



COMPLYING TO FINANCIAL REPORTING REQUIREMENTS

The Companies Act 2016 ("CA 2016") which replaces the Companies Act 1965 came into force on 31 January 2017 and it embodies various policies to support the business community in Malaysia.

Many of the policies adopted are aimed at reducing the administrative and compliance costs towards fostering a more business-friendly environment. For example, a straight forward hassle free registration process has been introduced by allowing a single member/director company to be incorporated and doing away with the cumbersome requirement of Memorandum & Articles of Association. Additionally, private companies are no longer required to hold annual general meetings and therefore further reducing administrative burden. The Government also adopted the policies to support audit exemption for certain categories of private companies to alleviate the compliance costs.

In return for the adoption of a more business friendly policies for small and medium-sized enterprises (SMEs), appropriate and sufficient monitoring measures must also be in place to ensure that the long term objective of ensuring strong governance practices prevails within the corporate community in Malaysia. This will enable the Government and policy makers to introduce suitable policies and best practices to support the progress and growth of SMEs.

The requirement for the timely lodgement of financial statements with the Companies Commission of Malaysia (SSM) is one of the measures to assure that companies including the SMEs comply with the requirements of CA 2016. This policy was adopted from the now repealed Companies Act 1965 as it signals a company's reliability, integrity and obligations to its shareholders and other stakeholders at large. It is not surprising as financial statements remain a singular indicative document essential in charting the overall performance of the company and how well the company is being managed.

Therefore it is imperative that the entire process of financial statements preparation is complied with, starting from the appropriate accounting entry to be made in the accounting records within sixty days of completion of the transaction to the circulation

of the audited financial statements to shareholders and henceforth lodged with SSM. As for a public company, the financial statements are tabled at its Annual General Meeting instead of being circulated.

It is the responsibility of the directors of a company to ensure the preparation of the financial statements within eighteen months from the date of its incorporation and thereafter, within six months of its financial year end.

The check and balance mechanism by shareholders reflects global corporate practices on the requirement of accountability and corporate governance by the board of directors towards its stakeholders where SSM will not hesitate to initiate enforcement actions against directors and issue compounds on any breach of the CA 2016.

In the corporate world today, good corporate governance creates a transparent set of rules and controls in which board of directors, officers and shareholders should have a common goal, which is to strive to have a high level of corporate governance.

In fact, it is no longer the sole objective for a company to merely be profitable. It also needs to demonstrate good corporate citizenship through environmental awareness, ethical behaviours and sound corporate governance practices. Therefore a reliable financial reporting process is the basic cornerstone of good governance in a company where governance can go beyond financial optimization.

Thus, timely reporting to SSM where an up-to-date corporate registry with reliable financial reports from companies made available to all parties is the key to a conducive business environment in Malaysia. It is undeniable that compliance with corporate legislations is critical in achieving operations efficiency for a company and therefore failure to comply will attract penalties under the CA 2016.

To balance between the need to strictly adhere with the compliance requirements for submission of financial statements with SSM and to facilitate the availability of timely, accurate and reliable information to the public, an appropriate penalty regime has been emplaced to ensure that companies and directors could not be lulled into complacency to the extent that they prefer to pay the penalties than comply with the requirements under the CA 2016.

Companies must recognise that penalties as a result of failure to comply with the requirements of the law is not a cost of doing business and it would be unethical to pass such costs to customers.

Instead, companies should strive to comply with the law towards optimising compliance costs.

The reduction in compounds up to 80% in conjunction with the “Comply with the Companies Act 2016, Care For, Love Your Company campaign” is an initiative to encourage directors and companies to improve their overall compliance obligations.

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