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SSM UNVEILS NEW AUDIT EXEMPTION CRITERIA FOR PRIVATE COMPANIES: ACHIEVING A BALANCE BETWEEN EASING REGULATORY BURDEN AND ENSURING TRANSPARENCY

SURUHANJAYA SYARIKAT MALAYSIA
COMPANIES COMMISSION OF MALAYSIA

In a move to foster the growth of small and medium-sized enterprises (SMEs) in Malaysia, the Companies Commission of Malaysia (SSM) has refined its audit exemption criteria. This initiative, which aligns with global best practices, aims to reduce regulatory burdens for private companies while maintaining transparency and accountability.

Since the introduction of the audit exemption framework under subsection 267(2) of the Companies Act 2016, eligible private companies have been allowed to opt out of statutory audits under specific conditions. These conditions outlined under Practice Directive No. 3/2017 initially applied to three categories: dormant companies, zero-revenue companies and threshold-qualified companies.

Dormant companies, those inactive since incorporation or throughout the immediate past and current financial years, qualify automatically under the audit exemption framework. Zero-revenue companies, with no revenue in the current and preceding two financial years and total assets not exceeding RM300,000 during the same period, also qualify under the framework. Threshold-qualified companies must meet all three conditions: annual revenue below RM100,000, total assets under RM300,000 and not more than five employees over the past two financial years.

Previous Audit Exemption Criteria Under Practice Directive No.3/2017 Issued On 4 August 2017

Private companies qualify for audit exemption if one of these three categories are met :

Dormant Companies
Entities with no significant transactions since incorporation or during the current and immediate past financial years

Zero-Revenue Companies
Companies generating no revenue in the current and immediate past two financial years, with total assets not exceeding RM300,000 during the same period

Threshold-Qualified Companies
Companies with revenue and total assets not exceeding RM100,000 and RM300,000 respectively over the current and past two financial years, and employing not more than five employees

Despite these measures, only 7% of eligible companies submitted unaudited financial statements, indicating the need for more inclusive thresholds.

YB Datuk Armizan Mohd Ali
Minister of Domestic Trade and Cost of Living

"The introduction of these new criteria is a strategic step towards enhancing the competitiveness of private companies, expediting compliance processes, and strengthening corporate resilience in the face of global economic challenges. In line with Malaysia MADANI's sustainability principle, this initiative lowers the cost of compliance, enabling companies, particularly SMEs, to optimise financial resources, drive business expansion, and invest in innovation. By reducing regulatory burdens, we are fostering a more dynamic corporate sector that can channel resources into emerging technologies, product development and market growth.

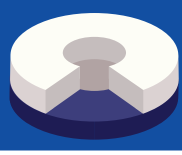
Reviewing the Audit Exemption Framework for Greater Impact

Despite 65,146 unaudited financial statements being lodged with SSM since 2017, the submission rate remains low at only 7% of eligible companies. This is largely attributed to Malaysia's low threshold values, which are among the lowest in the region. By comparison, countries like Brunei, Myanmar, Australia, Singapore and the United Kingdom have set significantly higher thresholds, enabling more businesses to benefit from the audit exemption framework.

For instance, in the UK, companies are qualified for audit exemption if they meet at least two criteria: annual turnover below £10.2 million, total assets not exceeding £5.1 million or fewer than 50 employees. Similarly, Singapore allows exemptions for companies with revenue and assets below SGD10 million or employees not exceeding 50.

Acknowledging the challenges, SSM undertook a comprehensive review of the audit exemption criteria that was introduced in 2017. This included analysing feedback from two rounds of consultations in 2023 and 2024, where 88% of respondents supported SSM's initiative. The revised criteria address these concerns while balancing regulatory relief with financial transparency.

The Outcome of the Consultations on the New Audit Exemption Criteria



88% respondents supported

Strengthening the Audit Exemption Framework for SMEs and Enhancing Regulatory Efficiency

To improve the submission rate of unaudited financial statements and to address the findings from the analysis that was comprehensively carried out, SSM initiated a review of its existing audit exemption eligibility criteria. The review is designed to ensure that the criteria remain effective in reducing financial burdens for SMEs while expanding access to the audit exemption policy.

