Public Consultation of Subsidiary Legislations (Companies Act 2016 [Act 777])

FEEDBACK ON THE PRACTICE DIRECTIVE 1/2017 ON THE CRITERIA FOR AUDIT EXEMPTION FOR PRIVATE COMPANIES

No.	Name and Details of Respondent	Comments	Remarks
1.	**Sier Akmalhadi Bin Mat Noor**	Ini disebabkan syarikat kecil kebanyakan bisnes online dan kami kekurangan modal dan kurang mahir utk menyediakan keperluan yg dikehendaki pihak ssm.Yang mana jika pihak ssm hendak audit, pihak syarikat kecil ini rela di kompaun kerana tidak dapat menyediakan kehendak ssm tidak seperti syarikat besar yg mampu utk sediakan semua itu.	Agree
2.	**Mulyady Mustapha**	Saya menyokong penuh perkara 4 yang di draftkan. Syarikat saya Mustama Industries Sdn Bhd 1109752-X ditubuhkan pada tahun September 2014. Sepatutnya di audit pada akhir 2015. Tetapi, perniagaan mencatat kerugian teruk akhir 2015 sehingga Mei 2016. Hingga dikompaun oleh SSM. Masih belum dibayar. Jadi walaupun menjalankan perniagaan, tetapi mencatat kerugian. Tiada aliran tunai di akaun bank. Bila pegawai SSM datang, mereka mencadangkan penutupan syarikat sebab mereka tidak mahu saya dikompaun lagi untuk tahun kedua. 1) Saya syarikat kecil. 2) Jualan tak besar. (saya upgrade ke S/B sebab ada pelan tapitak menjadi)	Agree

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		Jadi saya amat bersetuju supaya tidak perlu di audit jika memenuhi syarat. Boleh menjimatkan kos operasi. Lebih banyak syarikat kecil akan menukar ke sdn bhd nanti.	
3.	**Kok Chee Kheong** SKRINE	**MEMORANDUM TO COMPANIES COMMISSION OF MALAYSIA** **RE: PROPOSED PRACTICE DIRECTIVE 1/2017** Our comments/queries on the exposure draft of the Proposed Practice Directive 1/2017 (“PD1/2017”) are as follows – 1. Paragraph 4 Please consider whether the section referred to in Paragraph 4 should be **Section 245(1)**, instead of Section 244(1), of the Companies Act 2016 (“CA16”). 2. Paragraph 6 Section 127 of CA16 only permits a company whose shares are listed on a stock exchange, i.e. a **public listed company,** to undertake a share buyback. As a private company is not permitted to carry out a share buyback, the exclusion of treasury shares in Paragraph 6 of PD1/2017 is unnecessary. 3. Paragraph 8	Query

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		The expression “parent company” is not defined in CA16. If PD1/2017 is intended to apply to the immediate holding company, then the expression “parent company” can be defined accordingly in PD1/2017. On the other hand, if the expression is intended to refer to a “holding company” as defined in Section 4 of CA16, then the expression “parent company” can be replaced by “holding company”. It should be noted that in view of Section 4(1)(b) of CA16, holding and subsidiary companies can exist in a multi-layered structure, i.e. a company which is a sub-subsidiary or sub-sub-subsidiary of a subsidiary of a holding company is also a subsidiary of the said holding company. 4. Paragraph 9(b) Should the expression “holding companies” be read as “holding company”? 5. Paragraph 13 This Paragraph requires a company which has qualified as a “small company” to continue as a small company unless – (a) it ceases to be a private company at any time during a financial year; and (b) it does not meet at least two of the three quantitative criteria set out in sub-paragraphs (i) to (iii) of Paragraph 10(b) for the immediate past two consecutive financial years.	

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		With regard to Paragraph 13(b), we seek to confirm whether the following is correct – ABC Sdn Bhd has satisfied at least two of the three quantitative criteria in its **two immediate preceding financial years**, say 2015 and 2016. During the current financial year, say 2017, ABC Sdn Bhd's revenue exceeds RM300,000 and employs more than 5 employees at the end of 2017. ABC Sdn Bhd is a private company throughout the three financial years, i.e. 2015, 2016 and 2017. Although ABC Sdn Bhd does not satisfy at least two of the three criteria in Paragraph 10(b) during the current financial year, it had satisfied these criteria during its two preceding financial years. Based on Paragraph 13, our understanding is that ABC Sdn Bhd will be exempted from audit requirements for 2017 (but not for 2018). We will appreciate your confirmation as to whether our understanding is correct. 6. Paragraph 11 As the expression "group" is not defined in CA16, it is suggested that "small group" be defined in PD1/2017 to avoid doubts as to whether the group only includes "related corporations" as defined in Section 7 of CA16 or includes associated companies as well. 7. Paragraph 12	

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		Do the quantitative criteria in Paragraph 10(b) of PD1/2017 apply to the whole "small group"? As an example, if a "small group" comprises five companies, must (i) the revenue of all five companies not exceed a total of RM300,000; and (ii) the number of persons employed by all companies in the "small group" not exceed five persons in total? 8. Paragraph 15 There appears to be an error in the reference to Paragraphs 2 to 10 in Paragraph 15. Based on the definition in Section 2(1) of CA16, corporations cannot be members of an "exempt private company" and no corporation can have any direct or indirect beneficial interest in the shares of an exempt private company. Paragraphs 8, 9, 11, 12 and 14 of PD1/2017 apply to companies which have other companies as its shareholders. If a company meets the criteria set out in Paragraphs 8, 9, 11, 12 and 14 (or any one or more of these paragraphs), it cannot satisfy the criteria for an exempt private company as set out in Section 2(1) of CA16.	
4.	**AL Tan**	If the SSM directive 1/2017 is implemented small firms like ours will have no choice but to retrench some of our non core staff . I hope that this directive will not be implemented. It is in my view still premature for Malaysia to implement such a directive. Perhaps another	Disagree

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		10 years down the road where the business communicty is more savvy like the Singaporeans. We have problems explaining basic compliance matters to our clients. However, if it is to be implemented the SSM has to be specific 1) para 10 b (ii) . It said total assets of less than RM500K. Do we use the historical costs or the market value of fixed assets in the computation. 2) are the directors left to read and understand the directive themselves ? There will be a lot of retrenchment in the profession. There will also be a lot of confusions.	
5.	**Dato' Mohammad Faiz Azmi** MIA	The stand taken by the MIA and the Malaysian Institute of Certified Public Accountants (MICPA) at that meeting affirmed support for the audit exemption to be applied to dormant companies but disagreed with the proposition to apply it to small companies. We have revised our earlier submission to incorporate views specifically on the draft Practice Directive and enclose it together with this letter. With regard to the small companies exemption , the key reasons we are against the proposal are:	Agree to be applied to dormant companies only

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		1. Removing the audit requirement hinders SMEs from producing accurate financial positions We note that the audit exemption threshold for revenue in the draft Practice Directive is consistent with the threshold of revenue in the definition of microenterprise in Malaysia. Small and Medium Enterprises (SMEs) have been the backbone of economic growth of Malaysia. The importance of SMEs is further exemplified by the Government's significant measures to support and transform SMEs in the recent Budget 2017. SMEs' contribution to gross domestic product (GOP) was 35.9% in 2014 and the contributions by SMEs are aimed to reach a 42% by 2020. Microenterprises constitute the largest component of SMEs in Malaysia , with approximately 75% of SMEs falling under this category (SME Corp Annual Report, 2015/16). Therefore , given the importance this sector has to the economy, we feel that removing the need for an independent audit and access to a finance professional would be detrimental to the objectives of developing SMEs . The business environment in Malaysia is still develop ing and SMEs generally do not or are	

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		unable to hire qualified accountants to handle the accounting and finance functions. Based on the current level of financial reporting knowledge of SMEs, the only way to compel companies to keep proper accounting records and prepare proper financial statements is by way of an annual audit. Having a threshold of RM300,000 in turnover as a criterion for audit exemption could result in a significant number of microenterprises being exempted from audit. The public at large would also be less protected, as these entities that do business with others, are availing themselves of the limited liability protection granted by statute, yet are not being subject to an independent examination . Further, the Companies Act 2016 has imposed increased liabilities to company directors for failing to prepare adequate financial statements . So, we are concerned that the removal of the audit would result in many more company directors being sanctioned. 2. Impact to society by inaccurate tax submissions Recognising the value of an external audit in ensuring accurate tax returns are filed with the Inland Revenue Board (IRB), Section 77A(4) of the Income Tax Act requires tax returns furnished by companies to be based on audited accounts.	

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		Therefore, the draft Practice Directive will affect the verac ity of tax computations and contravene the Income Tax Act. Audited financial statements also enhance a company's ability to obtain financing . An independent audit, particularly for those with potential to go public, also builds public confidence towards the integrity of financial statements and in nurturing the right corporate behaviour of SMEs. The cost of audit to an entity should not be considered in isolation of the benefits to be derived by that entity. The audit fees for SMEs in Malaysia represent costs which cannot be considered as exorbitant when seen in the context of the turnover earned by Malaysian companies. Proper tax returns, based on audited financial statements could potentially result in more accurate assessment of tax to be paid. SMEs will also have access to independent professional advice as auditors are able to provide an external view on the entities' risk assessment and internal control systems. 3. Impact to the accountancy profession Under the 11th Malaysian Plan (2016-2020), the Government has identified the services sector as the primary driver for economic growth. Small and	

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		medium practices are also SMEs in the services sector and the current landscape for audit firms is dominated by 1,281 firms comprising sole proprietorships and 2-partner partnerships (accounting for 91% of total audit firms). These firms generally tend to have high audit concentration , with audit fees forming the largest proportion of their revenue. Presently, these firms employ approximately 14,500 people and are training ground for accountants. Based on our limited survey in November 2015, 78% of respondents stated that they do not have any strategy in place to cope with the possible audit exemption in the future. Of particular concern is that, the limited survey also revealed that if the audit exemption threshold for revenue is set at around RM350,000, 38% of 112 respondents will experience a reduction in audit revenue ranging from 31-100% and 44% of the respondents are expected to experience a reduction of 11-30% in audit revenue. This could have significant detrimenta l impact on the livelihood and viability of a number of audit practitioners which would need further and more detail survey to assess.	

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		To conclude, the MIA is amenable to the proposal for statutory audit exemption to be implemented for dormant companies provided a more considered definition is used similar to the one that MIA proposes in the attached document , in addition to the requirement for official declarations of dormancy . The MIA disagrees with the proposal to extend statutory audit exemption to small companies as it would, in our view, be detrimental to the objectives of developing SMEs, expose more and not less company directors to sanctions, may impact the accuracy of tax computations and significantly compounds the challenges faced by the accounting profession.	
6.	**Soo Hoo Khoon Yean** **Lee Tuck Heng** PricewaterhouseCoopers	**(1) Dormant companies** We support the proposal to provide audit exemption for dormant companies. This will help to reduce costs of doing business in Malaysia and align our practices with those in other countries including Singapore and Hong Kong. Our comment is on the definition of dormant companies in the Draft Practice Directive which we believe should be refined to enhance clarity. The Draft Practice Directive defines companies as dormant when there is no accounting transaction for a period. The Draft Practice Directive refers to an	

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		accounting transaction as a transaction, accounting or other record which is required to be kept under the Companies Act 2016. The term "dormant company" appears to be too loosely defined. For example, would any statutory payment by a company be considered as a transaction as such a payment would be recorded as an accounting transaction? Another question is whether a subsidiary of a group or of a public company, which itself is a dormant company is exempted from audit? Paragraph 11 of the Draft Practice Directive proposes that a subsidiary does not qualify for the audit exemption unless the entire group is a "small group" albeit the subsidiary itself is a "small company". There is no equivalent guidance for dormant companies. We would like to recommend that all subsidiaries of a public company should not qualify for audit exemption. **(2) Proposed audit exemption of small companies in phases** Taking into consideration the current business environment and the stage of maturity of financial reporting now in Malaysia, we are of the view that small companies should continue to be subjected to	

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		audit as an interim measure. The proposed audit exemption of small companies should be introduced upon the successful implementation of the audit exemption of dormant companies and when small companies put in place appropriate infrastructure to produce reliable financial information. With effect from 1January 2016, small companies are required to prepare financial statements, for the first time, in accordance with the Malaysian Private Entities Reporting Standard, a standard based on a globally adopted standard – the IFRS for Small and Medium-sized Entities (IFRS for SME) published by the International Accounting Standards Board . Small companies generally do not have in-house professional accountants with an in-depth understanding of accounting principles. Very often, small companies seek advice from the auditors when preparing the financial statements. It is evident that auditors play a significant role to fill the knowledge gap and to assist the directors of small companies towards producing a set of MPERS compliant financial statements. In light of this, we would recommend that at this juncture only dormant companies should be exempted from audit requirements. With the two-phased implementation approach, small companies should start to assess the readiness and	

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		resources needed to prepare a set of MPERS compliant financial statements. For example, small companies could consider employing in-house professional accountants or engaging external professional accountants to fill the knowledge gap. In addition, a wide-range of stakeholders see audit as a value-added service and rely on audited financial statements as the main source of reliable information about a company's performance and financial position. Audit provides a reasonable assurance that the financial statements are free from material misstatement and therefore could be relied upon by stakeholders for decision making. For example, audited financial statements are often required by lenders, investors or creditors when small companies seek to raise fund and credits. A set of credible financial statements can help companies to secure external financing and credits from lenders, investors and creditors, which reduces costs of funding. In the absence of an audit requirement, stakeholders may need to seek alternative avenues to access a set of financial statements which are free from material misstatements. Alternative avenues for example ad-hoc audit engagement are inefficient in terms of time and efforts. In addition, it could be costly to the stakeholders and the companies.	

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7.	**Zabedah** **Karen Lim**	1) If a company qualify for an audit exemption, do the company need to apply for such audit exemption? 2) any fees need to be paid for such audit exemption application? 3) In paragraph 16 of the draft practice directive, could you define the financial statements that need to be lodged to SSM, does it includes the directors reports and statement by directors OR any other documents / format?	Query
8.	**Chin Chin, Lau** AVICS Tax Consultants Sdn Bhd	1) We welcome the measures introduced by government with regards to the roll out of Audit Exemption i.e. for the first time in the statutory reporting landscape in Malaysia and this measure certainly helps a lot of SMEs to reduce the cost of doing business in Malaysia; 2) However, we wish to bring to your attention that w.e.f. YA 2014, Income Tax Act 1967 has adopted a reversed gear measure which requires all companies including dormant company to report their chargeable income based on audited accounts, failing which it is an offence for the company. In this regards, even though with the introduction of Audit exemption for SDN BHD by SSM lets say	Agree with reservation

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		in year 2017, technically it would not achieve the objective of reducing cost of doing business in Malaysia as well as ease the compliance and reporting in Malaysia in view of the above TAX Authority requirements. 3) Fyi, Tax authorities has been implementing rigid requirements lately such as dormant company needs to file corporate tax returns, employer returns and not more exemption would be entertained. Hence, as a tax practitioner in Malaysia, we urge the Registrar to initiate a constructive consultation session with the tax authorities on the above matter and hope to bridge the GAP of the proposed "new Audit Exemption" in Malaysia statutory reporting vis to vis with IRB's requirements of having audited accounts. Presence of key representative from Chartered Tax Institute of Malaysia would certainly helps in providing a bridging solution to the above GAP.	
9.	**Muhammad Zakwan Bin Abu Hussin** SM4U Apparel SDN BHD	I am Muhammad Zakwan Bin Abu Hussin from SM4U Apparel SDN BHD. I have agreed for audit exemption for the Public Consultation of Subsidiary Legislations (Companies Act 2016 [Act 777])	Agree

No.	Name and Details of Respondent	Comments	Remarks
		Subject number 4 draft practice directive (audit exemption)	
10. 1	**Lois Tang** 3E ACCOUNTING PLT	Firstly, we welcome the SSM's direction in providing audit exemption on certain categories of companies. Although the current mandatory audit requirement is perceived to better improve the business potential for audit firms that primarily service the private limited companies in Malaysia. However, as for the private limited companies, the audit fee incurred could be a financial burden to them, especially when they are small private limited companies. Besides, many of their financial statement users may not benefit from having the audited financial statements as well. As a result, the mandatory audit requirement may be treated as a waste of companies' resources to the smaller companies. It was noted in the practice directive that a company that is a small company shall be exempt from audit requirement and the quantitative qualifying criteria are as follows:- (i) the revenue of the company for each financial year does not exceed RM300,000; (ii) the value of the company's total assets at the end of each financial year does not exceed RM500,000;	Disagree

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		(iii) it has at the end of each financial year not more than 5 employees. We are of the opinion that the thresholds above are too low as most of the small companies in Malaysia are still earning revenue of more than RM300,000, having more than 5 employees and total assets of more than RM500,000. In this respect, they would not be able to entitle and enjoy the audit exemption, which is intended to help reduce regulatory costs for small companies. Further, as compared to our neighboring country of Singapore, Singapore's quantitative criteria for definition of small company are much higher even before considering the currency exchange as below:- (i) total annual revenue ≤ $10million; (ii) total assets ≤ $10million; (iii) no. of employees ≤ 50. Hence, to be able to help more smaller companies in reducing their compliance costs as well as to increase the competitiveness of doing business in Malaysia, the quantitative criteria can be increased to reduce the gap between Malaysia and Singapore, which will help in attracting more foreign investors to do business in	

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		Malaysia. As a starting point, a total revenue / total assets of RM1million or less / 10 employees may be considered. Besides, it was also noted that a dormant company shall only be exempt from audit requirements if it has been dormant for three consecutive financial years. This may not seem favorable as it does not help reduce the compliance cost for dormant company and most of the time dormant companies may find it difficult to fund the audit cost as they have already ceased operations.	
11. 2	**Soong Kit Kong Julian** Soong & Associates	I am not entirely in agreement with the audit exemption for private companies. i do agree that audit exemption should be made for dormant companies which have yet to commence operations since incorporation. However once they commence operations that company should be subject to audit. If you were to impose a threshold based on revenue, then the directors/shareholders would be encouraged to incorporate more companies just to spread out their revenue over the new companies to escape that threshold for audit and even the requirements for GST reporting. The costs of maintaining such companies are significantly lower without audit fees and simply encourages the directors/shareholders to evade audit, GST and even tax obligations.	Agree to be applicable to dormant companies only

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		When GST was implemented, numerous clients have sought my opinion on the incorporation of multiple companies to escape GST reporting and I have advised them on compliance as the penalties of non compliance were just too great. However should audit exemption apply to companies which don't reach a certain threshold, then I am afraid I and other practitioners would be powerless to prevent such a scenario from occurring.	
12. 3	**Chong Yoke Ling**	I personally view that the proposal for audit exemption for private company is a good idea however i would like to share some on my ideas and hopefully there is some amendment on it. 1. Refer to 3 (b). - Shall I propose to change from "3" consecutive financial years to "2"consecutive financial year. It can save the cost for the dormant company. For 3rd financial year, it is proposed that the company is strike out under s 550. 2. Refer 10 (b) (i) - Shall i propose to increase the turnover < RM500,000 which is tally with the turnover threshold - GST. It is simple to monitor.	Agree with proposed amendments

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		3. Refer 10 (b) (ii) - Abolish the criteria of total value company assets <RM500,000. this criteria look useless, if the company is small or dormant , i can't imagine this company has such high value asset. No need to set up this criteria In conclusion, 2 out of 3 criteria are agreed with me - Paragraph 10 (b)	
13. 4	**Tan J K** J. K. Tan & Co	1) Saya setuju kriteria dormant sahaja exempted from audit. 2) Small company definition, not inline with Income Tax S77A required submission of Form C based on audited accounts. On the threshold: - Revenue not exceeding RM300,000 & Total assets not exceeding RM500,000, end of financial year not more than 5 employees. a) I find the definition is inconsistent for investment holding company, may hold any property, but not rented out, will be exempted from audit; whereas, a IHC with rental income exceeding RM300,000 still need to be audit. b) employees of less than 5 employees refer to full time or part time, include foreign workers or directors?	Agree to be applicable to dormant companies only. Proposal on the threshold

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		3) Sekiranya guna pakai compilation report like Singapore, suggest hanya boleh prepare by firm licensed under the Accountant Act 1967 to elak sesiapa sahaja boleh prepare compilation report.	
14. 5	**John**	In reference to the above Practice Directive, it is in my view that the below criteria be revised as follows:- 10. A company qualifies as a small company in a financial year if: (a) it is a private company throughout the financial year; and (b) it satisfies any 2 of the following criteria for each of the 2 financial years immediately preceding the financial year: (i) the revenue of the company for each financial year does not exceed **RM100,000**; (ii) the value of the company's total assets at the end of each financial year does Not exceed **RM300,000**; (iii) it has at the end of each financial year not more than **2** employees. With regards to the profession, the recommended threshold will see many auditors and accountants going out of jobs. According to Financial Reporting Council's	Agree with proposed amendments

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		(2013) report in the UK, Key Facts and Trends in Accountancy Profession, the number of the registered audit firms saw a huge decline because the number dropped to a low of 7,293 in 2012 compared to 8,099 in 2008. Such a drop is not only affecting the firms but also individuals in this profession as less number of companies to be audited means less amount of work out in the market and hence forcing people to be retrenched or resign. And during all this commotion, people would not like to work for less money for the services they offer hence the best talent will go down the drain. Increase in audit exemption threshold means more companies dropping out for no audit, which in turn leads to quality concerns. People tend to invest in companies with fair audit done on and if a company is not have had an audit, it puts a question mark on their credibility and also if the information they provide about their financial statements, performance or anything else is true. No audit puts a bad credit rating resulting in banks investigating more before sanctioning a loan or insuring a debt. This in turn affects the business in a way that the management has to work other ways to raise finances for trade and purchases. After careful analysis, in my opinion, I think audit exemption threshold should revised as mentioned above.	

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15. 6	**John Ong** Contraves Group of Companies	In relation to the above proposal being considered by SSM to exempt private companies meeting certain criteria from audit requirements, on behalf of Contraves Group of Companies, we have no comments for the draft directive or to implement the proposal.	Agree
16. 7	**Chang Vun Lung**	1. Implementation of this audit exemption practice should implement in three phases. For example, the first phase audit exemption should apply to dormant company with nil revenue and newly incorporated entity after the effective date of this practice. Secondly, then the audit exemption will be apply to all dormant entity of which this will give enough time for those old dormant company to clear up the account up to date and get it audited for this new audit exemption apply. (I believe there are still many dormant entities which is still not updated their account for submission to SSM. And as I am sure pupil will get confuse with this new practice and try to take advantage with the thinking that all previously unaudited entity for many years can use this guideline as a reason for not audited and/or not submit their report. This will hinder the authorities efforts to encourage entity to submit their report on time and more queries for submission of docs to authorities will increase the workload for SSM for sure.)	Agree with recommendations

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		Third phase, this is the time whereby the small company concept for audit exemption shall be apply. 2. Should the audit exemption apply then does the entity still need to submit at least a management report prepare by the directors of the company? I think in Singapore they call it compilation report. What is the requirement for compilation report also need to be spell out. 3. Will the audited exemption entity contravene income tax act Malaysia as without the audit report then how it gonna submit the income tax return to LHDN? To my knowledge, it is the requirement to submit the income tax return based on the audited report only. Please clarify. 4. Lastly, please consider this effective date of this proposal to be at beginning of the calendar year such as 1 Jan 2017/18/19 as majority of the entity having the year end on Dec. So this will ease the administration part of this proposal plus easy to remember.	
17. 8	**Kong San Hoe**	In my opinion, all of the paragraphs are reasonable except paragraph 10(b)(I); I suggest	Agree with recommendation

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		10(b)(I) the revenue of the company for each financial year does not exceed RM 500,000. This is consistent with GST threshold requirement so that a small company will be exempted from audit as well as registration of GST too.	
18. 9	**Laychee, Tan**	For Audit Exemption Company, I think it should only apply to Dormant companies, it means companies haven't commenced business before OR companies without any revenue. As from my point of view, those companies with revenue or business transaction will need to be audited as to give assurance to public/authority it is reliable and fair. Besides, if as per Proposed Practice Directive 1/2017 on Audit Exemption, will it contradict to IRB requirement. However, this is my point of view and hopefully SSM will look into this as it will affect our Malaysia Accounting.	Agree to be applicable to dormant companies only
19. 10	**Norine Abdul Rahman**	draft yang dikemukan oleh SSM mengenai pengecualian audit Dormant akan memberi kesan yang amat buruk kepada organisasi saya kerana saya adalah satu organisasi yang kecil yang bergantung kepada Syarikat sdn berhad yang dormant dan kecil semata. dengan pelaksanaan undang-undang baru ini akan	Disagree

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		mengakibatakan pendapatan saya terjejas dan mungkin terpaksa menutup organisasi saya. ianya bukan sahaja menjejaskan saya secara individu namun juga 2 orang pekerja saya secara keseluruhannya. Diharap pihak tuan dapat mempertimbangkan draft tersebut bagi membela nasib industri kecil seperti kami	
20. 11	**How Yong**	I believe that the SMEs in Malaysia in the past 30 years stand a chance to grow & expand largely due to the financing supports by the banks in this country, and the financial statements of the SMEs which are AUDITED played a significant role in the banks' approval of the loans to the SMEs. It is utmost important that SMEs in this country continue to enjoy this positive environment and therefore I suggest that audit exemption should be applicable to Dormant Company only. As a tax agent myself, I can say from experience that companies with audit and companies without audit (sole proprietor & partnership), make a big different in term of taxation compliance. I believe exempting audit of active Sdn Bhd will not encourage taxation compliance but the other way round.	Agree to be applicable to dormant companies only
21. 12	**LC Chee** Chai Heng Plastic Mfg (M) Sdn Bhd	It's greatly supported by most of the SME in my view, including myself.	Agree

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		The main reason behind this is the increment of audit fees is unreasonable high and the responsibility at the end still fall on the employer. Some of the auditor didn't even perform their job properly with getting very high audit fees by just issuing an audit report. In relation to the reliability of the un-audited report to be submitted to SSM, it'll reviewed by tax agent on the tax submission and might still fall into the audit from IRB at anyhow. Sincerely hope that SSM can pass this proposal to ease the burden of the company on the economy environment.	
22. 13	**Lim Jit Kiow**	MY STAND Only dormant companies should be exempted from audit. Dormant company means a company only incurring expenses like secretarial fee, tax fee, accounting fee and some other small miscellaneous expenses. MY REASONING 1. From my 20 years experience in auditing, companies with RM 300,000 revenue and below or total assets less than RM 500,000 usually employ a clerk who does everything from making coffee to drawing up the accounts of the company. This clerk is usually an SPM	Agree to be applicable to dormant companies only

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		leaver with little knowledge of accounting. Not being conversant in Accounting Standards, this clerk tends to make a lot of accounting entries that do not comply with Approved Accounting Standards. As a result we as Auditors will come in to help this company to rectify all the non-compliance issues when it is being audited. This is my personal and real experience. I feel that had this set of accounts not been audited by us it can never be filed with ROC nor LHDN as it contains many errors and non-compliance issues. As such I strongly feel that such companies should still be audited to give stakeholders of such companies confidence in the quality of their accounts. 2. I know that other countries like Singapore, Australia, UK etc are practicing audit exemption for small companies. These countries are the developed countries whereas Malaysia is still a developing country. Hence we should not follow blindly what other countries are doing. We are of different socio economic status from these countries eg education and level of awareness of laws and compliance. Many things are unique in Malaysia hence we cannot apply things that other countries are doing simply because it is a trend to follow others.	

