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## Guide to Audit Exemption for Small Companies in Singapore

The Singapore Companies (Amendment) Act 2014 took effect on 1 July 2015. The most significant amendment is the introduction of the “small company” concept, which replaces the exempt private company for purposes of audit exemption. This article considers the features of this new regime and illustrates its application to existing as well as new companies.

### 1. Small company

The small company differs from the exempt private company in that it is defined by a broader set of criteria, reflecting the fact that audit is of value to a broader group of stakeholders (e.g. creditors, employees and customers) than shareholders. With the introduction of this new set of criteria, more companies will qualify for audit exemption, thus reducing compliance costs and creating a more business-friendly environment overall.

Paragraph 2 of the Thirteenth Schedule of the amended Companies Act (Cap 50, 2006 Rev Ed) (hereafter the “Thirteenth Schedule”) states that a company is a small company from a particular financial year if:

- (1) it is a private company throughout the financial year; and
- (2) it satisfies any 2 of the following criteria (hereafter the “quantitative criteria”) for each of the 2 consecutive financial years immediately preceding the financial year:
  - (a) the revenue of the company for each financial year does not exceed SGD10 million;
  - (b) the value of the company’s total assets at the end of each financial year does not exceed SGD10 million;
  - (c) it has at the end of each financial year not more than 50 employees.

These quantitative criteria are consistent with the approach adopted by the Singapore Financial Reporting Standards for Small Entities but incorporate the additional requirement that the small company's status be determined by reference to a historical two-year period.

## 2. Small group

A company that is a member of a group (either as a parent or a subsidiary company) will not qualify for exemption unless it is itself a small company and the group qualifies as a small group. A small group is one that meets the quantitative criteria for a small company on a consolidated basis (see paragraph 7 of the Thirteenth Schedule). For this purpose, a "group" and the method of consolidation are determined by reference to the relevant accounting standards.

## 3. Transitional provisions

As the new regime takes effect only in respect of a financial year commencing on or after 1 July 2015, transitional arrangements are made for companies formed before that date. Such a company will qualify as a small company from the first or second financial year commencing on or after that date if it is a private company throughout that financial year and also meets the quantitative criteria for that particular financial year (see paragraph 4 of the Thirteenth Schedule). Likewise, a group that was formed before 1 July 2015 will qualify as a small group in the first or second financial year commencing after that date if it meets the quantitative criteria for that year on a consolidated basis (see paragraph 9 of the Thirteenth Schedule).

### **Illustration:**

- Kaizen Pte Ltd was incorporated on 31 July 2005. Its financial year ends on 30 September of each year.
- In financial year 2015 – 2016, it meets the quantitative criteria.
- It qualifies as a small company and is exempt from audit from financial year 2015–2016 even if it did not satisfy the quantitative criteria in the last two financial years.

## 4. New companies

Equally, a new company incorporated on or after 1 July 2015 can be exempted from audit from its first or second financial year if it is a private company throughout that year and meets the quantitative criteria for that particular financial year (see paragraph 3 of the Thirteenth Schedule). A similar treatment is applicable to small groups formed on or after 1 July 2015 (see paragraph 8 of the Thirteenth Schedule).

**Illustration:**

- Kaizen Pte Ltd was incorporated on 31 July 2015. Its first financial year ends on 30 September 2016.
- It does not satisfy the quantitative criteria for financial year 2015 – 2016 but meets those criteria in financial year 2016 – 2017.
- Kaizen qualifies as a small company and is exempt from audit from financial year 2016–2017 even though it has not met the quantitative criteria for two immediate past financial years.

## **5. Cessation of Being a Small Company**

Once a company is conferred audit-exemption status, it will continue to enjoy the privilege until it ceases to be a small company in accordance with paragraph 5 of the Thirteenth Schedule. This occurs when the company ceases to be a private company at any time during a financial year, or when it fails to satisfy the quantitative criteria for the two immediately preceding financial years. Similarly, a group will cease to be a small group from a particular financial year if it fails to meet the quantitative criteria for two consecutive financial years immediately preceding that financial year (see paragraph 10 of the Thirteenth Schedule). However, a company disqualified as a small company may reacquire exemption status if it subsequently meets the general criteria described in paragraph 2 above.

**Illustration:**

- Kaizen Pte Ltd has qualified as a small company since financial year 2015 - 2016.
- In financial year 2016 – 2017, Kaizen fails to satisfy the quantitative criteria but this has no effect on its “small company” status.
- Kaizen satisfies the quantitative criteria in financial year 2017 – 2018.
- Between financial years 2018 – 2020, however, Kaizen fails to meet the quantitative criteria for two consecutive financial years.
- Kaizen ceases to qualify as a small company from financial year 2021 – 2022.

If you wish to obtain more information or assistance, please browse the official website of Kaizen Certified Public Accountants Limited at [www.bycpa.com](http://www.bycpa.com) or send email to [enquiries@bycpa.com](mailto:enquiries@bycpa.com).