Beyond reducing regulatory burdens and operational costs for SMEs, SSM's review underscores its commitment to address issues highlighted in the Report on the Observance of Standards and Codes in Malaysia – Auditing and Accounting (ROSC), published by the World Bank in 2012. The ROSC (a joint initiative by the World Bank and International Monetary Fund) evaluates compliance with globally recognised standards in areas such as accounting, auditing, corporate governance and financial regulation. For Malaysia, the report is crucial in ensuring the country's financial practices align with international benchmarks, bolstering its position as a competitive and attractive investment destination.

THE NEW AUDIT EXEMPTION CRITERIA (PRACTICE DIRECTIVE 10/2024)

To be applied in phases, it is applicable to financial periods beginning on or after 1 January 2025 where the new criteria require companies to meet any two of the following thresholds :

- **Annual revenue not exceeding RM3,000,000**
- **Total assets not exceeding RM3,000,000**
- **Not more than 30 employees**

Dormant companies remain exempted, while public companies, subsidiaries of public companies, and foreign companies are excluded to preserve financial transparency in these categories.

The ROSC Report identified a critical imbalance between the high demand for statutory audits due to the mandatory audit regime on all types of companies under the Companies Act 1965 and the limited availability of auditors in Malaysia. Fast forward, as of 31 December 2024, there were 691,960 active companies registered with SSM, compared to only 1,955 approved auditors. This mismatch imposes significant pressure on auditor resources, potentially compromising the overall efficiency and quality of auditing services. The shortage of auditing professionals is further compounded by the mandatory requirement for the significant majority of companies to submit audited financial statements.

SSM's audit exemption framework under subsection 267(2) of the Companies Act 2016 and the latest Practice Directive 10/2024 are proactive measures to address these challenges. By alleviating the strain on audit resources, the framework seeks to preserve the reputation of the auditing profession while broadening the scope of audit exemptions, particularly for private entities. This initiative aims to enhance the perceived value of audit reports in Malaysia and foster a more balanced and sustainable regulatory environment.

Stakeholder Consultations

To refine the proposed changes, SSM undertook an extensive consultative process. In February 2023, the first consultative document was issued, proposing adjustments to the eligibility thresholds. Feedback from this consultation shaped the second consultative document, released in February 2024, which further fine-tuned the eligibility criteria and thresholds.

Across both consultations, SSM received 1,023 written responses from a diverse range of stakeholders, including professional bodies, industry players, corporate entities, business associations and individual practitioners. An overwhelming 88% of respondents expressed support for the audit exemption policy, recognising its potential to alleviate compliance costs for SMEs. However, 12% voiced concerns, citing risks such as reduced transparency in financial reporting and a higher potential for fraud. Additionally, 77% of respondents suggested implementing lower thresholds to mitigate these risks.

These consultative efforts reflect SSM's commitment to craft a balanced framework that supports SME growth while maintaining financial transparency and accountability. The resulting revisions aim to position Malaysia's audit exemption criteria as both practical and aligned with global best practices.

> SSM remains steadfast in our commitment to support businesses during this transition. Our focus is on ensuring that the revised criteria are both relevant and adaptable, catering to the diverse needs of entities across various sectors. This approach not only enhances compliance but also promotes a more inclusive regulatory environment that aligns with the global best practices.

Datuk Nor Azimah Abdul Aziz
Chief Executive Officer
Companies Commission of Malaysia

The New Audit Exemption Criteria for Private Companies in Malaysia

On 16 December 2024, SSM announced the new audit exemption criteria for private companies through Practice Directive 10/2024. Under the revised framework, private companies seeking an audit exemption must fulfil any two out of the three criteria stated in the Practice Directive.
Firstly, the company's annual revenue must not exceed RM3,000,000 during the current financial year and the immediate past two financial years. Secondly, the total assets of the company, as stated in the statement of financial position for the current and immediate past two financial years, must not exceed RM3,000,000. Lastly, the number of employees at the end of the current financial year and the immediate past two financial years must not exceed 30.

The enforcement of these new audit exemption criteria will take effect for financial periods commencing on or after 1 January 2025. For financial statements prepared for financial beginning before 31 December 2024, the current audit exemption criteria will continue to apply.

