



Why Audit Matters to SMEs



MALAYSIAN INSTITUTE
OF ACCOUNTANTS

Why Audit Matters to SMEs

This booklet was created especially for owners and managers of Small and Medium Enterprises (SMEs) to illustrate the value of an external audit.

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CONTENT

<i>What is an audit?</i>	2
<i>The privilege of limited liability</i>	3
<i>Value of an audit to SMEs</i>	4
<i>Value of audit for your customers</i>	8
<i>Gaining the confidence of your suppliers</i>	9
<i>With the possible audit exemption on small companies in future, will SMEs continue to have their accounts audited?</i>	10
<i>Choosing an auditor for your business</i>	11
<i>MIA: Governing the Malaysian Accountancy Profession</i>	12

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The Malaysian Institute of Accountants (MIA) believes that in order for SMEs to flourish, it is necessary for SMEs to:



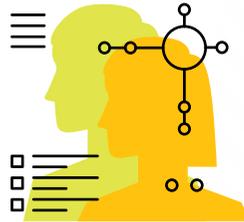
Apply basic financial management skills to manage cash flow which is the lifeblood of a company



Have access to credit and financing



Cope with the tax system, employment and other legislations



Consult competent professionals to bridge the skill and knowledge gap

Having your financial statements audited represents a positive step towards meeting the above criteria.

AUDIT is a message of CONFIDENCE and ASSURANCE!

WHAT IS AN AUDIT?

Audit, in the context of the Companies Act, can be defined as an independent examination of the financial statements of a company to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with applicable approved accounting standards so as to give a true and fair view of the financial position of the company and its financial performance.



The audit is conducted in accordance with the international auditing standards and upon conclusion the auditor issues a report that provides his opinion on the financial statements.

“ *Directors’ responsibility for a company to prepare financial statements in accordance with approved accounting standards is clearly spelt out in the Companies Act.*

Having a company’s accounts audited gives directors independent assurance in carrying out this responsibility. I would not be comfortable to be on the board of any company, regardless big or small, whose accounts are unaudited. ”

Datuk Zaiton Mohd Hasan

Company Director

THE PRIVILEGE OF LIMITED LIABILITY

A limited liability company is a corporate structure where owners are legally responsible for its debts only to the extent of the amount of capital they invested.

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. 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.



The limited liability privilege should come with accountability and the requirement for an independent audit.



VALUE OF AN AUDIT TO SMEs

An audit can help you save time and money.

Audit brings financial discipline

- Audit necessitates the need to prepare proper accounts. This could save you money as the new Companies Act 2016 has imposed increased liabilities to company directors for failing to prepare adequate financial statements. On conviction, the new Act imposes a fine not exceeding five hundred thousand ringgit or imprisonment for a term not exceeding three years or both.
- 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 examination.

“ *SMEs 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 behaviour of SMEs. ”

Datuk Dr Hafsah Hashim

Chief Executive Officer

SME Corp Malaysia

“ *The information as reported in the tax return must be correct and accurate based on the audited financial statements.*

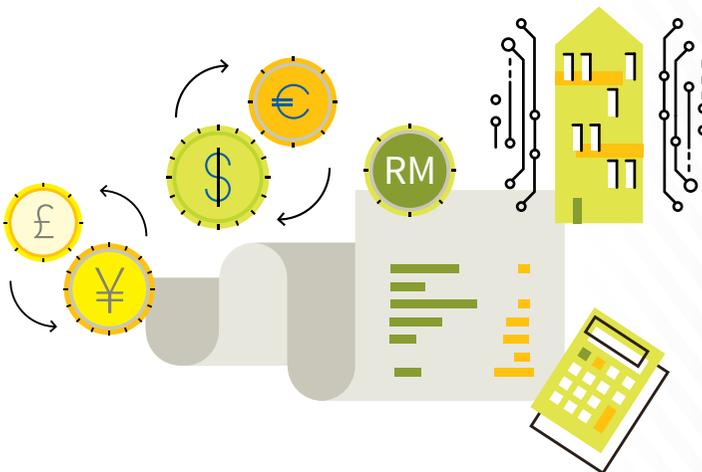
We, at the IRBM, recognise the role of auditors in facilitating such tax compliance. ”

Tan Sri Datuk Wira Dr. Hj. Mohd. Shukor Hj. Mahfar

Immediate Past Chief Executive Officer/Director General of Inland Revenue

Proper tax return based on audited accounts could save you money, perhaps more than your audit fee!

- External audit ensures proper tax 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 .
- Auditors can also help your company interact with the tax authorities in many other ways.



“ *An external audit lends credence to the financial statements of SMEs and provides a greater level of assurance to banks when assessing applications for credit facilities.* ”

Datuk Abdul Farid Alias

Chairman

The Association of Banks in Malaysia (ABM)

Reduce financing costs

- Audited financial statements play a key role in the raising of finance and capital.
- Without the comfort of an audit opinion, even if lenders make financing available, they would be taking on more risks and are thereby compelled to raise financing costs which will be counter-productive for SMEs.

