

Public Consultation of Subsidiary Legislations (Companies Act 2016 [Act 777])

FEEDBACK ON THE PRACTICE DIRECTIVE 1/2017 ON THE
CRITERIA FOR AUDIT EXEMPTION FOR PRIVATE COMPANIES

No.	Name and Details of Respondent	Comments	Remarks
1.	Sier Akmalhadi Bin Mat Noor	Ini disebabkan syarikat kecil kebanyakan bisnes online dan kami kekurangan modal dan kurang mahir utk menyediakan keperluan yg dikehendaki pihak ssm. Yang mana jika pihak ssm hendak audit, pihak syarikat kecil ini rela di kompaun kerana tidak dapat menyediakan kehendak ssm tidak seperti syarikat besar yg mampu utk sediakan semua itu.	Agree
2.	Mulyady Mustapha	<p>Saya menyokong penuh perkara 4 yang di draftkan. Syarikat saya Mustama Industries Sdn Bhd 1109752-X ditubuhkan pada tahun September 2014. Sepatutnya di audit pada akhir 2015. Tetapi, perniagaan mencatat kerugian teruk akhir 2015 sehingga Mei 2016. Hingga dikompaun oleh SSM. Masih belum dibayar.</p> <p>Jadi walaupun menjalankan perniagaan, tetapi mencatat kerugian. Tiada aliran tunai di akaun bank. Bila pegawai SSM datang, mereka mencadangkan penutupan syarikat sebab mereka tidak mahu saya dikompaun lagi untuk tahun kedua.</p> <p>1) Saya syarikat kecil. 2) Jualan tak besar. (saya upgrade ke S/B sebab ada plan tapitak menjadi)</p> <p>Jadi saya amat bersetuju supaya tidak perlu di audit jika memenuhi syarat. Boleh menjimatkan kos operasi. Lebih banyak syarikat kecil akan menukar ke sdn bhd nanti.</p>	Agree

3.	<p>Kok Chee Kheong KCK@Skrine.com SKRINE</p>	<p>MEMORANDUM TO COMPANIES COMMISSION OF MALAYSIA RE: PROPOSED PRACTICE DIRECTIVE 1/2017</p> <p>Our comments/queries on the exposure draft of the Proposed Practice Directive 1/2017 ("PD1/2017") are as follows –</p> <p>1. Paragraph 4 Please consider whether the section referred to in Paragraph 4 should be Section 245(1), instead of Section 244(1), of the Companies Act 2016 ("CA16").</p> <p>2. Paragraph 6 Section 127 of CA16 only permits a company whose shares are listed on a stock exchange, i.e. a public listed company, to undertake a share buyback. As a private company is not permitted to carry out a share buyback, the exclusion of treasury shares in Paragraph 6 of PD1/2017 is unnecessary.</p> <p>3. Paragraph 8 The expression "parent company" is not defined in CA16. If PD1/2017 is intended to apply to the immediate holding company, then the expression "parent company" can be defined accordingly in PD1/2017. On the other hand, if the expression is intended to refer to a "holding company" as defined in Section 4 of CA16, then the expression "parent company" can be replaced by "holding company". It should be noted that in view of Section 4(1)(b) of CA16, holding and subsidiary companies can exist in a multi-layered structure, i.e. a company which is a sub-subsidiary or sub-sub-subsidiary of a subsidiary of a holding company is also a subsidiary of the said holding company.</p> <p>4. Paragraph 9(b) Should the expression "holding companies" be read as "holding company"?</p> <p>5. Paragraph 13</p>	Query
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4.	AL Tan	<p>If the SSM directive 1/2017 is implemented small firms like ours will have no choice but to retrench some of our non core staff . I hope that this directive will not be implemented. It is in my view still premature for Malaysia to implement such a directive. Perhaps another 10 years down the road where the business community is more savvy like the Singaporeans. We have problems explaining basic compliance matters to our clients.</p> <p>However, if it is to be implemented the SSM has to be specific</p> <p>1) para 10 b (ii) . It said total assets of less than RM500K. Do we use the historical costs or the market value of fixed assets in the computation.</p> <p>2) are the directors left to read and understand the directive themselves ?</p> <p>There will be a lot of retrenchment in the profession. There will also be a lot of confusions.</p>	Disagree
5.	Dato’ Mohammad Faiz Azmi President MIA	<p>The stand taken by the MIA and the Malaysian Institute of Certified Public Accountants (MICPA) at that meeting affirmed support for the audit exemption to be applied to dormant companies but disagreed with the proposition to apply it to small companies.</p>	Agree to be applied to dormant companies only

		<p>We have revised our earlier submission to incorporate views specifically on the draft Practice Directive and enclose it together with this letter.</p> <p>With regard to the small companies exemption , the key reasons we are against the proposal are:</p> <ol style="list-style-type: none">1. Removing the audit requirement hinders SMEs from producing accurate financial positions <p>We note that the audit exemption threshold for revenue in the draft Practice Directive is consistent with the threshold of revenue in the definition of microenterprise in Malaysia. Small and Medium Enterprises (SMEs) have been the backbone of economic growth of Malaysia. The importance of SMEs is further exemplified by the Government 's significant measures to support and transform SMEs in the recent Budget 2017. SMEs' contribution to gross domestic product (GDP) was 35.9% in 2014 and the contributions by SMEs are aimed to reach a 42% by 2020. Microenterprises constitute the largest component of SMEs in Malaysia , with approximately 75% of SMEs falling under this category (SME Corp Annual Report, 2015/16).</p> <p>Therefore , given the importance this sector has to the economy, we feel that removing the need for an independent audit and access to a finance professional would be detrimental to the objectives of developing SMEs .</p> <p>The business environment in Malaysia is still developing and SMEs generally do not or are unable to hire qualified accountants to handle the accounting and finance functions. Based on the current level of financial reporting knowledge of SMEs, the only way to compel companies to keep proper accounting records and prepare proper financial statements is by way of an annual audit. Having a threshold of RM300,000 in turnover as a criterion for audit exemption</p>	
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		<p>could result in a significant number of microenterprises being exempted from audit. The public at large would also be less protected, as these entities that do business with others, are availing themselves of the limited liability protection granted by statute, yet are not being subject to an independent examination .</p> <p>Further, the Companies Act 2016 has imposed increased liabilities to company directors for failing to prepare adequate financial statements . So, we are concerned that the removal of the audit would result in many more company directors being sanctioned.</p> <p>2. Impact to society by inaccurate tax submissions</p> <p>Recognising the value of an external audit in ensuring accurate tax returns are filed with the Inland Revenue Board (IRB), Section 77A(4) of the Income Tax Act requires tax returns furnished by companies to be based on audited accounts. Therefore, the draft Practice Directive will affect the veracity of tax computations and contravene the Income Tax Act. Audited financial statements also enhance a company's ability to obtain financing . An independent audit, particularly for those with potential to go public, also builds public confidence towards the integrity of financial statements and in nurturing the right corporate behaviour of SMEs.</p> <p>The cost of audit to an entity should not be considered in isolation of the benefits to be derived by that entity. The audit fees for SMEs in Malaysia represent costs which cannot be considered as exorbitant when seen in the context of the turnover earned by Malaysian companies. Proper tax returns, based on audited financial statements could potentially result in more accurate assessment of tax to be paid. SMEs will also have access to independent professional advice as auditors</p>	
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		<p>are able to provide an external view on the entities' risk assessment and internal control systems.</p> <p>3. Impact to the accountancy profession</p> <p>Under the 11th Malaysian Plan (2016-2020), the Government has identified the services sector as the primary driver for economic growth. Small and medium practices are also SMEs in the services sector and the current landscape for audit firms is dominated by 1,281 firms comprising sole proprietorships and 2-partner partnerships (accounting for 91% of total audit firms). These firms generally tend to have high audit concentration , with audit fees forming the largest proportion of their revenue. Presently, these firms employ approximately 14,500 people and are training ground for accountants. Based on our limited survey in November 2015, 78% of respondents stated that they do not have any strategy in place to cope with the possible audit exemption in the future. Of particular concern is that, the limited survey also revealed that if the audit exemption threshold for revenue is set at around RM350,000, 38% of 112 respondents will experience a reduction in audit revenue ranging from 31-100% and 44% of the respondents are expected to experience a reduction of 11-30% in audit revenue. This could have significant detrimental impact on the livelihood and viability of a number of audit practitioners which would need further and more detail survey to assess.</p> <p>To conclude, the MIA is amenable to the proposal for statutory audit exemption to be implemented for dormant companies provided a more considered definition is used similar to the one that MIA proposes in the attached document , in addition to the requirement for official declarations of dormancy .</p> <p>The MIA disagrees with the proposal to extend statutory audit exemption to small companies as it would, in our view, be detrimental to the objectives of developing SMEs, expose more</p>	
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		and not less company directors to sanctions, may impact the accuracy of tax computations and significantly compounds the challenges faced by the accounting profession.	
6.	Tang Seng Choon Head of Audit,BDO	<p>A. Qualifying Criteria for Exemption from Appointing an Auditor - Dormant Companies</p> <p>Paragraphs 3 to 6 of the Draft Practice Directive 1/ 2017</p> <ol style="list-style-type: none"> 1. We support the proposed audit exemption to be provided to dormant companies because this facilitates the efficiency of setting up or commencing businesses via companies in Malaysia. 2. We take note of the definition of a dormant company in paragraph 4 of the draft Practice Directive, and would like to bring to the attention of the SSM that dormant companies at present do record minimum accounting transactions relating to secretarial filings with the SSM and tax filings with the Inland Revenue Board ('IRB'). 3. We believe that it would be a challenge for existing dormant companies to meet the proposed definition of a dormant company, which could run contrary to the intention of the audit exemption. 4. Consequently, we suggest that the SSM revisit the proposed definition of a dormant company based on the following: <ol style="list-style-type: none"> a. Studies of corporate laws on audit exemption applied in other Commonwealth jurisdictions such as the United Kingdom to establish a 'higher threshold' of accounting transactions undertaken by dormant companies . 	Agree to be applied to dormant companies only

