

## Audit 101: Is my Company Eligible for Audit Exemption?

The Companies Act 2016 requires private Companies to appoint an auditor for each financial year of the Company to audit its financial statements. The Company Commission of Malaysia (SSM) later in 2017 issued a [Practice Directive](#) containing criteria for private Companies to not have to appoint an auditor in a financial year, i.e. audit exemption.

The following categories of private Companies qualify for an audit exemption:

### 1. Dormant Companies

A Company is dormant in a financial year if the Company does not carry on business and that there are no account transactions occurred, excluding transactions from obligations that the Company is required to abide by laws to pay related compliant costs.

A dormant Company is qualified for the audit exemption if:

- a. It has been dormant from time of incorporation, or
- b. It is dormant throughout the current financial year and in the immediate preceding financial year.

### 2. Zero-revenue Companies

Zero-revenue Companies are qualified for audit exemption if:

- a. The Company does not have any revenue\* during the current financial year;
- b. The Company does not have any revenue in the immediate past 2 financial years; and
- c. The Company's total assets in the current Statement of Financial Position does not exceed RM 300,000.00 as well as in the Statement of Financial Position of the past 2 years.

*\*Revenue does not include credit entries for reversal of accounting entries arising from earlier entries, accounting entries related to taxation, reversal of provisions made earlier and gain on derecognition of property, plant, equipment and investment property in the Statement of Comprehensive Income.*

### **3. Threshold-qualified Companies**

Threshold-qualified Companies are qualified for audit exemption if:

- a. The Company's receivable revenue during the financial year does not exceed RM 100,000.00 and in the immediate past 2 financial years;
- b. The Company's total assets in the current Statement of Financial Position does not exceed RM 300,000.00 as well as in the Statement of Financial Position of the past 2 years;
- c. The Company does not have more than 5 employees by the end of its current financial year, as well as in the past 2 financial year ends.

### **Submission of Accounts to the Companies Commission of Malaysia (SSM):**

There are several requirements for Companies that have decided to be exempted from audit. These Companies must lodge their unaudited financial statements compliant with approved accounting standards, accompanied with other documents including Section 260 of Companies Act 2016 (Certificate relating to exempt private Company), Directors' report, statement by Directors, as well as an Audit Exemption Certificate which should state the following details:

- a. Members have not required the Company to perform an audit of its account for the current financial year.
- b. Directors of the company acknowledge their responsibilities for complying the requirements of the Companies Act 2016, with respect to accounting records and the preparation of financial statements.
- c. The financial statements in the submission were prepared in accordance with approved accounting standards issued by Malaysian Accounting Standards Board (MASB) and complies with the requirements of the Companies Act 2016.
- d. The Board of Directors will need to make alert to the appointed COSEC for the application works on Audit Exemption Certificate upon fulfilling the criteria as written.