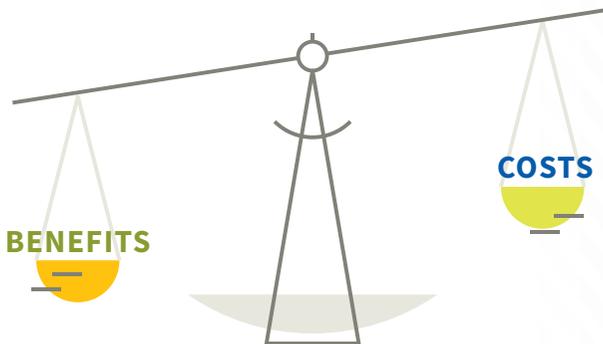
Audit improves decision-making

- Information is the lifeblood of modern business. Misleading or inaccurate information leads to bad decisions.
- An audit adds credibility because the result of the audit process is an independent opinion given by a trained professional who is governed by a strict ethical code.
- Audits therefore add value by equipping multiple stakeholders with more accurate information, which leads to better decision making by managers, better investment decisions by investors and better policy decisions by the authorities!

Easy access to professional advice

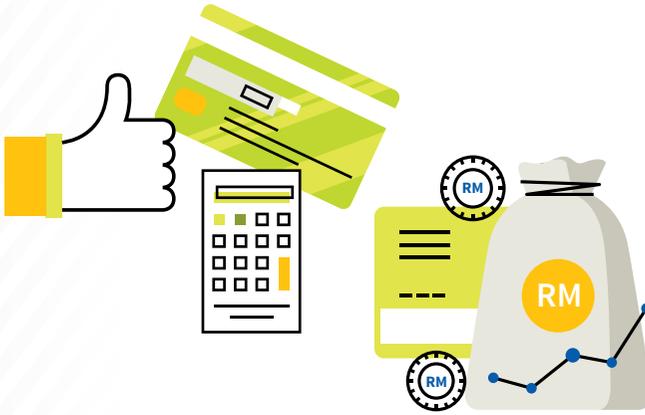
- An audit assists the management to improve business processes and the system of internal controls.
- Auditors are trained professionals specialising in risk assessment and evaluating internal control systems.

With the help of an auditor, you will not only have extra time to generate revenue, but you will also have peace of mind that an expert is taking care of the details.



- ✓ Avoid penalties
- ✓ Bring financial discipline
- ✓ Access to professional advice
- ✓ Improve decision making
- ✓ Reduce finance cost
- ✓ Extra time to focus on revenue
- ✓ Peace of mind!

Audit Fee



VALUE OF AUDIT FOR YOUR CUSTOMERS

Trust is at the heart of modern business. The audit provides customers with a series of strong messages about¹:

- The financial management of the business;
- The ethos of senior management of the company;
- The strength and efficiency of the business;
- The integrity of the operation.

1 ACCA (2008). *Why audit matters: Your guide to the benefits of the audit*, page 8.

GAINING THE CONFIDENCE OF YOUR SUPPLIERS



Credit is a major issue for suppliers. They want to know whether a customer is creditworthy, and whether a company pays its bills on time and will remain solvent in the near future.

An independent and professionally conducted audit can make a difference between a respected supplier extending credit or refusing it.

The commitment to an audit shows customers and suppliers that you are a business partner that is well-managed, credible, open to professionally qualified advice and is keen to remain competitive in the business environment.



WITH THE POSSIBLE AUDIT EXEMPTION ON SMALL COMPANIES IN FUTURE, WILL SMEs CONTINUE TO HAVE THEIR ACCOUNTS AUDITED?

MIA anticipates that many SMEs will continue to demand professional audit services and benefit from the external audit.

In the UK where audit exemption on small companies has long been implemented, companies close to the audit exemption threshold and larger small companies have continued to have their accounts audited.

32% of small companies qualified for audit exemption, persist to perform voluntary audits as the directors perceive the advantages of the practice (Collis, 2008).

The main factors are:

- Creditors or shareholders have insisted upon it;
- To maintain consistency with earlier accounts; or
- Because the companies are close to the small company threshold.

Where a company is exempted from audit but still continues to have its accounts audited, it will send out a strong signal that:

- It regards its own financial management as a high priority;
- The financial information which it publishes stands up to external examination;
- It is confident enough about the quality of its operations to allow external scrutiny.

CHOOSING AN AUDITOR FOR YOUR BUSINESS

In Malaysia, only an approved company auditor, i.e. an MIA member with practising certificate and who has passed an audit interview conducted by the Accountant General's Office and obtained an approval from the Ministry of Finance (MoF) pursuant to the Companies Act, can be appointed as a company auditor.

When choosing a prospective auditor, the company should ask about the qualifications of the individual or the firm:

- What are your qualifications and what licences do you possess?
- What is the basis on which fees are charged?
- Do you have experience in this business sector?
- What are the experience and qualifications of the persons who would be working on the audit?
- What additional services can you offer?



Working with a qualified accountant as a business advisor will ensure that more SMEs survive, prosper and contribute to overall economic development.

MIA: GOVERNING THE MALAYSIAN ACCOUNTANCY PROFESSION

The Malaysian Institute of Accountants (MIA) is a statutory body established under the Accountants Act 1967. It is empowered by law to regulate the accountancy profession in Malaysia.

As the national accountancy body, MIA sets high ethical standards which must be adhered to by all accountants in Malaysia. All accountants are bound by MIA's By-laws. Any breach of the By-laws may render the members liable to disciplinary proceedings. Members may be suspended or even removed from membership, depending on the severity of the non-compliance.

MIA members are regulated and the public has a recourse by lodging a complaint to the Institute if they are dissatisfied with the services rendered. The public would also be assured of the quality of the professional services expected as it is mandatory for all MIA members to annually acquire a minimum hours of continuing professional education to ensure that they are updated technically, even after being trained as an accountant.



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