- b. Outreach with the Malaysian Institute of Accountants ('MIA') and the Malaysian Institute of Certified Public Accountants ('MICPA') to leverage on both institutes' knowledge of this matter.

B. Qualifying Criteria for Exemption from Appointing an Auditor - Small Companies

Paragraphs 7 to 14 of the Draft Practice Directive 1/2017

1. We do not support the proposed audit exemption for small companies because:
 - a. The cost of conducting audit of small companies in Malaysia based on the proposed thresholds in the draft Practice Directive remains relatively low within the ASEAN region.
 - b. There are numerous benefits arising from the audit of small companies , namely:
 - i. Significant deterrent against fraud or error;
 - ii. Providing credibility to financial statements for the purpose of raising capital;
 - iii. Providing credibility to financial statements for tax filing purposes with the IRB;
 - iv. Providing credibility to financial statements for statutory filing purposes with the SSM;
2. We are concerned with possible unintended consequences arising from small companies that did not initially conduct audits but subsequently needed to conduct audits. The current year audit would not encompass an audit of the comparative information and therefore , reduce the comparability of financial information for

		<p>decision making purposes.</p> <p>3. We are also concerned with the possibility of small inactive companies with asset(s) on the statement of financial position that are measured at historical cost below the threshold specified in the draft Practice Directive but have a fair value significantly above the said threshold. This accounting asymmetry would result in such small inactive companies applying the audit exemption as compared to comparable peers measuring similar asset(s) at fair value and subjected to audit.</p>	
7.	<p>Soo Hoo Khoon Yean Assurance Leader Lee Tuck Heng PricewaterhouseCoopers (PWC)</p>	<p>(1)Dormant companies</p> <p>We support the proposal to provide audit exemption for dormant companies. This will help to reduce costs of doing business in Malaysia and align our practices with those in other countries including Singapore and Hong Kong. Our comment is on the definition of dormant companies in the Draft Practice Directive which we believe should be refined to enhance clarity.</p> <p>The Draft Practice Directive defines companies as dormant when there is no accounting transaction for a period. The Draft Practice Directive refers to an accounting transaction as a transaction, accounting or other record which is required to be kept under the Companies Act 2016.</p> <p>The term "dormant company" appears to be too loosely defined. For example, would any statutory payment by a company be considered as a transaction as such a payment would be recorded as an accounting transaction?</p> <p>Another question is whether a subsidiary of a group or of a public company, which itself is a dormant company is exempted from audit? Paragraph 11 of the Draft Practice Directive proposes that a subsidiary does not qualify for the audit exemption unless the entire group is a "small group"</p>	

albeit the subsidiary itself is a "small company". There is no equivalent guidance for dormant companies. We would like to recommend that all subsidiaries of a public company should not qualify for audit exemption.

(2) Proposed audit exemption of small companies in phases

Taking into consideration the current business environment and the stage of maturity of financial reporting now in Malaysia, we are of the view that small companies should continue to be subjected to audit as an interim measure. The proposed audit exemption of small companies should be introduced upon the successful implementation of the audit exemption of dormant companies and when small companies put in place appropriate infrastructure to produce reliable financial information.

With effect from 1 January 2016, small companies are required to prepare financial statements, for the first time, in accordance with the Malaysian Private Entities Reporting Standard, a standard based on a globally adopted standard – the IFRS for Small and Medium-sized Entities (IFRS for SME) published by the International Accounting Standards Board. Small companies generally do not have in-house professional accountants with an in-depth understanding of accounting principles. Very often, small companies seek advice from the auditors when preparing the financial statements. It is evident that auditors play a significant role to fill the knowledge gap and to assist the directors of small companies towards producing a set of MPERS compliant financial statements. In light of this, we would recommend that at this juncture only dormant companies should be exempted from audit requirements.

With the two-phased implementation approach, small companies should start to assess the readiness and resources needed to prepare a set of MPERS compliant financial statements. For

		<p>example, small companies could consider employing in-house professional accountants or engaging external professional accountants to fill the knowledge gap.</p> <p>In addition, a wide-range of stakeholders see audit as a value-added service and rely on audited financial statements as the main source of reliable information about a company's performance and financial position. Audit provides a reasonable assurance that the financial statements are free from material misstatement and therefore could be relied upon by stakeholders for decision making. For example, audited financial statements are often required by lenders, investors or creditors when small companies seek to raise fund and credits. A set of credible financial statements can help companies to secure external financing and credits from lenders, investors and creditors, which reduces costs of funding.</p> <p>In the absence of an audit requirement, stakeholders may need to seek alternative avenues to access a set of financial statements which are free from material misstatements. Alternative avenues for example ad-hoc audit engagement are inefficient in terms of time and efforts. In addition, it could be costly to the stakeholders and the companies.</p>	
8.	<p>Zabedah</p> <p>Karen Lim</p>	<ol style="list-style-type: none"> 1) If a company qualify for an audit exemption, do the company need to apply for such audit exemption? 2) any fees need to be paid for such audit exemption application? 3) In paragraph 16 of the draft practice directive, could you define the financial statements that need to be lodged to SSM, does it includes the directors reports and statement by directors OR any other documents / format? 	Query
9.	<p>Chin Chin, Lau Director AVICS Tax Consultants Sdn Bhd</p>	<ol style="list-style-type: none"> 1) We welcome the measures introduced by government with regards to the roll out of Audit Exemption i.e. for the first time in the statutory reporting landscape in Malaysia and 	Agree with reservation