No.	Name and Details of Respondent	Comments	Remarks
		3. The cost of an audit is a small percentage of the total expenditure of a company. Most of the companies can easily afford the audit fee 4. Having an audit for small companies is equivalent to educating the company directors, shareholders and staff on the importance of compliance with the relevant laws and regulations and standards. Appreciation of the existence of laws and regulations for the ignorant will be greatly enhanced. 5. Benefits vs cost- as pointed out in point 3 above the benefits of having an audit for small companies far exceed the cost. 6. Consistency in the quality of the yearly accounts will be maintained if it was audited every year. Imagine if the accounts was audited in year 1, exempted from audit in year 2 and audited again in year 3 and so on. There will be no consistency in its quality. 7. Tax leakage may be reduced greatly if the accounts are audited because the directors will think twice before doing something "funny" as the accounts would have to be audited by the Auditors. CONCLUSION	

No.	Name and Details of Respondent	Comments	Remarks
		Due to the many reasons above I strongly advocate that audit exemption should only apply to DORMANT COMPANIES.	
23. 14	**Kho Sy**	I appreciate if the authority can consider to increase the threshold of 1.Turnover from RM300,000 to RM500,000 (same as GST compulsory registration threshold, easier for businessman to remember). I believe businessman prefer a consistency threshold level and easier for them to make decision. 2. Total assets threshold from RM500,000 to RM5,000,000 as RM500,000 is very easy to reach. For example, the minimum authorised capital for a SDN BHD is RM400,000, if the Company has fully issued and paid-up all its authorised capital, it is easily to reach RM500,000 (Dr Bank RM400,000 Cr Share Capital RM400,000) before including OTHER ASSETS. For example, a shophouse in current market already cost RM1,000,000 & above. So, for a trading company who own existing shophouse for trading purpose, the total assets before including stocks already more than RM500,000. That means this SME also can't fit to the condition and cannot enjoy cost saving from audit exemption.	Agree with recommendation

No.	Name and Details of Respondent	Comments	Remarks
		3. To increase number of employee from 5 to 50. Some SME company the scale is not big but they rely on manpower to run business. So, it is irrelastic and unlikely for SME in service and manufacturing industry to be exempted from audit. From my observation if the exemption criteria is based conditions mentioned in the draft, the exemption benefit may not cover the majority SME in the market (and yet this is the major component in Malaysia economic) but bringing additional troublesome to the businessman when making decision as the threshold of those criteria are "hanging in the middle". Furthermore, have you consider the implication / impact for those SME may be 1 year need audit, 2nd year no need audit & 3rd year need audit again. In this case, how can an investor / user of financial statements can rely on the financial information of the SME especially the bankers and investors from overseas. Implementation of audit exemption is good to the SME if it can meet the mission of COST SAVING. I sincerely hope that the authority can consider deeply when setting the threshold.	

No.	Name and Details of Respondent	Comments	Remarks
24. 15	**Lim Tiew Fang**	FOR PARA 10. YOU MAY HAVE TO INCLUDE SUB- PARA (IV) It does not have at the end of the financial year any sum due to any financial bodies. (reason: Bank may insist on accounts to be audited) FOR SUB-PARA (B) YOU MAY HAVE TO CHANGE TO AS FOLLOWS: It satisfies all the following criteria for each of the 2 financial years immediately preceding the financial year. (reason: Sometime, a company may satisfy two of the criteria but the total assets may be in million ringgits because it is planning for future development. Revenue : nil for two years Employee : less than 5. but the total assets come up to 2,000,000 like land cost for development and infrastural cost. Please take into consideration the above suggestions.	Proposed amendment
25. 16	**Too & Co.**	In my view, there is no need to have audit exemption as some irregularities can happen by using dormant company to transact. A compilation engagement is still needed even if it is dormant company, and the cost can be somehow not	Disagree

No.	Name and Details of Respondent	Comments	Remarks
		much different from getting the financial statements audited. Getting audit exemption will worsen the quality of financial statements and we are moving towards MPERS, the cost of preparing the financial statements is also expected, and this is usually done by auditors, even without audit exemption.	
26. 17	**Eric Tong** Tong & Associates	Firstly we welcome the action taken by the relevant authority for the Audit Exemption of Private Companies. This exemption would reduce the operating cost of the relevant Private Companies which are known as Dormant Companies or Small Companies. On the other hand, as a Practitioner, I totally agree that the that Dormant Companies should be exempted however, I would have reservation on the Small Companies. 1) Most of the Small Companies in Malaysia are owned by Entrepreneurs who have minimum knowledge of preparation of accounts and there are many unqualified persons who are helping companies to prepare their management accounts and the management fully rely on the work of the unqualified persons.	Agree with reservations

No.	Name and Details of Respondent	Comments	Remarks
		A form of independent verification on the management accounts would ensure a proper presentation and reliability of the financial information in the management accounts. This would also provide comfort to the tax agent in their reliance of the audited financial statements. 2) The Small Companies are required to submit their financial statements although they are exempted from audit. Financial statements include statement of financial position, statement of profit or loss and other comprehensive income, statement of cash flow and supplementary notes. The management accounts normally prepared by the management does not comply with preparation of financial statements under MPERS or MFRS and somehow or rather, the preparation of financial statements would need an experienced auditors to review the financial statements to ensure it is prepared in accordance with MPERS or MFRS. As such, we hope that the audit of Small Companies are not exempted or if it were to be exempted, there should be a review by the Approved Company Auditors which provide a limited assurance on the financial statements.	

No.	Name and Details of Respondent	Comments	Remarks
		3) The audit of Small Companies is a good training for fresh graduates. The fresh graduates have paper qualification but they do not have experience in auditing and some of them don't even remember what is double entries. Audit of Small Companies provide a good training to fresh graduates to jump start their career in the accounting world. This simple audit would allow them to have an overview of what is audit from A to Z before they are involved in any audit of bigger companies. The audit of Small Companies would let the fresh graduates to have a good feel of what is a financial statements and audit. It also provide a basic training to their accounting skills. This would also help Malaysia in reducing the shortage of accountants unless the profession would only wish to produce paper qualified accountants rather than trained accountants. Malaysia needs 60,000 accountants by 2020. http://www.nst.com.my/news/2015/09/malaysia-needs-60000-accountants-2020 PNB to produce more bumiputera professional accountants.	

No.	Name and Details of Respondent	Comments	Remarks
		http://www.theborneopost.com/2016/10/27/pnb-inks-deal-to-produce-more-bumiputera-professional-accountants/ 4) In term of the impact to my practice, my revenue would drop by 30% to 40%. The audit exemption of Small Companies would stop us from recruiting new staffs of which we did due to audit exemption. Our practice is not that big, we have total of 6 permanent staffs and 2 trainees. Looking into the trend, we may need to reduce permanent staff and recruit more trainees to cut cost since the revenue drop. For your information, the permanent staffs that we recruited do not have good grades in their result but they have a very good attitude towards work and respect. They could not obtain any work/employment before joining us because they are not even shortlisted for interview due to their poor results. Sadly, we would not have the ability to keep them or promote them in near future due to the threat of audit exemption.	

No.	Name and Details of Respondent	Comments	Remarks
		The above are our comments on the Audit Exemption and we hope that our comments would help for the betterment of the profession and young Malaysian.	
27. 18	**Fong Chi Yew**	From the perspective of a Chartered Accountant and members of the public, I do not agree with the proposed Audit Exemption in the Practice Directive 112017. For the following reasons: Audit necessitates the need to prepare proper accounts. Businesses which are not required to be audited tend to be the ones which may not keep or prepare proper books of accounts. Given the current state of the Malaysian economy and the local environment, we are of the view that the only way to compel companies to keep proper books of accounts is by way of an annual audit, especially given the limited liability protection granted by statute. An attestation by directors to keep proper books of accounts provides a significantly lower level of assurance as compared to audited financial statements. They will also have to pay more to tax agents as the tax agent will have to demand more information and check for things to get a similar level of comfort as before. Hence, the tax compliance fee will likely go up.	

No.	Name and Details of Respondent	Comments	Remarks
		Audit is a major deterrent against fraud, money laundering, and other illegal activities Although the audit process is not designed to detect fraud, there is no doubt that in the absence of an audit, fraud and errors are more likely to occur and go undetected without any independent oversight. Without a statutory audit, the risk of misleading financial statements being filed will increase. Audit improve the credibility of businesses For small businesses, it is often not possible to borrow funds without audited financial statements, while for larger companies, the auditor's work also facilitates the process of raising capital in the financial markets. Without the comfort of an audit opinion, lenders (financial and institutional) take on more risk when lending and are thereby being more selective in lending, compelled to raise financing costs, and investors will similarly recognize more investment risk and thereby raise the required rates of return, which will be counterproductive for SMEs. Negative consequences to the Government regulatory bodies	

No.	Name and Details of Respondent	Comments	Remarks
		<u>Suruhanjaya Syarikat Malaysia (SSM)</u> The exemption of audit will lead to a situation where the integrity of financial information in unaudited financial statements filed with SSM become questionable. Without audit, the information and quality of financial statements submitted and quality of information provided to customers of SSM will decline. Consequently, this may result in the increase of monitoring, compliance and enforcement cost to SSM. Inland Revenue Board ORB) Malaysia and the Royal Malaysian Customs (RMC) In the absence of an audit, there is a likelihood that more inaccurate tax returns will be filed and more penalties will be meted out Thus, resulting in more costs incurred by the businesses, IRB and RMC to rectify the incorrect returns as well as additional enforcement costs. Incapability of Company Directors to prepare updated and accurate financial statements Due to the ever changing accounting standards domestically and globally, it is questionable that the Company Directors possess sufficient and relevant knowledge on the accounting standards to prepare for the financial statements to be lodged with the SSM.	

No.	Name and Details of Respondent	Comments	Remarks
		Moreover, for businesses that exempted from the statutory audit, the Directors will highly likely be appointing not qualified accountant to prepare the financial statements in order to save costs. Hence, probably resulting in a lower quality financial statements prepared. Privilege limited liability and integrity of the businesses Currently, companies enjoying the privilege of limited liability must subject their businesses to mandatory audits to safeguard the interest of third party users and other stakeholders. Whilst many small private companies may be owner-managed, this does not negate the fact that there are other stakeholders with an interest in the audited accounts such as government agencies, financial institutions, suppliers, customers, employees, and the general public. An audit can be considered to be a service to the public at large and it is a cost for the limited liability protection that a company enjoys. The limited liability privilege should come with accountability and the requirement for an independent examination. Furthermore, the proposed threshold for Audit Exemption is subject to manipulation by the Businesses	

No.	Name and Details of Respondent	Comments	Remarks
		to escape from Auditing. Revenue, total assets and/or employee numbers may appear to be obvious threshold criteria for audit exemption. However, subjectivity and loopholes abound if the exemption system is built upon such threshold criteria. For example, companies would move on-to and out-of the threshold levels. Loopholes in such a 'threshold' model may also be exploited where companies may simply structure their operations through second or third entities to ensure each entity is below the threshold level. This also includes dormant companies, as Company Directors may fraudulently hiding accounting transactions to be exempted from Audit. Audit Exemption encourage incorporating more dormant companies, which has no benefits to the business and society in Malaysia No doubt the Audit Exemption on dormant companies will results in high costs saving on dormant companies, as these companies' major cost consists of compliance costs (i.e. Audit fee, Tax agent fee, Company Secretary fee and Filing fee). However, the negative consequence is, it encourages more dormant companies to be incorporated, and remained inactive thereafter. This might due to reasons such as, insufficient consideration made before incorporating a company due to low compliance costs, or, having to incorporate the company	

No.	Name and Details of Respondent	Comments	Remarks
		merely for re-sale purpose after a few years. This will eventually, resulting in high number of inactive companies in Malaysia and it is not beneficial to the business and society in Malaysia, similar to the high number of inactive sole-proprietor that maintained by SSM currently. Also, in my view, the business environment in Malaysia is still developing and SMEs generally do not or are not able to hire qualified accountants to handle the accounting and finance functions. We must also consider the current maturity level of financial reporting knowledge of SMEs; i.e. whether they are ready for audit exemption. The issue of cost savings may not be applicable in the Malaysian context. The audit fee for SMEs in Malaysia represents a cost which cannot be considered as exorbitant when seen in the context of turnover earned by Malaysian companies. Hence, I do NOT AGREED on the proposed Audit Exemption in the Practice Directive 1/2017 to be implemented.	
28. 19	**Ong Yoke Mei**	As for your information, before we can act as a practitioner we have to struggle and put in a lot of effort to gain our qualification and go through a tough and challenging interview to obtain this " valuable audit	Agree to be applicable to dormant companies only.

No.	Name and Details of Respondent	Comments	Remarks
		licence" . Thus the drastic change for the implementation of this audit exemption (2 out of the 3 condition have to meet) definitely affect the small medium size audit firm (like us) in terms of surviving and confident to pursue our so call "business" in our practice. Since the condition set out for the audit exemption is almost range from 20% to 30% of most of the small size audit firms' clients base. Besides that, by enforcement of this audit exemption it might give rise to complication and not cost justifiable in carry out the audit field work. For instance, if a client qualify for the audit exemption but for example, later 3 years down the road this client no longer qualify for the audit exemption. So we act as an auditor how to carry out the audit field work ? Have to start all over again to audit the client ? Since we can't obtain a reliable information and figure (opening balance) to produce a reliable financial statement. In this modern and advance world, the relevant authorities such as accounting standard board, Inland revenue department and etc. keep on working together to update, to accommodate and to meet the world changes in order to assist the public to provide a more transparent and integrity financial statement so that the public can work hand in hand with the government to boost the economy of the country.	

No.	Name and Details of Respondent	Comments	Remarks
		Thus the audit exemption condition set out such as : Turnover less that RM300,000.00, gross assets less than RM500,000.00 and or less than 5 employees. This kind of condition is exactly for those business man which are in the process of develop their business which need the fund to expand their business and most of them without a good knowledge in the accounting standards. Therefore, it is a need for their financial statement to be audited to help them to have a better understanding of their financial position and the audited financial statement is also a requirement document request by the banker to approved for any banking facilities to the business man. I strongly hope that the relevant authorities should re-consider not to set out such conditions for the audit exemption or might set only those dormant company totally not commence business operation since its incorporation to qualify for the audit exemption. Lastly, I deeply hope that to safeguard the accounting standard by having an integrity of the financial statement provided by the small size business man and the surviving of the small size audit firm should be the priority factor to consider before the implementation of the audit exemption to put forward.	

No.	Name and Details of Respondent	Comments	Remarks
29. 20	**Florence Heng**	As a SME audit practitioner, audit exemption is no doubt a practical move for companies who are dormant, having no transactions for years, as mentioned in PARA 3 of the PRACTICE DIRECTIVE 1/2017 -A company shall be exempt from audit requirements if:- (a) it has been dormant from the time of its formation; or 2 (b) it has been dormant for three consecutive financial years. However, I do not agree with audit exemptions which are proposed on "small companies". As per the proposed PRACTICE DIRECTIVE 1/2017,definition of small companies: (i) the revenue of the company for each financial year does not exceed RM300,000; (ii) the value of the company's total assets at the end of each financial year does not exceed RM500,000; (iii) it has at the end of each financial year not more than 5 employees. For a SME company in Malaysia, the above position are very common, especially for those investment holding companies which hold property worth millions can easily filfill criteria (b)(i) and (b) (iii).	Disagree

No.	Name and Details of Respondent	Comments	Remarks
		On another situation, a private company planning for expansion, with few employees, ow value of assets but with high turnover, i.e. is active, may need expansions and when they obtain financing, financial institutions may required for audited reports. Does it means they need to get their accounts be audited for those years which was not audited due its "small company" status? In the event if previous years are not required to be audited, as auditor we will never be comfortable to issue audit opinion which accounts not previously audited. Therefore, my opinion is, yes audit exemption is good to reduce cost of maintaining a Sdn. Bhd. which is dormant but not practical for a company which are in operation. It can contribute to higher risks of "creative accounting" and discourage corporate governance of small companies. I hope SSM will consider my opinion.	
30. 21	**Kongyang Teng**	1. Audit exemption on dormant companies: I agreed with that! 2. Audit exemption on small companies: The SME companies might need to incur more compliance cost for doing backward audit jobs if they need to finance. (normally bank required three years' audited report).	Agree

No.	Name and Details of Respondent	Comments	Remarks
		Also, some of the companies still have different separate party.	
31. 22	**CY Koa** Cy Management Services	Regarding the above-mentioned matter, I have understood that basically there are 2 categories of companies will be exempted from audit which are Dormant Companies and Small Companies (some quantitative criteria applied). As such, I would like to share my humble opinion as follows: For dormant companies, I share the same opinion with SSM that dormant companies should be exempted from audit as the audit doesn't serve any much value added element for the dormant companies. For small companies, I personally think they should not be exempted from audit and there are few reason as follows: 1) small companies' shareholders might not be the directors - there are still many companies' shareholders are not the directors and hence, their benefits and rights cannot be protected if no external audit is involved. 2) Difficult to perform audit for the past records - For some small companies being requested by Bank for an	Agree to be applicable to dormant companies only

No.	Name and Details of Respondent	Comments	Remarks
		audit if they apply for loan, external auditors will certainly face a huge challenge to perform audit work for the past years records. For e.g, if a company's first 3 years account is exempted from audit but now requested by Bank for an audit on 4th year, auditor will have difficulty on retrieving the past 3 years record. These are my personal experience and thoughts and I hope my information is useful in your assessment and appraisal.	
32. 23	**J.S.Heng** J. S. Heng & Co.	I am on the same side as SSM on the matter of audit exemption on dormant companies. However, as for audit exemption on small companies which has transactions, I do not think it is of the benefit of the stakeholders of the company not having their accounts audited. This has an implications on the credibility of the accounts to various government agencies such as income tax department as unaudited accounts will have higher risk of misrepresentations and even fraud. Hence, I would suggest that audit exemption only applicable to dormant companies. I hope SSM will consider my opinion	Agree to be applicable to dormant companies only

No.	Name and Details of Respondent	Comments	Remarks
33. 24	**Leong Yip Ong** Leong Yip Ong & Co.	We would like to highlight our opinion for the Audit Exemption, that we strongly opposed the Audit Exemption to the "Small Companies", Reasons why we opposed : 1) <u>Impact to our firm</u> Being a Small and Medium Practice Audit Firm, the proposed audit exemption for Small Company will significantly impact to our firm's income base, and it is highly possible that the firm may need to lay off some staffs due to over staffed in audit division. Impact on the firm's income: 40% of the total audit fee income Job redundancy: At least 6 staffs of our firm could be retrenched Our firms have provided training to these audit staffs on the technical skills for many years, if these audit staffs being retrench or re-allocate for other job, it will be significant wastage to our resources and effort to train them for all these years. 2) <u>Impact to the quality of the client's account</u>	Agree to be applicable to dormant companies only

No.	Name and Details of Respondent	Comments	Remarks
		If the small companies were being audit exempted, it will caused uncertainty to the quality of the accounts being used in the market It will be unfair to the users of the financial statements if they needed to rely on the unaudited account to do certain judgement, which caused significant uncertainty to the users. Although users could appoint accountant to carry out due diligence review on the unaudited accounts, but it will still cause significant difficulties for the accountants to carry out the due diligence review, such as they may have no legal right to access to all documents of the company, Furthermore, it is very difficult to do opening balance checking for the account which has been unaudited for many years.	

No.	Name and Details of Respondent	Comments	Remarks
34. 25	**Choo Min Lee** M. L. Choo & Co.	TO : CHIEF EXECUTIVE OFFICER, SSM I, Choo Min Lee (IC No. 671228-71-5000), am a Certified Public Accountant and a MIA member. I am operating my firm, M. L. Choo & Co. providing audit, tax and consultancy services. I refer to the invitation by SSM for comments by MIA members on its Practice Directive 1/2017 on Criteria for audit exemption for private companies and would like to comment as follows : 1. Dormant Companies - I agreed that only Dormant Companies should be exempted from the requirement to be audited. 2. Small Companies - I do not agreed that 'Small Companies' be exempted from the requirement to be audited due to the following reasons : (i) There are companies which may meet 2 out of the 3 criteria ie, having total assets not more than RM500,000 and not more than 5 employees but derive high revenue of more than RM300,000 for example companies involved in online business activities. These companies do not need to own huge assets nor employ many employees, however their revenue earned from conducting online business activities can be very high. These companies do not fit to be classified as 'Small	Agree to be applicable to dormant companies only

No.	Name and Details of Respondent	Comments	Remarks
		Companies' and should not exempted from the requirement to be audited. (ii) Audit requirement promotes good governance by companies such that they are required to maintain proper accounting records so as to enable them to be audited on yearly basis. (iii) An audit will also deter or reduce incidence of fraud by management of companies knowing that they will be subjected to audit.	
35. 26	**Lee Chee Boon**	1) As a MIA member, I fully support the Institute's view of limiting the proposal of audit exemption to dormant companies only. 2) However, if SSM is determined to extend the audit exemption to small company which is defined in the Draft Directive1/2017, i have the comments and views on the following criteria:- a) The value of the company's total assets at the end of each financial year; and b) The number of employees at the end of each financial year. Based on the following reasons, i am of the view that the value of the company's total assets should be much lower than RM500,000, and the number of staff as at year end should not be included in the criteria. a) For some industries (eg. services rendered company), they have high value and large number of transactions for the year, however they may	Agree

No.	Name and Details of Respondent	Comments	Remarks
		not have the high value of total assets at the end of financial year. b) Due to advancement of technology and also globalization, outsourcing services are becoming more popular, even companies that may be big and highly active, may just employ limited number of employees. Therefore, I am of the view that number of employee is not directly related to the size of company. Lastly, I am of the view that if SSM is really determined to extend the audit exemption to small company, the criteria for determining the small company should only be the value of sales which is more relevant to the size of company.	
36.	**Mohd Fazuwar Mat Saaidin**	In my opinion, audit exemption shall only be applied to dormant companies as defined by the proposed directive i.e:- A company shall be exempt from audit requirements if:- (a) it has been dormant from the time of its formation; or	Agree to be applicable to dormant companies only

No.	Name and Details of Respondent	Comments	Remarks
		(b) it has been dormant for three consecutive financial years. My objection are due to the following reasons:- 1. The exemption on 'Small Companies' will increase their cost of doing business The objective of audit exemption is to reduce the cost of doing business in Malaysia. In current practice, the accounting fee and audit fee charges by accounting practitioners are very- very low i.e. in the average of RM1,200 per year for accounting fee and RM1,000 per year for audit fee (for a really 'small companies'. The companies themselves struggling to pay the accounting and audit fees in which only on yearly basis. Now, with the exemption, the companies have to find a 'proper' accountants to look into their accounting matters especially to comply to the newly adopted Malaysian Private Entities Reporting Standards (MPERS).	

