

Client Alert

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Introduction of Audit Exemption for Private Companies by the Companies Commission of Malaysia

Introduction

The Companies Commission of Malaysia ("**CCM**") had on 4 August 2017 issued a Practice Directive No. 3/2017 ("**PD 3/2017**") setting out the "Qualifying Criteria For Audit Exemption For Certain Categories Of Private Companies".

The Malaysian Companies Act 2016 ("**CA 2016**") requires every private company to appoint an auditor for purposes of auditing its financial statements for each financial year. However, the Registrar also has the power to exempt any private company from having to appoint an auditor.

Categories of private companies that qualify for audit exemption

The following categories of private companies will qualify for audit exemption: (i) dormant companies, (ii) zero-revenue companies and (iii) threshold-qualified companies.

Dormant companies	Zero-Revenue companies	Threshold-Qualified companies
<p>a) It has been dormant from the time of its incorporation; or</p> <p>b) It is dormant throughout the current financial year and in the immediate preceding financial year.</p>	<p>a) It does not have any revenue during the current financial year;</p> <p>b) It does not have any revenue in the immediate past two financial years; and</p> <p>c) Its total assets in the current Statement of Financial Position ("FS") does not exceed RM300,000 as well as in the FS of the immediate past two financial years.</p>	<p>a) It has revenue not exceeding RM100,000 during the current financial year and in the immediate past two financial years;</p> <p>b) Its total assets in the current FS does not exceed RM300,000 and in the immediate past two financial years; and</p> <p>c) It has, at the end of its current financial year and in each of its immediate past two financial years end, not more than five employees.</p>



When does the audit exemption take effect?

The audit exemption takes effect on or after the dates set out below:

Qualifying companies	Effective date
Dormant companies	<ul style="list-style-type: none">i. Incorporated on or after 31 January 2017 with its annual financial period commencing on or after 31 January 2017; orii. Incorporated on or before 30 January 2017 with its annual financial period commencing on or after 1 September 2017.
Zero-Revenue companies	For financial statements with annual periods commencing on or after 1 January 2018.
Threshold-Qualified companies	For financial statements with annual periods commencing on or after 1 July 2018.

Exclusion

The exemption will not apply to exempt private companies. Under the CA 2016, an exempt private company is a private company with not more than 20 shareholders, none of which are corporate bodies (with direct or indirect interest in those shares).

Practical considerations

Companies will need to carefully consider various practical issues arising from this exemption:

1. Audit-exempt companies still need to prepare unaudited financial statements in accordance with prevailing approved accounting standards and lodge them with the CCM. The unaudited financial statements must be accompanied by a certificate signed by a director confirming that the financial statements have been prepared based on applicable accounting standards, the board acknowledges responsibility for complying with the CA 2016 and that the shareholders did not request for the financial statements to be audited.
2. The board will have a collective responsibility for the certification and the unaudited financial statements. They must understand potential legal ramifications arising from third parties relying on the information as the unaudited financial statements will be a publicly available document.



3. The board may require the assistance of audit / accounting firms to prepare the unaudited financial statements in accordance with the accounting standards. From a cost perspective, it may not make much of a difference from a full audit exercise.
4. For companies which do not qualify in subsequent financial years, there is a risk that the auditors may qualify the audited financial statements on the basis that the opening balances are derived from unaudited numbers.
5. The tax authorities may still require financial information in annual corporate tax submissions to be derived from audited figures.

Companies will have to undertake a cost-benefit analysis and consult their financial and tax advisers to determine whether they qualify for audit exemption and more importantly, whether there is any practical and/or regulatory advantage to pursue the audit exemption.

For a full articulation of the conditions and procedures of the audit exemption, please click [HERE](#) to view the PD 3/2017 directive issued by the CCM.

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