		<p>this measure certainly helps a lot of SMEs to reduce the cost of doing business in Malaysia;</p> <p>2) However, we wish to bring to your attention that w.e.f. YA 2014, Income Tax Act 1967 has adopted a reversed gear measure which requires all companies including dormant company to report their chargeable income based on audited accounts, failing which it is an offence for the company.</p> <p>In this regards, even though with the introduction of Audit exemption for SDN BHD by SSM lets say in year 2017, technically it would not achieve the objective of reducing cost of doing business in Malaysia as well as ease the compliance and reporting in Malaysia in view of the above TAX Authority requirements.</p> <p>3) Fyi, Tax authorities has been implementing rigid requirements lately such as dormant company needs to file corporate tax returns, employer returns and not more exemption would be entertained.</p> <p>Hence, as a tax practitioner in Malaysia, we urge the Registrar to initiate a constructive consultation session with the tax authorities on the above matter and hope to bridge the GAP of the proposed "new Audit Exemption" in Malaysia statutory reporting vis to vis with IRB's requirements of having audited accounts . Presence of key representative from Chartered Tax Institute of Malaysia would certainly helps in providing a bridging solution to the above GAP.</p>	
10.	<p>Muhammad Zakwan Bin Abu Hussin SM4U Apparel SDN BHD</p>	<p>I am Muhammad Zakwan Bin Abu Hussin from SM4U Apparel SDN BHD.</p> <p>I have agreed for audit exemption for the Public Consultation of Subsidiary Legislations (Companies Act 2016 [Act 777])</p>	Agree

		Subject number 4 draft practice directive (audit exemption)	
11.	<p>Lois Tang Tax Director 3E ACCOUNTING PLT</p>	<p>Firstly, we welcome the SSM's direction in providing audit exemption on certain categories of companies. Although the current mandatory audit requirement is perceived to better improve the business potential for audit firms that primarily service the private limited companies in Malaysia. However, as for the private limited companies, the audit fee incurred could be a financial burden to them, especially when they are small private limited companies. Besides, many of their financial statement users may not benefit from having the audited financial statements as well. As a result, the mandatory audit requirement may be treated as a waste of companies' resources to the smaller companies.</p> <p>It was noted in the practice directive that a company that is a small company shall be exempt from audit requirement and the quantitative qualifying criteria are as follows:-</p> <p>(i) the revenue of the company for each financial year does not exceed RM300,000;</p> <p>(ii) the value of the company's total assets at the end of each financial year does not exceed RM500,000;</p> <p>(iii) it has at the end of each financial year not more than 5 employees.</p> <p>We are of the opinion that the thresholds above are too low as most of the small companies in Malaysia are still earning revenue of more than RM300,000, having more than 5 employees and total assets of more than RM500,000. In this respect, they would not be able to entitle and enjoy the audit exemption, which is intended to help reduce regulatory costs for small companies.</p> <p>Further, as compared to our neighboring country of Singapore, Singapore's quantitative criteria for definition of small company are</p>	Disagree

		<p>much higher even before considering the currency exchange as below:-</p> <p>(i) total annual revenue \leq \$10million;</p> <p>(ii) total assets \leq \$10million;</p> <p>(iii) no. of employees \leq 50.</p> <p>Hence, to be able to help more smaller companies in reducing their compliance costs as well as to increase the competitiveness of doing business in Malaysia, the quantitative criteria can be increased to reduce the gap between Malaysia and Singapore, which will help in attracting more foreign investors to do business in Malaysia. As a starting point, a total revenue / total assets of RM1million or less / 10 employees may be considered.</p> <p>Besides, it was also noted that a dormant company shall only be exempt from audit requirements if it has been dormant for three consecutive financial years. This may not seem favorable as it does not help reduce the compliance cost for dormant company and most of the time dormant companies may find it difficult to fund the audit cost as they have already ceased operations.</p>	
12.	<p>SOONG KIT KONG JULIAN Partner Soong & Associates</p>	<p>I am not entirely in agreement with the audit exemption for private companies. i do agree that audit exemption should be made for dormant companies which have yet to commence operations since incorporation. However once they commence operations that company should be subject to audit.</p> <p>If you were to impose a threshold based on revenue, then the directors/shareholders would be encouraged to incorporate more companies just to spread out their revenue over the new companies to escape that threshold for audit and even the requirements for GST reporting. The costs of maintaining such companies are significantly lower without audit fees and simply encourages the</p>	<p>Agree to be applicable to dormant companies only</p>

		<p>directors/shareholders to evade audit, GST and even tax obligations.</p> <p>When GST was implemented, numerous clients have sought my opinion on the incorporation of multiple companies to escape GST reporting and I have advised them on compliance as the penalties of non compliance were just too great. However should audit exemption apply to companies which don't reach a certain threshold, then I am afraid I and other practitioners would be powerless to prevent such a scenario from occurring.</p>	
13.	Chong Yoke Ling MIA member	<p>I personally view that the proposal for audit exemption for private company is a good idea however i would like to share some on my ideas and hopefully there is some amendment on it.</p> <p>1. Refer to 3 (b). - Shall i propose to change from "3" consecutive financial years to "2"consecutive financial year. It can save the cost for the dormant company. For 3rd financial year, it is proposed that the company is strike out under s 550.</p> <p>2. Refer 10 (b) (i) - Shall i propose to increase the turnover < RM500,000 which is tally with the turnover threshold - GST. It is simple to monitor.</p> <p>3. Refer 10 (b) (ii) - Abolish the criteria of total value company assets <RM500,000. this criteria look useless, if the company is small or dormant , i can't imagine this company has such high value asset. No need to set up this criteria</p> <p>In conclusion, 2 out of 3 criteria are agreed with me - Paragraph 10 (b)</p>	Agree with proposed amendments

<p>14.</p>	<p>TanJK J. K. Tan & Co (AF-002116)</p>	<p>1) Saya setuju kriteria dormant sahaja exempted from audit.</p> <p>2) Small company definition, not inline with Income Tax S77A required submission of Form C based on audited accounts.</p> <p>On the threshold: - Revenue not exceeding RM300,000 & Total assets not exceeding RM500,000, end of financial year not more than 5 employees. a) I find the definition is inconsistent for investment holding company, may hold any property, but not rented out, will be exempted from audit; whereas, a IHC with rental income exceeding RM300,000 still need to be audit.</p> <p>b) employees of less than 5 employees refer to full time or part time, include foreign workers or directors?</p> <p>3) Sekiranya guna pakai compilation report like Singapore, suggest hanya boleh prepare by firm licensed under the Accountant Act 1967 to elak sesiapa sahaja boleh prepare compilation report.</p>	<p>Agree to be applicable to dormant companies only.</p> <p>Proposal on the threshold</p>
<p>15.</p>	<p>John</p>	<p>In reference to the above Practice Directive, it is in my view that the below criteria be revised as follows:-</p> <p>10. A company qualifies as a small company in a financial year if:</p> <p>(a) it is a private company throughout the financial year; and (b) it satisfies any 2 of the following criteria for each of the 2 financial years immediately preceding the financial year:</p> <p>(i) the revenue of the company for each financial year does not exceed RM100,000; (ii) the value of the company's total assets at the end of each financial year does Not exceed RM300,000; (iii) it has at the end of each financial year not more than 2 employees.</p>	<p>Agree with proposed amendments</p>

