PD 10/2024
16 December 2024
(Revoked PD 3/2017)

SURUHANJAYA SYARIKAT MALAYSIA
COMPANIES COMMISSION OF MALAYSIA

PRACTICE DIRECTIVE NO. 10/2024

QUALIFYING CRITERIA FOR AUDIT EXEMPTION FOR CERTAIN PRIVATE COMPANIES IN MALAYSIA

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

OBJECTIVE

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

BACKGROUND

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

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

QUALIFYING CRITERIA FOR AUDIT EXEMPTION

5. For the purpose of this Practice Directive, a private company qualifies for audit exemption if it fulfils at least two (2) of the following criteria:

(a) The annual revenue of the company during the current financial year and in the immediate past two (2) financial years do not exceed RM3,000,000;

(b) The total assets of the company in the current statement of financial position and in the immediate past two (2) financial years do not exceed RM3,000,000; or

(c) The number of employees at the end of the current financial year and in the immediate past two (2) financial years do not exceed thirty (30).

6. For the purpose for paragraph 5 –

(a) "annual revenue" includes revenue received and receivable during the year, but does not include credit entries for reversal of accounting entries arising from earlier entries, accounting entries related to taxation, reversal of provisions made earlier and gain on derecognition of property, plant, equipment and investment property in the Statement of Comprehensive Income;

(b) "Total assets" means assets that are defined in the applicable approved accounting standards and includes current and not-current assets;

(c) "Employees" means full time employees employed by the company at the end of each relevant financial year, and include local, foreign, contract workers and workers undergoing probationary period but excluding—

- a director who is also working as a full-time employee;
- a shareholder who is also working as a full-time employee; or
- family members or friends who are unpaid or receiving irregular wages while working in the company.

IMPLEMENTATION

7. To facilitate the transition into the new audit framework, the threshold criteria for audit exemption will be implemented via a **phased approach** over a period of **three (3) years**.

8. The phased approach will allow companies to adapt progressively to the requirements while ensuring that the qualifying criteria remain relevant for entities of varying sizes.

9. The thresholds for revenue, assets and number of employees will increase incrementally as follows:

Year	2025 (Phase 1)	2026 (Phase 2)	2027 (Phase 3)
Financial period	Commencing on or after 1st January 2025 until 31 December 2025	Commencing on or after 1st January 2026 until 31 December 2026	Commencing on or after 1st January 2027
Submission year	Beginning from 1 January 2026	Beginning from 1 January 2027	Beginning from 1 January 2028
Thresholds :			
• **Turnover**	RM1,000,000	RM2,000,000	RM3,000,000
• **Assets**	RM1,000,000	RM2,000,000	RM3,000,000
• **Number of Employees**	10	20	30

Note : The annual revenue, total assets and number of employees for the immediate past two (2) financial years must not exceed the maximum threshold specified for the respective corresponding phase. This ensures compliance with the requirements set out in paragraph 5.

OTHER CONDITIONS

10. Companies which are dormant since the time of incorporation, and companies which are dormant during the current and immediate past financial year continue to be exempted from audit requirement.

11. For the purpose of paragraph 10—

(a) a company is dormant in a financial year if the company does not carry on business and there is no accounting transaction occurred; and

(b) "Accounting transaction" means a transaction, accounting or other records of which is required to be kept under section 245(1) of the Companies Act 2016, excluding a transaction arising from any obligations that the company is required to abide by any laws to pay and its related costs to comply.

NON-APPLICATION

12. The exemption from audit under this Practice Directive will not be applicable to –

(a) an exempt private company which has opted to lodge a certificate relating to its status as an exempt private company to the Registrar pursuant to section 260 of the CA 2016;

(b) a public company including listed company;

(c) a private company that is a subsidiary of a public company; and

(d) a foreign company.

13. Where a company ceases to be qualified for audit exemption, it shall thereupon cease to be exempted but the company shall remain exempted in relation to the accounts for the financial years in which it qualifies.

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

(a) any member or members eligible to vote and holding in aggregate of not less than 5% of the total number of issued shares of the company or any class of those shares;

(b) not less than 5% of the total number of members eligible to vote in of the company; or

(c) the Registrar who directs the company to have its accounts audited.

REQUIREMENTS FOR THE SUBMISSION OF ACCOUNTS

15. Any company that has elected to be exempted from audit must lodge its unaudited financial statements with the Registrar accompanied with the required certificate in compliance with sections 258 and 259 of the CA 2016.

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

17. The unaudited financial statements shall be lodged together with the directors' report, statement by directors, statutory declaration and any other reports that is required to be lodged with the Registrar including lodgements pursuant to sections 251 and 252 of the CA 2016.

18. In addition to paragraph 16, the unaudited financial statements must also be accompanied by a certificate stating the matters as set out in **Appendix 1**.

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

ANNUAL PERIODS' COMMENCEMENT DATES

20. This Practice Directive is applicable for financial statements with annual periods commencing on or after 1 January 2025.

21. A company that meets the criteria for an audit exemption must first assess its audit exempt financial period commencing after the exemption takes effect to see whether it fulfils the requirements set for the current and immediate past periods.

SAVINGS

22. For avoidance of doubt, the Practice Directive 3/2017 shall continue to apply to financial statements with financial period commencing on or before 31 December 2024 prepared by companies as though this Practice Directive has not been issued.

EFFECT OF THIS PRACTICE DIRECTIVE

23. The Practice Directive 3/2017 issued on 4 August 2017 is revoked with immediate effect.

REGISTRAR
Companies Commission of Malaysia
16 December 2024

APPENDIX 1

Audit Exemption Certificate

(1) The certificate should state that :-

(i) Members have not requested the company to perform an audit of its accounts for that year.

(ii) The directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2016 with respect to accounting records and the preparation of Financial Statements.

(iii) These Financial Statements have been prepared in accordance with applicable approved accounting standards issued by Malaysian Accounting Standards Board (MASB), namely the Malaysian Private Entities Reporting Standard (MPERS) and complies with the requirements of the Companies Act 2016.

The unaudited Financial Statements and reports made up to 31 XXXX 20XX required under the Companies Act 2016 have been circulated to the members on 30 XXXX 20XX.