Phased Implementation to Facilitate Transition

To facilitate the revised framework, SSM has adopted a phased implementation approach over a period of three years, thus allowing companies to adapt gradually to the new requirements.

Phase 1 will apply to financial periods commencing on or after 1 January 2025, with submissions starting from 1 January 2026. During this phase, the thresholds are set at annual revenue of RM1,000,000, total assets of RM1,000,000 and a maximum of 10 employees.

Phase 2 will follow for financial periods commencing on or after 1 January 2026, with submissions starting from 1 January 2027. In this phase, the thresholds are increased to annual revenue of RM2,000,000, total assets of RM2,000,000 and a maximum of 20 employees.

Finally, Phase 3 will be fully implemented for financial periods commencing on or after 1 January 2027, with submissions starting from 1 January 2028, where the thresholds are fully implemented at a turnover of RM3,000,000, total assets of RM3,000,000 with a maximum of 30 employees.

The annual revenue, total assets and number of employees for the immediate past two financial years must not exceed the maximum threshold specified for the respective corresponding phase.

The New Audit Exemption's Phased Implementation

PHASE 1

Applies to financial periods commencing on or after 1 January 2025
Submissions start from 1 January 2026
Thresholds : **Annual revenue : RM1,000,000**
Total assets : RM1,000,000
Maximum employees : 10
Benefits an estimated 42% of active companies

PHASE 2

Applies to financial periods commencing on or after 1 January 2026
Submissions start from 1 January 2027
Thresholds : **Annual revenue : RM2,000,000**
Total assets : RM2,000,000
Maximum employees : 20
Benefits an estimated 48% of active companies

PHASE 3

Fully implemented for financial periods commencing on or after 1 January 2027
Submissions start from 1 January 2028
Thresholds : **Annual revenue : RM3,000,000**
Total assets : RM3,000,000
Maximum employees : 30
Benefits an estimated 51% of active companies

The annual revenue, total assets and number of employees for the immediate past two financial years must not exceed the maximum threshold specified for the respective corresponding phase.

Exclusions

The revised audit exemption framework also includes specific conditions and exclusions to ensure it applies only to eligible entities. Dormant companies, whether dormant since incorporation or during the current and immediate past financial year, remain exempt from the audit requirement.

However the audit exemption provided under this Practice Directive does not apply to certain types of companies.

Firstly, it excludes exempt private companies that have chosen to lodge a certificate with the Registrar, confirming their status as exempt private companies in accordance with Section 260 of the Companies Act 2016.

Secondly, public companies, including those that are listed on the stock exchange, are not eligible for the audit exemption.

Additionally, private companies that are subsidiaries of public companies are also excluded from this exemption.

Finally, the exemption does not apply to foreign companies conducting business in Malaysia.

These exclusions are designed to ensure that the audit exemption is only granted to eligible entities, to maintain the integrity and transparency of financial reporting.

The audit exemption framework is also subject to exclusions by specific requirements by certain agencies that mandate the submission of audited financial statements in accordance with requirements according to the laws, policies and rules imposed by these agencies. These audit requirements come from specific laws, policies, and rules enforced by these agencies, particularly for licensing, grants, loans and monitoring government-linked companies (GLCs).

These agencies prioritise risk management, governance and reliability. In this context, the requirement of audited financial statements is to ensure the credibility, transparency and reliability of the information provided by the companies, especially when public interest, financial risk or compliance with industry-specific standards is at stake.

Maximising the Potential

Based on data from Financial Statements lodged with SSM, it is estimated that 51% of active private companies could benefit from the audit exemption. However, several factors may influence the actual number of companies eligible for the exemption.

51% **of active private companies could benefit from the audit exemption.**

One such factor is the fact that the estimate does not take into account the number of employees in each company, as this information is not a mandatory requirement in the Financial Statements.

The introduction of the audit exemption by SSM reflects a clear policy intent to reduce the regulatory and financial burden on certain companies. This initiative aligns with efforts to support SME growth in accordance with current legal requirements and international best practices in financial reporting, which focus on assisting SMEs.

As such, audit exemptions are particularly advantageous for smaller companies, aligning regulatory requirements with their capacity and resources. Nevertheless, in view of requirements mandated by other agencies, companies must carefully recognise obligations. Where such obligations exist, companies may opt to continue with audits despite being eligible for the exemption.