		<p>With regards to the profession, the recommended threshold will see many auditors and accountants going out of jobs. According to Financial Reporting Council's (2013) report in the UK, Key Facts and Trends in Accountancy Profession, the number of the registered audit firms saw a huge decline because the number dropped to a low of 7,293 in 2012 compared to 8,099 in 2008. Such a drop is not only affecting the firms but also individuals in this profession as less number of companies to be audited means less amount of work out in the market and hence forcing people to be retrenched or resign. And during all this commotion, people would not like to work for less money for the services they offer hence the best talent will go down the drain.</p> <p>Increase in audit exemption threshold means more companies dropping out for no audit, which in turn leads to quality concerns. People tend to invest in companies with fair audit done on and if a company is not have had an audit, it puts a question mark on their credibility and also if the information they provide about their financial statements, performance or anything else is true. No audit puts a bad credit rating resulting in banks investigating more before sanctioning a loan or insuring a debt. This in turn affects the business in a way that the management has to work other ways to raise finances for trade and purchases.</p> <p>After careful analysis, in my opinion, I think audit exemption threshold should revised as mentioned above.</p>	
16.	John Ong Contraves Group of Companies	In relation to the above proposal being considered by SSM to exempt private companies meeting certain criteria from audit requirements, on behalf of Contraves Group of Companies, we have no comments for the draft directive or to implement the proposal.	Agree
17.	Chang Vun Lung	1. Implementation of this audit exemption practice should implement in three phases. For example, the first phase audit exemption should apply to dormant company with nil	Agree with recommendations

		<p>revenue and newly incorporated entity after the effective date of this practice.</p> <p>Secondly, then the audit exemption will be apply to all dormant entity of which this will give enough time for those old dormant company to clear up the account up to date and get it audited for this new audit exemption apply. (I believe there are still many dormant entities which is still not updated their account for submission to SSM. And as I am sure pupil will get confuse with this new practice and try to take advantage with the thinking that all previously unaudited entity for many years can use this guideline as a reason for not audited and/or not submit their report. This will hinder the authorities efforts to encourage entity to submit their report on time and more queries for submission of docs to authorities will increase the workload for SSM for sure.)</p> <p>Third phase, this is the time whereby the small company concept for audit exemption shall be apply.</p> <p>2. Should the audit exemption apply then does the entity still need to submit at least a management report prepare by the directors of the company? I think in Singapore they call it compilation report. What is the requirement for compilation report also need to be spell out.</p> <p>3. Will the audited exemption entity contravene income tax act Malaysia as without the audit report then how it gonna submit the income tax return to LHDN? To my knowledge, it is the requirement to submit the income tax return based on the audited report only. Please clarify.</p> <p>4. Lastly, please consider this effective date of this proposal to be at beginning of the calendar year such as 1 Jan 2017/18/19 as majority of the entity having the year end on Dec. So this will ease the administration part of this proposal plus easy to remember.</p>	
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18.	Kong San Hoe	<p>In my opinion, all of the paragraphs are reasonable except paragraph 10(b)(I);</p> <p>I suggest</p> <p>10(b)(I) the revenue of the company for each financial year does not exceed RM 500,000.</p> <p>This is consistent with GST threshold requirement so that a small company will be exempted from audit as well as registration of GST too.</p>	Agree with recommendation
19.	Laychee, Tan	<p>For Audit Exemption Company, I think it should only apply to Dormant companies, it means companies haven't commenced business before OR companies without any revenue. As from my point of view, those companies with revenue or business transaction will need to be audited as to give assurance to public/authority it is reliable and fair.</p> <p>Besides, if as per Proposed Practice Directive 1/2017 on Audit Exemption, will it contradict to IRB requirement.</p> <p>However, this is my point of view and hopefully SSM will look into this as it will affect our Malaysia Accounting.</p>	Agree to be applicable to dormant companies only
20.	Norine Abdul Rahman	<p>draft yang dikemukakan oleh SSM mengenai pengecualian audit Dormant akan memberi kesan yang amat buruk kepada organisasi saya kerana saya adalah satu organisasi yang kecil yang bergantung kepada Syarikat sdn berhad yang dormant dan kecil semata. dengan pelaksanaan undang-undang baru ini akan mengakibatkan pendapatan saya terjejas dan mungkin terpaksa menutup organisasi saya. ianya bukan sahaja menjejaskan saya secara individu namun juga 2 orang pekerja saya secara keseluruhannya.</p>	Disagree

		Diharap pihak tuan dapat mempertimbangkan draft tersebut bagi membela nasib industri kecil seperti kami	
21.	howyong@icloud.com	<p>I believe that the SMEs in Malaysia in the past 30 years stand a chance to grow & expand largely due to the financing supports by the banks in this country, and the financial statements of the SMEs which are AUDITED played a significant role in the banks' approval of the loans to the SMEs. It is utmost important that SMEs in this country continue to enjoy this positive environment and therefore I suggest that audit exemption should be applicable to Dormant Company only.</p> <p>As a tax agent myself, I can say from experience that companies with audit and companies without audit (sole proprietor & partnership), make a big different in term of taxation compliance. I believe exempting audit of active Sdn Bhd will not encourage taxation compliance but the other way round.</p>	Agree to be applicable to dormant companies only
22.	LC Chee (Ms) Chai Heng Plastic Mfg (M) Sdn Bhd	<p>It's greatly supported by most of the SME in my view, including myself.</p> <p>The main reason behind this is the increment of audit fees is unreasonable high and the responsibility at the end still fall on the employer. Some of the auditor didn't even perform their job properly with getting very high audit fees by just issuing an audit report.</p> <p>In relation to the reliability of the un-audited report to be submitted to SSM, it'll reviewed by tax agent on the tax submission and might still fall into the audit from IRB at anyhow. Sincerely hope that SSM can pass this proposal to ease the burden of the company on the economy environment.</p>	Agree
23.	Lim Jit Kiow Practising Auditor	<p><u>MY STAND</u></p> <p>Only dormant companies should be exempted from audit. Dormant company means a company only incurring expenses like secretarial</p>	Agree to be applicable to dormant companies only

fee, tax fee, accounting fee and some other small miscellaneous expenses.

MY REASONING

1. From my 20 years experience in auditing, companies with RM 300,000 revenue and below or total assets less than RM 500,000 usually employ a clerk who does everything from making coffee to drawing up the accounts of the company. This clerk is usually an SPM leaver with little knowledge of accounting. Not being conversant in Accounting Standards, this clerk tends to make a lot of accounting entries that do not comply with Approved Accounting Standards. As a result we as Auditors will come in to help this company to rectify all the non-compliance issues when it is being audited.

This is my personal and real experience. I feel that had this set of accounts not been audited by us it can never be filed with ROC nor LHDN as it contains many errors and non-compliance issues. As such I strongly feel that such companies should still be audited to give stakeholders of such companies confidence in the quality of their accounts.

2. I know that other countries like Singapore, Australia, UK etc are practicing audit exemption for small companies. These countries are the developed countries whereas Malaysia is still a developing country. Hence we should not follow blindly what other countries are doing. We are of different socio economic status from these countries eg education and level of awareness of laws and compliance. Many things are unique in Malaysia hence we cannot apply things that other countries are doing simply because it is a trend to follow others.

