PART Q	AUDIT EXEMPTION

1. When was the audit exemption framework first introduced?

Answer:

The audit exemption framework was first introduced and taken effect since 4 August 2017.

2. What is the purpose of audit exemption?

Answer:

The audit exemption aims to reduce the financial burden for carrying company audit on micro and small private companies, promoting ease of doing business whilst ensuring financial accountability.

3. Are there any companies excluded from adopting the audit exemption framework?

Answer:

Yes, subsidiaries of public companies, exempt private companies which has opted to lodge certificate relating to its status as an exempt private company, and foreign companies are excluded.

4. Can dormant companies adopt the audit exemption framework?

Answer:

Yes, companies that have been dormant since incorporation or dormant in the current financial year and in the immediate past financial year qualify for audit exemption.

5. What happens if a company loses its eligibility for exemption?

Answer:

If a company no longer meets the criteria, it will lose its eligibility to adopt the audit exemption framework for future financial years but shall remain exempt for the qualifying years in which it is so exempt.

6. What documents must a company lodge to the Registrar if it elects for audit exemption?

Answer:

The company must lodge unaudited financial statements, a directors' report, and a certificate of compliance within 30 days of circulation pursuant to Section 254 of the Companies Act 2016.

7. How does the implementation of the audit exemption regime address the audit quality concerns highlighted in the 2013 World Bank's ROSC report, and what impact might it have on the auditing landscape in Malaysia?

Answer:

Based on the *Report on the Observance of Standards and Codes in Malaysia - Auditing and Accounting" (ROSC)* published by the World Bank in 2012, it was reported that the demand for statutory audits is significantly high compared to the number of qualified auditors in Malaysia. The report also touched on the size of the capital market and number of companies that need to be audited where there are not many licensed auditors in Malaysia. Independence requirements for auditors do not effectively restrict or limit the provision of a range of non-audit services to clients, and there was little oversight of quality of audit carried out or independence of auditors.

This is reflected in the number of active companies as at 31 December 2024 which is 691,960 companies compared to 1,955 of active approved auditors registered in Malaysia. This means the average "auditor to company" ratio is one auditor to 354 companies. It may place a strain on the auditors and his resources to meet tight deadlines which will impact the efficiency of his auditing services as well as the quality of audit. To address this, the implementation of audit exemption for non-public interest entities will assist the industry to improve the "auditor to company" ratio, thus improving the overall quality of audit and the annual reports in Malaysia.

8. When will the new criteria for audit exemption for private companies be available for adoption for the financial statements of the company?

Answer:

The new criteria for audit exemption for private companies will be applicable to the financial statements with annual periods commencing on or after 1 January 2025.

9. What are the policy objectives of the new qualifying criteria for audit exemption?

Answer:

The new qualifying criteria aim to ensure that the policy objective remains relevant, which is to reduce the audit and financial burden on micro and small companies, ensure that more companies, especially Small and Medium Enterprises (SMEs) have the opportunity to benefit from this policy.

10. Is Practice Directive 3/2017 (PD 3/2017) still relevant after the enforcement of Practice Directive 10/2024 (PD 10/2024)?

Answer:

Yes, PD 3/2017 will continue to be applicable for financial statements commencing on or before 31 December 2024.

11. Which types of companies are eligible for audit exemption under the new qualifying criteria?

Answer:

Private companies meeting at least two (2) of the **revenue**, **assets** and **employee** thresholds are eligible to adopt the audit exemption framework under the new qualifying criteria.

12. What are the new thresholds under the three years / 3 phases approach?

Answer:

Thresholds will progressively increase each year from 2025 to 2027, with a maximum turnover, asset value, and employee count of RM3,000,000 and 30 employees respectively by 2027.

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** • **Assets** • **No. of Employees**	 RM1,000,000 RM1,000,000 10	 RM2,000,000 RM2,000,000 20	 RM3,000,000 RM3,000,000 30
**Remain unchanged unless being reviewed by the Registrar*			

13. Is audit exemption framework applicable to a private company which is a subsidiary of a public company?

Answer:

Generally, the law requires every company to appoint an auditor for each financial year. However, under Section 267(2) of the Companies Act 2016, the Registrar is empowered to exempt certain categories of private companies from having to appoint an auditor for a financial year.

