

# MALAYSIA INTRODUCES AUDIT EXEMPTIONS

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The Companies Commission of Malaysia (CCM) has released a directive setting out the category and criteria for audit exemption. The practice directive entitled *Qualifying Criteria for Audit Exemption for Certain Categories of Private Companies* revealed that dormant companies, zero revenue companies and threshold qualified companies would be eligible for audit exemption. The threshold qualifications are; not exceeding RM100,000, having assets not exceeding RM300,000 and having no more than 5 employees.

This applies to companies incorporated on or after 31 January 2017, for zero revenue companies it will apply for the annual financial period commencing on or after 1 January 2018 and for threshold qualified companies on or after 1 July 2018. The exemption from audit will be effective from 1 January 2018.

However, the company exempted from audit must submit the unaudited financial statement that complies with the approved accounting standards and the Malaysian Accounting Standard Board (MASB). The unaudited financial statement must also be circulated to the board members in accordance with the Companies Act 2016.

Previously, policy makers and regulators had said that audit for SMEs would remain a legal obligation irrespective of their size or whether they are private or public. The Malaysian Institute of Accountants (MIA) is in favour of audit exemptions for Dormant Companies, but not for Small Companies. Yet the announcement of audit exemption for private entities in November 2016 sparked debate mainly on the threshold and types of companies to be exempted.

Baker Tilly Malaysia audit assurance partner and co leader Dato Lock Peng Kuan said that audit exemption has been in discussion in Malaysia for years. He said that the four months long public consultation on the proposed practice directive has led to CCM subsequently tweaking and narrowing down the criteria for small companies which qualify for audit exemption.

“At Baker Tilly, we disagree with the introduction of audit exemption and our views have been highlighted by many other practitioners, many times. In the long run, we expect many companies may elect into audit on a voluntary basis due to value of audit and the cost of audit is low.” Lock Peng Kuan said.

While the change is a concern for auditors, it has also created new opportunities in services such as assurance and compilation work. In accordance with previous research done by the MIA, the cost of conducting audit of dormant and small companies in Malaysia in fact is very low within the ASEAN region.

“The audit exemption may impact and change the shape of audit markets in Malaysia and could have significant detrimental impact on the livelihood and viability of a number of audit practitioners that primarily service the private limited companies. Affected firms may need to explore avenues of revenues to deal with the drop-in revenue and change their future recruitment plan. This will lead to the rise of other assurance and non-assurance services,” Lock Peng Kuan concluded.

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