Duties of Companies, Auditors and Company Secretaries to Prepare and Lodge Financial Statements To The Registrar

Directors and companies remain responsible for maintaining proper accounting records and preparing financial statements in line with the applicable approved accounting standards as issued by the Malaysian Accounting Standards Board (MASB) under the Financial Reporting Act 1997. These financial statements must provide a true and fair view of companies' financial position and performance. During the transitional period (2025–2027), companies must regularly assess their eligibility against the updated exemption thresholds and comply with audit requirements if these thresholds are exceeded in any given year.

Auditors on the other hand, may now focus on rendering audit services to companies that may benefit from audited accounts, such as those needing them for financing or contractual obligations.

Additionally, with fewer statutory audits required, auditors could expand their advisory services. These services could help companies strengthen internal controls, improve financial reporting and enhance governance which are critical measures to maintain transparency and trust in the absence of statutory audits.

Nevertheless, unaudited financial statements lodged with SSM in XBRL format through the MBRS 2.0 portal addresses concerns regarding audit exemptions by ensuring compliance with accounting standards. XBRL taxonomy is embedded with the relevant accounting standards, serving as a framework to guide the preparation of financial statements. This ensures that financial data is accurate, consistent, and standardised, even without external auditing exercise. The structured XBRL format, combined with the streamlined submission process via the MBRS 2.0 portal, enhances transparency and reliability, allowing stakeholders to assess the financial health of a company with confidence.

Similarly, company secretaries also play a vital role in ensuring a smooth compliant transition to audit exemption by advising directors on the company's eligibility, documenting related decisions and maintaining proper records whilst company secretaries must ensure financial statements and statutory documents are prepared, submitted and lodged to SSM within the prescribed deadlines, reinforcing regulatory compliance. Communicating the decision to opt for audit exemption to stakeholders, including shareholders is also crucial for maintaining good corporate governance and fostering trust and accountability.

Balancing Transparency, Accountability and Governance

Domestic Trade and Cost of Living (KPDN) Minister Datuk Armizan Mohd Ali said the introduction of these new criteria is expected to enhance the competitiveness of private companies, expedite compliance processes, and support the nation's economic development agenda in line with the principles of Malaysia MADANI.

He said in accordance with Malaysia Madani's sustainability principle, these new criteria not only will help companies optimise their financial resources by reducing compliance costs and supporting the growth of SMEs but also strengthen the corporate sector's resilience in addressing the increasingly challenges of the global economy.

He added that the principle of Malaysia MADANI is reflected in the new criteria, as the audit exemption reduces compliance burdens on private companies, allowing them to focus on business expansion and innovation. Meanwhile, the principle of innovation is demonstrated by enabling companies to reallocate resources towards investments in emerging technologies, product development, and market expansion.

“We are optimistic that these adjustments will empower businesses, especially SMEs, to concentrate on advancing their operations and embracing new opportunities. By easing regulatory demands, our goal is to cultivate a more supportive environment that encourages growth and innovation. We trust that this initiative will enhance the vitality of the corporate sector, equipping them to better navigate the evolving global economic landscape and drive the nation's long term prosperity,” he said.

SSM Chief Executive Officer Datuk Nor Azimah Abdul Aziz said the new framework was meticulously crafted to simplify the compliance process for smaller companies, while reinforcing the foundational principles of transparency, accountability and good governance in corporate reporting.

“SSM remains steadfast in our commitment to support businesses during this transition. Our focus is on ensuring that the revised criteria are both relevant and adaptable, catering to the diverse needs of entities across various sectors. This approach not only enhances compliance but also promotes a more inclusive regulatory environment that aligns with the global best practices,” she said.

Nor Azimah added that SSM will continue to monitor the impact of these changes and make adjustments where necessary to ensure that the framework remains robust, dynamic and supportive of businesses especially SMEs.

For more information, please visit SSM's official website at www.ssm.com.my. For further inquiries, please contact SSM Customer Care (SSMCC) via the Complaints & Feedback section, SSM Chatbot and SSM Live Chat which can be accessed through the official SSM portal, call 03-7721 4000 or email to enquiry@ssm.com.my.

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