Nonetheless, even if the company is a private company where it is a subsidiary of a public company, the subsidiary company will not be eligible for audit exemption.

14. If a company has corporate shareholders and meets the criteria, can they enjoy the company audit exemption?

Answer:

For a company to elect to be exempted from audit, it must be a private company and must satisfy the criteria applicable to the company to qualify for the audit exemption. A private company which has corporate shareholders but fulfils the criteria can enjoy the audit exemption for the relevant years.

15. Does a company that elects to be exempted from audit no longer have obligations in the preparation and filing of financial statements with SSM?

Answer:

The company is still obliged to prepare and circulate financial statements within the time period stated in the Companies Act 2016. Thereafter, the company is required to lodge the unaudited financial statements with SSM within 30 days after circulation. The financial statements prepared and lodged with SSM must comply with applicable approved accounting standards.

16. Can a private exempt company that elects to lodge a certificate relating to its status as an exempt private company (EPC) with SSM choose to elect to be exempted from audit?

Answer:

No. An exempt private company cannot elect to be exempted from an audit if it chooses to lodge an EPC certificate with SSM in lieu of financial statements. However, an exempt private company is eligible to elect for audit exemption provided the company satisfies the criteria and lodges its unaudited financial statements with SSM.

17. Do I need to apply for audit exemption and what is the form to complete?

Answer:

Similar like exempt private companies, you need not apply for audit exemption with SSM. A company is eligible for audit exemption if it satisfies the criteria set in PD 10/2024 and if it elects to do so. The company can always appoint an auditor to conduct an audit if there is a need and the company is not prohibited from engaging one.

18. Based on the PD 10/2024 (Qualifying Criteria for Audit Exemption for Certain Categories of Private Companies), certain categories of private companies can elect for the financial statements to be exempted from being audited by an auditor under the Companies Act 2016. How about for income tax purposes?

Answer:

The requirement for audited accounts by the Inland Revenue Board of Malaysia ("LHDNM") is pursuant to subsection 77A(4) of the Income Tax Act 1967 ("ITA") and it is beyond the scope of the requirements under the Companies Act 2016.

However, LHDNM had announced that if a company is not required to submit its audited accounts to the Companies Commission of Malaysia ("SSM"), then the provision of subsection 77A(4) of the ITA would not apply. LHDNM has posted the following announcement at their website pertaining to the application of subsection 77A(4) of the Income Tax Act 1967, which is self-explanatory.

https://phl.hasil.gov.my/pdf/pdfam/ANNOUNCEMENT_REGARDING_THE_APPLICATION_OF_SUBSECTION_77A_11042014.pdf

For further clarification, please contact LHDNM directly.

19. How do companies determine their number of employees?

Answer:

The number of employees is based on the number of full-time employees employed by the company at the end of each relevant financial year.

For the purpose of PD10/2024, full-time employees mean paid workers working for not less than six (6) hours a day for at least 20 days a month or working for at least 120 hours a month.

Full-time workers include local, foreign, contract workers and workers undergoing probationary period but excluding—

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

20. How does a company that satisfies the new audit exemption criteria elect for the first time not to have an audit after the PD 10/2024 takes effect?

Answer:

For a company that qualifies and wishes to elect for an audit exemption, the company must first assess its audit exempt financial period commencing after the exemption takes effect to see whether it fulfils the requirements set in the said PD for the current and immediate past periods.

Below are various scenarios with regards to the eligibility of a company under the new audit exemption regime.

SCENARIOS RELATING TO THE ASSESSMENT OF COMPANY'S AUDIT EXEMPT QUALIFYING FINANCIAL PERIOD

SCENARIO 1

The financial statements for A Sdn Bhd are as follows:-

Financial year	**01.01.22-31.12.22**	**01.01.23-31.12.23**	**01.01.24-31.12.24**	**01.01.25-31.12.25**
Revenue (RM)	80,000	90,000	100,000	200,000
Total Assets (RM)	80,000	80,000	150,000	500,000
No of employees	3	3	3	3

The company **qualifies** for audit exemption under the old regime and opts not to audit its financial statements until the financial year ended (FYE) 31 December 2024.

A Sdn Bhd may continue not to audit its financial statements commencing from 1 January 2025 so long as it satisfies the criteria for audit exemption under Phase 1 of the new regime.

