

More "Small
Companies" will be
exempt from audit
requirements

Singapore

More small companies will be exempted from having to audit their accounts annually. This exemption is part of the latest amendments in the Companies (Amendment) Act 2014. This move will help reduce compliance costs for at least 30,000 small companies in Singapore which currently do not qualify for audit exemption.

Introducing Concept of a "Small Company"

In order to qualify as a "small company", a company must be a private company that fulfils at least two of the following three quantitative criteria in each of the immediate past two financial years (FYs):

- (a) Total annual revenue of not more than \$10 million;
- (b) Total assets of not more than \$10 million;
- (c) Number of employees of not more than 50

This will replace the current ruling where a company is exempted from auditing its accounts annually only if it is an exempt private company and has an annual revenue of S\$5 million or less.

The intention of this new audit exemption is to reduce regulatory costs for smaller companies that are not expected to have a wide impact to the market based on their operations. **However, existing safeguards will be retained to ensure that the overall compliance environment remains robust. For example, all companies are still required to keep proper accounting records, and shareholders with at least 5% voting rights are empowered to require a company to prepare audited accounts.**

This new criteria for smaller companies is part of the amendments to the Companies Act in a progressive move to address the needs and concerns of a broader group of stakeholders which include customers, employees, creditors etc who may have an interest in the financial statements of a company, other than just its shareholders. This move follows the trends in other countries such as Australia and UK to differentiate the needs in financial reporting.

Transitional Provisions

The transitional provisions are applicable to companies that are incorporated before the date of the commencement of the new "small company" criteria. Such a company can qualify as a "small company" if it is a private company and meets the quantitative criteria in the first or second FY commencing on or after the date of commencement of the "small company" criteria.

A company which has qualified as a "small company" in the first or second FY commencing on or after the date of commencement of the "small company" criteria continues to be a "small company" until it is disqualified as a "small company".

Disqualification would occur if it:

- a) Ceases to be a private company at any time during the FY, or
- b) Does not meet the quantitative criteria for the immediate past two consecutive FYs.

The Accounting and Corporate Regulatory Authority has published certain illustrations to explain the transitional provisions for small companies. These are reproduced below for your reference.

Scenario 1a	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Meets quantitative criteria	✓	✗	✓	✗	✗	✓
Qualifies as a "small company"	✓	✓	✓	✓	✓	✗
Remarks	FY 2015 is the first FY after the commencement of the "small company" criteria. The company qualifies as a "small company" as it is a private company and meets the quantitative criteria in FY 2015.	As the company already qualified as a "small company" in FY 2015, it continues to be a "small company" despite not meeting the quantitative criteria in FY 2016. It will only be disqualified when it fails to meet the quantitative criteria for two consecutive FYs preceding FY 2016.	The company already qualified as a "small company" in FY 2015 and is not disqualified. It is not disqualified as it has only failed to meet the quantitative criteria for one of the two preceding FYs (that is, FY 2016).	As the company already qualified as a "small company" in FY 2015, it continues to be a "small company" despite not meeting the quantitative criteria in the current FY and for one of the two preceding FYs.		Although the company meets the quantitative criteria in the current FY, it is disqualified because it fails to meet the quantitative criteria for two consecutive FYs preceding the current FY (that is, FY 2018 and FY 2019)

Scenario 1b	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Meets quantitative criteria	✗	✓	✓	✗	✗	✓
Qualifies as a "small company"	✗	✓	✓	✓	✓	✗
Remarks	FY 2015 is the first FY after the commencement of the "small company" criteria. The company does not qualify as a "small company" as it does not meet the quantitative criteria in FY 2015.	FY 2016 is the second FY after the commencement of the "small company" criteria. The company qualifies as a "small company" as it is a private company and meets the quantitative criteria in FY 2016 (that is, FY 2015 is not taken into consideration).	The company continues to be a "small company" as it qualified as a "small company" in FY 2016 and is not disqualified. It is not disqualified as it has only failed to meet the quantitative criteria for one of the two preceding FYs.	As the company already qualified as a "small company" in FY 2016, it continues to be a "small company" despite not meeting the quantitative criteria in the current FY. It will only be disqualified when it fails to meet the quantitative criteria for two consecutive FYs preceding the current FY.	As the company already qualified as a "small company" in FY 2016, it continues to be a "small company" despite not meeting the quantitative criteria in the current FY and for one of the two preceding FYs.	Although the company meets the quantitative criteria in the current FY, it is disqualified because it fails to meet the quantitative criteria for two consecutive FYs preceding the current FY (that is, FY 2018 and FY 2019)

(source: ACRA)

As your trusted business advisor, Boardroom Business Solutions is constantly on top of these latest developments that would affect your corporate reporting and compliance needs. Your dedicated Engagement Manager will advise you under the circumstances that your business or company will be impacted by these developments.

Please do not hesitate to reach out to your Boardroom contact for clarification and discussion on these relevant matters.

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