No.	Name and Details of Respondent	Comments	Remarks
		To hire an accountants as defined under the Accountants Act 1967, the companies will have to suffer a monthly payroll expenses for example RM3,000 per month and equivalents to RM36,000 per year and compared to only RM2,200 per year for the current practices. 2. Huge numbers of 'Small Companies' in risk areas Huge numbers of 'small companies' obtaining loans and financial assistance under the SME programmes such as bankers, PUNB, SMIDEC and etc. The exemption will give rise and opportunities for bogus accountants to manipulate the accounts in accordance to the need of the 'small companies'. 3. The exemption on 'Small Companies' will increase bogus accountants Even in current practice, bogus accountants plays their roles and covering under the legitimate audit firms. This resulted to non-compliance in audit satisfactory level in which the bogus accountants preparing audit	

No.	Name and Details of Respondent	Comments	Remarks
		working papers and get license auditors to sign the audit reports and sometimes don't even have audit files. Their actions giving bad remarks and impression on legitimate accountants and license auditors. 4. 'Small Companies' not ready for the introduction of MPERS. The directors and shareholders of the 'Small Companies' not familiar with accounting standards and don't ever heard of MPERS.	
37.	**Nik Mohd Hasyudeen Yusoff** Inovastra Capital Sdn. Bhd.	I am supportive of the audit exemption as it would assist small companies to manage their cost. At the same time the fees allocated for audit could be used to hire accountants to assist SMEs in their business including to help them to prepare financial statements in compliance with the required accounting standards. The difference is that accountants who are not auditors are not bound by the same independence requirements as required of an auditor. In the event an auditor assists its client in the preparation of financial statements, such act could be a breach of the professional standards which the auditor has to comply. An audit performed without compliance with independence standards are of no value.	Agree with recommendation

No.	Name and Details of Respondent	Comments	Remarks
		I would like to point to a potential issue in the implementation of this draft practice directive. Para 3 of the Directive exempts a dormant company from the audit requirements. Para 10 on the other hand requires a small company to meet 2 out of the three criteria before being exempt from audit in the preceding 2 years. What would be a situation when a company which is newly incorporated became active immediately and remained within the threshold? I suppose in the spirit of the exemption, it should be exempted from audit until is no longer meets 2 of the 3 criteria. The criteria for exemption are clear and easy to be understood. Without the benefit of detailed statistics on the basis on which the criteria were developed, it appears that they are on the conservative side. I would like to suggest that the turnover criteria is moved to RM 500,000, similar for the threshold used for exemption from GST. Such criteria is also used to provide preferred tax rates for SMEs under the Income Tax Act. The alignment of criteria would make it more consistent with other efforts by other government agencies which deemed SMEs with turnover less than RM 500,000 as those which should be assisted and subjected to less regulation.	

No.	Name and Details of Respondent	Comments	Remarks
		On the other hand, SSM should also consider to enhance its efforts to ensure auditors meet professional standards expected by the Malaysian Institute of Accountants. Since the first practice review performed by the MIA many years ago until today, audit work reviewed which are classified as Type 3 (which denotes not meeting with MIA own standards) remained as high as 50%. If this percentage is extrapolated across all audit performed on companies, the numbers would be worrying. I would encourage SSM to establish its own quality review framework which would exert pressure on the profession to meet their part of the bargain in ensuring audit reports issued by auditors in Malaysia to be of the standards required and of high quality. This is the purpose of having companies to be audited in the first place. I would like to offer my congratulations to SSM for this brave efforts and I would like to offer my assistance in whatever ways to make this work.	
38.	**Wang Ing Min** Ing Wang & Co.	1) As a MIA member, I fully support the Institute's view of limiting the proposal of audit exemption to dormant companies only. 2) I do understand that SSM will also ensure that stakeholders' views are heard, hence if audit exemption is also applicable to small company which satisfies any	Agree to be applicable to dormant companies only

No.	Name and Details of Respondent	Comments	Remarks
		2 of the criteria stated in the Draft Directive, it is my opinion that number of employees at the end of each financial year should not form one of the criteria as due to advancement of technology, outsourcing services are becoming more popular, even companies that may be active, and engage in high level of transactions may just employ limited number of employees. Does employee include directors? Moreover, in order to fulfill such criteria, there could be high possibility of companies intentionally keeping the number to less than 5 at end of each financial year. Instead, I would propose that amount of total liabilities (including stakeholders' loans and advances) be considered as number iii) of the criteria. For example, the value of the company's total liabilities at the end of each financial year does not exceed RM300,000. This would ensure that those companies with high liabilities (even if not owing to third parties but owing to shareholders) are audited. Hope you can take the above views and comments into consideration.	
39.	**Tan Kheng Kheng** OK Yau & HowYong	I am agreeable with the exemption given to the dormant companies in order to save the cost of doing business for companies who do not have operation at the moment.	Agree to be applicable to dormant companies only

No.	Name and Details of Respondent	Comments	Remarks
		However, I am not agreeable with the exemption given to the small companies which satisfy two of the following criteria for each of the two financial years immediately preceding the year :- (i) The revenue of the company of each financial year does not exceed RM300,000; (ii) The value of the company's total asset at the end of each financial year does not exceed RM500,000; (iii) It has at the end of each financial year not more than 5 employees In my opinion, implementation of audit exemption will create a big impact to the small audit firms whose clientele mostly make up of small medium companies. Furthermore, the exemption given contradicts Section 77A, Income Tax Act 1967 in which a company's return furnished to the Director General has to be based on accounts audited by a professional accountant, together with a report made by the said professional accountant in accordance with subsections 174(1) and 174(2) of the Companies Act 1965. I hope my views can be taken as the consideration in the implementation of audit exemption.	

No.	Name and Details of Respondent	Comments	Remarks
40.	**Navarajoh A/P Supramaniam** Nava & Associates	Please note that I am a sole practising accountant operating a small audit firm and I like to give my views on proposed "Criteria for Audit exemption for Private Companies" :- Small companies exemption from audit i. I believe most "Small Audit Firms" rely on this group (Small companies as defined by SSM Practice Directive 1/2017) for about 30% of audit firm's revenue , so this directive will significantly reduce our income as well as result in us reducing staff. ii. Threshhold set (both of revenue and total assets) is high and SSM has to consider reducing these to nominal amounts. In my experience private companies who fall into this category are not insignificant and can be SME's who enjoy various banking credit facilities. Banks will always require an Auditors Report for even a simple hire purchase facility! Thus by exempting certain "Small Companies" SSM may actually be curtailing their expansion by depriving them of credit facilities .Of course, these "Small Companies" can request for an audit to be done for purpose of obtaining "Audit Report" but this is time consuming and thus not readily available which may cause banks not to approving their request for facility.	Disagree

No.	Name and Details of Respondent	Comments	Remarks
		iii. Current requirement by Inland Revenue that Form C must be filed based on audited financial statements. IRB has not made any distinction between private company sizes and even dormant companies need to adhere to this rule so an audit is still necessary iv. Monitoring by directors is required to ensure that audits are conducted once threshold is exceeded or companies will be fined v. An exempt private company that elects to be exempted from audit still needs to lodge its financial statements with SSM, so isn't an auditor/accountant still required to prepare financial statements in accordance to accounting standards etc, so what purpose does the exemption from audit for "Small Companies" serve? Therefore. kindly review your proposals, so as not to cause hardship to the "Dormant/ Small Companies" as well as audit firms and their staff.	
41.	**Jimmy**	I not prefer to have audit exemption for Sdn Bdn, reason is: 1: dormant company, if this year dormant and next year active and another year dormant again.	Disagree

No.	Name and Details of Respondent	Comments	Remarks
		2: cannot base on revenue to judge whether need to audit or not need to audit, revenue can up n down huge. I Strongly reject the audit exemption, and wish to maintain the current situation.	
42.	**Abu Bakar Rajudin**	To date, audit exemptions for private companies have been imposed in countries like Britain, Singapore and Australia. The USA and continental West Europe have never made audits of Private Companies mandatory. So when Britain joined the European Community in 1972, it found itself more out of synchronisation with European practices. It took some time before it introduced audit exemptions for Private Companies in Britain, thereby blending in the business culture of Europe and other developed countries. Nevertheless, countries that have made audits not compulsory or exempt for Private Companies are advanced countries, also known as First World countries. Currently, Britain, the USA and Singapore are examples of these. However, Malaysia is not in the same league. We are a far cry from this group of countries. To make things worse, a recent statement by the authorities has pushed the deadline for Malaysia's entry into the First World, or into developed country status, even further from the original 2020 that it was targeted for. This only shows we are further than we thought we are from the	Disagree

No.	Name and Details of Respondent	Comments	Remarks
		eventual target. Simply put, we are far, far away from being a developed economy. Therefore audit exemptions at this stage would be disastrous for Malaysia's development, its economic growth and its attempt to achieve the developed status. This is further aggravated by the current economic situation that we find ourselves in, facing an economic depression and a monetary situation that can turn into a crisis. Whereas Small and Medium Enterprises ("SMEs") in developed countries make a small percentage of the economy, in Malaysia they are fairly sizeable. These SMEs depend on Small and Medium audit practices to audit them at affordable and at value-added bases, coupled with personal advice and attention in areas where the auditor can offer valuable professional help and assistance. Exemptions from audits for the SMEs at this stage would mean lots and lots of firms of small auditors would close, resize or downsize their practices. This means much-needed advice and attention would become scarce, and thereby expensive, for these SMEs. This would be disastrous for these SMEs and many would be penalised under the tax, GST and SSM regimes. We must not forget that under the new regimes, penalties, like fines, have been increased multifold for late filings, mistakes in filings and other errors, that these SMEs can hardly	

No.	Name and Details of Respondent	Comments	Remarks
		afford to bear. Audit assistance can help the SMEs avoid these. Also, if audit exemption for private companies was introduced, small and medium audit practices would close, resize or downsize. These means much needed opportunities for accountancy students to get professional on-the-ground training and guidance would be drastically reduced. How, therefore, is the nation to meet the necessary numbers of accountants to help it leapfrog into developed country status. As it stands, despite a lot of effort by the Malaysian Institute of Accountants, universities and other bodies, the numbers today stand at only 34,000 accountants with the original target of 60,000 by the original target date of 2020. With effectively four years to go, if we were to, theoretically, meet the original target, we must at least develop a further 30,000-40,000 accountants. With Small and Medium audit practices closing, resizing and downsizing, development of numbers of capable accountants to meet the necessary numbers to develop developed country, or First World, status, would seem a far cry. Remember, a further 30,000-40,000 accountants would have to be developed as there would be numbers that would retire from the profession due to seniority in age during these four years, and those who would leave and work in other countries. Countries, like Singapore, Hong Kong and China, offer better salaries at better exchange rates.	

No.	Name and Details of Respondent	Comments	Remarks
		Therefore, in conclusion, audit exemptions should not and must not be introduced until Malaysia achieves developed country status, standing shoulder to shoulder with countries in the same league.	
43.	**Salihin Abang** Malaysia Accounting Firms Association's (MAFA)	MAFA has considered the draft Practice Directive 1/2017, which was issued by SSM pursuant to subsection 267(2) of the Companies Act 2016, and is pleased to provide its response. MAFA, a firm-based association, was formed on 3rd November, 2009 with a mission to promote the advancement and development of small and medium sized accounting firms, improve the technical knowledge of practitioners and to provide a platform for discussion. Since its inception, MAFA has grown to become an organization with over 100 member firms nationwide and with approximately 500 qualified accountants therein. It is playing a critical role for Small and Medium Practitioners (SMPs) as the MIA membership comprised of practitioners, corporate accountants and academicians. MAFA hopes to assist practitioners by providing them with a forum to discuss pertinent issues faced by the profession and is charged with representing, voicing their concerns and promoting their interests.	Agree for dormant companies but does not agree for small companies.

No.	Name and Details of Respondent	Comments	Remarks
		MAFA's responses are set out in the following paragraphs: 1. Statutory Audit Exemption for Dormant Companies We do support the proposal to provide statutory audit exemption for dormant companies. The objective is to help minimize statutory burden and costs of doing business by inactive companies in Malaysian pending the time they would overcome the dormancy period. 2. Statutory Audit Exemption for Small Companies For the time being, we do not agree on statutory audit exemption for small companies. We are of the view that small companies should continue to be subjected to statutory audit due to the following reasons: a. Exempting small companies from statutory audit will have a negative consequence on keeping of proper documentation and records for income tax purposes. In the wake of global and national economic challenges, it is vital to ensuring that the documents and records are properly and adequately maintained to enable the determination of the right amount of corporate tax and other essential tax filing purposes. Without statutory audit, it would be difficult to ensure compliance to	

No.	Name and Details of Respondent	Comments	Remarks
		the documentation requirements of our tax administration. b. About 80-90% of the client base of MAFA members are small companies. Given that statutory audit service is the main bread and butter for MAFA members, exempting the small companies would have a greater negative impact on the sustainability of MAFA members. It is worthy to note that MAFA members are SMPs who crucially provide internship and employment to a significant number of students. Hence, the spillover effect from their vulnerability would have excruciating impact on students' internship and graduate employability. c. It is also in the interest of the small companies to be subjected to statutory audit because of the value it adds. Firstly, it enhances the credibility and stakeholder confidence in the financial statements especially when dealing with banks, investors, leasing companies, suppliers of goods and services, even the Inland Revenue Board and other government agencies. Not only satisfying the requirement of these stakeholders for statutory audit, it also ensures and proves that the small companies are financially disciplined and through the statutory audit, it makes it possible for them to obtain specialist advice in other non-audit areas.	

No.	Name and Details of Respondent	Comments	Remarks
		d. Although audit exemption for small companies is trending internationally, it is premature to introduce it in Malaysia. Unlike those countries, Malaysia has immature accounting and financial reporting standards and practices. For instance, Malaysian Private Entities Reporting Standards (MPERs) only took effect from 1 January 2016. Therefore, the introduction of the audit exemption, at any time soon, is untimely. e. Alternatively, small companies may minimize statutory compliance burden and costs through incorporation or conversion to Limited Liability Partnership as introduced in 2012. This kind of business vehicle is exempted from statutory audit as per the Limited Liability Partnerships Act 2012. In the light of the above-mentioned reasons, MAFA, on one hand, is supportive of SSM's proposal on statutory audit exemption for dormant companies. On the other hand, although small businesses with limited liability partnership structure are already exempted from audit, MAFA does not, in the interim, support the exemption for small companies	

No.	Name and Details of Respondent	Comments	Remarks
44.	**Brian Wong** pkfmalaysia	In addition to the points raised by the MIA and ABM, I disagree to SSM's proposed Practice Directive to exempt statutory audits on financial statements as: 1. A limited liability company is a separate legal entity distinct from its owners. It is a basic and fundamental principle central to company law that was laid out in the case Salomon v Salomon & Company Ltd [1897], where it was ruled that where the liability of the owners is limited, they cannot be held liable for the companies' debts. Under the concept of Limited Liability the owners of the company are not answerable or responsible for the obligations of the company therefore making the owners liable only for the amount of their unpaid shares and not the obligations of the company. Therefore, as a company is a separate legal entity as distinct from its owners, it is separate at law from its owners and directors, and as such is conferred with rights and is only appropriate for it to be subject to certain duties and obligations. Under these fundamental company law principles, the need for companies to be audited was borne. Exempting companies from audit is a challenge to the basic principle of company law. 2. The supporting infrastructure within the financial reporting ecosystem to combat and mitigate the risks of Money Laundering / Terrorist Financing is not presently	Disagree

No.	Name and Details of Respondent	Comments	Remarks
		mature. The players within the banking system, whilst regulated by BNM, adopt inconsistent KYC and STR practices that do not make for good AMLATF controls. Companies, many of them shells used for a variety of purposes to circumvent AMLATF and even immigration controls, would fall under SSM's proposed definition of "dormant" and "small companies". Despite and notwithstanding the responsibilities placed on a reporting institution under 1st Schedule of AMLATFA 2001, doing away with statutory audits is removing one more control and safeguard in our already wanting mechanism to monitor and report on potentially illegal and fraudulent activities covered under 2nd Schedule of AMLATFA 2001. As it is, Malaysia's rating in relation to the Global Corruption Perception Index (CPI) of 168 nations for 2015 revealed that Malaysia's ranking slid further from 54 to 50, well below the global average. Similarly, our ranking on the Basel AML Index that measures the risk of money laundering and terrorist financing places Malaysia at roughly within the global average segment only (ranking of 87 out of 149 countries), well below our neighbour Singapore which is placed within the more respectable quartile.	

No.	Name and Details of Respondent	Comments	Remarks
		3. The criteria set out in the proposed Practice Directive for "small companies" encourages and will result in various corporate structures to circumvent reporting for audit and tax. There will be avenues especially for low asset based companies with relatively high revenue (e.g. technology companies) and high asset based companies with relatively low revenue (e.g. investment property companies) to circumvent the rules for audit and challenge transfer pricing and BEPS rules. Why encourage corporate mischief. 4.On the argument that there is no value in audit and that many audit practitioners are not up to the mark to provide such value, the issue, whether a reality or not, is domain specific within the accounting profession, and that the MIA will need to address separately. The issues of audit exemption and audit quality are separate and independent and should be separately considered. Let not the child be excused from his vaccination, simply because there are a few doctors that do not meet the grade. 5.If there is sympathy to the argument that statutory audit exemption reduces the costs of doing business, that sympathy is misplaced and the underlying rationale is baseless as there is an alternative available to the	

No.	Name and Details of Respondent	Comments	Remarks
		business community, which is the use of a Limited Liability Partnership (LLP), but which is subject to different controls within the financial reporting ecosystem and is therefore a controlled option. Additionally, the cost of obtaining an independent mark that comes from an audit is insignificant (i.e. USD200-300 per annum for a dormant company) and that will not result in a scurry of foreign investment into Malaysia from investors that matter and make a difference. One cannot help wonder, and it is perhaps appropriate to take perspective, on why such sympathy is not then granted to the business community when it wishes for exemption of corporate income tax. It is important to note that in the rules of government, it is only natural for all quarters to establish idealist views that would serve restricted purpose, but there is a greater responsibility by those in authority to consider the greater good that comes correct policy. I trust that wisdom will prevail in the final analysis.	
45.	**Marphy**	Following a reading of the comments made by MIA, professional auditors in practice, some lawyers and members in public, we can see that there is a division of views as to whether audit exemption should be afforded to eligible companies while there is a settled sentiment	Agree

No.	Name and Details of Respondent	Comments	Remarks
		among practitioners that audit exemption could be applied to dormant companies. The key to this stark divide of opinions lies partly in conflict of interests between business owners who pay for the costs and the other party auditors who earn the income. While there is a long list of debates urging the regulatory body such as SSM to drop the idea of exempting companies other than dormant companies for audits, it should be pointed out that much depends on the real practicality of each benefit advocated by the proponent accountants which I shall elaborate as follows: Benefit 1: Audit helps to enhance the accuracy and hence the credibility of financial statements produced by SMEs Comment: It is a simple truth that a baker (or ordinary baker) cannot make good breads with bad flour. I doubt that for audit practitioners who have a deep concern over the quality of account prepared by in-house account clerks or even qualified accountants, how could an audit which is carried out once at the end of a year helps to better the quality of a "bad" account? Do they in practice issue a modified audit opinion on such financial statements with the same problem recurring in the future? Even for auditors who are willing to help clients with such a worrying quality of account, I doubt	

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		that they would have the time and human resources to do such rescues and that clients may not be willing to pay for a higher audit fee incorporating such rescue exercises. This group of clients who tend to keep insufficient and messy records will be penalized by the authorities such as IRB later. Does an audit rescue them from this fate? The same line of reasoning is applicable to reporting for lenders, that is whether lenders could in fact benefit from an audit opinion. Put aside factors which compromise audit quality for this group of clients such as threat to switch auditors, threat to delay paying audit fee, close relationship and the like, it should not be forgotten that some lenders are now requiring directors to personally guarantee the loan acquired - this surely impacts the notion of a company as a legal person and it also at the same time diminishes the importance of an audit report to lenders. So could we still be confident that the argument that "an audit helps to make a report more credible" is a universal fact? Benefit 2: The imposition of statutory audit requirement is in line with income tax law administrative requirement. Comment: No doubt, by maintaining the statutory audit requirement as it is at present, there will be a conformity with the income tax law administrative requirement. However, it should not be overlooked that IRB is seeking to rely on auditors to "censor" or "diagnose" the financial	

No.	Name and Details of Respondent	Comments	Remarks
		statements and this exercise could help saving IRB tax audit resources; in other words, we can say there is a shift of compliance cost burden to business owners who could in future get statutory audit exemptions but for this income tax law administrative requirement. But again note the real problems associating with a private company audit in the comment on benefit 1 above. Law should respond to the change in policies and to the change in social and business behaviors, so does income tax law. That said, I personally think that the policies underlying the audit exemption for private companies (I shall not analyse any of the specific elements of the definition SSM currently proposes for an exempt private company), one of which is the "think small first", will be beneficial to the small business owners who want to get their business incorporated for whatever reasons they have. Benefit 3: Auditing small companies is a good training for budding accountants who are trained in audit firms. Comment: It is true that the proposed audit exemption, if implemented without any amendment, will have a direct impact on the revenue of audit firms. Another possible direct impact claimed by some audit practitioners is the laying off of some staff members, whom they have groomed and retained for audits. I could not agree on this argument. Look at the situation other industries are having due to some technological	

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		advances which have caused some structural changes in their industries. As an example, this would be traditional licensed taxi drivers who could be structurally unemployed due to the emergence of perceived cheaper and better alternatives; can we say this is an unwelcoming change? Please consider the rights of passengers here. Looking at audit industry with an emphasis on the small private companies (which are often quasi-partnerships because shareholders and directors are the same), audit methodologies could have remained static which means a number of things: staff are reluctant to be assigned to value-added services following audit exemptions because they might face steep learning curves, staff are more comfortable working under the old practices and hence auditing these companies could be more profitable to auditors with the converse less value added perception on the part of business owners. I welcome this change whereby auditors need to innovate to stay abreast of the changes - now is the issue of audit exemption, could the same persons be arguing against audit rotation proposal or even a more liberalized audit market - easier to set up audit firms as in other countries? I can tell that auditors need to change and be changed quick enough to offer more to clients. In conclusion, proponents who advocate strongly against audit exemptions are being too paternalistic and	

No.	Name and Details of Respondent	Comments	Remarks
		they are perceived to be interested in protecting their status quo - who are we to force our clients to opt for something we think that that is the best for them? Doing this will assume inability to make informed judgement on the part of business owners. Also, we must not forget that there are other alternatives to an audit report, which could be cheaper, such as a compilation report or a good and reliable bookkeeper/accountants. Again, I express my support for SSM proposal and I hope SSM will form its own decision by taking all arguments into account.	
46.	**Azmir Bin Abdullah** AFTAAS	With reference to Practice directive 1/2017 that provides power to the Registrar of Companies to exempt private companies from having to undergo the audit process, here are my views and comments: 1. Companies with huge amount of loans from banks/financial institutions. As we know loans from banks are derived from deposits made by the public from their hard earned money. Any exemption of these companies may be interpreted as consent for lack of accountability and responsibility to properly account and pay for these loans. Audit exemption may also motivate unscrupulous parties to misuse the veil of incorporation concept to create more	Agree for dormant companies only

No.	Name and Details of Respondent	Comments	Remarks
		shell companies for the purpose of evading scrutiny of their accounts and financial standings. As such I am in disagreement of any audit exemption for companies with loans from banks or other financial institutions. 2. Government Special Purpose Vehicle (SPV) Notice should be taken of instances where SPV's are established by the government to undertake huge infrastructure expenditure or for other purposes. These SPV's are financed with loans from the government or from grants. Any audit exemption on these entities may signalled lack of attention on the need to properly account and record the financial performance and position of these SPV's. Due to this I am against any proposal to exempt these companies from audit. 3. Impact on compliance with accounting standards and other reporting requirement. Any audit exemption of companies other than dormant companies should take into account the impact of non-compliance with the relevant reporting framework. Instances where the Board of Directors or Management are ignorant of accounting standards are prevalent that the World Bank has come out with a report regarding the matter. Furthermore poor quality financial statements may deter investments in the country's	

No.	Name and Details of Respondent	Comments	Remarks
		economy. As such until SSM itself are equipped with the capacity and infrastructure to promote sound and high quality reporting framework, audit exemptions for small companies should be deferred. For this point I am against the proposed audit exemption until the concern regarding compliance with reporting framework and accounting standards is addressed. 4. Dormant companies I am in agreement with the proposal to exempt dormant companies from the audit requirement by reason of it being meaningless and non -value added.	
47.	**Huang Shze Jiun** Baker Tilly HYT	1) Dormant Companies I support the exemption of Dormant Companies. 2) Small Companies I do NOT support audit exemption for small companies. The SME environment in Malaysia is such that SMEs generally do not have in-house professional accountants with an in-depth understanding of accounting principles. In this environment, if small companies are exempted from audit, the financial information prepared is likely to be unreliable.	Agree for dormant companies Disagree for small companies

No.	Name and Details of Respondent	Comments	Remarks
		The submission of tax returns based on unreliable financial statements is likely to expose the Directors to liabilities which could have been avoided by a proper audit. The audit fees for small companies is likely to be far lower than the potential liabilities that Directors would be exposed to if their financial statements are unreliable. The exemption of small companies would create significant challenges for auditors to audit the opening balances and comparatives if the preceding year was not audited.	
48.	**Doreen Yee**	I am a member of MIA. I strongly agree to exempt any private company from having to appoint an auditor if the company meets the criteria as set out in the Practice Directive 1/2017, especially Paragraph 3, 7, 10 and 15. Exemption from audit is to reduce operation cost of dormant, small and private exempt companies, and thus reduces the risk of bankruptcy, instigate economy growth, especially during the current tough economy condition.	Agree
49.	**How Soon Su**	I believe the definition of a small company is too narrow that only a handful of companies could qualified.	Query

No.	Name and Details of Respondent	Comments	Remarks
		The small company should include husband and wife company. The turnover of the company should be increased to RM1million and net book value of the company should increase to RM5million provided all the shareholders agreed that no audit be carried out.	
50.	**Salihin Abang**	SALIHIN has studied the draft Practice Directive 1/2017, issued by SSM in accordance with subsection 267(2) of the Companies Act 2016. We are pleased to provide our views. SALIHIN, Chartered Accountants, was established more than a decade ago providing auditing and assurance services to mainly small and medium enterprises (SMEs) and government agencies. Given its client base, the proposals in the draft Practice Directive on Audit Exemption (AE) is of significant interest to SALIHIN. Overall, SALIHIN supports the statutory AE for both dormant and small companies as set out in the following paragraphs. 1. Statutory AE for Dormant Companies SALIHIN agrees with the statutory audit exemption for dormant companies. This will help them minimize statutory compliance burden and costs of doing business in Malaysia.	Agree for dormant companies Disagree (deferred) for small companies

