

Malaysia News:

Update on audit requirements:
qualifying criteria for exemption
from audit requirements

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Under Malaysian company law, it is mandatory for private companies to appoint an auditor to audit the financial statements in each financial year. However, section 267 (2) of the Companies Act 2016 ("CA 2016"), which came into force in January 2017, provides that the Registrar of the Companies Commission of Malaysia ("CCM") may exempt private companies from having to appoint an auditor in a financial year (audit exemption) if they meet certain conditions.

On 4 August 2017, the CCM issued a Practice Directive (no. 3/2017) setting out the qualifying criteria for an audit exemption.

Qualifying companies

The three following categories of companies, provided they meet the requirements applicable for each category, are qualified for an audit exemption:

- Dormant companies;
- Zero-revenue companies; and
- Threshold-qualified companies.

1. Dormant companies

A company will be considered 'dormant' if it does not carry out any activity and if there is no accounting transaction during a financial year, excluding a transaction and its related costs arising from an obligation that the company is required to comply with under the Malaysian law.

In order to qualify for the audit exemption for dormant companies, a company must:

- Have been dormant from the time of its incorporation; or
- Have been dormant throughout the current financial year and in the immediate preceding financial year.

2. Zero-revenue companies

As their name suggest, "zero-revenue companies" are companies which do not have any revenue during the current financial year.

In order to qualify for the audit exemption as a zero-revenue company, a company must meet the following requirements:

- It does not have any revenue during the current financial year and the immediate past two financial years; and
- Its total assets must not exceed RM300,000 during the Statement of Financial Position of the current financial year and of the immediate past two financial years.

3. Threshold-qualified companies

A company may also qualify for an audit exemption if it has continuously been below the following thresholds during the current financial year and the immediate past two financial years:

- The revenue never exceeded RM100,000; and
- The total assets do not exceed RM300,000 in the Statement of Financial Position; and
- It has no more than 5 employees.

Availability of audit exemption

The audit exemption is being implemented on a staggered basis and will be available as follows depending on the category of the company, its date of incorporation and the beginning of its financial year.

Category	Date of incorporation	Financial year starts on or after
Dormant company	On or before 31 January 2017	1 September 2017
	On or after 31 January 2017	31 January 2017
Zero-revenue company	n/a	1 January 2018
Threshold-qualified company	n/a	1 July 2018

It is important to note that even if a company is exempted from audit requirements, it must still lodge its unaudited financial statements with the CCM, together with the directors' report, statement by the directors and statutory declaration as provided by the CA 2016.

In addition, the unaudited financial statements must be accompanied by a certificate stating:

- the members have not required the company to perform an audit of its accounts for the year;
- the directors acknowledge their responsibilities for complying with the requirements of the CA 2016 regarding the accounting records and the preparation of financial statements;
- the financial statements have been prepared in accordance with applicable approved accounting standards and complies with the requirements of the CA 2016;
- the name of the person responsible for the financial management of the company.

The certificate has to be signed by a director certifying to the best of his knowledge and belief that the company is entitled to exemption from audit under the CA 2016.

Duration of the exemption

Once the company is audited exempted, it will continue to be exempted for as long as it meets the requirements. In others words, when a company ceases to be qualified, it will automatically lose its status as exempt company.

Going forward, it is recommendable for companies to check if they may qualify for any of the above mentioned audit qualifications. If so, it should be determined if use shall be made of such exemption or if there are reasons why an audit would still be preferred despite of the costs related therewith.

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