

Small Company audit exemption concept

Effective Date

The audit exemption is applicable for financial years beginning on or after the change in the law (1 Jul 2015).

Qualification Criteria

Currently, a company is exempted from having its accounts audited if it is an exempt private company with annual revenue of \$5 million or less. This approach is being replaced by a new small company concept which will determine exemption from statutory audit. Notably, a company no longer needs to be an exempt private company to be exempted from audit.

A company qualifies as a small company if:

- (a) it is a private company in the financial year in question; and
- (b) it meets at least 2 of 3 following criteria for immediate past two consecutive financial years:
 - (i) total annual revenue \leq \$10m;
 - (ii) total assets \leq \$10m;
 - (iii) no. of employees \leq 50.

For a company which is part of a group:

- (a) the company must qualify as a small company; and
- (b) entire group must be a "small group"

to qualify to the audit exemption.

For a group to be a small group, it must meet at least 2 of the 3 quantitative criteria on a consolidated basis for the immediate past two consecutive financial years.

Where a company has qualified as a small company, it continues to be a small company for subsequent financial years until it is disqualified. A small company is disqualified if:

- (a) it ceases to be a private company at any time during a financial year; or
- (b) it does not meet at least 2 of the 3 the quantitative criteria for the immediate past two consecutive financial years.

Where a group has qualified as a small group, it continues to be a small group for subsequent financial years until it does not meet at least 2 of the 3 the quantitative criteria for the immediate past two consecutive financial years.

Commonly asked questions:

Q1: How do companies determine their total assets and total revenue?

A: The total revenue and total assets of a company would be determined by the accounting standards and what appears as the total revenue or total assets in the financial statements of the company.

Q2: How do companies determine their number of employees?

A: The number of employees is based on the number of full-time employees employed by the company at the end of the financial year.

Q3: If a company has corporate shareholders and meet the criteria, can they enjoy the small company audit exemption?

A: There is no longer a requirement that the company has to be an exempt private company (one of the requirements for which is that there is no corporate shareholder) to qualify for the audit exemption. A private company which has corporate shareholders but fulfils the criteria can be entitled to the small company audit exemption.

Q4: If a holding company has audited the consolidated financial statements for the group, would the subsidiary be required to audit its financial statements, even if the subsidiary satisfies as a small company?

A: In order for a subsidiary to be able to qualify for the small company exemption, the group to which it belongs would have to qualify as a small group and fulfil the thresholds on a consolidated basis. Therefore, even if the subsidiary is able to qualify as a small company, but the group to which it belongs is not a small group, and the holding company has to audit the consolidated financial statements, the subsidiary would not be able to enjoy the benefits of audit exemption.

Q5: Does the small company audit exemption apply to foreign companies?

A: The small company audit exemption only applies to Singapore incorporated companies. However, for

the purposes of determining whether the group to which a company belongs is a small group, all entities within that group are taken into account, including foreign entities, in determining whether the consolidated total revenue and consolidated total assets of the group meet the thresholds.

Q6: If the holding company is a foreign company, how do you determine the consolidated total revenue and consolidated total assets for the purpose of determining whether the group is a small group?

A: Even where the holding company is a foreign company, a Singapore subsidiary will need to determine whether the group to which it belongs qualifies as a small group, to determine if it can qualify for the small company audit exemption. Where the holding company has prepared consolidated financial statements, the “consolidated total assets” and “consolidated revenue” of the group shall be determined in accordance with the accounting standards applicable to the group. Where the holding company does not prepare consolidated financial statements, the consolidated total assets should be determined by the aggregation of the total assets of all the members of the group, and the consolidated revenue should be determined by the aggregated revenue of all the members of the group.

Source: Accounting and Corporate Regulatory Authority