No.	Name and Details of Respondent	Comments	Remarks
		2. Statutory AE for Small Companies SALIHIN does not support the proposal for immediate statutory AE for small companies. Our reasons are outline below: a. With a revenue of threshold RM300,000 for each financial year, available data (SME Corp 2015/2016) suggests that this category of SMEs (microenterprises) accounts for about 77% of the total SMEs in Malaysia. This implies that Small and Medium Practitioners (SMPs)'s client base would be significantly shrunk, making survival difficult especially for new entrants. b. Even with the present statutory audit requirement, it is a fact that keeping proper and adequate accounting and other records has remained problematic for SMEs. SALIHIN believes that introduction of the AE to the small companies would worsened the situation. c. The spill over from poor documentation would hinder proper and adequate maintenance of records for corporate income tax purposes. It would make it difficult for the small companies to have sufficient corroborative to the documentation when filing their tax return. It is thus in the best interests of the small companies and the government (for efficient tax	

No.	Name and Details of Respondent	Comments	Remarks
		administration) to enable the determination of the right amount of corporate tax. d. It is also in the interest of the small companies to be subjected to statutory audit because of its value. It strengthens the credibility and stakeholder confidence in the financial statements especially when dealing with banks, investors, leasing companies, suppliers of goods and services, and other government SMEs agencies. Not only that, it also disciplines the small companies financially and it makes it possible for them to obtain specialist advice in other non-audit areas. e. Notwithstanding the global trend of AE, especially in the developed countries, it is too early to introduce it in Malaysia. Compare to Malaysia, the developed countries have sound financial system, high financial literacy and management skill amongst SMEs and mature accounting and financial reporting standards and practices. For example, Malaysia has only recently adopted the Malaysian Private Entities Reporting Standards (MPERs), l January 2016. In conclusion, SALIHIN is of the view that the introduction of the AE should be deferred to a distant future while getting the SMEs and the SMPs prepared for	

No.	Name and Details of Respondent	Comments	Remarks
		it. On the other hand, we support the proposal on the AE for dormant companies.	
51.	**Oliver Ng Kee Hwa** Smalley & Co.	Below are my comments regarding Audit exemption - 1. Agree with Audit exemption to be applicable dormant companies only. 2. Audit exemption should not apply to Group companies. (Individual company qualified as small company, but not qualified at the consol level) 3. PRACTICE DIRECTIVE 1/2017 Para 10 (b) (iii) - Number of employees not well defined. 4. Audit promote public confidence and reliance from Stakeholders. (Either it is qualified as "small company" or not)	Agree for dormant companies Disagree for small companies
52.	**Hooi Kok Mun** SJ Grant Thornton	We, Hooi Kok Mun, Head of Audit & Assurance, John Lau, Managing Partner of Penang Office, Desmond Tan, Senior Partner of KL Office, Heizrin Sukiman, Partner of JB Office and Sharon Sung, Technical Partner, all at Grant Thornton Malaysia have considered the draft Practice Directive1/2017 as well as the draft Form of SSM for Registration of Firms pursuant to Section 261(1) Companies Act 2016. Our comments are as follows: 1) Dormant Companies	Agree for dormant companies with proposed amendments Disagree for small companies

No.	Name and Details of Respondent	Comments	Remarks
		We support the proposal to provide audit exemption for dormant companies. This will help to reduce costs of doing business in Malaysia. Our comment is on the definition of dormant companies in the draft Practice Directive which we believe should be refined to enhance clarity. The draft Practice Directive defines company as dormant when there is no accounting transaction for a period. The draft Practice Directive refers to an accounting transaction as a transaction in accounting or other record which is required to be kept under the Companies Act 2016. The term "dormant company" appears to be too loosely defined. For example, would any statutory payment by a company be considered as a transaction? Additionally, whether a subsidiary of a group or of a public company, which itself is a dormant company is exempted from audit? Paragraph 11 of the draft Practice Directive proposes that a subsidiary does not qualify for the audit exemption unless the entire group is a "small group" albeit the subsidiary itself is a "small company".	

No.	Name and Details of Respondent	Comments	Remarks
		There is no equivalent guidance for dormant companies. We would like to recommend that all subsidiaries of a public company should not qualify for audit exemption. We understand that there are total of about 1.15 million companies registered with SSM. 400,000-500,000 amongst them are dormant. Thus, exemption for these companies would reduce workload by about 40% by numbers. 2) Small Companies Considering the current business environment and the stage of development of financial reporting in Malaysia, we are of the view that small companies should continue to be subjected to audit as an interim measure. The proposed audit exemption of small companies should be introduced upon the successful implementation of the audit exemption of dormant companies and when small companies put in place appropriate infrastructure to produce reliable financial information. With effect from 1 January 2016, small companies are required to prepare financial statements, for the first time, in accordance with the Malaysian Private Entities Reporting Standard, a standard based on a globally adopted standard – the IFRS for Small and Medium-sized Entities. Small companies generally do not have	

No.	Name and Details of Respondent	Comments	Remarks
		in-house professional accountants with an in-depth understanding of accounting principles. Very often, small companies seek advice from the auditors when preparing the financial statements. Auditors play a significant role to fill the knowledge gap and to assist the directors of small companies towards producing a set of MPERS compliant financial statements. In light of this, we would recommend that at this juncture only dormant companies should be exempted from audit requirements. Audit serves a good number of key objectives and thus Audit is important for small companies. Amongst the critical needs, it fulfils are: (a) Companies enjoying the privilege of limited liability must subject their business to mandatory audits to safeguard the interest of third party users and other stakeholders. An audit can be considered to be a service to the public at large and it is a small price to pay for the limited liability protection that a company enjoys. (b) Audit necessitates the need to prepare proper accounts. This could save money as the new Companies Act 2016 has imposed increased liabilities to Company Directors for failing to prepare adequate financial	

No.	Name and Details of Respondent	Comments	Remarks
		statements. The penalties could be up to RM500,000 fine or 3 years imprisonment. (c) Small companies are generally without in-house financial and managerial expertise. The accountants' role in providing the necessary financial and management advice fills this gap. An independent audit also builds public confidence towards the integrity of financial statements and in nurturing the right corporate behavior. (d) External audit ensures proper tax returns are filed with the Inland Revenue Board (IRB) and the current Section 77A(4) of Income Tax Act requires tax returns furnished by companies to be based on audited accounts. An Auditor can assist in identifying weaknesses in tax compliance, thus providing an opportunity for companies to avoid breaking the tax law unintentionally and thus incurring penalties. (e) Without the comfort of an audit opinion, even if Banks make loans available, they would be taking on more risks and are thereby compelled to raise financing costs which will be counter-productive to small companies.	

No.	Name and Details of Respondent	Comments	Remarks
		3) Proposed Form for Registration of Audit Firms pursuant to Section 261(1) Companies Act 2016. In our view the, Registration Form for Audit Firms needs two amendments as follows: (a) Particulars of Partners of Audit Firm No need to have residential address of the Partners. The office address is already there. We consider the Name, Nric no., Tel & Email should suffice. Any additional info. would be detriment in terms of security, well-being and independence of the Partners. (b) List of Companies whereby the Audit Firm is Appointed This would be a long list particularly for large Firms. It would create bureaucracy and waste of time. SSM already has the information from the Audited Accounts.	

No.	Name and Details of Respondent	Comments	Remarks
53.	**Shien Hong Tham**	Personally I agree with the audit exemption for DORMANT companies only and I disagree with the audit exemption for "SMALL" companies. For "small companies", which a company will only be required to meet any 2 out of the 3 criteria, to me, I think in order to be a small company, all 3 criteria must be met or instead, lower the criteria further. Given an example where an owner-manager property investment holding company which has a property worth > RM500k, but only receive rental income of < RM300k, operate by 2 employees (husband and wife), but have a loan of say RM800k to finance the property. Question: is this company still considered as a "small" company? I do not think the bank will accept an unaudited management accounts on annual review and will of course insist on the accounts prepared by the directors to be audited. Under such circumstances, if the accounts were required to be audited, a non-statutory audit will come in, which of course the fee charge will be much higher than an ordinary statutory audit. Of course practitioners will like it due to higher fee charge but is the so-called "small" company willing to pay for the higher fee? Rightfully speaking the idea of audit exemption for small companies is to bring down the cost of doing business and but now, it has defeat the purpose.	Agree for dormant companies Disagree for small companies

No.	Name and Details of Respondent	Comments	Remarks
		Therefore, I do not agree on the part where "small" companies should be exempted for audit.	
54.	**Yeoh Aik Beng**	Audit exemption agree to be applied to dormant companies only. Definition of 'dormant company' A company is considered dormant if it does not have any significant accounting transaction for one financial year before the occurrence of substantial change (i.e. 50% or more) in its equity shareholding. This means that there is no recording entry in the company accounts other than the minimum expenses for compliance with stipulated statutory requirement. The minimum expenses referred to are as follows:- (i) filing of the company's annual return to the Companies Commission of Malaysia; (ii) secretarial fee for filing of company's annual return; (iii) tax filing fee; (iv) audit fee; and (v) accounting fee.	Agree for dormant companies only
55.	**Tan Cheng Hooi** Tan Cheng Hooi & Co	For now, Audit Exemption should be applied to "dormant companies" only.	Agree for dormant companies only

No.	Name and Details of Respondent	Comments	Remarks
		That is, newly incorporated companies, and those remain dormant, with no activities.	
56.	**Billy Kang**	With respect to the above, my comments are as follow: 1) Congratulation to SSM for issuing this Practice Directive 1/2017, and seeking feedback from the general public. I am an audit practitioner, therefore, this directive is very pertinent to me and my fellow practitioners. 2) I fully support the exemption of audit for dormant companies. However, para 3(b) and 4 need clarification. 3) From the reading of para 3(b), a 'dormant' company will only be exempted from audit from 'year 4' onward. In another word, during the 'three consecutive financial years' the financial accounts will still be audited even though the company is already dormant since 'year 1' of the 'three consecutive financial year'. 4) The purpose of granting audit exemption to a dormant company is to alleviate the financial burden. By the operation of para 3(b), it does not meet the stated objective. 5) I would suggest that para 3(b) should be re-drafted as - "it has been dormant for the financial year".	Agree for dormant companies with proposed amendments Disagree for small companies

No.	Name and Details of Respondent	Comments	Remarks
		6) With respect to para 4, the phrase of '... no accounting transaction occurs ...' need further clarification or re-phrasing. In all reality, there cannot be a situation where there is 'no accounting transaction'. Payments of Annual Return filing or any filing with the SSM; bi-yearly bank charges for current account; Company Secretary retainer fee; Tax agent fee and others, all these necessitate entries into the accounts. With this para 4, no company is ever dormant! 7) I would suggest that, and to make thing simple, just use 'sales' or 'revenue' as the criteria. 8) I appreciate that our government wants to help to reduce cost of doing business for small company. Normally, audit fee forms less than 1% of the total expenditure (although I do not have the statistics). The balancing between cost of doing business and assurance of the true and fair view of the financial statements can be achieved through other more meaningful method. Audit exemption is not the best solution. 9) On the practical perspective, SSM should consider the following: a. The Inland Revenue requires the financial statements of all companies registered under the Companies Act to	

No.	Name and Details of Respondent	Comments	Remarks
		be audited. If a small company that has availed itself to the audit exemption, and then require its accounts to be audited for taxation purpose, the fee may be higher than a 'normal audit' fee. b. When a small company breaches the benchmark criteria, the audit to be performed does not confine to the financial year concerned, it necessitate the confirmation of prior year balances. In this case the audit fee will be much much higher in the year when the company 'came out' of the dormancy or small company status. This is financially burdensome to the company. c. Except for Exempt Private Company, all other companies require to file their Financial Statements with the SSM. These Financial Statements are public documents. How could the public have confident in them if they have not been assured by an independent third party, i.e. the auditors. d. Many companies, in Malaysia, seek financial assistance from the financial institutions. All these institutions rely on audited financial statements to assess the financial health. In a situation where an 'audit exempt' company apply for financial facility, and is required to provide audited accounts, it will be more costly to prepare this 'agreed upon' audit than the 'normal' annual audit. 10) For the above reasons, I would like to suggest the SSM to reconsider audit exemption for small company,	

No.	Name and Details of Respondent	Comments	Remarks
		especially with respect to the definition and threshold/benchmark. I have earlier sent you an email on the PD 1/2007, I have missed and would like to add the following: 10) Although in (9) above I have pointed out the possible cost impact of audit exemption, I believe its the other side of the coin, I suppose. 11) If the exemption is to be implemented, I would to point out that the criteria for small company under para 10(b) is set too low, in my opinion. If implemented, almost all companies will be above the threshold. So it become meaningless to have this provision. To be meaningful, the threshold should be raised, says, revenue to RM 500,000, assets to Rm 1,000,000 and employee (excluding directors) not more than 10. By raising these criteria more small companies can enjoy the benefit of audit exemption. May be at a later year, the threshold can be revised upward to reflect the impact of inflation and price/cost adjustment.	
57.	**Mei Lin Chuah** The Association of Banks in Malaysia (ABM)	We are writing to you with regard to the proposed Practice Directive 1/2017 on Audit Exemption issued by Suruhanjaya Syarikat Malaysia (SSM).	Disagree for certain small companies

No.	Name and Details of Respondent	Comments	Remarks
		We have received feedback from our member banks that they are not in agreement with regard to SSM's proposal on audit exemption of certain small companies. The reasons are premised on the fact that an audited set of financial statements is a key document which the bank relies on when making a credit decision and also when extending loan/financing to customers. In the absence of the same, the bank is concerned of the following:- a) If the financial statements are not verified and validated by an independent qualified party there is the issue on reliability of the same; b) There is a high likelihood of errors in the company's financial statements which are not detected by an independent third party that may cause risk of financial mismanagement; and c) Generally, there is a lack of transparency in small companies' business operation and the risk of fraud is deemed as high. Please be advised that we would therefore support the stance made by the Malaysian Institute of Accountant (MIA). It is hoped that you would be able to re-consider the approach to be taken please.	

No.	Name and Details of Respondent	Comments	Remarks
58.	**Chong Gan Leng**	I refer to the Draft Practice Directive 1/2017 on Audit Exemption Section 10(b) (iii) which state 'not more than 5 employees". I would like to inform you that we do have many mid size company with high turnover but very few staff. This is due to management would like to keep cost low and they can operate via technology. Please do reconsider this clause.	Query
59.	**Foo Yoke Pin** The Malaysian Institute Of Certified Public Accountants (MICPA)	Draft Practice Directive (Audit Exemption) 1/2017: Criteria for Audit Exemption for Private Companies. We strongly recommend that SSM should limit the audit exemption to dormant companies for a start and that the said dormant company should not be a public company or a subsidiary of a public company. Audit exemption for small companies should be deferred until a detailed impact studies have been completed. We also recommend that engagement with various stakeholders should be conducted in order to understand the various financial and non-financial implications of audit exemption for small companies on the various stakeholders. Propose to define "dormant company": A company is dormant if it does not have any significant accounting transaction for one financial year, and the company	Agree for dormant companies Disagree (deferred) for small companies

No.	Name and Details of Respondent	Comments	Remarks
		ceases to be dormant on the occurrence of such a transaction. We propose that "any significant transaction" excludes the following: a. The taking of shares in the company by a subscriber to the constitution in pursuance of an undertaking of his in the constitution; b. The appointment of a secretary of a company c. The appointment of an auditor; d. The maintenance of a registered office; e. The maintenance of a bank account; f. The keeping of registers and books; and g. The payment of any fee or charge (including any fee, penalty or interest for late payment) payable under the Companies Act and Income Tax Act. Extract from: MICPA Comments Draft Practice Directive (Audit Exemption) 1/2017: Criteria for Audit Exemption for Private Companies SSM might want to do a comparative study for the definition of dormant companies against other jurisdictions. We have included some of the definition of dormant company for other jurisdictions in Appendix II of this submission.	

No.	Name and Details of Respondent	Comments	Remarks
		Paragraph 3 Propose to include "or" after (b) and include another qualifying criteria: (c) it is not a subsidiary of a Public Interest Entity (PIE) or any company reporting to any regulated authority. Paragraph 4 The definition of "No accounting transaction" should be clearly defined. Almost all companies, including dormant companies, would made payment such as filing fee or bank charges and making such payments would trigger an accounting transaction. Hence, almost all companies would not qualify as a dormant company for audit exemption. Paragraph 6 Propose to consider a longer period than the "1 month before the end of that year" for shareholder to request the company to audit its accounts to enable a company sufficient time to make necessary arrangement for an audit to be performed. We recommend that the company should arrange for appointment of auditors within one month after it ceases to be a dormant company. Extract from: MICPA Comments Draft form – Registration of Audit Firm (Companies Act 2016 – Section 265(1)) "Particulars of Partners of Audit" section Propose to remove the "address" and "other particulars" columns	

No.	Name and Details of Respondent	Comments	Remarks
		as all partners of the firm can be contacted at their firm's address and "other particulars" appear to be redundant. "List of Companies whereby Auditor of Audit Firm is Appointed" section Propose to remove this section as this would impose undue administrative burden on the audit firm. In addition, we wish to highlight that all companies are already required to inform SSM the name of their auditors. Public Consultation on Best Business Practice Circular on Business Review Report: Guidance to Disclosure and Reporting (Exposure Draft as at November 8, 2016) Propose that Bursa Malaysia's "Sustainability Reporting Guide and Toolkit" be used as a guide for the development of Business Review Report: Guidance to Disclosure and Reporting. This is to ensure that the Business Review Report would meet the GRI Standards and there is consistency in reporting between public listed companies and private companies. Definition of Dormant Company by Other Jurisdictions:- 1). Companies Act 2006 of United Kingdom Dormant companies. 1. For the purposes of the Companies Acts, a company is "dormant" during any period in which it has no significant accounting transaction.	

No.	Name and Details of Respondent	Comments	Remarks
		2. A "significant accounting transaction" means a transaction that is required by section 386 to be entered in the company's accounting records. 3. In determining whether or when a company is dormant, there shall be disregarded— (a) any transaction arising from the taking of shares in the company by a subscriber to the memorandum as a result of an undertaking of his in connection with the formation of the company; (b) any transaction consisting of the payment of— (i) a fee to the registrar on a change of the company's name, (ii) a fee to the registrar on the re-registration of the company, (iii) a penalty under section 453 (penalty for failure to file accounts), or (iv) a fee to the registrar for the registration of an annual return. 4. Any reference in the Companies Acts to a body corporate other than a company being dormant has a corresponding meaning. 2). Singapore Companies Act (Chapter 50) Section 205B – Dormant company exempt from audit requirements	

No.	Name and Details of Respondent	Comments	Remarks
		1. A company shall be exempt from audit requirements if — (a) it has been dormant from the time of its formation; or (b) it has been dormant since the end of the previous financial year. 2. A company is dormant during a period in which no accounting transaction occurs; and the company ceases to be dormant on the occurrence of such a transaction. 3. For the purpose of subsection (2), there shall be disregarded transactions of a company arising from any of the following: (a) the taking of shares in the company by a subscriber to the constitution in pursuance of an undertaking of his in the constitution; (b) the appointment of a secretary of the company under section 171; (c) the appointment of an auditor under section 205; (d) the maintenance of a registered office under sections 142, 143 and 144; (e) the keeping of registers and books under sections 88, 131, 173, 189 and 191; (f) the payment of any fee or charge (including any fee, penalty or interest for late payment) payable under any written law;	

No.	Name and Details of Respondent	Comments	Remarks
		(fa) the payment of any composition amount payable under section 409B or any other written law; (fb) the payment or receipt by the company of such nominal sum not exceeding such amount as may be prescribed; (g) such other matter as may be prescribed. 3). Company Ordinance of Hong Kong 2. Interpretation (1) In this Ordinance— Accounting transaction, in relation to a company, means a transaction that is required by section 373 to be entered in the company's accounting records, excluding a transaction arising from the payment of any fee that the company is required by an Ordinance to pay. 5. Dormant Company (5) A company that is a dormant company for the purposes of Parts 9, 10 and 12 ceases to be such dormant company if— (a) the company passes a special resolution declaring that the company intends to enter into an accounting transaction, and the resolution is delivered to the Registrar for registration; or (b) there is an accounting transaction in relation to the company.	

No.	Name and Details of Respondent	Comments	Remarks
60.	**Li Soon Tatt** S.T. Li & Co.	In regards to the SSM consultation papers, the following are the comments which we hope that can be forwarded to SSM to express our MIA members concern on the issues on hand. 1) In the Companies Regulation 2017, concerning the para 15(2)(b) which reads "that the secretary has not contributed to the failure of any company of which he is named as a secretary in complying with the provisions of the Act". It would be erroneous to include this clause as the word failure had not been adequately defined. Furthermore, the management of the Company is the responsibility of the Company Directors, and a failure of the Company in most circumstances are not attributed to the Company Secretary but rather the mismanagement of the Directors whom may have acted by disregarding the advice of the Company Secretary, and thus it would not be equitable to render the Company Secretary responsible for such failures. For example, the Directors of the Company refuses/delayed in paying the Secretary the fees in order for the Secretary to act in compliance with the Act. Other circumstances are that the Directors do not supply the information or financial statements in time for the Company Secretary to act accordingly. In real life practice, there are numerous clients that supplies the	Query

No.	Name and Details of Respondent	Comments	Remarks
		financial statement last minute and thus rendering the Company Secretary with insufficient/reasonable time to act accordingly. Such, scenarios may appear as the Company Secretary contributed to the failures to the reporting or submission to SSM but in actual fact the Secretary would never have been able to act without the instructions of the management of the Company. 2) In relation to the issuance of practising certificates by SSM, it would appear that such arrangement would be contradicting the purpose of a practising certificate issued by MIA (and Bar Council) and thus rendering these additional practising certificates redundant and extra cost to the accounting practice which indirectly would be passed to customers. This would run contradictory to the intention of the new Companies Act to reduce the cost of doing business. Furthermore, if SSM is to be involved in regulating the Company Secretarial practice, there should also be due processed for aggrieved parties to lodge their review request/complaints to independent parties to review the merit of their cases. However, the Companies Regulation does not cater to such due process and the aggrieved parties would be unable to have their cases adequately reviewed by independent parties.	

No.	Name and Details of Respondent	Comments	Remarks
		In fact, some License Secretaries who have been applying to renew their Secretary license to SSM have been encountering problems with their renewal and are unable to get the merit of their cases reviewed independently. It is the same department of people who approves the license and also reviews the merit of the appeal. Such arrangement will definitely lead to other problems. These new practising certificate regulation also poses additional administrative burdens on accountants on top of the current MIA, CTIM, ACCA, CPA requirements and also the other licensing requirements from MOF, LDHN, Customs, etc and now for secretarial practice. All of which requires different CPE/CPD points and requirements. Some on 3 year cycle renewal, some 2 year cycle and some 1 year basis. Already, a lot of accountants are facing problems in complying with the different and inconsistent regulatory environment. If these issues are not resolved, the profession may see the younger generation shying away from this profession. 3) Pertaining to the Audit Exemption for private companies, based on the draft Practice Directive 1/2017, it is interesting to note that the government is doing away with audit for dormant and small companies. However, in the Directive, it is noted that para 16 stated	

No.	Name and Details of Respondent	Comments	Remarks
		that the Companies must still lodge their financial statement with the Registrar. Please confirm with SSM if such companies that fulfils the criteria for audit exemption are still required to comply with the disclosure requirement are warranted under Companies Act and Malaysian Private Entity Reporting Standards on the Financial Statements. I would believe that the financial statement would still be required to be in compliance with CA and MPERS. However without auditing and having the auditors reviewing the financial statements for disclosure compliance, what should the Company Secretary do when the clients present a financial statement for submission but knowingly, the Secretary is aware that the financial statement disclosure are not in compliance with the Companies Act and MPERS. Whereas the Directors insist that the financial statement are in order for submission under the audit exemption criteria. Should the Secretary refuse to submit since doing so is contravening the Act, and if for 3 consecutive year of non-compliance would render the Company a failure and may be subject to striking off by the Registrar. Do note that often small companies are unable to engage the services of qualified accounting clerk to ensure compliance with the CA and MPERS and rely on auditors to ensure that they comply.	