3. The cost of an audit is a small percentage of the total expenditure of a company. Most of the companies can easily afford the audit fee

		<p>4. Having an audit for small companies is equivalent to educating the company directors, shareholders and staff on the importance of compliance with the relevant laws and regulations and standards. Appreciation of the existence of laws and regulations for the ignorant will be greatly enhanced.</p> <p>5. Benefits vs cost- as pointed out in point 3 above the benefits of having an audit for small companies far exceed the cost.</p> <p>6. Consistency in the quality of the yearly accounts will be maintained if it was audited every year. Imagine if the accounts was audited in year 1, exempted from audit in year 2 and audited again in year 3 and so on. There will be no consistency in its quality.</p> <p>7. Tax leakage may be reduced greatly if the accounts are audited because the directors will think twice before doing something "funny" as the accounts would have to be audited by the Auditors.</p> <p><u>CONCLUSION</u> Due to the many reasons above I strongly advocate that audit exemption should only apply to DORMANT COMPANIES.</p>	
24.	Kho Sy	<p>I appreciate if the authority can consider to increase the threshold of</p> <p>1. Turnover from RM300,000 to RM500,000 (same as GST compulsory registration threshold, easier for businessman to remember). I believe businessman prefer a consistency threshold level and easier for them to make decision.</p> <p>2. Total assets threshold from RM500,000 to RM5,000,000 as RM500,000 is very easy to reach. For example, the minimum authorised capital for a SDN BHD is RM400,000, if the Company has fully issued and paid-up all its authorised capital, it is easily to reach RM500,000 (Dr Bank RM400,000 Cr Share Capital RM400,000) before including OTHER ASSETS.</p>	Agree with recommendation

		<p>For example, a shophouse in current market already cost RM1,000,000 & above. So, for a trading company who own existing shophouse for trading purpose, the total assets before including stocks already more than RM500,000. That means this SME also can't fit to the condition and cannot enjoy cost saving from audit exemption.</p> <p>3. To increase number of employee from 5 to 50. Some SME company the scale is not big but they rely on manpower to run business. So, it is irrelastic and unlikely for SME in service and manufacturing industry to be exempted from audit.</p> <p>From my observation if the exemption criteria is based conditions mentioned in the draft, the exemption benefit may not cover the majority SME in the market (and yet this is the major component in Malaysia economic) but bringing additional troublesome to the businessman when making decision as the threshold of those criteria are "hanging in the middle".</p> <p>Furthermore, have you consider the implication / impact for those SME may be 1 year need audit, 2nd year no need audit & 3rd year need audit again. In this case, how can an investor / user of financial statements can rely on the financial information of the SME especially the bankers and investors from overseas.</p> <p>Implementation of audit exemption is good to the SME if it can meet the mission of COST SAVING. I sincerely hope that the authority can consider deeply when setting the threshold.</p>	
25.	Lim Tiew Fang	<p>FOR PARA 10. YOU MAY HAVE TO INCLUDE SUB- PARA (IV) It does not have at the end of the financial year any sum due to any financial bodies. (reason: Bank may insist on accounts to be audited)</p> <p>FOR SUB-PARA (B) YOU MAY HAVE TO CHANGE TO AS FOLLOWS:</p>	Proposed amendment

		<p>It satisfies all the following criteria for each of the 2 financial years immediately preceding the financial year. (reason: Sometime, a company may satisfy two of the criteria but the total assets may be in million ringgits because it is planning for future development.</p> <p>Revenue : nil for two years Employee : less than 5. but the total assets come up to 2,000,000 like land cost for development and infrastural cost.</p> <p>Please take into consideration the above suggestions.</p>	
26.	Too & Co.	<p>In my view, there is no need to have audit exemption as some irregularities can happen by using dormant company to transact.</p> <p>A compilation engagement is still needed even if it is dormant company, and the cost can be somehow not much different from getting the financial statements audited.</p> <p>Getting audit exemption will worsen the quality of financial statements and we are moving towards MPERS, the cost of preparing the financial statements is also expected, and this is usually done by auditors, even without audit exemption.</p>	Disagree
27.	Eric Tong Partner of Tong & Associates	<p>Firstly we welcome the action taken by the relevant authority for the Audit Exemption of Private Companies. This exemption would reduce the operating cost of the relevant Private Companies which are known as Dormant Companies or Small Companies.</p> <p>On the other hand, as a Practitioner, I totally agree that the that Dormant Companies should be exempted however, I would have reservation on the Small Companies.</p> <p>1) Most of the Small Companies in Malaysia are owned by Entrepreneurs who have minimum knowledge of preparation of</p>	Agree with reservations

		<p>accounts and there are many unqualified persons who are helping companies to prepare their management accounts and the management fully rely on the work of the unqualified persons.</p> <p>A form of independent verification on the management accounts would ensure a proper presentation and reliability of the financial information in the management accounts. This would also provide comfort to the tax agent in their reliance of the audited financial statements.</p> <p>2) The Small Companies are required to submit their financial statements although they are exempted from audit. Financial statements include statement of financial position, statement of profit or loss and other comprehensive income, statement of cash flow and supplementary notes.</p> <p>The management accounts normally prepared by the management does not comply with preparation of financial statements under MPERS or MFRS and somehow or rather, the preparation of financial statements would need an experienced auditors to review the financial statements to ensure it is prepared in accordance with MPERS or MFRS.</p> <p>As such, we hope that the audit of Small Companies are not exempted or if it were to be exempted, there should be a review by the Approved Company Auditors which provide a limited assurance on the financial statements.</p> <p>3) The audit of Small Companies is a good training for fresh graduates. The fresh graduates have paper qualification but they do not have experience in auditing and some of them don't even remember what is double entries.</p> <p>Audit of Small Companies provide a good training to fresh graduates to jump start their career in the accounting world. This simple audit would allow them to have an overview of what is audit</p>	
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from A to Z before they are involved in any audit of bigger companies.

The audit of Small Companies would let the fresh graduates to have a good feel of what is a financial statements and audit. It also provide a basic training to their accounting skills.

This would also help Malaysia in reducing the shortage of accountants unless the profession would only wish to produce paper qualified accountants rather than trained accountants.

Malaysia needs 60,000 accountants by 2020.

<http://www.nst.com.my/news/2015/09/malaysia-needs-60000-accountants-2020>

PNB to produce more bumiputera professional accountants.

<http://www.theborneopost.com/2016/10/27/pnb-inks-deal-to-produce-more-bumiputera-professional-accountants/>

4) In term of the impact to my practice, my revenue would drop by 30% to 40%.

The audit exemption of Small Companies would stop us from recruiting new staffs of which we did due to audit exemption.

Our practice is not that big, we have total of 6 permanent staffs and 2 trainees. Looking into the trend, we may need to reduce permanent staff and recruit more trainees to cut cost since the revenue drop.

For your information, the permanent staffs that we recruited do not have good grades in their result but they have a very good attitude towards work and respect. They could not obtain any work/employment before joining us because they are not even shortlisted for interview due to their poor results.

Sadly, we would not have the ability to keep them or promote them in near future due to the threat of audit exemption.

		<p>The above are our comments on the Audit Exemption and we hope that our comments would help for the betterment of the profession and young Malaysian.</p>	
28.	<p>Fong Chi Yew</p>	<p>From the perspective of a Chartered Accountant and members of the public, I do not agree with the proposed Audit Exemption in the Practice Directive 112017. For the following reasons:</p> <ol style="list-style-type: none"> 1. Audit necessitates the need to prepare proper accounts <p>Businesses which are not required to be audited tend to be the ones which may not keep or prepare proper books of accounts. Given the current state of the Malaysian economy and the local environment, we are of the view that the only way to compel companies to keep proper books of accounts is by way of an annual audit, especially given the limited liability protection granted by statute. An attestation by directors to keep proper books of accounts provides a significantly lower level of assurance as compared to audited financial statements. They will also have to pay more to tax agents as the tax agent will have to demand more information and check for things to get a similar level of comfort as before. Hence, the tax compliance fee will likely go up.</p> <ol style="list-style-type: none"> 2. Audit is a major deterrent against fraud, money laundering, and other illegal activities <p>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 oversight. Without a statutory audit, the risk of misleading financial statements being filed will increase.</p> <ol style="list-style-type: none"> 3. Audit improve the credibility of businesses 	

