



Audit Exemption for Small Companies

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Introduction

To reduce the regulatory burden on small companies and move further towards a risk-based approach, a new small company concept has been introduced for exemption from statutory audit.

Previous Audit Exemption Criteria	New Audit Exemption Criteria
All Dormant Companies	All Dormant Companies
Private companies with: <ul style="list-style-type: none"> • No more than 20 shareholders • No corporation holding any beneficial interest in the company's shares • Revenue no more than S\$5 million 	Private companies which meet the criteria of a "small company" in each of the immediate past two financial years Note: If a private company is part of a group, the company must qualify as a small company and the entire group must qualify as a "small group" in each of the immediate past two financial years.
Applicable for financial periods starting before 1 July 2015	Applicable for financial periods starting on or after 1 July 2015



Small Company Qualifying Criteria

Audit exemption with respect to financial statements for a financial year commencing on or after 1 July 2015:

Qualifying Criteria	Disqualification
<p>Private company throughout the financial year. Meets at least two of three quantitative criteria for immediate past two financial years:</p> <ul style="list-style-type: none">• Annual revenue for each financial year ≤ S\$10 million• Total assets at the end of each financial year ≤ S\$10 million• Number of employees at the end of each financial year ≤ 50.	<p>“Small company” status will continue once obtained until disqualified by virtue of:</p> <ul style="list-style-type: none">• Ceasing to be a private company at any time during the financial year; or• Not meeting at least two of the three quantitative criteria for the immediate past two consecutive financial years.



Small Group Qualifying Criteria

For a company which is part of a group to qualify for audit exemption:

- The company must qualify as a small company; and
- The entire group must be a “small group”.

Qualifying Criteria	Disqualification
<p>Meets at least two of three quantitative criteria for immediate past two financial years:</p> <ul style="list-style-type: none">• Consolidated group revenue for each financial year ≤ S\$10 million• Consolidated total assets at the end of each financial year ≤ S\$10 million• Aggregate no. of employees at the end of each financial year ≤ 50	<p>“Small group” status will continue once obtained until it does not meet at least two of the three quantitative criteria for the immediate past two consecutive financial years.</p>



Transitional Provisions: Existing Companies

An existing company can qualify as a “small company” if it is a private company and meets the quantitative criteria in either the first or second financial year commencing on or after 1 July 2015.

Illustration: *Private Company with Financial Year End (FYE) of 30 September. FYE 30 September 2015: old audit exemption criteria apply. FYE 30 September 2016 (FY 2016) onwards: new small company audit exemption criteria apply.*

Scenario 1: Company does not meet criteria for small company in FY 2016 (the first FY commencing after 1 July 2015) but meets the criteria in FY 2017 (the second FY commencing after 1 July 2015)

FY	Meets Criteria	Qualifies for Audit Exemption	Remarks
2016	✗	✗	Does not meet the criteria, therefore does not qualify.
2017	✗	✓	Meets the criteria, therefore qualifies.



Transitional Provisions: Existing Companies

Scenario 2: Company meets criteria for small company in FY 2016 (the first FY commencing after 1 July 2015) but does not meet the criteria in FY 2017 (the second FY commencing after 1 July 2015)

FY	Meets Criteria	Qualifies for Audit Exemption	Remarks
2016	✓	✓	Meets the criteria, therefore qualifies
2017	✗	✓	Despite not meeting the criteria in the current FY, it continues to qualify until it fails to meet the criteria for two consecutive FYs.



Transitional Provisions: New Companies

A company incorporated on or after 1 July 2015 (which has not reached its third financial year after incorporation) can qualify as a “small company” if it is a private company and meets the quantitative criteria in either the first or second financial year after incorporation.

Illustration: *Private company incorporated on 10 October 2015 with first financial period ending on 30 September 2016 (FY2016)*

Scenario 1: Company does not meet criteria for small company in FY 2016 (the first FY commencing after 1 July 2015) but meets the criteria in FY 2017 (the second FY after incorporation)

FY	Meets Criteria	Qualifies for Audit Exemption	Remarks
2016	✗	✗	Does not meet the criteria, therefore does not qualify.
2017	✓	✓	Meets the criteria, therefore qualifies.



Transitional Provisions: New Companies

Scenario 2: Company meets criteria for small company in FY 2016 (the first FY commencing after 1 July 2015) but does not meet the criteria in FY 2017 (the second FY after incorporation)

FY	Meets Criteria	Qualifies for Audit Exemption	Remarks
2016	✓	✓	Meets the criteria, therefore qualifies
2017	✗	✓	Despite not meeting the criteria in the current FY, it continues to qualify until it fails to meet the criteria for two consecutive FYs.



After Transitional Period

After the transitional period, the following criteria will apply:

- Private company throughout the financial year
- Meets at least two of three quantitative criteria for immediate past two financial years

Illustration: *Private company meets criteria for small company in FY2016 and FY2017. FY2018 is the third FY commencing after 1 July 2015.*

FY	Meets Criteria	Qualifies for Audit Exemption	Remarks
2018	✓	✓	Continues to qualify as it has met the criteria for immediate past two FYs.
2019	✗	✓	Continues to qualify despite not meeting the criteria in the current FY. It will only be disqualified when it fails to meet the criteria for two consecutive FYs preceding the current FY.
2020	✓	✓	Continues to qualify as it has failed to meet the criteria for only one of the two preceding FYs (FY 2019).
2021	✗	✓	Despite not meeting the criteria in the current FY, it continues to qualify as it has failed to meet the criteria for only one of the two preceding FYs (FY 2019).
2022	✗	✓	Despite not meeting the criteria in the current FY, it continues to qualify as it has failed to meet the criteria for only one of the two preceding FYs (FY 2021).
2023	✓	✗	Although it meets the criteria in the current FY, it is disqualified as it has failed to meet the criteria for the immediate past two consecutive FYs (FY 2021 and FY 2022).



Key Notes

- New audit exemption criteria apply only for financial periods which begin on or after 1 July 2015.
- Once a company qualifies as a “small company”, it continues to be a “small company” until it ceases to be a private company or fails to meet the quantitative criteria for two consecutive preceding financial years.
- Except for certain dormant companies, companies which are exempted from audit will still be required to prepare unaudited financial statements compliant with the SFRS.
- Regardless of audit requirements and except for certain dormant companies exempted from preparing financial statements, all companies are required to lodge a set of their audited or unaudited financial statements (as the case may be) with ACRA unless they are solvent exempt private companies (EPCs). An EPC is defined as a private company which has no more than 20 shareholders and with no corporation holding any beneficial interest in the company’s shares. A company is considered solvent if it is able to meet its debts when they fall due.





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