SCENARIO 2

B Sdn Bhd is a private entity where its financial year commences from 1 October and ends on 30 September of the respective years.

The financial statements for B Sdn Bhd are as follows:-

Financial year	01.10.22-30.9.23	01.10.23-30.9.24	01.10.24-30.9.25	01.10.25-30.9.26
Revenue (RM)	120,000	150,000	200,000	300,000
Total Assets (RM)	500,000	500,000	500,000	500,000
No of employees	5	5	5	5

B Sdn Bhd **does not qualify** for audit exemption for the FYE 30 September 2025 under the old regime.

B Sdn Bhd **qualify** for audit exemption under the new regime (Phase 1) for the financial period commencing 1 October 2025. It may elect not to audit its financial statements so long as it satisfies the criteria for audit exemption under the new regime.

SCENARIO 3

C Sdn Bhd is a private entity where its financial year commences from 1 April and ends on 31 March of the respective years.

The financial statements for C Sdn Bhd are as follows:-

Financial year	01.04.21-31.03.22	01.04.22-31.03.23	01.04.23-31.03.24	01.04.24-31.03.25	01.04.25-31.03.26
Revenue (RM)	90,000	95,000	100,000	120,000	500,000
Total Assets (RM)	80,000	80,000	80,000	500,000	500,000
No of employees	3	3	3	3	3

The company qualifies for audit exemption under the old regime and can opt not to audit its financial statements until the FYE 31 March 2024.

For the financial year commencing 1 April 2024, C Sdn Bhd **does not qualify under the old regime** because its financial year commences before 1 January 2025, when the new regime (Phase 1) takes effect.

F Sdn Bhd may continue not to audit its financial statements under the new regime (Phase 1) for the financial period commencing 1 April 2025 so long as it satisfies the criteria for audit exemption.

SCENARIO 4

D Sdn Bhd is a private entity where its financial year commences from 1 July and ends on 30 June of the respective years.

The financial statements for D Sdn Bhd are as follows:-

Financial year	01.07.22-30.06.23	01.07.23-30.06.24	01.07.24-30.06.25	01.07.25-30.06.26	01.07.26-30.06.27
Revenue (RM)	3,200,000	2,000,000	1,000,000	1,000,000	1,500,000
Total Assets (RM)	3,500,000	3,500,000	3,000,000	3,000,000	3,000,000
No of employees	10	10	10	10	10

Under this scenario, the old regime is still applicable to D Sdn Bhd for the FYE 30 June 2025 because its financial period commences on 1 July 2024, i.e. before the new regime (Phase 1) takes effect on 1 January 2025. Therefore, D Sdn Bhd is not eligible for audit exemption up to financial year ended 30 June 2025.

For FYE 30 June 2026, D Sdn Bhd **does not qualify** for audit exemption under the new regime (Phase 1) because it only meets the exemption criteria for the current year but not for the immediate past two (2) financial years.

The company **qualify** for audit exemption for the FYE 30 June 2027 as it meets the criteria for the current and immediate past two (2) financial years, i.e. FYE 30 June 2026 and FYE 30 June 2025 (under the new regime – Phase 2).

SCENARIO 5

E Sdn Bhd is a private entity where its financial year commences from 1 January and ends on 31 December of the respective years.

The financial statements for E Sdn Bhd are as follows:-

Financial year	01.01.23-31.12.23	01.01.24-31.12.24	01.01.25-31.12.25	01.01.26-31.12.26	01.01.27-31.12.27
Revenue (RM)	4,500,000	3,500,000	3,000,000	2,500,000	2,000,000
Total Assets (RM)	3,500,000	3,500,000	3,000,000	3,000,000	3,000,000
No of employees	40	30	25	20	20

E Sdn Bhd **does not qualify** for audit exemption for the FYE 31 December 2024 under the old regime and also up to 31 December 2026 under the new regime (Phase 1 and Phase 2).

The company **qualifies** for audit exemption for the FYE 31 December 2027 as it meets the criteria for the current and immediate past two (2) financial years, i.e. FYE 31 December 2026 and FYE 31 December 2025, under the new regime (Phase 3).

21. Certain companies are unable to take advantage of the audit exemption because certain agencies (e.g. financial institutions, government agencies and other related authorities) still require companies to submit audited financial statements for various purposes. Does SSM have any comment on this?

