

**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 267(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.

**QUALIFYING CRITERIA FOR EXEMPTION FROM APPOINTING  
AN AUDITOR**

2. For the purposes of exemption from appointing an auditor for a financial year, the Registrar exempts the following categories of companies:

***Dormant Companies***

3. 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.

4. 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 245(1) of the Companies Act 2016.

5. 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 in which it was dormant throughout.

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.

### ***Small Companies***

7. Subject to paragraphs 8 and 9, a company that is a small company in respect of a financial year shall be exempt from audit requirement for that financial year.

8. Paragraph 7 does not apply to a parent company unless the parent company is:

- (a) a small company; and
- (b) all of its subsidiaries are small companies.

9. Paragraph 7 does not apply to a subsidiary company unless the subsidiary company is:

- (a) a small company; and
- (b) is part of a holding companies whose subsidiaries are all small companies.

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 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.

11. For a company which is part of a group:

- (a) the company must qualify as a small company; and
- (b) entire group must be a "small group".

12. For a group to be a small group, it must meet at least 2 of the 3 quantitative criteria as provided under paragraph 10(b) on a consolidated basis for the immediate past two consecutive financial years.

13. Where a company has qualified as a small company, it continues to be a small company for subsequent financial years until it is disqualified. A small company is disqualified if:

- (a) it ceases to be a private company at any time during a financial year; or
- (b) it does not meet at least 2 of 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 financial years until it does not meet at least 2 of the 3 quantitative criteria as provided under paragraph 10(b) for the immediate past two consecutive financial years.

***Exempt Private Companies***

15. An exempt private company as defined under section 2 of the Companies Act 2016 shall be entitled to be exempted from audit if it meets the requirements under paragraph 2 to 10.

**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.

**EFFECT OF THIS PRACTICE DIRECTIVE**

17. This Practice Direction will take effect from xxx 2017.

**REGISTRAR OF COMPANIES**

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