No.	Name and Details of Respondent	Comments	Remarks
		In cases where a Company may have been exempted for audits and subsequently exceeds the threshold exemption and is no longer exempted. Often auditors may have to qualify the audit reports of the Companies due to limitation of scope of work on the verification of the brought forward figures from previous years which had not been audited. Would such qualified audit reports be an issue to the SSM and the report users. In addition earlier 3 feedback as per the email attachment, would like to add one more point regarding the criteria pertaining to the audit exemption on the revenue threshold: one of the audit exemption, is based on the revenue threshold, we noted that for some small Companies, they may Other Income source which are not categorised as Revenue but can be quite significant. So if the Secretaries were to received such accounts from the directors who has significant other income source, should the Secretary insist that the other income be regarded as part of revenue or otherwise. Such matters would affect the method of ascertaining the audit exemption threshold and put the Secretaries in a difficult position if the Directors and the Secretary are of differing opinions. As such, the definition of revenue as	

No.	Name and Details of Respondent	Comments	Remarks
		well as other criterias in the practice directive has to be adequately addressed in order to avoid ambiguity.	
61.	**Mohd Fazuwar bin Mat Saaidin.**	In my opinion, audit exemption shall only be applied to dormant companies as defined by the proposed directive i.e:- A company shall be exempt from audit requirements if:- (a) it has been dormant from the time of its formation; or (b) it has been dormant for three consecutive financial years. My objection are due to the following reasons:- 1. The exemption on 'Small Companies' will increase their cost of doing business The objective of audit exemption is to reduce the cost of doing business in Malaysia. In current practice, the accounting fee and audit fee charges by accounting practitioners are very- very low i.e. in the average of RM1,200 per year for accounting fee and RM1,000 per year for audit fee (for a really 'small companies'.	Agree for dormant companies only Disagree for small companies

No.	Name and Details of Respondent	Comments	Remarks
		The companies themselves struggling to pay the accounting and audit fees in which only on yearly basis. Now, with the exemption, the companies have to find a 'proper' accountants to look into their accounting matters especially to comply to the newly adopted Malaysian Private Entities Reporting Standards (MPERS). To hire an accountants as defined under the Accountants Act 1967, the companies will have to suffer a monthly payroll expenses for example RM3,000 per month and equivalents to RM36,000 per year and compared to only RM2,200 per year for the current practices. 2. Huge numbers of 'Small Companies' in risk areas Huge numbers of 'small companies' obtaining loans and financial assistance under the SME programmes such as bankers, PUNB, SMIDEC and etc. The exemption will give rise and opportunities for bogus accountants to manipulate the accounts in accordance to the need of the 'small companies'. 3. The exemption on 'Small Companies' will increase bogus accountants Even in current practice, bogus accountants plays their roles and covering under the legitimate audit firms. This resulted to non-compliance in audit satisfactory level in which the bogus accountants preparing audit	

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<tr><th>No.</th><th>Name and Details of Respondent</th><th>Comments</th><th>Remarks</th></tr>
<tr><td></td><td></td><td>working papers and get license auditors to sign the audit reports and sometimes don’t even have audit files.
Their actions giving bad remarks and impression on legitimate accountants and license auditors.

4. ‘Small Companies’ not ready for the introduction of MPERS.

The directors and shareholders of the ‘Small Companies’ not familiar with accounting standards and don’t ever heard of MPERS.</td><td></td></tr>
<tr><td>62.</td><td>Tham Wai Ying
Tricor Corporate Services Sdn Bhd</td><td>
<table>
<tr><th>PAGE</th><th>PARAGRAPH</th><th>REQUIREMENTS</th><th>TRICOR’S COMMENTS</th></tr>
<tr><td>1</td><td>1</td><td>Background

Subsection 266(1) of the Companies Act 2016 requires all private companies to appoint an auditor for each financial year of the company for purposes of auditing its account. However, the Registrar may exempt any private company from having to appoint an auditor if the company meets</td><td>Section 77A(4) of the Income Tax Act, 1967 (“ITA”) requires that tax return furnished by a company shall be based on accounts audited by a professional accountant, together with a report made by that accountant which shall contain, in so</td></tr>
</table>
</td><td>Query</td></tr>
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No.	Name and Details of Respondent	Comments	Remarks
		<table><tr><td></td><td></td><td>the criteria as set out in this Practice Directive.</td><td>far as they are relevant, the matters set out in subsections 174(1) and (2) of the Companies Act 1965 (“CA 1965”). The requirement under the above section applies to **ALL** companies regardless whether they are dormant, small or exempt private companies. There appears to be a mismatch in the requirements for audited accounts between both legislations, i.e. Companies Act 2016 (“CA 2016”) and ITA and all companies would ultimately be required to appoint an auditor for purposes of auditing its</td></tr></table>	

No.	Name and Details of Respondent	Comments				Remarks
					accounts to satisfy Section 77A(4) of ITA unless Section 77A(4) is amended in the near future before the PD 1/2017 takes effect.	
		2	4	**Dormant companies** A company is dormant during a period in which **no accounting transaction occurs** and the company ceases to be dormant on the occurrence of such a transaction. “Accounting transaction” under this paragraph means a transaction, accounting or other record of which is required to be kept under section 244(1) of the Companies Act 2016.	There is a need to provide definition/reference for what constitute accounting transaction. All dormant companies are still required to comply with statutory requirements of having to appoint company secretary, submit tax return with Inland Revenue Board (“IRB”) etc which then they will incur professional fees charged by secretarial agents, tax agent, etc which will be accounting	

No.	Name and Details of Respondent	Comments	Remarks
		<table><tr><td></td><td></td><td></td><td>transactions. The need to synchronize the requirements of ITA and CA 2016 as IRB requires tax computation be prepared based on audited accounts. At present, even dormant companies are required to file Form C with IRB. It may pose difficulties for company when companies reactive and require subsequent year audits. As the accounts presentation requires comparative figures, it would mean the auditors need to do two years' financial statements?</td></tr></table>	

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<tr><th>No.</th><th>Name and Details of Respondent</th><th>Comments</th><th>Remarks</th></tr>
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<tr><td></td><td></td><td></td><td>The exemption based on small companies also pose difficulties as the condition must also be satisfied by the group.

Similarly since small companies are those with revenue not more than RM300,000, will IRB accept tax computation prepared based on unaudited accounts?</td></tr>
<tr><td>2</td><td>5</td><td>Where a company which is exempt from audit requirements under paragraph 3 ceases to be dormant, it shall thereupon cease to be so exempt but it shall remain so exempt in relation to accounts for the financial years</td><td>(i) Please clarify the words in red;
(ii) Please advise whether the said company will require auditing its accounts when it has accounting transactions; and</td></tr>
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</td><td></td></tr>
</table>

No.	Name and Details of Respondent	Comments				Remarks
				in which it was dormant throughout.	Please advise which financial year should the company starts to audit its accounts.	
		2	6	Notwithstanding paragraph 3, any member or members holding not less than 5% of the total number of issued shares of the company (excluding treasury shares) or any class of those shares (excluding treasury shares), or not less than 5% of the total number of members of the company (excluding the company itself if it is registered as a member) may, by notice in writing to the company during a financial year but not later than one month before the end of **that year**, require the company to audit its accounts for **that year**.	Please confirm whether the words in **red** referred to 'that **financial** year'.	

No.	Name and Details of Respondent	Comments				Remarks
		4	13	(b) it does not meet at least 2 of the 3 ~~the~~ quantitative criteria for the immediate past two consecutive financial years.	Typographical error.	
		5	16	Further to the above, all companies including an exempt private company that elect to be exempted from audit must lodge its financial statements with the Registrar.	Please clarify whether: (i) the company should prepare the accounts in accordance with Subdivision 1 of Division 3 of Part III of the Companies Act 2016 (“CA 2016”) but exclude the auditors’ statement as required under Section 261 of CA 2016; and ii) the company is required to circulate its unaudited accounts to its members notwithstanding Section 248(2) of CA 2016 states that the	

No.	Name and Details of Respondent	Comments	Remarks
		accounts that are sent to every member of the company shall be duly audited.	
63.	**A L Tan**	If the SSM directive 1/2017 is implemented small firms like ours will have no choice but to retrench some of our non-core staff. I hope that this directive will not be implemented. It is in my view still premature for Malaysia to implement such a directive. Perhaps another 10 years down the road where the business community is more savvy like the Singaporeans. We have problems explaining basic compliance matters to our clients. However, if it is to be implemented the SSM has to be specific 1) para 10 b (ii) . It said total assets of less than RM500K. Do we use the historical costs or the market value of fixed assets in the computation. 2) are the directors left to read and understand the directive themselves ? There will be a lot of retrenchment in the profession. There will also be a lot of confusions.	Disagree for small companies
64.	**UHY**	The Partners and Directors of UHY and its associated entities in Malaysia would like to echo the stand taken by the Malaysian Institute of Accountants (MIA) and the Malaysian Institute of Certified Public Accountants (MICPA) on the matter above, whereby we are in support of an audit exemption regime to be applied to	Agree for dormant companies Disagree for small companies

No.	Name and Details of Respondent	Comments	Remarks
		dormant companies only, while disagree for audit exemption to apply to small companies. Based on our observation from years of experience in the Malaysian accounting fraternity, we truly believe that at this particular point in time, financial statements prepared by small companies, do require the value add from an auditing process so that the quality and reliability of financial statements to stakeholders such as shareholders, banks I lenders I creditors and the Inland Revenue Board is given reasonable assurance. While our offices in more advanced economies have already experienced audit exemption in their jurisdictions, we believe it is a fair comment that much has been done in those economies to prepare both practitioners and businesses for audit exemption. With the support from the likes of MIA and MICPA, we have utmost trust that the SSM would be able to carry out the relevant initiatives and engagements with all relevant stakeholders in achieving an amicable form of audit exemption regime for Malaysia.	
65.	**Dato' Khairussaleh Ramli** RHB Banking	With reference to the abovementioned proposal on audit exemption for dormant companies and certain small companies issued by SSM on 8 November 2016, we would like to highlight the following concerns.	Disagree

No.	Name and Details of Respondent	Comments	Remarks
		As a Financial Institution that provides loans to these companies, the audited financial statements are an objective piece of information that is independently verified and it is a key document when making credit decisions. To illustrate, the audited financial statements of a company provide the Bank with information to assess objective evidence of impairment. MFRS 139 Financial Instruments: Recognition and Measurement, Para 59 states the following : Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events: (a) significant financial difficulty of the issuer or obligor; (b) a breach of contract, such as a default or delinquency in interest or principal payments; (c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; (d)it becoming probable that the borrower will enter bankruptcy or otherfinancial reorganisation;	

No.	Name and Details of Respondent	Comments	Remarks
		(e) the disappearance of an active market for that financial asset because of financial difficulties; (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets In addition, the audit process also assists the management of these companies to improve business processes and the system of internal controls. In the absence of an audit, the number of errors in the company's financial statements would very likely go undetected, hence potentially causing an increase in the risk of financial mismanagement. In conclusion, we wish to reiterate the importance of audited financial statements to Financial Institutions. We seek your kind consideration for our request for non-exemption of audit as stated above.	
66.	**Datuk Hamzah Bachee** Malayan Banking Berhad	We wish to highlight that financial statement furnished by companies seeking financing from the Bank is an important document used by the Bank in its risk assessment (including credit scoring). The ability of the Bank to undertake effective risk assessment will facilitate due loan structuring and loan pricing with appropriate terms to be imposed. The financial statement is also one of the key documents used to aid	Disagree

No.	Name and Details of Respondent	Comments	Remarks
		fraud detection relating to abuse in the use of banking products and facilities. In view of the reliance placed and importance of these financial statements, the Bank would require the financial statements to be audited by an external auditor who will provide their views that the financial statements are properly drawn up, free of material misstatement and provide a true and fair view of the financial position and financial performance of the company. The inability of companies in furnishing financial statements which are independently audited will result in elevated degree of difficulty by the companies in securing financing. For companies which managed to secure financing, it will come with higher costs of borrowing as the Bank will need to defray higher costs of risk assessment in the absence of audited financial statements. This will defeat the primary purpose of the proposed Practice Directive which is meant to reduce overall costs to these companies. The practice by small businesses in having their financial statements independently audited goes towards inculcating good financial discipline and governance. This will hold the small businesses well as they evolve to larger sized companies over time.	

No.	Name and Details of Respondent	Comments	Remarks
		The foregoing points clearly underscore the continued need for financial statement to be independently audited and supports the Bank's stance in objecting to the proposed Draft Directive to exempt independent audit requirements for companies categorised in the said proposed Practice Directive 1/ 2017.	
67.	**Lee Kit Yuen**	<u>Audit exemption for dormant company</u> <u>Comments</u> This Practice Directive paragraph 3 stated that a company shall be exempt from audit if it has been dormant for three consecutive financial years. Paragraph 4 further stated that the company is dormant during a period in which no accounting transaction occurs. In my experience, a company could be dormant for more than three consecutive financial years but in actual, it could have other issues in the company which prohibit the company from deregister such as court case, legal matters and etc. As the Company is dormant and no qualified accountant to prepare the management account, legal fees or any	Query

No.	Name and Details of Respondent	Comments	Remarks
		other fees which paid by the director will not be able to capture into the account. In addition, although this company meets the definition of a dormant company but it has activity instead, hence if it is exempted from audit, affected party such as creditors might not be able to keep track on the latest development of the company through the audited account as it has been exempted from being audit. As a result, the creditors might not be able to take necessary timely procedures to recover its debt. <u>Audit exemption for small company</u> <u>Comments</u> It is defined in paragraph 10 that a small company is a company meets any of the 2 criteria for each of the 2 financial years immediately preceding the financial year:- 1. Revenue of not more than RM300,000; 2. Value of the total assets of not more than RM500,000; and 3. At the end of each financial year has less than 5 employees With today technology, a lot of businesses are not required huge assets and high volume of employees. For example an IT company. It could be run by less than 5	

No.	Name and Details of Respondent	Comments	Remarks
		employees and having total assets of not more than RM500,000 (as not much fixed assets required) but the company is not small and having revenue more than RM300,000. With the above criteria, it will be exempted from audit. If this is happen, SSM initiative to assist company to reduce cost will be violated and businessman will take this advantage to not disclose its financial information to its stakeholders. <u>Impact on small audit firm and fresh graduates</u> <u>Comments</u> Lots of small audit firm in Malaysia are operates by sole proprietor or 2 – 3 partners. Normally the client bases for this type of practices fall within the definition of small companies. If this is implemented, it will affect such practices significantly and it might not be able to operate as a going concern and force to close down its operations. If these practices are closed, it is expected to lead to unemployment. In addition, such small practices are a good training ground for the fresh graduates who are unable to be	

No.	Name and Details of Respondent	Comments	Remarks
		employed by bigger operations and wish to improve their skill through audit. <u>Quality of financial information disclosed</u> <u>Comments</u> Not many companies in Malaysia employed qualified accountants. Hence, financial information disclosed by companies without proper audit might not be accurate and lead to incorrect business operations being made. A proper audit would assist not only the businessman but also the stakeholders to have assurance on the company financial information and to safeguard interest. In a corporate exercise such as acquisition and disposal of company, the affected parties (such as buyer and seller) will required longer time to finalise the deal and more cost to be incurred as a result of poor preparation of financial information, financial due diligence adviser needs to be appointed and they need more time to finalise their due process. In addition, timely and/or accurate business decision will not be able to make. <u>Conclusion</u>: Appreciate if SSM could look into the definition of a dormant company to be exempted from being audited	

No.	Name and Details of Respondent	Comments	Remarks
		and to consider lowering the threshold to exempt a company from being audited.	
68.	**Tang Seng Choon**	Comments on Practice Directive 1/2017 Criteria for Audit Exemption for Private Companies With reference to the abovementioned matter, we thank you for providing us the opportunity to provide input to the Suruhanjaya Syarikat Malaysia ('SSM') on our views regarding the draft Practice Directive on audit exemption for private companies. We broadly support audit exemption to be provided to dormant companies, notwithstanding our concerns over the definition of dormant companies proposed in the draft Practice Directive. However, we disagree with the proposed application of audit exemption to small companies for various reasons. Our detailed comments and observations are documented in the attached Appendix. We hope that you would find our comments and observations helpful. **Qualifying Criteria for Exemption from Appointing an Auditor - Dormant Companies Paragraphs 3 to 6 of the Draft Practice Directive 1/2017**	Agree for dormant companies Disagree for small companies

No.	Name and Details of Respondent	Comments	Remarks
		1. We support the proposed audit exemption to be provided to dormant companies because this facilitates the efficiency of setting up or commencing businesses via companies in Malaysia. 2. We take note of the definition of a dormant company in paragraph 4 of the draft Practice Directive, and would like to bring to the attention of the SSM that dormant companies at present do record minimum accounting transactions relating to secretarial filings with the SSM and tax filings with the Inland Revenue Board ('IRB'). 3. We believe that it would be a challenge for existing dormant companies to meet the proposed definition of a dormant company, which could run contrary to the intention of the audit exemption. 4. Consequently, we suggest that the SSM revisit the proposed definition of a dormant company based on the following: a. Studies of corporate laws on audit exemption applied in other Commonwealth jurisdictions such as the United Kingdom to establish a 'higher threshold ' of accounting transactions undertaken by dormant companies.	

No.	Name and Details of Respondent	Comments	Remarks
		b. Outreach with the Malaysian Institute of Accountants ('MIA') and the Malaysian Institute of Certified Public Accountants ('MICPA') to leverage on both institutes' knowledge of this matter. **Qualifying Criteria for Exemption from Appointing an Auditor - Small Companies Paragraphs 7 to 14 of the Draft Practice Directive 1/2017** 1. We do not support the proposed audit exemption for small companies because: a. The cost of conducting audit of small companies in Malaysia based on the proposed thresholds in the draft Practice Directive remains relatively low within the ASEAN region. b. There are numerous benefits arising from the audit of small companies , namely: i. Significant deterrent against fraud or error; ii. Providing credibility to financial statements for the purpose of raising capital; iii. Providing credibility to financial statements for tax filing purposes with the IRB; iv.. Providing credibility to financial statements for statutory filing purposes with the SSM;	

No.	Name and Details of Respondent	Comments	Remarks
		2. We are concerned with possible unintended consequences arising from small companies that did not initially conduct audits but subsequently needed to conduct audits. The current year audit would not encompass an audit of the comparative information and therefore, reduce the comparability of financial information for decision making purposes. 3. We are also concerned with the possibility of small inactive companies with asset(s) on the statement of financial position that are measured at historical cost below the threshold specified in the draft Practice Directive but have a fair value significantly above the said threshold . This accounting asymmetry would result in such small inactive companies applying the audit exemption as compared to comparable peers measuring similar asset(s) at fair value and subjected to audit.	
69.	**Hew Tsu Zhen**	I'd like to express my full support to the initiative to exempt certain dormant and small companies from statutory audit as stated in the Practice Directive 1/2017. It is a significant change which is long overdue for the industry and I think it has more pros than cons for the industry in the long run. The obvious pro is this will significantly contribute to upholding the quality and value of the statutory audit performed by external auditors as auditors will be able to focus and spend more	Agree for dormant companies and small companies with proposed amendments

No.	Name and Details of Respondent	Comments	Remarks
		time on the audit of companies which matter the most to the public and are larger and has more impact to all stakeholders. As we know, the audit industry in Malaysia is frequently short on skilled staff and reducing the number of mandatory audits will greatly help to alleviate this issue. Increasing the quality and value of the audits is also in line with the objectives of the AOB and their inspection findings and actions to date. My specific comments on the draft directive are: 1. Para 4 - The definition of dormant company is too strict as it is defined as company that has no accounting transactions. Even for dormant companies, there are certain start up expenses or ongoing expenses that have to be incurred upon formation or just to maintain the Company, and the recording of such expenses would result in accounting transaction. This strict definition will result in a very small population of companies being able to be classified as dormant (although they may subsequently qualify for small companies exemption). I suggest to define dormant companies as companies that are not generating income or business revenue instead. 2. Para 10 (b) - I think the criteria to qualify for small companies are currently too narrow. I suggest to expand it to revenue less than RM500,000 and value of total assets does not exceed RM1.5 million. In addition,	

No.	Name and Details of Respondent	Comments	Remarks
		I would suggest for criteria b(ii) and b(iii) to be worded as "any point in time during the financial year" rather than "at the end of the financial year" is this may be subject to manipulation for companies which are not small throughout the year but have managed to meet these criteria just at the last day of the financial year.	
70.	**Lai**	we would like to share our comment relevant to certain paragraph of your DRAFT Practice Directive 1/2017:- #4. A company is dormant during a period in which no accounting transaction occurs... Comment: the directors asked, is the secretarial fees incurred in which directors paid out of their on pocket need to be accounted for? If yes, then should accounting transaction be recognised? #10.(b)(i) the revenue...does not exceed RM300,000; Comment: should we bring up the threshold to RM500,000 like for para (ii) for total assets and GST threshold the requirement to register as GST registrant to avoid market confusion as they are more & more compliance guideline. #16. Further to the above, all companies ... must lodge its financial statements with the Registrar. Comment : Since S244(1) of CA 2016 mentioned "The Approved Accounting	Query

No.	Name and Details of Respondent	Comments	Remarks
		Standard shall apply ..." Does that means at least a Chartered Accountant supposed to endorse for the correctness of the financial statements, so lodged? Because it is sad to say the financial statements presented for statutory audit for most SME have not been able to fully complied with the Approved Accounting Standard (i.e. PERS) in which MPERS has taken effect on 1 January 2016. Finally, small practitioner has find it very difficult to compete with the big boys and medium firm for audit staff and now with audit exemption on their way some junior staff found no future prospect to stay or join the small firm even with 2 or 3 partners anymore. Small firm is now in dilemma where there are audit clients but not enough audit staffs. We are only sharing our thought to assist in formulating your user friendly practice directive.	
71.	**Terry Law & Co**	I am writing to express my opinion on audit exemption Practice Directive 1/2017. I would like to suggest that a company only qualify for audit exemption if it falls under all three of the criteria mentioned under Practice Directive 1/2017:-	Query

No.	Name and Details of Respondent	Comments	Remarks
		i) Companies with total asset not more than RM500,000 ii) Companies with sales not more than RM300,000 iii) Companies having less than 5 employees Currently, the draft Practice Directive mentioned that a company shall qualify for audit exemption if it fulfils any 2 out of 3 criteria above. However, I would suggest that a company to qualify for audit exemption if it fulfils all three conditions. This is because a lot of investment holding companies holding very significant properties will be qualified for audit exemption. In my opinion, audit plays an important role in ascertaining the true financial position of these investment holding companies as their asset value is very high. Furthermore, with audit, companies will be obliged to keep proper record every year. With proper record, there will be less hassle when there are tax audit / investigations on these investment holding companies. I sincerely hope that SSM will consider my opinion	
72.	**Erica Chung**	PRACTICE DIRECTIVE 1/2017 CRITERIA FOR AUDIT EXEMPTION FOR PRIVATE COMPANIES This Practice Directive is issued pursuant to subsection 267(2) of the Companies Act 2016.	Query

No.	Name and Details of Respondent	Comments	Remarks
		10. A company qualifies as a small company in a financial year if:- (a) it is a private company throughout the financial year; and (b) satisfies any 2 of the following criteria for each of the 2 financial years immediately preceding the financial year: (i) the revenue of the company for each financial year does not exceed RM300,000; (ii) the value of the company's total assets at the end of each financial year does not exceed RM500,000; (iii) it has at the end of each financial year not more than 5 employees. Questions for SSM to consider and clarify: Q1. If a company's first financial period is more than 12 months and satisfies any two of the criteria as per Para 10 (b), would the company qualify to be exempted from audit?	

No.	Name and Details of Respondent	Comments	Remarks
		Q2. In the case of 5 employees – Would the determination of 5 employees include or exclude director(s) who do not receive any salary or fee? Company secretary is an officer of the company and it should be excluded even charging a small retainer fee. Q3. We seek clarification on the definition of 'revenue' – Does it include or exclude, any other income - eg. bank interest income, rental income, disposal of fixed assets, compensation for cancellation of agreement and etc that are in addition to the turnover that a business earns? Unless, a company's normal income is to, say, earn rental income. 16. Further to the above, all companies including an exempt private company that elect to be exempted from audit must lodge its financial statements with the Registrar. Questions for SSM to consider and clarify: Q1. Do we need to enclose an Accountants Report for this set of financial statement and be submitted to the Registrar? Mandatory or optional?	