Answer:

SSM's policy intent to introduce audit exemption is to reduce regulatory and financial burden of certain companies. It also aims to support SMEs growth aligned with the current legal requirements and international best practices relating to financial reporting which focuses on assisting small and medium-sized enterprises.

SSM takes notes that certain agencies mandate submission of audited financial statements in accordance with the CA 2016 to fulfill the requirements according to the laws, policies and rules imposed by these agencies. The requirements of audited financial statements are uphold by these agencies for purposes of licensing, grant, loan as well as for monitoring of Government Link Companies (GLCs).

These agencies prioritize risk management, governance and reliability. As such, the requirement of audited financial statements is to ensure the credibility, transparency and reliability of the information provided by the companies, particularly when dealing with public interest, financial risk or compliance with industry-specific standards.

22. Does the new audit exemption qualifying criterion apply to a company that has neither audited nor lodged its financial statements since the financial year 2017?

Answer:

For a company that has neither audited nor lodged its financial statements since the financial year 2017, PD 3/2017 is still applicable to those companies (please refer to paragraph 22 of PD 10/2024).

23. **A. What does "must not exceed the maximum threshold specified for the respective corresponding phase" in paragraph 9 of PD10/2024 mean?**

B. If we assess a company's audit exemption status in 2026, should we apply the 2026 threshold (RM2 million revenue/assets and 20 employees) to the years 2024 and 2025? Or should we use the earlier thresholds (RM1 million revenue/assets and 10 employees) for those years? *(Updated 19 March 2025)*

Answer:

A. The phrase means that when assessing a company's eligibility for audit exemption, its revenue, assets and number of employees must remain within the set limits for each relevant phase.

Each phase corresponds to a specific period and the applicable thresholds for revenue, assets and employees are determined based on the year of assessment. This ensures that a company does not exceed the prescribed limits for the years under review when determining audit exemption eligibility.

B. To assess the eligibility for the financial year 2026, the total revenue, assets or employees (any two) for the years 2024 and 2025 must not exceed RM2,000,000 which is the maximum threshold for Phase 2. Please refer to the below **Scenario 6** for better understanding.

SCENARIO 6

F Sdn Bhd is a private entity where its financial year commences from 1 January and ends on 31 December of the respective years.

The financial statements for F Sdn Bhd are as follows:-

Financial year	01.01.23-31.12.23	01.01.24-31.12.24	01.01.25-31.12.25	01.01.26-31.12.26
Revenue (RM)	100,000	500,000	900,000	1,500,000
Total Assets (RM)	300,000	500,000	800,000	2,000,000
No of employees	5	10	15	20

F Sdn Bhd qualifies for audit exemption for the FYE 31 Dec 2023 (with assumption that the company qualifies for audit exemption during the immediate past 2 (two) years.

For the financial year ended 31 December 2024, F Sdn Bhd **does not qualify** for audit exemption as its financial year end falls under the eligibility criteria of PD 3/2017 (old regime).

F Sdn Bhd is eligible for audit exemption for the financial year ended 31 December 2025 as it meets the criteria under PD10/2024. Although the company does not qualify for audit exemption for the financial year ended 2024, its revenue, assets and number of employees do not exceed the prescribed thresholds under Phase 1 (i.e. RM1,000,000), thus entitling the company to be exempted for financial year ended 31 December 2025. However, F Sdn Bhd remains not eligible for the financial year ended 31 December 2024 as PD3/2017 is still applies to that financial year.

The company also eligible for audit exemption for the financial year ended 31 December 2026 as it meets the criteria under PD10/2024, i.e. the revenue, assets and number of employees are do not exceed the prescribed thresholds under Phase 2 (i.e. RM2,000,000) for financial year ended 31 December 2024, 31 December 2025 and 31 December 2026 respectively.

24. Does PD10/2024 have a retrospective effect on audit exemption eligibility? *(Updated 19 March 2025)*

Answer:

No, PD 10/2024 does not have a retrospective effect. The directive applies only to financial years starting on or after 1 January 2025.

For financial years beginning on or before 31 December 2024, the PD 3/2017 remains applicable. Companies that qualify for audit exemption under PD3/2017 will remain exempted for those financial years.

PD10/2024 increased the thresholds in phases over three years, but it does not alter past audit exemption decisions made under PD3/2017.