

Guide to Audit Exemption

A company incorporated under the Singapore Companies Act, Chapter 50, is required to audit its annual financial statements unless it qualifies for audit exemption. Pursuant to the recent amendments to the Singapore Companies Act, a private company that used to require an audit may no longer be required to do so. The amendments are effective for financial periods starting on or after 1 July 2015.

AUDIT EXEMPTION CRITERIA

The revised audit exemption criteria introduce the concepts of "small company" and "small group" in determining if a company/group qualifies for audit exemption for a particular financial year (FY). Notably, the criteria for audit exemption (before the FY starting 1 July 2015) for Exempt Private Company² no longer apply once the "small company" and "small group" concepts take effect.

The revised criteria stipulate that a company qualifies as a small company and is exempt from audit requirements if it is:

- A private company and meets any 2 out of the 3 quantitative criteria for the *immediate past 2 consecutive financial years*:
- Total revenue/consolidated revenue of the group is ≤ S\$10 million; or
- Total assets/consolidated assets of the group is ≤ S\$10 million; or
- Number of employees/total number of employees of the group is ≤ 50 as at its financial year end.

A small group is one that meets at least 2 out of the 3 quantitative criteria mentioned above on a consolidated basis for the immediate past 2 consecutive financial years.

Table 1 below summarises the change in audit exemption criteria.

AUDIT EXEMPTION	
Previous Criteria	New Criteria ¹
<ul style="list-style-type: none"> • Exempt Private Company with revenue of ≤ S\$5 million; or • Dormant company 	<ul style="list-style-type: none"> • Small company; or • Small company that is part of a small group.

¹ An SSAE 16 Compliant status conferred on a service organisation is a testimony that the service provider has adequate controls and safeguards in place to host and process the data of its clients.

² An EPC is a private limited company with no corporate shareholders and no more than 20 shareholders.

³ The above amendment is effective from 1 July 2015 and applies for financial years commencing on or after 1 July 2015.

DOES YOUR COMPANY QUALIFY FOR AUDIT EXEMPTION?

Whether your company qualifies for audit exemption depends on the following:

For existing companies

The "small company" and "small group" criteria will be applicable for financial years beginning on or after the change in law (1 July 2015). Transitional provisions have also been provided for the first 2 years after the change in law such that an existing company can qualify as a "small company" if it is a private company and meets the quantitative criteria in the first or second financial year commencing on or after the date of commencement of the "small company" criteria. You may refer to illustrations on Transitional Provisions for existing companies on the Accounting and Corporate Regulatory Authority's website at www.acra.gov.sg/components/wireframes/legislationDetails.aspx?pageid=2818

For new companies

A new company incorporated after 1 July 2015 must assess if it fulfils the requirements in the first or second financial year after its incorporation. If it does not qualify in the first financial year, it will still get a chance to qualify in its second financial year if it is a private company and meets the quantitative criteria in its second financial year.

SHOULD YOU OPT FOR AUDIT EXEMPTION?

FACTORS TO CONSIDER WHEN OPTING FOR AN EXEMPTION

If you qualify for an audit exemption, you may wish to consider the following points before making a final decision:

1. Benefits from an audit

There are benefits from an audit as there are benefits from an exemption.

- Companies invest in an audit in order to (inter alia):
 - Facilitate compliance with corporate tax, GST & other taxes' requirements in a timely and accurate manner, thereby avoiding interest, penalties, and investigations
 - Help deter and detect material fraud and error
 - Take advantage of the spin-off benefits such as advice on the structure and operations of systems
- Small companies that prepare their own accounts often need help in arriving at adjustments, such as those for obsolete inventories, bad debts, and other provisions.

- Directors of some companies may for example, believe that because there is no longer any statutory audit requirement, there will no longer be any external 'checking' of the books and records. The power and resources of the Inland Revenue Authority of Singapore and the Department of Customs and Excise are increasing all the time. This means that there are likely to be more investigations in the future, and that they are likely to be more thorough.

Above all, an audit adds credibility to information provided to shareholders. It provides assurance to investors and other providers of finance, who are able to make their decisions with greater confidence.

2. Situations that need an audit report

There are circumstances where an audit report is generally still required, for example:

- Tender for jobs — an audit report is usually required as part of the tender submission
- Renewal of certain licences e.g. travel licences
- Renewal of bank credit facilities — this is a usual bank practice. Hire purchase companies also ask for audited accounts. You may wish to check your letter of offer from the bank or finance company to ascertain if there is such a requirement.

3. Income tax filing requirements

The revised requirements for companies reporting their income to IRAS in view of Audit Exemption are as follows:

Companies that qualify and have opted for exemption can file the unaudited financial statements with the tax returns, but these must be accompanied by the Directors' report, the statement by the Directors and notes to the financial statements, which must be prepared in compliance with the Companies Act. This means that the financial statements must be prepared in accordance with the Financial Reporting Standards (FRS) in Singapore, which are embodied in the Companies Act following legislative changes in July 2002 and which took effect for the financial year commencing on or after 1 January 2003.

ALTERNATIVES TO AUDIT

If you decide to opt for an exemption but wish to benefit from some checks and controls, we may be able to provide some direction and help put these in place. We suggest the following alternatives for your consideration:

1. CFO2SME™

If you wish to have peace of mind that the financial health and well-being of your business is well taken care of professionally, you can turn to us for a service called CFO2SME. CFO2SME or "Chief Financial Officer to Small & Medium Enterprises" brings professional financial expertise to your business without the need for a full-time CFO.

A growing SME can generally benefit a great deal from the expertise of a trained and experienced financial person who is closely involved in the business, someone akin to a Chief Financial Officer in larger set-ups. Such expertise, however, often comes at a high price to the growing enterprise. Very often, the business may also not be ready for a full-time executive, operationally or financially. CFO2SME brings this advantage to SMEs.

CFO2SME can strengthen a business' financial management. Depending on your needs, CFO2SME can be engaged on a permanent, periodic or ad hoc basis to meet specific financial needs. You will be alerted in time to any hazards, which we can help to mitigate, or to any opportunities that you can tap into to improve your business profitability.

Alternatively, you may want to consider a customised review of your company's financial statements based on your business requirements and priorities.

2. Unaudited financial statements

We can help you prepare unaudited financial statements in accordance with IRAS' filing requirements, and file your tax returns if desired. We are in constant and close touch with the latest changes and developments in accounting standards, statutory requirements, as well as tax and GST matters impacting businesses, which translates to the value-add we bring to our accounting assignments.

ABOUT ACCOUNTSERVE

AccountServe specialises in meeting basic to complex accounting and accounting-related requirements of businesses. Its scope ranges from value-added bookkeeping to innovative services such as SWAT Accounting and Business Crisis Management.

AccountServe is a company under the Stone Forest group, a leading accounting and business advisory group that focuses on growing businesses. Professional financial, business advisory and IT expertise is within our easy access internally, giving us the edge over others in being your accounting partner. On the international platform, as a member of the RSM International network, we are able to assist our clients with their cross-border requirements efficiently.

Our services include:

- Accounts Payable Management
- Accounts Receivable Management
- Annual Filings with ACRA and IRAS
- Business Closure
- Business Crisis Management
- CFO2SME™
- Consolidation of Accounts
- Corporate Tax
- Drafting of Financial Statements
- GST Reporting
- Payment Administration
- Payroll
- Personal Tax
- Routine Accounting
- SWAT Accounting (Quick response to special and urgent accounting needs)
- XBRL Conversion

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