No.	Name and Details of Respondent	Comments	Remarks
		Q2. Do we need to enclosed the statement by directors (S169(15) CA 1965) and Statutory declaration S169(16) CA 1965) in this financial statement? Q3. Who shall confirm that indeed that an exempt private company is dormant or satisfies the definition of a small company, unless a full audit is undertaken?	
73.	**Lam KS (Kee Soon Lam)**	Para 4 defines a dormant company is one without transactions. A dormant company will always have a business transaction such as secretarial,filing fees,miscellaneous costs,etc. S244(1) of the Act refers to compliance with approved accounting standards. I do not see any relevance to the accounting transactions. Para10.:5 Employees: Do directors come under employees? They can be full-time or sleeping directors. What about casual and parttime workers? Are they considered employees? Para 16: Financial Statements . Financial statements should be in line with MPERS not otherwise. The PD need to be clear about this.	Query
74.	**Teoh Lye Huat** Sirius Corporate Services	PRACTICE DIRECTIVE 112017- CRITERIA FOR AUDIT EXEMPTION FOR PRIVATE COMPANIES The 2016 Companies Act is set to bring significant changes to the regulatory framework on corporate	

No.	Name and Details of Respondent	Comments	Remarks
		law reforms. Suffice to say, Practice Directive l/20 17 lacks that monumental push for liberalization changes and break barriers. First and foremost, legislation on audit exemptions is at least 15 years too late. The fundamental criteria to exemption is to allow stakeholders i.e. the companies in the Register rolls and your clients, the freedom to manage their need for accounts to be audited since these accounts service multiple purposes for various users. These companies also have to satisfy their stakeholders. The shareholding structure of most private companies are evenly spread and current legislation promotes healthy shareholders' activism. For this purpose, a 10% threshold requirement in Paragraph 6 would be a good guide to balance the needs as the proposed 5% has some "nuisance" value or be abused. The definition of a small company will hardly cause a ripple. The threshold are far too low in Ringgit terms to be effective. IRB/MIDA/MATRADE/PEMUDAH have their own definitions of SME and you ought to consider revising the threshold to MYR2 million to be credible. Even a "small" property is now going for MYR500 ,000 and the proposed criteria will not exempt these "small" companies. If you revised these numbers, the definition of dormant companies	

No.	Name and Details of Respondent	Comments	Remarks
		become irrelevant. These so called "dormant" companies should then become subject to automatic strike offs by CCM so as not to choke up the system as they take up a lot of unproductive admin work. One of the privileges of exempt private companies is not having to file its financial statements and you should not revoke this benefit. The availability of financial data in the public domain for purposes of inter firm comparisons and benchmarking would not serve their intended purposes as such data may be highly skewed, unrepresentative and counterproductive. There are enough work in the private sector to absorb the slack from these exemption requirements and this may help improve productivity gains in private accounting support. SME are increasingly bombarded by more accounting and auditing standards, complexities in compliance and sophisticated business dealings and practices and these should create a lot of forward-looking specialised work for accountants and accounting technicians.	
75.	**Wong Fui Sin**	As a practitioner, i agree that dormant companies to be exempted from having annual audit but disagree this to be extended to other small companies.	Agree for dormant companies but disagree for small companies

No.	Name and Details of Respondent	Comments	Remarks
76.	**Fang Hau, Lim (30/11/2016)**	**PRACTICE DIRECTIVE 1/2017 CRITERIA FOR AUDIT EXEMPTION FOR PRIVATE COMPANIES ("PRACTICE DIRECTIVE 1/2017")** Reference is made to the draft Practice Directive 1/2017 which was issued on 8 November 2016. From the perspective of a Chartered Accountant and members of the public, I do not agree with the proposed threshold in the draft Practice Directive 1/2017. For the following reasons : 1. Threshold too low and inconsistent Based on the general perception, the audit exemption aims to help companies to reduce the cost of doing business. In accordance with the SME Corporation Malaysia website, a small company (other than manufacturing) is defined as any company with turnover ranging from RM300,000 to less than RM3 million or full time employees from 5 to less than 30. Setting a threshold too low at RM300,000 for revenue and 5 employees is inconsistent with the definition of small company as any company achieving financial results exceeding the threshold in the draft Practice Directive 1/2017 will not be considered as a small company. This may not reduce the cost of doing business with the lower	Agree for small companies with proposed amendments

No.	Name and Details of Respondent	Comments	Remarks
		threshold for small company. The threshold set should be consistent with the definition by SME Corporation Malaysia. 2. Audit quality Based on the Annual Report 2015 of the Malaysian Institute of Accountants, as of 30 June 2015,47% of the audit firms reviewed failed the practice review. From my overseas exposure in mid -tier audit firm and exposure in small audit firm in Malaysia, it is noted that the small audit firms in Malaysia substantially failed practice review. The reasons for practice review failure are failure to conduct the audits properly in accordance with the International Standards on Auditing ("ISAs") and do not comply with the requirements of the International Standards on Quality Control 1 ("ISQC 1 "). The main reason causing this practice review failure is the shortage of audit firms resulting in small audit firms taking more audit clients beyond its ability. Some firms with audit clients ranging from 400 to 1,000 only have one audit partner and one audit manager. With inadequate resources, the firms are not able to cope up with the demands and requirements of ISQC I and ISAs. Moreover, the low fees pressure in the industry does not provide the incentives for audit firms to improve audit quality. As a result, most of the audits are compromised in terms of quality.	

No.	Name and Details of Respondent	Comments	Remarks
		In view of the low fees pressure in the industry and audit quality, the Companies Commission of Malaysia needs to take a drastic approach to improve the audit quality. One of the approach is to have audit exemptions for small companies. With audit exemptions for small companies, practitioners can focus more on audit quality for companies not qualified for audit exemptions. Based on the overseas experience of audit exemptions for small companies, Singapore started the audit exemptions for small company in 2003, despite many objections from practitioners, with revenue threshold of S$2.5 million. In 2004, the revenue threshold was raised to S$5 million. In July 2015 , the revenue threshold for audit exemptions was raised to S$10 million. After 13 years of audit exemption in Singapore, the audit exemptions benefit the business community there. For Malaysia to improve the audit quality over the long term and reduce the cost of doing business, we must take a painful measure i.e. audit exemptions for small companies. If no audit exemptions for small company is adopted, this may not help in improving the audit quality over the long term. Auditors compromising on the audit quality is equivalent to cheating the clients indirectly even though the clients may not realise it.	

No.	Name and Details of Respondent	Comments	Remarks
		3. Definition of accounting transaction In accordance with the Companies Act 2016 which has yet to be gazette, the accounting transaction definition is not properly or clearly defined in the principal act. Without a proper and clear definition of accounting transaction , the draft Practice Directive 1/2017 needs to define what constitute accounting transactions. This is to clear any ambiguities among the practitioners or the business community. 4. Definition of employees In the new Companies Act 20 16, which has yet to be gazetted, there is no proper definition of employees . Under the current reporting framework , Private Entity Reporting Standards, it is a requirement for companies to disclose the number of employees in the notes to the financial statements. For companies currently adopting the Financial Reporting Standards or Malaysian Financial Reporting Standards ("MFRS"), there is no such requirement to disclose the number of employees . Under the new reporting framework, the Malaysian Private Entities Reporting Standards ("MPERS") (effective for period ending 3 1 December 20 16), there is no requirement to disclose the number of employees	

No.	Name and Details of Respondent	Comments	Remarks
		. Companies Commission of Malaysia should define what is employees in the draft Practice Directive 1/2017 to avoid ambiguities among the business owners or practitioners. Defining what constitute employees will also help to prevent parties from exploiting the loophole in the financial reporting frameworks due to no requirement to disclose the number of employees in the notes to the financial statements. 5. Consistent threshold for total assets and revenue Based on the draft Practice Directive 112017, the total assets threshold is set at RMSOO ,OOO . For companies with investment properties and adopting the MPERS reporting framework, it is a requirement to state its investment properties at revalued amount. The revaluation of investment properties shall be performed by a qualified valuer. This may cause the small company threshold on total assets to be breached and thereby disqualify it from applying for audit exemption . Alternatively , companies may elect to use the MFRS reporting framework in presenting the financial statements. Under MFRS reporting framework , companies have option to adopt the cost model or the revaluation model in measuring the value of investment properties .	

No.	Name and Details of Respondent	Comments	Remarks
		In view of the differing vtew point tn measuring the value of investment properties , Companies Commission of Malaysia should set a higher threshold which is the same as revenue to eliminate the available loophole in the choice of financial reporting and to be consistent with the revenue. In addition , the Companies Commission of Malaysia also needs to examine its original intention of introducing audit exemption for small companies . If the aim of audit exemption is to reduce the cost of doing business , the threshold for total assets should be increased to an appropriate amount to address the choice of different treatment of investment properties which may be exploited to apply for audit exemption . 6. Definition of revenue As per the draft Practice Directive 112017, there is no definition of revenue . Revenue is also not defined in the principal act i .e. the Companies Act 2016. The draft Practice Directive 1/2017 should defined what constitute revenue for clarity purposes. Based on what has been elaborated above, I wish to suggest some amendments and/or recommendations to the draft Practice Directive 1/2017 as follows:	

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<tr><td>No</td><td>Para</td><td>Comment</td></tr>
<tr><td>1</td><td>Para 4</td><td>The reference to section 244 (l) of the Companies Act 20 16 should be section 245 (1) of the Companies Act 2016.</td></tr>
<tr><td>2</td><td>New para 4A</td><td>For the purpose of paragraph 4, there shall be disregarded transactions of a company arising from any of the following:
- the taking of shares in the company by a subscriber to the constitution in pursuance of an undertaking of his in the constitution;
- the appointment of a secretary of the company under section 236 of the Companies Act 2016;
- the appointment of an auditor under section 267 of the Companies Act 2016;
- the maintenance of a registered office under section 46 of the Companies Act 2016;
- the keeping of registers and book under section 47 and 48 of the Companies Act 2016;
- the payment of any fee or charge (including any fee, penalty or</td></tr>
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</td><td></td></tr>
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No.	Name and Details of Respondent	Comments			Remarks
				interest for late payment) payable under any written law/ and - such other matter as may be prescribed.	
		3	Para 10 (b)(i)	Proposed amendment: - the revenue of the company for each financial year/period does not exceed RM1,OOO,OOO	
		4	Para 10 (b)(ii)	Proposed amendment: -the value of the company's total assets at the end of each financial year/period does not exceed RMJ,OOO,OOO	
		5	Para 10 (b) (iii)	Proposed amendment: - it has at the end of each financial year/period not more than 10 employees	
		6	New para 10A	Employee in relation to employment means: - where the relationship of master and servant subsists, the servant; - Where that relationship does not subsist, the holder of the appointment or office which constitute the employment.	
		7	New para 14A	For the purpose of paragraph 10 and 12 revenue and consolidated revenue shall be determined in accordance with	

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<tr><td></td><td></td><td>applicable approved accounting standards to the company/group</td></tr>
<tr><td>8</td><td>New para l4B</td><td>For the purpose of this· Practice Directive 1/2017, the question whether an entity is part of a group is to be decided in accordance with the applicable approved accounting standards to the group</td></tr>
</table>
In conclusion, the Practice Directive 1/2017 is a good move by the authorities to reduce the cost of doing business in Malaysia. Audit exemption for small companies with appropriate threshold should be implemented in 2017 to improve the audit quality and for the benefit of the business community.</td><td></td></tr>
<tr><td>77.</td><td>Fang Hau, Lim
(1/12/2016)</td><td>PRACTICE DIRECTIVE 112017 CRITERIA FOR AUDIT EXEMPTION FOR PRIVATE COMPANIES ("PRACTICE DIRECTIVE 1/2017")

Reference is made to the draft Practice Directive 1/2017 which was issued on 8 November 2016 and the comments from the Malaysian Institute of Accountants ("MIA") to Companies Commission of Malaysia dated 24 November 2016 ("MIA Letter").</td><td>Agree for small companies</td></tr>
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No.	Name and Details of Respondent	Comments	Remarks
		From the perspective of a Chartered Accountant and member s of the public, I do not agree with the MIA Letter for the following reasons : 1. Producing accurate financial position In accordance with section 249 (1) of the Companies Act 2016 which has yet to be gazetted , it is a requirement for the directors to produce the annual financial statements which show a true and fair view of the financial position. The financial statements can never be accurate i .e. correct in entirety . From the view point of auditors, as long as the mistakes are considered trivial and does not cause material misstatement , the financial statements satisfy the requirement of section 249 (1) ofthe Companies Act 2016. Most of the SMEs are owned by family member s and has no external borrowings . With the small audit exemption in place, this may reduce the cost of doing business . The moment business is operated under the private limited liability company , it is the responsibility of the directors to ensure the company keeps proper accounting records and prepare proper financial statements. If the directors are not able to comply, they should not use the private limited liability company to run their business and prepare to face sanctions from the authorities.	

No.	Name and Details of Respondent	Comments	Remarks
		2. Tax submissions Under the small company audit exemption environment , the tax computations will be based on the unaudited financial statements. The Income Tax act 1967 needs to be amended to allow unaudited financial statements to be used for tax computation. Small company audit exemptions should be introduced after the Income Tax Act 1967 has been amended in the future . 3. Shaping the accountancy profession As stated in my earlier letter dated 30 November 2016, the audit quality has to be improved over the long term and small company audit exemption is one of the important step. It is time for practitioners to depend on revenue from non-assurance services. In order for our country to be a developed nation , we should adopt small company audit exemption with modifications to suit our local environment. 4. Voluntary audit Under the proposed audit exemption environment , the audited financial statements are required for whatever purposes , the Company can always request the voluntary audit to be performed. Moreover , the draft	

No.	Name and Details of Respondent	Comments	Remarks
		Practice Directive 1/2017 has a safeguard for shareholders under paragraph 6 whereby substantial shareholders of the company can write in to request an audit to be performed. 5. Market forces In view of the proposed small companies audit exemption , the Companies Commission of Malaysia should allow the directors or shareholders to decide whether the companies should apply for audit exemption. From the reply by the MIA, it reflected MIA view of protecting the members welfare at the expense of the business community in terms of reducing business cost. The satisfaction of customers doing business should always come first in deciding on the policy of small company audit exemption. 6. Statistics in the industry Company & Business Statistics for Year 2016	

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<tr><th>No.</th><th>Name and Details of Respondent</th><th>Comments</th><th>Remarks</th></tr>
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Number of Registered Companies and Businesses
<table>
<tr><th></th><th>Local Companies</th><th>Foreign Companies</th><th>Total Companies</th><th>Total Business</th></tr>
<tr><td>Until 31 Disember 2015</td><td>1,191,757</td><td>4,718</td><td>1,196,475</td><td>6,316,089</td></tr>
<tr><td>2016</td><td></td><td></td><td></td><td></td></tr>
<tr><td>January</td><td>3,532</td><td>6</td><td>3,538</td><td>32,477</td></tr>
<tr><td>February</td><td>3,073</td><td>0</td><td>3,073</td><td>31,501</td></tr>
<tr><td>March</td><td>4,408</td><td>5</td><td>4,413</td><td>38,808</td></tr>
<tr><td>April</td><td>3,913</td><td>3</td><td>3,916</td><td>34,958</td></tr>
<tr><td>May</td><td>3,864</td><td>5</td><td>3,869</td><td>33,101</td></tr>
<tr><td>June</td><td>3,751</td><td>3</td><td>3,754</td><td>26,174</td></tr>
<tr><td>July</td><td>2,972</td><td>7</td><td>2,979</td><td>25,045</td></tr>
<tr><td>August</td><td>3,837</td><td>2</td><td>3,839</td><td>35,390</td></tr>
<tr><td>September</td><td>3,410</td><td>5</td><td>3,415</td><td>35,390</td></tr>
<tr><td>October</td><td>3,613</td><td>2</td><td>3,615</td><td>30,194</td></tr>
</table>

The above is an extract from the website from Companies Commission of Malaysia on the number of companies and businesses registered as at 31 October 2016. Based on the latest statistics, there are 1,232,886 companies registered with Companies Commission of Malaysia. Based on the MIA Letter, there are 1,413 audit firms registered as at 23 November 2016.

Assuming that all foreign companies are audited by the big-4 audit firm and the sole- proprietorship audit firms audit the local companies in accordance with the equal distribution of the registered local companies, the sole-proprietorship firms will have 869 clients per sole proprietorship firm. Having more than 300 audit clients for a sole proprietorship firm is considered a big audit risk as it is almost impossible for proper and quality audits to be performed. Under the International Standards on Quality Control 1, the partners must directly involve with the audit. Audit planning
</td><td></td></tr>
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No.	Name and Details of Respondent	Comments	Remarks
		memorandum needs to be signed off and audit working papers need to be signed off for quality assurance purposes. Sometimes, the audit partners time may be used up in meeting clients and the task is often delegated to the audit manager. Sole proprietorship firm with large client base and limited resources tend to compromise on the quality of the audit and the focus is more on the quantity of the audits. As a practitioner who has worked overseas in mid-tier audit firm and small audit firms in Klang Valley , I can see there is a significant difference in terms of the audit practice here. In overseas, each audit staffs only performed on average 8 to 10 audits per annum and the files are properly reviewed by managers and partners. Here, the audit staffs in small firm with large client base are expected to perform more than 20 audits a year. Sometimes, the audit quality are compromised as the staffs are required to meet their target. In view of what has been described above, it is a good approach by Companies Commission of Malaysia to address the issue of audit quality by introducing small companies audit exemption. This will help the small audit firms to focus on the audit quality as compared with the current practice of focusing on the quantity of audit clients . With lesser clients to audit, this will indirectly lead to an increase in the fees in the industry	

No.	Name and Details of Respondent	Comments	Remarks
		whereby the practitioners can compete based on the quality rather than quantity in the long term. In conclusion, the Companies Commission of Malaysia should implement the small companies audit exemption at the appropriate time in 2017 for the benefit of the industry as a whole and for the benefit of business community.	
78.	**Chris Leng** Wong & Co.	We would like to stand by the MIA's proposal that only dormant company be exempted from auditing in Malaysia. Please note that with the proposed exemption of RM300,000.00 turnover and below, half of our business will be gone and that our live hood will be affected. However the decision not only affect audit firm's live hood but also of the firm's staff's live hood as retrench is imminent from this decision. Just imagine the effect on the whole Malaysia!	Agree for dormant companies only
79.	**Jimmy Koh**	Agree that small businesses should be exempted from statutory audit requirements and revenue criteria to increase to RM500K. My comments are as follows : 1) Most small businesses have the followings:- a) Same shareholders and Directors	Agree for small companies

No.	Name and Details of Respondent	Comments	Remarks
		b) Simple business model c) Relies on accounting firms and tax agents d)Has a clerk that records sales ledger and cash book 2) In reality, nobody actually reads and RELIES on the audited financial statements("FS") LHDN doesn't relies on the audited FS else why bother doing tax audits Bankers may read but I somehow doubt they relies on the FS to make loans decisions. Note: Non Sdn Bhd businesses do not have audited FS yet they are able to report to LHDN and borrow from banks. 3) In the event of audit exemption, accounts still needs to be generated for Income Tax reporting purposes. The figures in the unaudited accounts would still be reasonably reliable because of:- a) generated by qualified accountants (see 1b,c and d above) b) other regulations exist to ensure accurate capturing of financial data eg. GST compliance c) Severe penalties, whether intentional or otherwise, for under declaration of income tax.	

No.	Name and Details of Respondent	Comments	Remarks
		4) Audit exemption biggest winners: All small businesses and biggest losers: All small audit firms. Small audit firms may lose some income. However, this may be compensated by increase in tax compliance fees. Moreover, not all small businesses will be exempted. Based on my work experience in UK, the small businesses who generate their own accounts would normally also request for a review before Income tax submission.	
80.	**Dato Heng Ji Keng**	Re: Audit Exemption for Dormant Companies Following the CPCF Accounting & Audit Sub-Committee meeting held in SSM's office on 21 November 2016, under the purview of the Companies Act 2016 , the Institute is of the view that audit exemption shall only be applicable to Dormant Companies as submitted by Malaysian Institute of Accountants.	Agree with dormant companies
81.	**En Mohd Noh Jidin (7/12/16)**	We fully support the MIA's stand for dormant companies audit exemption. As requested we enclosed our entitle comments for your action. Criteria for Audit Exemption for Private Companies	Agree for dormant companies with proposed amendments

No.	Name and Details of Respondent	Comments	Remarks
		We wish to inform you that our members are firms of chartered accountants whose partners are members of Malaysia Institute of Accountants. We have perused through your draft and our comments are as below:- Dormant Companies 3) (a) Agreeable (b) Agreeable 4) Agreeable However the dormant companies definition need to be defined. We proposed that "dormant companies" means the company does not have income with accounting transaction not more than 20 within the year. Every increase in paid up will be accounting entry and maybe subject to audit. There definitely be accounting entry in respect of increase in paid capital. The 20 transaction refer to include entry on paid up capital and capitalization of expenses. 5) Agreeable 6) Agreeable Small Companies	

No.	Name and Details of Respondent	Comments	Remarks
		7) Agreeable 8) Agreeable 9) Agreeable 10) a) Agreeable b) It satisfies all that three criteria for each of the 2 financial years immediately preceding the financial year: i) Dormant as in paragraph 4 ii) Total asset not exceed RM 500,000 iii) Agreeable 11) a) Agreeable b) Agreeable 12) Comply with all three criteria as amended in 10(b) 13) a) Agreeable b) it does not meet all the 3 the quantitative criteria for the immediate past two consecutive financial years. 14) Where a group has qualified as a small group, it continues to be a small group for subsequent	

No.	Name and Details of Respondent	Comments	Remarks
		financial years until it does not meet all the 3 quantitative criteria as provided under paragraph 10(b) for the immediate past two consecutive financial years. Except Private Company 15) Agreed as per amended 16) Agreeable 17) Take effect one year after agreed by all stakeholders. We proposed that the audit exemption be on stages as below: 1. First three years on dormant companies. 2. 2nd three years to include small companies on top of the dormant companies. 3. Review of audit threshold from 7th year onward. Indonesia have audit exemption on companies other than listed is now proposing to have audit mandatories audit on private companies. Hong Kong still have audit as mandatory even though they have better accounting literacy and technology capacity than Malaysia. We should not compare or copy Singapore model	

No.	Name and Details of Respondent	Comments	Remarks
		because they have high accounting literacy ratio and have very small area and population to cover. In Malaysia our business mostly SMEs with small portion for export. The authority and financial institution is very familiar with dormant and small companies audit now suddenly the accounts are no longer made available may have impact on whatever application made by their clients. Let the exemption be gradual starting from dormant so the financial institutions and authorities are well informed and prepared of the proposed changes. If SSM immediately implement audit exemption as in paragraph 10, an experienced shows more business may not want to keep proper books of accounts. We hope the comments can assist you to formulate policy benefits to all stakeholders and look forward to be invited to defend our comments. Thank you for cooperation	

No.	Name and Details of Respondent	Comments	Remarks
82.	**Vincent**		

Audit Exemption on the Horizon?

SMPs ARE BEING URGED TO DIVERSIFY THEIR SERVICES IN ORDER TO DEAL WITH THE IMMINENT THREAT POSED BY STATUTORY AUDIT EXEMPTION AND THE IMPOSITION OF AUDIT THRESHOLDS.

Janise Lee, Head of MIA's dedicated SMP Department, noted that seven out of ten ASEAN countries now allow some form of exemption from statutory audits for SMEs (non-PIEs or non-public interest entities) and hinted that Malaysia might be next.

Audit exemption will have a critical impact on SMP revenues. For example, Brunei has imposed audit exemptions on businesses with revenue thresholds of less than BND1 million, and estimated that its SMPs will lose a big chunk of their income as a result.

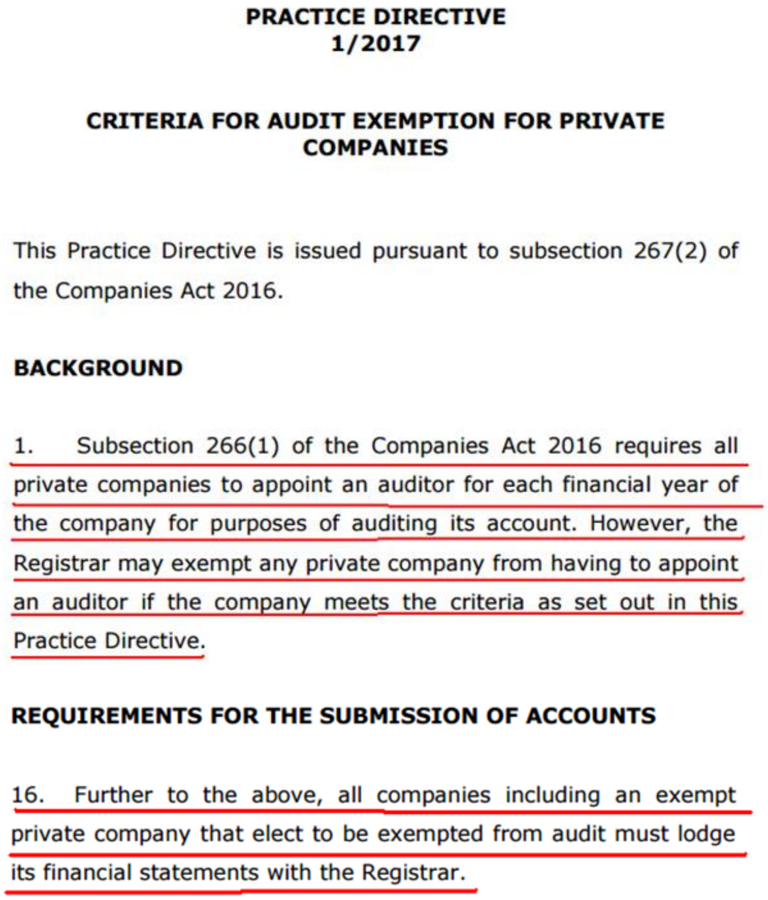
But as one door closes, plenty of others can open, as long as SMPs are innovative and resilient. "Changes in the regulatory environment don't mean that auditors will be irrelevant. It doesn't mean that business doesn't need assurance. There is an opportunity to meet an increasing demand for other engagement services," stressed Lee.

CHANGES IN THE REGULATORY ENVIRONMENT DON'T MEAN THAT AUDITORS WILL BE IRRELEVANT. IT DOESN'T MEAN THAT BUSINESS DOESN'T NEED ASSURANCE.

Even with statutory audit exemption, SMEs will still need some degree of independent assurance to increase the credibility of their financial statements. "The demand for lower-cost assurance services, such as review engagements can provide SMEs with an attractive option when an audit is not required." And of course, SMEs which choose to outsource their finance function will still require services such as compilation and other agreed-upon procedures.

Understandably, SMPs have had a mixed reaction to the prospects of audit exemption. "SMPs are worried about the fee income dropping by 50%," concurred Lee. However, Lee perceives exemption from compliance as a golden opportunity for SMPs to position their services as value-adding and to practice value pricing, rather than simply offering commoditised compliance services. Indeed, said MIA Vice-President Datuk Zaiton Mohd Hassan, accounting firms will move into higher-level advisory and business development services that require dedicated consultative and strategic planning for clients.

And even while regulations might change, the kind of services provided by SMPs are not going to be completely overhauled. SMPs are already providing a myriad of services to SMEs, but they might not be framing these in the right context. SMPs just have to rebrand what they already do as value-added services which can command optimal fees. "Now SMPs and auditors are already preparing financial reports for SMEs in accordance with the requirements of the relevant Accounting Frameworks, writing the notes to the financial statements, etc. This is a compilation engagement. You are just not signing off as an auditor," concluded Lee.