		<p>For small businesses, it is often not possible to borrow funds without audited financial statements, while for larger companies, the auditor's work also facilitates the process of raising capital in the financial markets. Without the comfort of an audit opinion, lenders (financial and institutional) take on more risk when lending and are thereby being more selective in lending, compelled to raise financing costs, and investors will similarly recognize more investment risk and thereby raise the required rates of return, which will be counterproductive for SMEs.</p> <p>4. Negative consequences to the Government regulatory bodies</p> <p><u>Suruhanjaya Syarikat Malaysia (SSM)</u></p> <p>The exemption of audit will lead to a situation where the integrity of financial information in unaudited financial statements filed with SSM become questionable. Without audit, the information and quality of financial statements submitted and quality of information provided to customers of SSM will decline. Consequently, this may result in the increase of monitoring, compliance and enforcement cost to SSM.</p> <p>Inland Revenue Board (IRB) Malaysia and the Royal Malaysian Customs (RMC)</p> <p>In the absence of an audit, there is a likelihood that more inaccurate tax returns will be filed and more penalties will be meted out. Thus, resulting in more costs incurred by the businesses, IRB and RMC to rectify the incorrect returns as well as additional enforcement costs.</p> <p>5. Incapability of Company Directors to prepare updated and accurate financial statements</p>	
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		<p>Due to the ever changing accounting standards domestically and globally, it is questionable that the Company Directors possess sufficient and relevant knowledge on the accounting standards to prepare for the financial statements to be lodged with the SSM.</p> <p>Moreover, for businesses that are exempted from the statutory audit, the Directors will highly likely be appointing not qualified accountants to prepare the financial statements in order to save costs. Hence, probably resulting in a lower quality financial statements prepared.</p> <p>6. Privilege limited liability and integrity of the businesses</p> <p>Currently, 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. Whilst many small private companies may be owner-managed, this does not negate the fact that there are other stakeholders with an interest in the audited accounts such as government agencies, financial institutions, suppliers, customers, employees, and the general public. An audit can be considered to be a service to the public at large and it is a cost for the limited liability protection that a company enjoys. The limited liability privilege should come with accountability and the requirement for an independent examination.</p> <p>Furthermore, the proposed threshold for Audit Exemption is subject to manipulation by the Businesses to escape from Auditing. Revenue, total assets and/or employee numbers may appear to be obvious threshold criteria for audit exemption. However, subjectivity and loopholes abound if the exemption system is built upon such threshold criteria. For example,</p>	
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		<p>companies would move on-to and out-of the threshold levels. Loopholes in such a 'threshold' model may also be exploited where companies may simply structure their operations through second or third entities to ensure each entity is below the threshold level. This also includes dormant companies, as Company Directors may fraudulently hiding accounting transactions to be exempted from Audit.</p> <p>7. Audit Exemption encourage incorporating more dormant companies, which has no benefits to the business and society in Malaysia</p> <p>No doubt the Audit Exemption on dormant companies will results in high costs saving on dormant companies, as these companies' major cost consists of compliance costs (i.e. Audit fee, Tax agent fee, Company Secretary fee and Filing fee). However, the negative consequence is, it encourages more dormant companies to be incorporated, and remained inactive thereafter. This might due to reasons such as, insufficient consideration made before incorporating a company due to low compliance costs, or, having to incorporate the company merely for re-sale purpose after a few years. This will eventually, resulting in high number of inactive companies in Malaysia and it is not beneficial to the business and society in Malaysia, similar to the high number of inactive sole-proprietor that maintained by SSM currently.</p> <p>Also, in my view, the business environment in Malaysia is still developing and SMEs generally do not or are not able to hire qualified accountants to handle the accounting and fmance functions. We must also consider the current maturity level of financial reporting knowledge of SMEs; i.e. whether they are ready for audit exemption. The issue of cost savings may not be applicable in the Malaysian context. The audit fee for SMEs</p>	
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		<p>in Malaysia represents a cost which cannot be considered as exorbitant when seen in the context of turnover earned by Malaysian companies.</p> <p>Hence, I do NOT AGREEED on the proposed Audit Exemption in the Practice Directive 1/2017 to be implemented.</p>	
29.	Ms. Ong Yoke Mei	<p>As for your information, before we can act as a practitioner we have to struggle and put in a lot of effort to gain our qualification and go through a tough and challenging interview to obtain this " valuable audit licence" . Thus the drastic change for the implementation of this audit exemption (2 out of the 3 condition have to meet) definitely affect the small medium size audit firm (like us) in terms of surviving and confident to pursue our so call "business" in our practice. Since the condition set out for the audit exemption is almost range from 20% to 30% of most of the small size audit firms' clients base.</p> <p>Besides that, by enforcement of this audit exemption it might give rise to complication and not cost justifiable in carry out the audit field work. For instance, if a client qualify for the audit exemption but for example, later 3 years down the road this client no longer qualify for the audit exemption. So we act as an auditor how to carry out the audit field work ? Have to start all over again to audit the client ? Since we can't obtain a reliable information and figure (opening balance) to produce a reliable financial statement.</p> <p>In this modern and advance world, the relevant authorities such as accounting standard board, Inland revenue department and etc. keep on working together to update, to accommodate and to meet the world changes in order to assist the public to provide a more transparent and integrity financial statement so that the public can work hand in hand with the government to boost the economy of the country.</p>	Agree to be applicable to dormant companies only.

		<p>Thus the audit exemption condition set out such as : Turnover less than RM300,000.00, gross assets less than RM500,000.00 and or less than 5 employees. This kind of condition is exactly for those business man which are in the process of develop their business which need the fund to expand their business and most of them without a good knowledge in the accounting standards. Therefore, it is a need for their financial statement to be audited to help them to have a better understanding of their financial position and the audited financial statement is also a requirement document request by the banker to approved for any banking facilities to the business man.</p> <p>I strongly hope that the relevant authorities should re-consider not to set out such conditions for the audit exemption or might set only those dormant company totally not commence business operation since its incorporation to qualify for the audit exemption.</p> <p>Lastly, I deeply hope that to safeguard the accounting standard by having an integrity of the financial statement provided by the small size business man and the surviving of the small size audit firm should be the priority factor to consider before the implementation of the audit exemption to put forward.</p>	
30.	Florence Heng	<p>As a SME audit practitioner, audit exemption is no doubt a practical move for companies who are dormant, having no transactions for years, as mentioned in PARA 3 of the PRACTICE DIRECTIVE 1/2017 -A company shall be exempt from audit requirements if: -</p> <p>(a) it has been dormant from the time of its formation; or 2 (b) it has been dormant for three consecutive financial years.</p> <p>However, I do not agree with audit exemptions which are proposed on "small companies". As per the proposed PRACTICE DIRECTIVE 1/2017,definition of small companies:</p>	Disagree

		<p>(i) the revenue of the company for each financial year does not exceed RM300,000; (ii) the value of the company's total assets at the end of each financial year does not exceed RM500,000; (iii) it has at the end of each financial year not more than 5 employees.</p> <p>For a SME company in Malaysia, the above position are very common, especially for those investment holding companies which hold property worth millions can easily fulfill criteria (b)(i) and (b) (iii).</p> <p>On another situation, a private company planning for expansion, with few employees, low value of assets but with high turnover, i.e. is active, may need expansions and when they obtain financing, financial institutions may require for audited reports. Does it mean they need to get their accounts audited for those years which were not audited due to its "small company" status? In the event if previous years are not required to be audited, as an auditor we will never be comfortable to issue an audit opinion on accounts not previously audited.</p> <p>Therefore, my opinion is, yes, audit exemption is good to reduce the cost of maintaining a Sdn. Bhd. which is dormant but not practical for a company which is in operation. It can contribute to higher risks of "creative accounting" and discourage corporate governance of small companies.</p> <p>I hope SSM will consider my opinion.</p>	
31.	Kongyang Teng	<p>1. Audit exemption on dormant companies: I agreed with that!</p> <p>2. Audit exemption on small companies: The SME companies might need to incur more compliance costs for doing backward audit jobs if they need to finance. (normally banks require three years' audited reports). Also, some of the companies still have different separate parties.</p>	Agree

