000 for three consecutive financial years during which total assets do not exceed RM300,000 and total number of full-time employees does not exceed five.	Election is available from 1 July 2018.

**Requirements**

Companies that elect not to audit their financial statements are required to circulate their unaudited financial statements and reports within six months of their financial year-end. These documents must be lodged with the CCM within 30 days of circulation together with an audit exemption certificate in the form prescribed by the CCM.

Notwithstanding eligibility for exemption, a company must audit its financial statements if its shareholders who own not less than 5% of shares require it to do so.

#### *Practical considerations*

Certain practical considerations may override the objective of audit exemption.

The Inland Revenue Board (IRB) requires all companies to report their income based on audited accounts. An announcement by the IRB in 2014 allows companies to rely on final accounts if the CCM exempts them from lodging audited accounts with the CCM. However, it remains to be seen whether the IRB will handle tax returns submitted based on unaudited accounts differently.

There is no indication that financial institutions will change their current practice of requiring audited accounts to be submitted in connection with applications for financial facilities and for maintaining financial facilities.

#### **Samantha Liew Wee Nie**

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