No.	Name and Details of Respondent	Comments	Remarks
		 **PRACTICE DIRECTIVE** **1/2017** **CRITERIA FOR AUDIT EXEMPTION FOR PRIVATE COMPANIES** This Practice Directive is issued pursuant to subsection 267(2) of the Companies Act 2016. **BACKGROUND** 1. Subsection 266(1) of the Companies Act 2016 requires all private companies to appoint an auditor for each financial year of the company for purposes of auditing its account. However, the Registrar may exempt any private company from having to appoint an auditor if the company meets the criteria as set out in this Practice Directive. **REQUIREMENTS FOR THE SUBMISSION OF ACCOUNTS** 16. Further to the above, all companies including an exempt private company that elect to be exempted from audit must lodge its financial statements with the Registrar. **SUMMARY OF FACTS GIVEN** 1) The exemption given to the Small Companies in fact is only from having to appoint an licensed	

No.	Name and Details of Respondent	Comments	Remarks
		auditor (the candidate who can ensure the quality of financial statement). The exemption **does not** given to avoid quality of financial statement compliance to the MPERS requirement 2) SSM still maintain its requirement for lodgement of financial statements. 3) Further to the comment of Janice Lee, head of MIA on Accountant magazine, the exemption of appointment of licensed auditor does not means that the SMALL COMPANIES are allowed to ignore the credibility of financial statement, especially compliance to MPERS requirement. As the suggestion given by Ms Janice Lee, the SMALL COMPANIES are given the option to **appoint any MIA members or Chartered Accountants** who are not the licensed auditor to carry out the reviewing of its financial statement. …………………………..**reviewing engagement (which the licensed auditor is not stop from performing as well after exemption)** 4) Instead of having " **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS** " , after exemption, it comes to the turn to the MIA members who is not the licensed auditor to provide " **INDEPENDENT CHARTERED ACCOUNTANTS' REPORT TO THE MEMBERS** " 5) I believe the fees charged by Chartered Accountant is very much lower than the audit fee	

No.	Name and Details of Respondent	Comments	Remarks
		and at the same time without seriously jeopardise the quality of financial statement 6) In fact even the AUDITORS is allowed to carry out the lower degree of checking so called " reviewing engagement " instead of "statutory audit engagement" **REQUEST** Kindly disclose my name as **Vincent** only on the MIA comment paper.	
83.	**Shahrozaini Bin Badlishah** SB Associates	I would like to oppose on the proposed audit exemptions on dormant companies and small companies. a) Less confidence can be taken that the accounts have been properly drawn up if there is no audit. b) There could be higher risks to third parties, such as lenders, as in practice lenders appear to place the same reliance on a set of accounts whether they are audited or not.' c) Risk to the government agencies on possibilities of breach of anti money laundering act for dormant companies if not audited. I hope SSM and MIA would consider pulling out the proposed exemptions for benefit of all parties.	Disagree for dormant and small companies

No.	Name and Details of Respondent	Comments	Remarks
84.	**Dr. Zulfahmy bin Ibrahim** Zulfahmy & Co.	With regard to the above, I am of the opinion, exemption given to small companies will encourage manipulation by small companies to avoid statutory audit. Furthermore, normally small companies are unable to hire qualified accountants in preparing its financial statement. The true and fairness of their financial report will be an issue. A proper audit will guide them to rectify any errors and compliance to accounting standards. A significant numbers of small companies in this country may have giving great impact to the economy if the accounts prepared by them are not closely monitored by independent party. For dormant company without bank accounts, I have no objection for audit exemption.	Agree for dormant companies without bank accounts
85.	**Nor Azeran Bin Shaari.** Azeran & Associates	Paragraph 3 to 6 of Draft practice Directive 1/2017. - We support the proposed audit exemption to be provided by the dormant companies in Malaysia. Dormant mean minimum transaction such a secretarial fees. Paragraph 7 to 14 of Draft practice Directive 1/2017. - We do not support audit exemption for small companies(SME) because the cost of auditing for small companies is very low.	Agree for dormant companies Disagree for small companies

No.	Name and Details of Respondent	Comments	Remarks
86.	**Haji Mohd Noh Jidin** Mohd Noh & Co	Per: Criteria For Audit Exemption For Private Companies Kami dengan hormatnya merujuk kepada perkara di atas yang memerlukan maklum balas dari pihak berkepentingan. Kami telah mengendalikan firma akauntan bertauliah ini semenjak 1981 yang klien kami sebahagian besar adalah dari kalangan syarikat kecil dan sederhana. Setelah mengkaji cadangan di atas, kami berpendapat bahawa cadangan untuk melaksanakan pengecualian audit atas "syarikat dormant" dan "syarikat kecil" serentak adalah terlalu awal melainkan SSM mengetahui keadaan sebenar dan masalah di kalangan usahawan kecil dan sederhana di dalam menguruskan peniagaan mereka. Kami bersedia menyokong pengecualian audit dibuat ke atas "syarikat dormant" sahaja tetapi membantah dibuat ke atas syarikat kecil atas alasan berikut :- 1. Usahawan kecil dan sederhana memerlukan akaun yang diaudit : Untuk mengetahui dan mengawal aktiviti pemiagaan dengan berkesan dengan adanya akaun yang beraudit. Adalah terlalu mahal untuk syarikat kumpulan kecil ini	Agree for dormant companies only Disagree for small companies ------------------------ Setuju untuk syarikat dormant sahaja Tidak setuju untuk syarikat kecil

No.	Name and Details of Respondent	Comments	Remarks
		untuk lantik kakitangan perakaunan sepenuh masa berbanding bantuan dari firma akauntan. Setiap institusi kewangan perlukan penyata yang diaudit sebagai pra syarat untuk beri pinjaman MARA, CGC, Tekun, SME Bank tidak beri pengecualian tanpa mempunyai penyata kewangan diaudit untuk mohon pinjaman. Hingga kini setiap institusi kewangan terutama yang ada kepentingan kerajaan perlukan penyata kewangan yang diaudit termasuk yang "dormant". Permohonan pendaftaran di badan kerajaan untuk berbagai jenis kontraktor pembekalan dan khidmatan perlukan penyata kewangan yang diaudit yang termasuk yang “dormant” sekali. Jika penyata ini tidak diaudit ianya akan rnenyusahkan usahawan kerana pendaftaran tersebut akan ditolak. 2. Penalti tinggi oleh SSM tidak boleh mengatasi penyata kewangan tidak diaudit SSM telah mengenakan penalti yang tinggi untuk menyelesaikan permasalahan seperti tidak adakan mesyuarat agung kerana tidak mempunyai penyata kewangan yang diaudit akan lebih parah lagi apabila pengecualian audit dilaksanakan ke atas syarikat "dormant" dan "kecil". Penalti yang tinggi yang pernah dibuat oleh SSM tidak selesaikan masalah tetapi	

No.	Name and Details of Respondent	Comments	Remarks
		membuat usahawan marah dan tidak berminat dalam perniagaan yang akhirnya membantutkan usaha kerajaan untuk tarik ramai melayu berniaga. 3. Tindakan tergesa boleh gagal dan kelirukan usahawan dan SSM Kerajaan perlulah melaksanakan pengecualian audit berperingkat-peringkat supaya setiap permasalahan yang timbul dapat diselesaikan dengan baik dan berkesan. Cadangan SSM untuk melaksanakan serentak iaitu syarikat "dormant" dan "syarikat kecil" adalah terlalu awal bukan sahaja SSM belum mempunyai pengalaman mengendalikan pentadbiran syarikat berkenaan dan pada masa yang sama usahawan SME juga akan lebih keliru apabila dua-dua dibuat serentak. 4. Usahawan diberi pilihan untuk tidak diaudit Jika usahawan yang tidak bersedia penyata kewangannya untuk diaudit mereka boleh mendaftarkan syarikat kepunyaan tunggal, syarikat perkongsian dan perkongsian Iiabiliti terhad (LLP). Usahawan telah mengetahui yang mereka ada pilihan sebab itulah mereka tidak merungut dengan audit yang selama ini adalah mandatori ke atas syarikat Sdn. Bhd. dan Berhad. Pengauditan atas syarikat yang berstatus kepunyaan tunggal, perkongsian dan PLT tidak	

No.	Name and Details of Respondent	Comments	Remarks
		diperlukan sungguhpun pendapatan ratusan dan jutaan setahun. 5. Tidak ada kesalahan jika tidak meniru Singapura Malaysia tidak perlu meniru Singapura dalam pengecualian audit tetapi sebaiknya perlu melihat keadaan sebenar seperti yang dibuat oleh Hong Kong di mana audit masih mandatori. Malaysia yang SME cukup banyak untuk pasaran tempatan dengan kawasan yang sungguh luas dengan tingkatan teknologi yang rendah dan berbeza-beza tidak menjadi kesalahan dan memalukan jika kita bertindak mengikut ukuran dan kemampuan sendiri dan bila sudah mencapai tahap secukupnya barulah laksanakan ke atas syarikat kecil. 6. Tidak ada penjimatan ketara dengan pengecualian audit Kami tidak nampak penjimatan yang besar jika audit dikecualikan dari syarikat kecil berbanding dengan kemudahan yang diperolehi oleh usahawan jika audit dikekalkan. Cadangan untuk pengecualian audit adalah permohonan oleh mereka yang bukannya usahawan sebaliknya adalah pentadbir yang tidak ada kaitan dengan perniagaan. Pihak ketiga perlu membuat kaji selidik ke atas usahawan kecil dan sederhana tanpa	

No.	Name and Details of Respondent	Comments	Remarks
		sebarang pengaruh untuk jawapan tertentu berkaitan pengecualian audit. 7. Usahawan mampu membayar juruaudit atas khidmat yang ditawarkan Hingga kini kami belum menerima sebarang pengesahan atau maklumat bahawa ''syarikat kecil" telah disaman oleh juruaudit kerana gagal membayar khidmat audit berbanding dengan peguam dan lain-lain professional yang berterusan mengambil tindakan guaman kalau gagal membayar khidmat mereka. Senario ini menunjukkan usahawan puas hati di atas khidmat juruaudit. Untuk pengetahuan tuan, bayaran audit adalah yang terendah di dalam dunia. 8. Audit terbukti selamatkan kehilangan pendapatan kerajaan dari cukai syarikat Indonesia pada masa ini audit adalah atas syarikat disenaraikan sahaja. Kini mereka akan melaksanakan audit ke atas syarikat yang tidak disenaraikan setelah menyedari kerajaan mengalarni kehilangan pendapatan dari cukai syarikat tidak diaudit. Kita sedia maklum bahawa Indonesia telah melaksanakan GST melebihi 20 tahun awal dari Malaysia. Tindakan Indonesia ini menunjukkan bahawa audit memberikan banyak kelebihan dan kebaikan berbanding tanpa audit.	

No.	Name and Details of Respondent	Comments	Remarks
87.	**Khairul Muzamel Parera Abdullah** Bank Islam Malaysia Berhad	Bank Islam Malaysia Berhad has been advised of a proposed Practice Directive 1/2017(Draft Directive) on audit exemption for dormant and certain small companies issued by Suruhanjaya Syarikat Malaysia (SSM) on 8 November 2016. Whilst we have no objections to the exemption proposed for dormant companies, we are concerned and object to the proposal to exempt small companies from Audit requirements premised on the following rationale:- 1. An audited financial statement is an objective piece of information independently verified. 2. The Bank relies on these audited statements when making credit decisions. These statements also form an important variable in our credit application scorecards. 3. It is our view that Corporate governance in the segment that these companies sit in i.e. the SME segment, is very weak, hence the necessity for independently verified financials. In line with the Government's initiative to nurture and support the SME segment, a large percentage of Bank Islam's commercial financing is accorded to small companies within this segment. Whilst the Bank is supportive of this initiative, as a responsible financier,	Agree for dormant companies to be exempted

No.	Name and Details of Respondent	Comments	Remarks
		the Bank has to also ensure that the credit quality of new financing put on book is sound. It is our view that the introduction of the above directive will significantly affect financing to this segment, as an important aspect of credit assessment i.e. financial risk assessment will no longer be able to be conducted effectively. Premised on the above we hope that the SSM will review the draft directive accordingly.	
88.	**Leow Mee Hong** Wong Liu & Partners	We agree with MIA proposal to exempt dormant companies from audit only. We disagree that small companies in Malaysia be exempted from audit.	Agree for dormant companies to be exempted
89.	**Mellissa** Mellissa Ong & Co.	Pertaining to the SSM Draft Practice Directive 1/2017 Criteria for Audit Exemption for Private Companies, I am supportive for the audit exemption to apply to dormant companies only. I can understand the reasons of proposing audit exemption for dormant companies. However, I do not agree with the proposal of audit exemption for small companies because:- 1. There will be high possibility that most small and medium size audit firms will retrench some of its employees as the audit business will not be able to	Agree for dormant companies to be exempted

No.	Name and Details of Respondent	Comments	Remarks
		sustain existing headcounts due to lower income from audit. 2. The cost of doing business for companies that does not fall under the exemption will likely to increase as most audit firms will charge higher fees in order to sustain their business. 3. Most small companies are owned by entrepreneurs whom have limited knowledge in preparation of accounts. In many cases, they will depend on auditors as an independent party to assist them to ensure their accounts are in compliance with SSM regulations and accounting standards. The correctness of the accounts is also crucial in determining the actual amount of tax payable under the self-assessment tax regime. I believe this is still an area where audit can play a significant role to the business of small companies.	
90.	**N.Ramanathan**	In my point of view, audit exemption applied only for the dormant companies. The exemption of audit for small companies need to be studied and analysed in depth before implementation.	Agree for dormant companies to be exempted
91.	**KS Wong**	**Dormant companies** Almost all the companies (including the dormant companies) need to have company secretary, and therefore will incur secretary retainer fees. In addition,	Disagree

No.	Name and Details of Respondent	Comments	Remarks
		these dormant companies are still required to have annual return filing with SSM, which will also incur filing fee and certain cost. As such, I can't see "company is dormant during a period in which no accounting transaction occurs". Before incorporate a Sdn Bhd, businessman should aware the cost of maintain a Sdn Bhd, and this including secretarial retainer fee, audit fee and tax filing fee. If exempt from audit, they are still required to pay secretarial retainer fee and tax filing fee. If the businessman really concern about cost, they shouldn't incorporate a Sdn Bhd and let it dormant. If the Company has ceased the business, they should take action to strike it off or wind up accordingly. For SSM, maybe is time to de register those dormant companies, say if it has been dormant for three consecutive financial year. For LHDN, dormant companies are still required to submit its tax filing, and this is done based on the Audited Financial Statements. As such, I not agreed to exempt the audit on dormant companies. **Small companies**	

No.	Name and Details of Respondent	Comments	Remarks
		The threshold set in Para 10 (b) (ii) and (iii) seems too low: (ii) the value of the company’s total assets at the end of each financial year does not exceed RM500,000; (iii) it has at the end of each financial year not more than 5 employees. Nowadays, many of the companies are run by husband and wife with small capital. Most of their "employees" are freelance/partime/subcon basic. As such, it might be very easy for a company to fall into the definition of "small companies". If exempt from audit, nobody will know whether the companies are complying with Companies Act and approved accounting standard. Furthermore, many of these small companies accounts are prepare by freelancer/part timer whose are not qualified accountant. The accuracy of the accounts could be a question mark. If exempt from audit, tax agent need to perform more works to analyse accounts and extract the information from it. Definitely, they will increase and charge higher tax fee.	

No.	Name and Details of Respondent	Comments	Remarks
		If a particular financial year is exempted from audit requirement, but next year is subject to audit again. The auditor might need to perform the audit on opening balances before they could rely on it and proceed to current year audit. Thus, this might cause higher audit fee being charged. As such, the cost saving from audit fee might not be very significant. Therefore, I not agreed to exempt the audit on small companies.	
92.	**Francis Seow** SEOW & CO Chartered Accountants	The rulings is inevitable and our profession need to be streamline and make more efficient inline with global practice. However there are several comments we need to put forward to clarify some issues on this rulings as follows: 1. Definition of Dormant. Some companies may not have revenue but have large operating expenses and large balance sheet items. Therefore, the word "dormant" need to be refine. 2. Para 6. The 5 % criteria no mention of whether it applies to corporate shareholders. 3. Private Exempt Company. As Private Exempt Companies need not require to file financial statements	Agree but requires further clarification

No.	Name and Details of Respondent	Comments	Remarks
		to SSM, does that mean they are exempt from audit requirements. 4. Pursuant to Para 10 , value of the company total assets of is less than RM 500,000, are these market value or cost value. In relation to Investment Holding companies, their revenue may be less than RM 300k but the property and investments when value at cost may be less than RM 500k. 5. Not more than 5 employees. This threshold in my opinion and experience is too high as most Companies less than RM 300k T/O normaly are home base and outsource the work to subcontractors. 6. True and fairness of Financial Statements . For those who are exempt from audit, how does the LHDN rely on the credibility of the Financial Statements (FS) to assess the fair amount of tax payable? This will have a heavy burden on the authorities. 7. Reliance of FS by interested parties. The banks will more likely to rely more on bank statements when assessing the ability of the company. 8. Small Practitioners . Small practitioners will have to look towards other areas of work just to survive and with the Ministry of Finance (MOF) strict licensing requirements will eventually be a thing of past as	

No.	Name and Details of Respondent	Comments	Remarks
		practitioners will not be renewing their audit licence. Less attendees on Conferences and Seminars, practitioners will not require CPD to renew licence and this will hurts the pockets of MIA and SSM. Above are some of my comments and views.	
93.	**Wei Hong Lim** WHL & Associates	Only dormant companies should be exempted from audit. Small companies should not be exempted, as reasons below: 1. Some accouting staffs may not be competence to do the accounts according to all those standards or law etc, may cause errors and non-compliance issues. 2. Audit fees vs penalty (SSM, LHDN etc), penalty may easily more than the audit fees. 3. When the small company become unqualified and need to do audit, the the 1st year audit will have lots of issues, may also more costly. 4. Now is not the right timing as due to the MPERS, GST just implement, small compnies accounts need to be audited for compliance issues and education purposes.	Agree for dormant companies to be exempted

No.	Name and Details of Respondent	Comments	Remarks
94.	**Ernst & Young**	EY recommend the following in respect of the draft Practice Directive 1/2017: 1. Audit exemption should be applicable to only dormant companies, and the audit requirement for small companies shall be maintained. The exemption of dormant companies will reduce the cost of doing business in Malaysia and bring us in line with similar practice in Singapore, New Zealand and Hong Kong. Nonetheless , the exemption should scope out all subsidiaries of Public Interest Entities ("PIE") and companies reporting to regulatory bodies as the financial information of dormant companies would need to be included in the consolidated accounts of the PIEs and thus, there is still value in continuing the current practice. 2. The definition of what constitutes a dormant company would need to be further clarified. Under the draft Practice Directive 1/2017, a company is dormant "...during a period where no accounting transaction occurs and the company ceases to be dormant on the occurrence of such a transaction ....". We	Agree for dormant companies to be exempted

No.	Name and Details of Respondent	Comments	Remarks
		recommend that, in considering accounting transaction, one should disregard certain administrative costs in maintaining the dormant company, for instance the maintenance of a registered office, keeping of statutory records and appointment of an auditor. Further benchmarking studies against other countries should be conducted, in addition to consideration of the local business environment to provide a clearer definition of "dormant company". 3. It is still premature to remove the audit requirements of small companies as the benefits outweigh the costs in having an audit. The audit process provides a check-and-balance on these companies, enhances veracity of tax compliance and maintains stakeholders' confidence in the financial statements of small-to-medium enterprises ("SME").	
95.	**Tey Ping Cheng** Malaysian Association of Company Secretaries (MACS)	In response to the above Practice Directive 1/2017, we are pleased to put forward our view and suggestion or recommendation with reference to the Practice Directive 1/2017 as follows:	Agree with certain concerns

No.	Name and Details of Respondent	Comments	Remarks
		A. Dormant Companies We fully support audit exemption for dormant companies. However, further clarification is needed when a company ceases to be dormant. Under Paragraph 4 of Practice Directive 1/2017, a company is dormant during a period which no transaction occurs and the company ceases to be dormant on the occurrence of such a transaction. Further 'accounting transaction' is explained as a transaction, accounting or other record which is required under Section 244(1) of the Companies Act 2016. We are of the opinion that Section 244(1) refers to the preparation of a company's financial statements in compliance with the relevant approved accounting standards. We are of the opinion that a dormant company should be defined as one that has not commenced any business activity from the time of its formation or it had been dormant for three consecutive financial years.	

No.	Name and Details of Respondent	Comments	Remarks
		Any business activity should not include the payment of secretarial fees or submission of tax returns during the dormant period. B. Small Companies We are of the opinion the objectives of the enactment of Companies Act 2016 which will come into force on 31st January 2017 are: • Facilitate starting a business and reduce cost of doing business. • Simplify compliance. • Enhance internal control, governance & corporate responsibility. • Provide flexibility in managing companies. Granting audit exemption to small companies meeting specified criteria set by the Companies Commission of Malaysia would facilitate the objectives mentioned above. We fully support audit exemption for small companies that meet the criteria set by the Commission. Our major concern, however, is the preparedness for small companies if audit exemption is introduced with immediate effect.	

No.	Name and Details of Respondent	Comments	Remarks
		Our practicing members serve majorly the small and medium businesses (SMEs). From their experience, small companies do not have the resources to employ adequately qualified staff to prepare the financial statements, much less understand the complexity and the application of the approved accounting standards which are required under Section 244 of the Companies Act 2016. We propose that audit exemption for the small companies as recommended by the Practice Directive 1/2017 be deferred for the time being and that a meeting be arranged with the scheduled professional bodies and other stakeholders to fully study the impact of unpreparedness of small companies that may result in the unreliability of financial statements without an independent audit to users, lenders, regulators and other stakeholders.	
96.	**Ganesh Kumar**	I feel that most companies including dormant companies are not ready for audit exemption. Therefore, I do not agree with the proposal for audit exemption.	Disagree
97.	**Jennifer Chang** Jen Chang Affiliates	We are of the view that it is not an appropriate time to enforce audit exemption either to dormant companies	Disagree

No.	Name and Details of Respondent	Comments	Remarks
		or SME companies at this moment. It is preferable if SSM may consider deferring the matter to 1 to 2 years time as currently, there are too many changes in Companies Act 2016 and PERS to MPERS to work on. Further, practical issues such as do one qualify the audit report for opening balances and comparative figures for those years exempted from auditing, need to be addressed. In addition, dormant companies are usually taken as a base/foundation for training intern staff and fresh graduates on auditing. Those audit firms outside Klang Valley will be most affected as 80% of their clients are SME. There may result in retrenchment of staff which may affect the economy as a whole. Therefore, please consider the above issues before enforcing them.	
98.	**Ng Eng Kian** NEK & Associates	I would highlight to you the following views for the registrar to consider:- 1. Malaysian SME is not ready for such exemption as almost all SME's financial statement and directors' report was drafted by auditor at the moments. This is a fact which must be taken into consideration. Most SMEs are only able to employ an accounts clerk to write up their accounts. They do not have the necessary	Disagree

No.	Name and Details of Respondent	Comments	Remarks
		expertise to help the SMEs to comply with the new MPERS and new Company Act 2016. The exemption should only be ready after all the directors of SMEs have been trained or all the non-audited financial statements need to be signed off by a qualified chartered accountants which is practiced in certain developed countries. If this is the case, no saving would be resulted from the proposed audit exemption. 2. We have the lowest audit fee in the region and exempting audit fee does not lower the cost of doing business in Malaysia. 3. Audit fee does help to produce experienced accountants and account executives who are valuable to the improvement of corporate governance of SMEs. Exemption would definitely substantially reduce this valuable supply of human resources in the area of accounting and corporate government. 4. The education level of the directors of most SMEs are not high. Exemption of small company audit would give rise to many issues in corporate government and accountability. Many stakeholders of financial statement would be deprived of the opportunities to evaluate the SMEs based on the audited financial statements lodged with SSM. 5. Dormant company is set up with purposes. They should be audited while they are waiting for the time when they can be put into use. They should be audited and they should be struck of if they have been kept	

No.	Name and Details of Respondent	Comments	Remarks
		dormant for a certain number of years, for example 3 years. It would be not possible for an auditor NOT to modify his opinion on the financial statement for subsequent years if the beginning few years dormant accounts were not audited. The cost of re-audit the first few years would be much higher if the audits were carried for each year when they were due. 6. In such bleak economic outlook, Banks are trying their best to reduce their exposure to SMEs. The exemption of audit for small companies would give them a very good excuse NOT to grant any loan to SMEs. However, SMEs were, are and will be the engines for our local economy. Audit exemption would have a negative impact on the overall economy due to the shortage of funding given by banks. 7. The implementations of MPERS and Company Act 2016 are challenges for most professional accountants and they would be too hard for account clerks employed by SMEs. So, the timing is definitely not right for audit exemption to come into effect. 8. Revenue and assets should be the only criterion in deciding whether a company is small. Number of staffs less than 5 should be deployed as a criterion. This is because for many SMEs, the directors would set up many companies for different projects or different areas. Then they would use the main company or HQ to employ all the staffs. Most of the related party companies with common shareholders or directors	

No.	Name and Details of Respondent	Comments	Remarks
		would outsource the administrative and accounting functions to the HQ. In such case, the related party company can have huge revenue without employing its own workers and holding assets. There are many stakeholders who would want to get hold of the audited financial statements due to its operations. Exempting these companies (as they have met both assets < RM500,000 and employee < 5 would not be ideal. Hope that SSM would consider the above points which make me think that, why the audit exemption on both dormant companies and small companies should be put on hold and exemption on dormant companies should be implemented 5 years from now.	
99.	**Mr Chin Soo Har** SH Chin & Company	Our Comments as follows: a) Requirements for dormant companies to be exempted for Audit- Agreed. b) Threshold for Audit exemption for small companies - Criteria specified is wide and would account for a significant number. say 20% of the SME being exempted from audit. Besides, the criteria specified would qualify companies from not having to perform an audit for which true and fairness of the financial statement might be compromised. Suggest that : Total assets be reduced to RM100,000, Revenue to RM200,000 with 2 employees.	Agree with suggestion for improvement