32.	<p>CY Koa (Mr) – Partner <i>CY MANAGEMENT SERVICES</i></p>	<p>Regarding the above-mentioned matter, I have understood that basically there are 2 categories of companies will be exempted from audit which are Dormant Companies and Small Companies (some quantitative criteria applied). As such, I would like to share my humble opinion as follows:</p> <p>For dormant companies, I share the same opinion with SSM that dormant companies should be exempted from audit as the audit doesn't serve any much value added element for the dormant companies.</p> <p>For small companies, I personally think they should not be exempted from audit and there are few reason as follows:</p> <p>1) small companies' shareholders might not be the directors - there are still many companies' shareholders are not the directors and hence, their benefits and rights cannot be protected if no external audit is involved.</p> <p>2) Difficult to perform audit for the past records - For some small companies being requested by Bank for an audit if they apply for loan, external auditors will certainly face a huge challenge to perform audit work for the past years records. For e.g, if a company's first 3 years account is exempted from audit but now requested by Bank for an audit on 4th year, auditor will have difficulty on retrieving the past 3 years record.</p> <p>These are my personal experience and thoughts and I hope my information is useful in your assessment and appraisal.</p>	<p>Agree to be applicable to dormant companies only</p>

33.	<p>J.S.Heng</p>  <p>J. S. HENG & CO. 邢詒全會計公司 Chartered Accountants (Malaysia) (AF-0300)</p>	<p>I am on the same side as SSM on the matter of audit exemption on dormant companies. However, as for audit exemption on small companies which has transactions, I do not think it is of the benefit of the stakeholders of the company not having their accounts audited. This has an implications on the credibility of the accounts to various government agencies such as income tax department as unaudited accounts will have higher risk of misrepresentations and even fraud.</p> <p>Hence, I would suggest that audit exemption only applicable to dormant companies.</p> <p>I hope SSM will consider my opinion</p>	Agree to be applicable to dormant companies only
34.	<p>Leong Yip Ong & Co.</p>	<p>We would like to highlight our opinion for the Audit Exemption, that we strongly opposed the Audit Exemption to the "Small Companies",</p> <p>Reasons why we opposed :</p> <p>1) <u>Impact to our firm</u> Being a Small and Medium Practice Audit Firm, the proposed audit exemption for Small Company will significantly impact to our firm's income base, and it is highly possible that the firm may need to lay off some staffs due to over staffed in audit division.</p> <p>Impact on the firm's income: 40% of the total audit fee income</p> <p>Job redundancy: At least 6 staffs of our firm could be retrenched</p>	Agree to be applicable to dormant companies only

		<p>Our firms have provided training to these audit staffs on the technical skills for many years, if these audit staffs being retrench or re-allocate for other job, it will be significant wastage to our resources and effort to train them for all these years.</p> <p>2) <u>Impact to the quality of the client's account</u></p> <p>If the small companies were being audit exempted, it will caused uncertainty to the quality of the accounts being used in the market</p> <p>It will be unfair to the users of the financial statements if they needed to rely on the unaudited account to do certain judgement, which caused significant uncertainty to the users.</p> <p>Although users could appoint accountant to carry out due diligence review on the unaudited accounts, but it will still cause significant difficulties for the accountants to carry out the due diligence review, such as they may have no legal right to access to all documents of the company,</p> <p>Furthermore, it is very difficult to do opening balance checking for the account which has been unaudited for many years.</p>	
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35.	Choo Min Lee M. L. Choo & Co.	<p>TO : CHIEF EXECUTIVE OFFICER, SSM</p> <p>I, Choo Min Lee (IC No. 671228-71-5000), am a Certified Public Accountant and a MIA member. I am operating my firm, M. L. Choo & Co. providing audit, tax and consultancy services. I refer to the invitation by SSM for comments by MIA members on its Practice Directive 1/2017 on Criteria for audit exemption for private companies and would like to comment as follows :</p> <p>1. Dormant Companies - I agreed that only Dormant Companies should be exempted from the requirement to be audited.</p> <p>2. Small Companies - I do not agreed that 'Small Companies' be exempted from the requirement to be audited due to the following reasons :</p> <p>(i) There are companies which may meet 2 out of the 3 criteria ie, having total assets not more than RM500,000 and not more than 5 employees but derive high revenue of more than RM300,000 for example companies involved in online business activities. These companies do not need to own huge assets nor employ many employees, however their revenue earned from conducting online business activities can be very high. These companies do not fit to be classified as 'Small Companies' and should not exempted from the requirement to be audited.</p> <p>(ii) Audit requirement promotes good governance by companies such that they are required to maintain proper accounting records so as to enable them to be audited on yearly basis.</p> <p>(iii) An audit will also deter or reduce incidence of fraud by management of companies knowing that they will be subjected to audit.</p>	Agree to be applicable to dormant companies only
36.	Lee Chee Boon (MIA 34423)	1) As a MIA member, I fully support the Institute's view of limiting the proposal of audit exemption to dormant companies only.	Agree

		<p>2) However, if SSM is determined to extend the audit exemption to small company which is defined in the Draft Directive1/2017, i have the comments and views on the following criteria:-</p> <ul style="list-style-type: none"> a) The value of the company's total assets at the end of each financial year; and b) The number of employees at the end of each financial year. <p>Based on the following reasons, i am of the view that the value of the company's total assets should be much lower than RM500,000, and the number of staff as at year end should not be included in the criteria.</p> <ul style="list-style-type: none"> a) For some industries (eg. services rendered company), they have high value and large number of transactions for the year, however they may not have the high value of total assets at the end of financial year. b) Due to advancement of technology and also globalization, outsourcing services are becoming more popular, even companies that may be big and highly active, may just employ limited number of employees. Therefore, I am of the view that number of employee is not directly related to the size of company. <p>Lastly, I am of the view that if SSM is really determined to extend the audit exemption to small company, the criteria for determining the small company should only be the value of sales which is more relevant to the size of company.</p>	
37.	Mohd Fazuwar Mat Saaidin	<p>In my opinion, audit exemption shall only be applied to dormant companies as defined by the proposed directive i.e:-</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>A company shall be exempt from audit requirements if:-</p> <ul style="list-style-type: none"> (a) it has been dormant from the time of its formation; or (b) it has been dormant for three consecut </div>	Agree to be applicable to dormant companies only

