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Guide to Audit Exemption for Small Companies in Singapore

The Singapore Companies (Amendment) Act 2014 brings in the concept of small company, 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

With the introduction of small company concept, more companies will qualify for audit exemption, thus reducing compliance costs and creating a more business-friendly environment.

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 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 (see paragraph 7 of the Thirteenth Schedule) for a small company on a consolidated basis. For this purpose, whether an entity is part of a group and the method of consolidation is to be decided by reference to the relevant accounting standards.

3. New companies

A newly incorporated company 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 a newly formed small group (see paragraph 8 of the Thirteenth Schedule).

Illustration:

- (1) Kaizen Pte Ltd was incorporated on 31 July 2019. Its first financial year ends on 30 September 2020.
- (2) It does not satisfy the quantitative criteria for financial year 2019-2020 but meets those criteria in financial year 2020-2021.
- (3) Kaizen Pte Ltd qualifies as a small company and is exempted from audit for financial year 2020-2021 even though it has not met the quantitative criteria for two immediate past financial years.

4. 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 each of the 2 consecutive financial years immediately preceding the financial year. Similarly, a group will cease to be a small group from a particular financial year if it fails to meet the quantitative criteria on consolidated basis for each of the 2 consecutive financial years immediately preceding the 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 1 above.

Illustration A:

- (1) Kaizen Pte Ltd has qualified as a small company since financial year 2019-2020.
- (2) In financial year 2020-2021, Kaizen Pte Ltd fails to satisfy the quantitative criteria but this has no effect on its small company status.

Illustration B:

- (1) Kaizen Pte Ltd has qualified as a small company since financial year 2019-2020.
- (2) Between financial years 2020-2022 (2 financial years), Kaizen fails to meet the quantitative criteria for two consecutive financial years.
- (3) Kaizen ceases to qualify as a small company from financial year 2022-2023.

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