No.	Name and Details of Respondent	Comments	Remarks
100.	**Ling Jin Hock**	1. Audit exemption of dormant company. Disagreed. Currently, all companies are required to file tax return with the Inland Revenue Board based on audited accounts. 2. Audit exemption of small companies and exempt private companies. Disagreed. These companies usually obtain overdraft as working capital and hire purchase to purchase motor vehicle to run their business. The bank usually require audited accounts from these companies six months after the close of the financial year. Without audited accounts, their facilities may be withdrawn. They will also face problem in obtaining new facilities to run their business. 3. The Directive is proposing the exemption of audit, however, companies are required to prepare accounts annually and submit to the SSM. I suggest that in the event that audit exemption apply, the accounts shall be prepared by an independent, professionally qualified person, i.e. an auditor, so that accounts prepared are not materially misstated or misleading.	Disagree
101.	**Thor Kwai Chee** Thor & Co	We concur with the stand taken by the Malaysian Institute of Accountants (MIA) that the audit exemption to be applied to dormant companies but disagreed with the proposition to apply it to small companies. Based on our experiences with SMEs which form a majority of our clients, the SMEs currently do not	Agree for dormant companies to be exempted

No.	Name and Details of Respondent	Comments	Remarks
		employed qualified accountants to prepare their financial statements. The quality, reliability and compliance to accounting standards are in doubt if they are not audited. An independent audit will provide a reasonable assurance to shareholders, banks, creditors and especially the Inland Revenue Board. Agree for dormant companies Disagree for small companies	
102.	**YT Lee**	**1. Small Companies Exemption** I am against the proposal to introduce small companies audit exemption in Malaysia for the following reasons: Malaysia as a developing country. In the common law countries that we usually compare with for our law review like Singapore, United Kingdom (UK), Australia, Canada and Hong Kong, audit exemption has been implemented for small and medium sized companies (SMEs). However, the stages of development of these countries are different from the current stage of our development in Malaysia. These are developed countries with high income and robust institutions and efficient enforcement. Malaysia is still an emerging developing country. Best practises in these advanced economies	Agree for dormant companies to be exempted

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<p>may not be suitable for us. The current stage of our economic development, enforcement, compliance culture and maturity are different. Unlike them, we may not be in the right condition to introduce audit exemption at this stage. For example, as noted in the table below, all of these countries have high Corruption Perception Index (CPI).</p>
<table>
<tr><th></th><th>Malaysia</th><th>Singapore</th><th>Hong Kong</th><th>UK</th><th>Australia</th><th>Canada</th></tr>
<tr><td>2016 Corruption Perception Index</td><td>55</td><td>7</td><td>15</td><td>10</td><td>13</td><td>9</td></tr>
</table>
<p>Source: Transparency International</p>
<p>These advanced countries can afford to implement the audit exemption for SMEs without adverse effect on their economies. Malaysia may not be in the right condition at this stage to adopt the same practice of audit exemption for SMEs with our current compliance culture and enforcement efficiency. Is Malaysia ready for audit exemption? We may get the answer by looking at the annual/quarterly Auditor-General reports tabled in the parliament to see the extent of the problem and our compliance culture. Amid the public outcry, year in year out, we can see the “weaknesses” and leakages” being reported. Having audit exemption for SMEs would worsen this perception as it certainly does not promote transparency and</p>
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No.	Name and Details of Respondent	Comments	Remarks
		accountability. **Money laundering** Malaysia has a very open economy and we are also ranked highly on the ease of doing business index. One of the side effects of an open economy is the problem of illicit money and money laundering. Without adequate institutional reform and effective enforcement, the fight against money laundering could be made more difficult with the implementation of audit exemption for SMEs. Many of these companies often use front companies that only have balance sheet activities by moving the illicit funds around with not much revenue turnover. These companies often have no or minimum staff. The proposed requirement of meeting any 2 of these criteria of RM300,000 revenue, RM500,000 total assets or not more than 5 employees can be easily circumvented. The recent news of front companies being used by North Korean in Malaysia should sound an alarm bell to us. Investors would wary when consider investing in the country, much so with the threat of terrorism related activities in the region. We should look at the Hong Kong experience. Hong Kong retained the mandatory audit requirement for all companies in its law reform except for dormant companies. Hong Kong chose to maintain the mandatory audit as financial statements credibility,	

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<p>transparency, accountability and investors confidence are crucial for a financial centre like Hong Kong. Hong Kong anti-money laundering index may explain why it chose to maintain the mandatory audit requirement for all companies. As noted in the table below, Hong Kong anti-money laundering ranking is similar of that with Malaysia. (For Basel Anti-Money Laundering (AML) Index, the higher the number means the least risk of money laundering and terrorist financing activities. The country with the least risk is Finland which is ranked 149).</p>
<table>
<tr><th></th><th>Malaysia</th><th>Singapore</th><th>Hong Kong</th><th>UK</th><th>Australia</th><th>Canada</th></tr>
<tr><td>2016 Basel AML Index</td><td>87</td><td>111</td><td>85</td><td>121</td><td>106</td><td>105</td></tr>
</table>
<p>Source: Basel Institute on Governance
https://index.baselgovernance.org/sites/index/documents/Basel_AML_Index_Report_2016.pdf</p>
<p>As noted above, all the other common law countries which have audit exemption for SMEs are ranked in the top tier except for Hong Kong. Like Hong Kong, based on the ranking, Malaysia is similarly vulnerable to the risk of money laundering and terrorist financing. We should build up our infrastructure, institutions and enforcement before we are in the right condition to consider implementing the audit exemption for SMEs especially if we aspire to be a regional financial centre as we may attract the wrong kind of funds into Malaysia. Implementing audit exemption now may</p>
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No.	Name and Details of Respondent	Comments	Remarks
		open the floodgate for illicit funds to come into Malaysia as well as to facilitate people with ill gotten wealth to launder their money from within Malaysia. For example, a company set-up with RM5 million illicit fund investing in real estate properties and the company has no employee. With a current annual rental yield of 4.5%, the rental income would be RM225,000. The company thus does not meet the requirements for audit. As an exempt private company, the company may also choose to file a certificate instead of the financial statements and reports as provided under S.260 of the Companies Act 2016. Accordingly, the company can be totally "invisible" and hard to detect. Having a mandatory audit requirement for all companies will provide some deterrent to this sort of company as they know someone will be looking at their accounts. **Owner managed companies** Is the necessity and value of audited accounts become less significant if the company is owner-managed? This statement may be true if the companies are in the UK, Singapore or Australia where the standard of accounts qualities and compliance are much higher as compared to Malaysia. The question to ask is not	

No.	Name and Details of Respondent	Comments	Remarks
		whether the audited accounts provide value to companies that are owner-managed but whether the owner-managed companies' accounts are reliable without audit in Malaysia. If the accounts are unreliable, not only the owner is affected, other stakeholders like creditors, employees, Inland Revenue, SSM and etc would similarly be affected. From my humble experience, I found that accounting qualities of owner-managed companies in Malaysia are still lacking. Most of the companies outsource their accounting function to outsiders and most of these outside accounting personnel may not be qualified. Without audit and the necessary audit adjustments, most of the accounts would not pass the "true and fair" requirement. I have seen small property developer accounts being prepared based on normal trading accounting concepts instead of the percentage of completion method or company having in their expense accounts family groceries and children toys expenditure. The owner-managed companies currently still require a lot of advice and consultation from the auditors. In fact, the integrity of the financial reporting of these SMEs is being safeguarded by the mandatory audit requirements. A local study on audit exemption by Khairuddin, Susela Devi and Chan (2012) has provided some empirical	

No.	Name and Details of Respondent	Comments	Remarks
		evidence on the necessity and value of audited accounts for owner-managed companies. It has found that due to the SMEs lack of accounting resources, both family owned SMEs (fully or partly family owned) would opt for voluntary audit. It also further noted that "they (SMEs) are heavily dependent on the auditing services to increase the confidence, quality, credibility, and assurance of their financial information." In the Malaysian context, the necessity and value of audited accounts are in fact more significant for owner-managed companies due to these SMEs lack of accounting resources and reliance on outsourcing their accounting function. The Companies Act 2016 has also retained the mandatory requirement for companies to appoint a company secretary. The Corporate Law Reform Committee (CLRC) has recommend to retain this requirement to ensure proper accountability and "the added value provided by the services of company secretaries will enhance the standard of compliance and corporate governance of companies in general. " I believe, the CLRC knew that most of the SMEs may not have adequate knowledge to discharge the company secretary function. Exempting these companies for mandatory appointment of company secretary may result in non-compliance and filing issues. It also further noted that "the appointment of non-	

No.	Name and Details of Respondent	Comments	Remarks
		professionally qualified company secretaries could have an adverse effect on the level of compliance and enforcement as well as corporate governance standards." The same reasoning is true for mandatory audit requirement as well and we should also retain the mandatory requirement for audit for all companies. The introduction of the new Companies Act 2016, Audit Exemption, MPERS and GST Can our SMEs cope with these changes (a new Companies Act, audit exemption, MPERS and GST) all within the space of 2 years? As we know, the introduction of GST since 1April 2015 has resulted a lot administration, accounting and compliance issues for the SMEs. The introduction of Malaysian Private Entities Reporting Standards (MPERS) with effect from 1 January 2016 would further add on the compliance burden on the SMEs. Unlike the previous transition to MASB's PERS standards, MPERS is based on a total different concept of fair value accounting. How many of the outsourced accounting personnel (most of them would be unqualified accountants) would have an adequate knowledge of this new MPERS standards? In fact, the audit of these SMEs would be crucial to ensure compliance of their financial statements with the new MPERS standards. If audit exemption is implemented as well, we may be	

No.	Name and Details of Respondent	Comments	Remarks
		seeing a unique situation whereby the introduction of the new Companies Act and new accounting standards may actually coincide with a decline in reporting standard and quality of the SMEs financial statements. **Dormant non-active companies** We already have a substantial number of non-active dormant companies notwithstanding the existing mandatory audit requirement. With the proposed implementation of audit exemption and the more relaxed requirements in the Companies Act 2016, the number of dormant companies are expected to increase as more companies will be set up or migrated from the LLPs. The need to set up LLPs will be less attractive as they can now enjoy full limited liabilities protection without audit requirement if they meet the criteria. **Audit firms demographic** With the proposed audit exemption, we can expect a decline of small audit practises (SMPs) in Malaysia. These SMPs actually provide a very important value added advisory roles to SMEs for their accounting, financial, business, GST, income tax or even PCB or EPF issues. According to the Malaysian Institute of Accountants (MIA), 91% of the audit firms in Malaysia	

No.	Name and Details of Respondent	Comments	Remarks
		comprised of sole proprietor or 2 partners firm. 78% do not have adequate strategy to cope for the proposed audit exemption. It is expected that a majority of these firms will not be viable and forced to close down. We may end up with a situation whereby only mid-size and large audit firm will remain in the industry and only in big towns. Most SMEs will have difficulty having access due to higher cost and location. In the future, access to audit will be a luxury and limited to those who can afford. Training opportunity for our aspiring accountants will be affected or worse non-existent in smaller town due to the reduction in audit firms. Accordingly, the problem of shortage of qualified accountants in Malaysia will become even more acute. **Cost of doing business** Without audit, the perceived reliability of the financial statements will decline. Stakeholders like suppliers may accordingly, factor in a risk premium in the selling price in order to compensate for the perceived increase in business and credit risk. Credit risk assessment may be more time consuming and thorough.	

No.	Name and Details of Respondent	Comments	Remarks
		2. Dormant Companies Exemption Only dormant companies without corporate shareholders should be exempted.	
103.	**Goh Kean Hoe** KGNP	Moving forward, I am in support of exempting small private companies from audit requirement. The question is when is the right or appropriate time to start this new system and what should be the criteria for qualifying for audit exemption. The draft Practice Directive 1/2017 issued by SSM on the proposed criteria for audit exemption seems to suggest now is the time to start this system. I am of the view that our nation is not ready yet to start this new system until another 5 to 10 years later. For SSM to decide to start this new system now, it is important for SSM to provide its rationale for the audit exemption and its assessment on why now is the right or appropriate time to start this new system i.e. why our nation is ready now. Below are my observation and comments for SSM to consider in making the decision on the both the timing as well as the criteria for audit exemption. Provisions in Companies Act 2016 on financial	Agreed to audit exemption but no emergency for implementation.

No.	Name and Details of Respondent	Comments	Remarks
		statements and audit requirements The new Companies Act 2016 has indeed paved the way for audit exemption. Section 267(2) gives the power to Registrar to set criteria for private companies to be exempted from appointing an auditor. However, it should be noted that Section 248(2) clearly stated that the financial statements that the directors are required to prepare shall be duly audited before they are sent to every member. There is no reference made between these two sub-sections. There is a need to reconcile these two sub-sections. Section 255(3) gives power to Registrar to relieve certain class of companies from compliance with any specified requirements of this Act relating to the form and content of financial statements. SSM does not make it clear if those private companies exempted from audit are still required to prepare and lodge the unaudited financial statements in full compliance with the relevant approved accounting standards or there will be a simplified format to follow. Based on the fee table in the Companies Regulations 2017, filing of unaudited financial statements will be charged a fee of RM100 whereas the fee for filing of audited financial statements is RM50. Exempt Private Companies who lodge a certificate in lieu of financial	

No.	Name and Details of Respondent	Comments	Remarks
		statements will be charged a fee of RM200. All these are new fess under the new Act. The fact that filing of unaudited financial statements is charged a higher fee may suggest there is a value to audited financial statements. Tax legislation and tax return. A few years ago, the Income Tax Act 1967 was amended to require the Form C tax return of companies to be based on audited accounts. Although the IRB did clarify that if audit is not required by the Companies Act, then the requirement for Form C to be based on audited accounts will not be applicable to these companies, the amendment made suggests that IRB gives a value to audited accounts. More importantly, from businesses point of view, declaring tax based on audited accounts instead of unaudited accounts should give the company and its directors more confidence that the income declared is complete and accurate since they have been audited. Is audit fee a concern to small companies and how much is the potential saving from audit exemption ? To a business, whether big or small, any cost that does not contribute to income is obviously a concern. All	

No.	Name and Details of Respondent	Comments	Remarks
		compliance costs including audit cost is definitely a concern to all size of companies, not just small companies. For a small company with turnover of, say, RM300,000, the audit fee may range between RM2,000 to RM4,000. Let's just assume the fee plus other disbursements is RM3,000. Let's ignore other cost in term of time and effort to attend to auditors to carry out the audit as the amount cannot be easily quantified. Does that mean, this small company will save RM3,000 if no audit is done? The answer is that the saving will be less than this. The reason is that a company that is exempted from audit is still required to prepare financial statements in full compliance with the applicable financial reporting standards(assume that SSM does not allow a more simplified compliance) and to lodge it with SSM. Small companies definitely do not have internal resources and expertise to do so. Accounting firms (whether audit or non-audit firms) are likely to be engaged to prepare or to compile the financial statements for this purposes. The financial statements will also become the base for income tax return purposes. The accounting and compilation fee may amount to between RM1,500 to RM2,000. Tax agent may decide to increase fee as it may need to do more	

No.	Name and Details of Respondent	Comments	Remarks
		review of the accounts. Effectively, the fee saving for this company is likely to be about RM1,000. If a small company chooses to use a non-audit or non-professional firms to do the work in order to save some money, the quality of the financial statements may be compromised. Assuming a few years later, the revenue exceeds RM300,000 and audit is required. In doing the first year audit, the auditors may charge a one off fee to verify the opening balances. All things considered, the actual cost saving for small companies is not expected to be very substantial and may not justify the disadvantage of not having an audited financial statements in terms of more reliable financial statements for own use, for income tax declaration(where under statement of income will be subject to penalty) and for financing and credit rating purposes by the banks and creditors. This is partly because the cost of audit in Malaysia is still on a low side unlike some other more advanced countries. Options to use LLP and enterprise to operate business In Malaysia, a small business who prefers not to be	

No.	Name and Details of Respondent	Comments	Remarks
		subject to audit, has the option to use other type of entity to operate such as Limited Liability Partnership, sole praetorship or partnership registered with SSM. On this basis, should the business choose to use Sdn Bhd to operate in order to enjoy the benefits that other business formats do not offer, it should be prepared to incur additional statutory costs such as company secretary and audit costs. Since a choice is available, small businesses should have no complaint. Should dormant companies be exempted from audit ? In theory, it is very clear that there is no value at all for dormant companies to be audited as there is probably nothing to be verified, audited and reported on. Hence, I am fully agreeable for this exemption. However, consideration must be given to two possible impact as follows. Firstly, because of lower cost to maintain a dormant company, will this give rise to more dormant companies being maintained instead of being closed down or strike off? Isn’t this against the objective of SSM to encourage dormant companies to be closed because their existence create additional data for no apparent benefits. Secondly, unless the enforcement by SSM is effective,	

No.	Name and Details of Respondent	Comments	Remarks
		otherwise who is to ensure that those who claim their company is dormant is actually true. Is the company secretary who may have some information given the responsibility to report this to the SSM if the directors claim and inform the company secretary that no audit is required because the company is dormant when it is indeed not so? The definition of dormant company as given in the draft Practice Directive 1/2017 is not comprehensive and clear enough. The proposed criteria for audit exemption of small companies The criteria given in the draft Practice Directive 1/2017 basing on any two of the three criteria on revenue amount, total assets amount and number of employees are similar to the criteria currently used in Singapore since 2015 except that the quantum is very different. The criteria is generally logical to determine the size of business as measured by the 3 criteria. However, there may be flaws. For instance, a company with RM5 million assets may not generate any revenue yet and may not engage any employee or less than 5 employees. A company that is active may also have no or very few employees because there could be a related	

No.	Name and Details of Respondent	Comments	Remarks
		company providing management or staffs secondment services. However, this company will still qualify for audit exemption because it meets two of the three criteria ie. revenue is below RM300,000 and number of employee is not more than 5 . The assets could be in the form of construction in progress with significant transactions in the year. Is this the target of audit exemption that SSM is targeting ? Has SSM conducted any survey or estimated based on its database, how many companies are likely to fall under this definition of small companies that qualify for audit exemption? Audit exemption does not rule out having the audit if the company wishes to do so Yes, the exemption only mean audit is not compulsory for these small and dormant companies. They can still choose to have the audit done every year. However, the human nature is such that if a choice is given for not doing something, it is quite obvious that most companies will not do it even they may agree having audit is beneficial. For instance, it could be such that 80% of small companies actually do not mind to have the audit done but because it is not made compulsory, they will probably just leave it out until it is required for business or licensing or financing purposes. Without	

No.	Name and Details of Respondent	Comments	Remarks
		making it a law, there will usually be no disciplines to do it especially a fee is required. Companies Act 2016 is still new and there should be no hurry to implement audit exemption There are significant changes in the Companies Act 2016 which may require some time for both the businesses and the professionals such as company secretary, auditors and lawyers to get use to the implementation and interpretation of the new laws. Since audit exemption is not explicitly stated in the Act but power is given to the Registrar to decide the timing and criteria to introduce the audit exemption, it should make sense not to hurry into this until such time the new Act is understood and adhered to by companies. There is no doubt that the objective of the new Act is also to make it business friendly and to reduce the compliance cost. However, there are more responsibilities given to the directors and officers for compliance of the laws. Assistance from professionals like company secretary and accountants/auditors will be needed for the business people to ensure their companies comply with the laws. On this basis, the company secretary is still required under the new Act. In fact, the responsibilities company secretary under the new Act is more than the old Act. Will audit actually	

No.	Name and Details of Respondent	Comments	Remarks
		become more important under the new Act rather than less important? I hope the SSM will seriously and carefully consider all feedback and suggestions from all stake holders before it proceeds with the audit exemption based on the proposed criteria. There is indeed no urgency to introduce it yet as the audit cost is not really a very important concern or obstacle for small businesses to operate in Malaysia. The value from compulsory audit to the business persons themselves should not be ignored. It is no doubt that audit exemption for small companies is the way forward but only when the nation is ready and more transitional and preparation time is given.	
104.	**Nizam Mohamed Nadzri** MDV	Reference is made to the Draft Practice Directive issued pursuant to subsection 267(2) of the Companies Act 2016. Malaysia Debt Ventures Berhad ("MDV") commends and supports the initiatives of SSM to enhance the governance and regulatory framework of Malaysian corporate entities. As the leading technology financier in Malaysia, MDV have been mandated by the Government to finance and support technology companies in providing access to financing and expand	Agree with certain concerns.

No.	Name and Details of Respondent	Comments	Remarks
		their business operations and activities, in particular SMEs. Since its inception in 2002, MDV has approved financing facilities to 549 technology and technology-based companies, and disbursed RM10.1 billion to fund more than 700 projects. Under the Draft Practice Directive, all private companies is to appoint an auditor for each financial year of the company for purposes of auditing its account. However, the Registrar may exempt any private company from having to appoint an auditor if the company meets the criteria as set out in the Practice Directive. In this respect, MDV is of the view that the proposal may have detrimental impact on SMEs seeking to secure funding and financing from investors and financial institutions, and affect the ability of investors and financiers to monitor their investments and loans or financing granted to SMEs. Notwithstanding the proposed establishment of thresholds where such exemptions will apply, we view the proposal with concern due to the following: - a) Since our commence in financing technology companies in 2002, MDV's past 15 years' experience as a financier and development facilitator for SMEs in	

No.	Name and Details of Respondent	Comments	Remarks
		mandated technology sectors require continued guidance and monitoring to ensure their sustainability and growth. A significant factor in ensuring these are financial discipline and maturity, which are reflected and measured among others by the governance framework incorporated within SMEs and financial reporting to stakeholders and regulators. SMEs in general are progressing in terms of building their corporate infrastructure to support their business and growth plans, and having a robust financial management and financial reporting framework will allow for greater transparency, discipline and accountability. b) MDV relies on the integrity of its customer's financial statements and requires these to be independently audited as part of its due diligence process in its initial assessment. MDV also relies on these accounts to be audited annually to facilitate account reviews of financing facilities granted, and monitoring activities on the projects financed. These are to ensure that the financing granted are utilised towards completion of the project and timely settlement of the financing. c) The audited financial statement is also a key barometer to our customers' financial performance and its liquidity position, and enable financiers such as MDV	

No.	Name and Details of Respondent	Comments	Remarks
		to ascertain whether customers are healthy or financially in distress. d) The audited financial statement also reflects the stakeholders/directors' integrity and capability in managing the assets and liabilities of the company, and an indicator for financing health. The audited financial statement is also a major deterrent against fraud, money laundering and other illegal activities. The governance and discipline instilled in the preparation, maintenance and audit of finance records and statements of SMEs will provide basic financial management skills in managing cashflow of their business operations and assessment on the financing requirement of business. These will stand them in good stead as they progress and build their businesses. e) Audited financial statement will also provide an independent review on financial statements, through the auditors' opinions expressed on audited statement. Such opinions will providing investors and financial institutions greater assurance on the financial performance and positions of companies. Given the above, the proposed may provide avenues for increasing related party transactions, which may lead to inappropriate corporate activities including fund diversion, money laundering and fraud. Stakeholders	

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		may similarly be impacted due to inability of company managers to administer and operate the company due to inaccuracy or unavailability of timely financial information such as project costing, profitability, cashflow and asset-liability management. The resultant poor cashflow and financial management may lead to higher incidences of non-performing financing and loans which in turn will have an adverse impact on the banking industry. Financial institutions may also mitigate higher perceived credit risks by increasing their financing and lending costs, which will further affect SMEs. The lack of audited financial statements may also hamper regulatory and development efforts of the Government. Given the above, MDV proposes for SSM to reconsider and review its proposed exemptions to private company from having to appoint an auditor , or to determine appropriate thresholds to facilitate continued efforts by financial institutions to provide financing access to SMEs and startups.	
105.	**Datuk Mohd Radzif Mohd Yunus** SME Bank	SME Bank is mandated as a development financial Institution providing financial assistance and advisory services to assist in the development of local small and medium enterprises (SMEs) in the manufacturing, services and construction sectors in Malaysia. By virtue of our main activities, we are of view that the proposed	Agree for dormant companies to be exempted.

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<tr><td></td><td></td><td>draft in particular the exemption for small company shall have a negative effect to our financing operations especially in the process of credit evaluation. Our comments on the proposed draft are as follows:
<table>
<tr><th>Para</th><th>Proposal</th><th>Our Comment</th></tr>
<tr><td>3.</td><td>“ A company shall be exempt from audit requirements if:..
... (b) It has been dormant for three consecutive financial years.”</td><td>We agree with the proposal</td></tr>
<tr><td>7.</td><td>“Subject to Para 8 and 91 company that is a small company in respect of a financial year shall be exempt from audit requirement for that financial year.</td><td>We are not in favors for audit exemption for small and private exempt companies given that audited financial statements are the main sources for financial data used In credit evaluation of financing application.
Without certified audited financial</td></tr>
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<tr><td></td><td></td><td>statements, inappropriate credit decision may lead to escalating cases of impairment/delinquent among SMEs due to improper management of financial accounts,</td></tr>
<tr><td>10.</td><td>“ A company qualifies as a small company in a financial year If:-
... (b) it satisfies any 2 of the following criteria for each of the 2 financial years immediately preceding the financial year:
(i) the revenue of the company for each financial year does not exceed RM300,000;
i)The value of the company’s total assets at the end of each</td><td>The definition of “small” company stated in item 10 (b) of this Directive is not in line with the definition used by National SME Development Council. We believes that standardisation of terminology of "small companies” is imminent to avoid confusion in the industry, Currently, the criteria as defined in item 10</td></tr>
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<tr><td></td><td></td><td><table><tr><td></td><td>financial year does not exceed RM500,000;
(iii) if has at the end of each financial year not more that 5 employees.”</td><td>(b) of the draft reflects the definition of ‘micro’ SMEs.</td></tr></table></td><td></td></tr>
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