		<p>My objection are due to the following reasons:-</p> <p>1. The exemption on 'Small Companies' will increase their cost of doing business</p> <p>The objective of audit exemption is to reduce the cost of doing business in Malaysia.</p> <p>In current practice, the accounting fee and audit fee charges by accounting practitioners are very- very low i.e. in the average of RM1,200 per year for accounting fee and RM1,000 per year for audit fee (for a really 'small companies'.</p> <p>The companies themselves struggling to pay the accounting and audit fees in which only on yearly basis.</p> <p>Now, with the exemption, the companies have to find a 'proper' accountants to look into their accounting matters especially to comply to the newly adopted Malaysian Private Entities Reporting Standards (MPERS).</p> <p>To hire an accountants as defined under the Accountants Act 1967, the companies will have to suffer a monthly payroll expenses for example RM3,000 per month and equivalent to RM36,000 per year and compared to only RM2,200 per year for the current practices.</p> <p>2. Huge numbers of 'Small Companies' in risk areas</p> <p>Huge numbers of 'small companies' obtaining loans and financial assistance under the SME programmes such as bankers, PUNB, SMIDEC and etc.</p>	
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		<p>The exemption will give rise and opportunities for bogus accountants to manipulate the accounts in accordance to the need of the 'small companies'.</p> <p>3. The exemption on 'Small Companies' will increase bogus accountants</p> <p>Even in current practice, bogus accountants plays their roles and covering under the legitimate audit firms.</p> <p>This resulted to non-compliance in audit satisfactory level in which the bogus accountants preparing audit working papers and get license auditors to sign the audit reports and sometimes don't even have audit files.</p> <p>Their actions giving bad remarks and impression on legitimate accountants and license auditors.</p> <p>4. 'Small Companies' not ready for the introduction of MPERS.</p> <p>The directors and shareholders of the 'Small Companies' not familiar with accounting standards and don't ever heard of MPERS.</p>	
38.	<p>Nik Mohd Hasyudeen Yusoff Inovastra Capital Sdn. Bhd.</p>	<p>I am supportive of the audit exemption as it would assist small companies to manage their cost. At the same time the fees allocated for audit could be used to hire accountants to assist SMEs in their business including to help them to prepare financial statements in compliance with the required accounting standards. The difference is that accountants who are not auditors are not bound by the same independence requirements as required of an auditor. In the event an auditor assists its client in the preparation of financial statements, such act could be a breach of the professional standards which the auditor has to comply. An audit</p>	<p>Agree with recommendation</p>

		<p>performed without compliance with independence standards are of no value.</p> <p>I would like to point to a potential issue in the implementation of this draft practice directive. Para 3 of the Directive exempts a dormant company from the audit requirements. Para 10 on the other hand requires a small company to meet 2 out of the three criteria before being exempt from audit in the preceding 2 years. What would be a situation when a company which is newly incorporated became active immediately and remained within the threshold? I suppose in the spirit of the exemption, it should be exempted from audit until is no longer meets 2 of the 3 criteria.</p> <p>The criteria for exemption are clear and easy to be understood. Without the benefit of detailed statistics on the basis on which the criteria were developed, it appears that they are on the conservative side. I would like to suggest that the turnover criteria is moved to RM 500,000, similar for the threshold used for exemption from GST.</p> <p>Such criteria is also used to provide preferred tax rates for SMEs under the Income Tax Act. The alignment of criteria would make it more consistent with other efforts by other government agencies which deemed SMEs with turnover less than RM 500,000 as those which should be assisted and subjected to less regulation.</p> <p>On the other hand, SSM should also consider to enhance its efforts to ensure auditors meet professional standards expected by the Malaysian Institute of Accountants. Since the first practice review performed by the MIA many years ago until today, audit work reviewed which are classified as Type 3 (which denotes not meeting with MIA own standards) remained as high as 50%. If this percentage is extrapolated across all audit performed on companies, the numbers would be worrying. I would encourage SSM to establish its own quality review framework which would exert pressure on the profession to meet their part of the bargain in ensuring audit reports issued by auditors in Malaysia to be of the</p>	
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		<p>standards required and of high quality. This is the purpose of having companies to be audited in the first place.</p> <p>I would like to offer my congratulations to SSM for this brave efforts and I would like to offer my assistance in whatever ways to make this work.</p>	
39.	<p>Wang Ing Min Ing Wang & Co.</p>	<p>1) As a MIA member, I fully support the Institute's view of limiting the proposal of audit exemption to dormant companies only.</p> <p>2) I do understand that SSM will also ensure that stakeholders' views are heard, hence if audit exemption is also applicable to small company which satisfies any 2 of the criteria stated in the Draft Directive, it is my opinion that number of employees at the end of each financial year should not form one of the criteria as due to advancement of technology, outsourcing services are becoming more popular, even companies that may be active, and engage in high level of transactions may just employ limited number of employees. Does employee include directors? Moreover, in order to fulfill such criteria, there could be high possibility of companies intentionally keeping the number to less than 5 at end of each financial year.</p> <p>Instead, I would propose that amount of total liabilities (including stakeholders' loans and advances) be considered as number iii) of the criteria. For example, the value of the company's total liabilities at the end of each financial year does not exceed RM300,000. This would ensure that those companies with high liabilities (even if not owing to third parties but owing to shareholders) are audited.</p> <p>Hope you can take the above views and comments into consideration.</p>	<p>Agree to be applicable to dormant companies only</p>

40.	Tan Kheng Kheng OK Yau & HowYong	<p>I am agreeable with the exemption given to the dormant companies in order to save the cost of doing business for companies who do not have operation at the moment.</p> <p>However, I am not agreeable with the exemption given to the small companies which satisfy two of the following criteria for each of the two financial years immediately preceding the year :-</p> <p>(i) The revenue of the company of each financial year does not exceed RM300,000; (ii) The value of the company's total asset at the end of each financial year does not exceed RM500,000; (iii) It has at the end of each financial year not more than 5 employees</p> <p>In my opinion, implementation of audit exemption will create a big impact to the small audit firms whose clientele mostly make up of small medium companies.</p> <p>Furthermore, the exemption given contradicts Section 77A, Income Tax Act 1967 in which a company's return furnished to the Director General has to be based on accounts audited by a professional accountant, together with a report made by the said professional accountant in accordance with subsections 174(1) and 174(2) of the Companies Act 1965.</p> <p>I hope my views can be taken as the consideration in the implementation of audit exemption.</p>	Agree to be applicable to dormant companies only
41.	Navarajoh A/P Supramaniam Nava & Associates	<p>Please note that I am a sole practising accountant operating a small audit firm and I like to give my views on proposed "Criteria for Audit exemption for Private Companies" :-</p> <p>Small companies exemption from audit</p> <p>i. I believe most "Small Audit Firms" rely on this group (Small companies as defined by SSM Practice Directive 1/2017) for about</p>	Disagree

		<p>30% of audit firm's revenue , so this directive will significantly reduce our income as well as result in us reducing staff.</p> <p>ii. Threshold set (both of revenue and total assets) is high and SSM has to consider reducing these to nominal amounts.</p> <p>In my experience private companies who fall into this category are not insignificant and can be SME's who enjoy various banking credit facilities.</p> <p>Banks will always require an Auditors Report for even a simple hire purchase facility! Thus by exempting certain "Small Companies" SSM may actually be curtailing their expansion by depriving them of credit facilities .Of course, these "Small Companies" can request for an audit to be done for purpose of obtaining "Audit Report" but this is time consuming and thus not readily available which may cause banks not to approving their request for facility.</p> <p>iii. Current requirement by Inland Revenue that Form C must be filed based on audited financial statements. IRB has not made any distinction between private company sizes and even dormant companies need to adhere to this rule so an audit is still necessary</p> <p>iv. Monitoring by directors is required to ensure that audits are conducted once threshold is exceeded or companies will be fined</p> <p>v. An exempt private company that elects to be exempted from audit still needs to lodge its financial statements with SSM, so isn't an auditor/accountant still required to prepare financial statements in accordance to accounting standards etc, so what purpose does the exemption from audit for "Small Companies" serve?</p> <p>Therefore. kindly review your proposals, so as not to cause hardship to the "Dormant/ Small Companies" as well as audit firms and their staff.</p>	
42.	Jimmy	I not prefer to have audit exemption for Sdn Bdn, reason is:	Disagree

		<p>1: dormant company, if this year dormant and next year active and another year dormant again.</p> <p>2: cannot base on revenue to judge whether need to audit or not need to audit, revenue can up n down huge.</p> <p>I Strongly reject the audit exemption, and wish to maintain the current situation.</p>	
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