



## **PRACTICE DIRECTIVE NO. 3/2017**

### **QUALIFYING CRITERIA FOR AUDIT EXEMPTION FOR CERTAIN CATEGORIES OF PRIVATE COMPANIES**

1. This Practice Directive is issued pursuant to section 20C of the Companies Commission of Malaysia Act 2001 and subsection 267(2) of the Companies Act 2016 (CA 2016).

#### **OBJECTIVE**

2. This Practice Directive sets out the qualifying criteria for private companies from having to appoint an auditor in a financial year (audit exemption).

#### **BACKGROUND**

3. Subsection 267(1) of the Companies Act 2016 requires every private company to appoint an auditor for each financial year of the company for purposes of auditing its financial statements.

4. However, pursuant to subsection 267(2) of the CA 2016, the Registrar may exempt any private company from having to appoint an auditor according to the criteria and conditions as set out in this Practice Directive.

## **QUALIFYING CRITERIA FOR AUDIT EXEMPTION FOR CERTAIN CATEGORIES OF PRIVATE COMPANIES**

5. For the purpose of this Practice Directive, the following categories of private companies qualify for audit exemption:

- (a) Dormant companies
- (b) Zero-Revenue Companies
- (c) Threshold-Qualified Companies

### **Dormant Companies**

6. A dormant company is a private entity as defined by the Malaysian Accounting Standards Board (MASB) and the company is qualified for audit exemption if--

- (a) it has been dormant from the time of its incorporation;  
or
- (b) it is dormant throughout the current financial year and in the immediate preceding financial year.

7. For the purpose of paragraph 6—

- (a) a company is dormant in a financial year if the company does not carry on business and there is no accounting transaction occurred;
- (b) "Accounting transaction" means a transaction, accounting or other records of which is required to be kept under section 245(1) of the Companies Act 2016, excluding a transaction arising from any obligations that the company is required to abide by any laws to pay and its related costs to comply.

## **Zero-Revenue Companies**

8. A zero-revenue company is a private entity as defined by the Malaysian Accounting Standards Board (MASB) and the company is qualified for audit exemption if—

- (a) it does not have any revenue during the current financial year;
- (b) it does not have any revenue in the immediate past two financial years; and
- (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.

9. For the purpose of paragraph 8—

- (a) “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;
- (b) a company ceases to be inactive where there are revenue received or receivable; and
- (c) any expenses incurred in maintaining the company is disregarded.

### **Threshold-Qualified Companies**

10. A threshold-qualified company is a private entity as defined by the Malaysian Accounting Standards Board (MASB) and is qualified for an audit exemption if -

- (a) it has revenue not exceeding RM100,000 during the current financial year and in the immediate past two (2) financial years;
- (b) its total assets in the current Statement of Financial Position (FS) does not exceed RM300,000 and in the immediate past two (2) financial years; and
- (c) it has, at the end of its current financial year and in each of its immediate past two (2) financial years end, not more than five (5) employees.

11. For the purpose of paragraph 10, revenue includes revenue receivable during the year.

### **OTHER CONDITIONS**

12. Where a company which is exempt from audit requirements ceases to be so qualified, it shall thereupon cease to be so exempt but it shall remain so exempt in relation to accounts for the financial years in which it qualifies.

13. Notwithstanding anything in this Practice Directive, a company that is eligible for audit exemption shall be required to audit its accounts if it receives a notice in writing requiring the company to audit its accounts during a financial year but not later than one month before the end of that financial year from: -

- (a) any member or members eligible to vote and holding in aggregate of not less than 5% of the total number of issued shares of the company or any class of those shares;
- (b) not less than 5% of the total number of members eligible to vote in of the company; or
- (c) the Registrar who directs the company to have its accounts audited.

## **REQUIREMENTS FOR THE SUBMISSION OF ACCOUNTS**

14. Any company that elects to be exempted from audit must lodge its unaudited financial statements with the Registrar accompanied with the required certificate in compliance with sections 258 and 259 of the Companies Act 2016.

15. The unaudited financial statements prepared shall comply with applicable approved accounting standards pursuant to subsection 244(1) of the Companies Act 2016.

16. The unaudited financial statements shall be lodged together with the directors' report, statement by directors and statutory declaration pursuant to sections 251 and 252 of the Companies Act 2016.

17. In addition to paragraph 16, the unaudited financial statements must also be accompanied by a certificate stating the matters as set out in Appendix I within thirty days from the circulation date of the unaudited financial statements and reports are circulated under section 258 CA 2016.

18. The certificate is to be signed by a director certifying to the best of his knowledge and belief for the financial year ended 31 xxx 20xx, the company is entitled to exemption from audit under section 267(2) of the Companies Act 2016 relating to private companies and, where the director is not primarily responsible for the financial management of the company, the name of the person responsible should also be stated.

### **EFFECT OF THIS PRACTICE DIRECTIVE**

19. This Practice Directive shall take effect as follows:

- (a) in the case of a dormant company –
  - (i) where the company is incorporated on or after 31 January 2017, the financial statements with annual periods commencing on or after 31 January 2017;
  - (ii) where the company is incorporated on or before 30 January 2017, the financial statements with annual periods commencing on or after 1 September 2017;
- (b) in the case of zero-revenue companies, for financial statements with annual periods commencing on or after 1 January 2018; and
- (c) in the case of threshold-qualified companies, for financial statements with annual periods commencing on or after 1 July 2018.

20. The exemption under this PD will not be applicable to an exempt private company which has chosen to lodge a certificate relating to its status as an exempt private company to the Registrar pursuant to section 260 of the CA 2016.

**REGISTRAR OF COMPANIES**  
**COMPANIES COMMISSION OF MALAYSIA**  
**4 August 2017**

## **APPENDIX I**

### **Audit Exemption Certificate**

- (1) The certificate should state that :-
  - (i) Members have not required the company to perform an audit of its accounts for that year.
  - (ii) The directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2016 with respect to accounting records and the preparation of financial statements.
  - (iii) These financial statements have been prepared in accordance with applicable approved accounting standards issued by Malaysian Accounting Standards Board (MASB), namely the Malaysian Private Entities Reporting Standard (MPERS) and complies with the requirements of the Companies Act 2016.
- (2) The unaudited financial statements and reports made up to 31 XXXX 20XX required under the Companies Act 2016 have been circulated to the members on 30 XXXX 20XX.