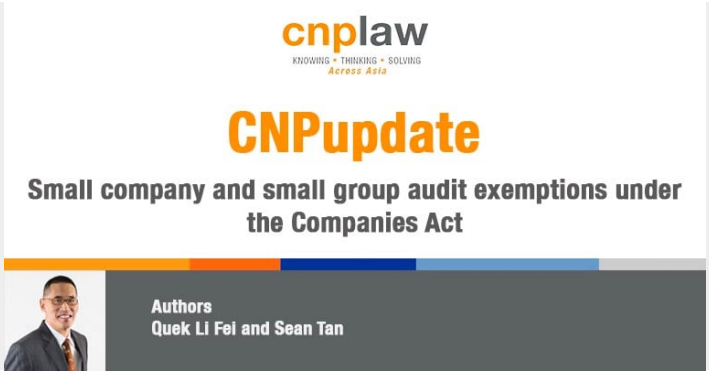
SMALL COMPANY AND SMALL GROUP AUDIT EXEMPTIONS UNDER THE COMPANIES ACT

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Authors: Quek Li Fei and Sean Tan.

The Companies Act (Cap. 50) ("CA") requires directors of a newly incorporated company to appoint an auditor for the company within 3 months of the company's incorporation. However, for owners of a new company, the statutory obligation to appoint an auditor may not be practicable if, for instance, a company has been incorporated far in advance, before the commencement of its operations and the requirement to appoint auditors within that time frame would incur higher compliance costs. This article summarises an option available in such circumstances.

Update

The Companies (Amendment) Act 2014 introduced key reforms to the criteria for audit obligations under the CA. The concepts of a small company and a small group were enacted and provide an exemption to general audit regulatory obligations.

In order to qualify as a small company, a private company needs to fulfil at least two of the following three quantitative criteria in each of its immediate past two consecutive financial years, or if the company is newly incorporated, for its first financial year after incorporation:

- its total annual revenue does not exceed S$10 million;
- its total assets do not exceed S$10 million; or
- it has, at the end of each financial year, not more than 50 employees.

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There is, separately, also an overarching requirement for the company to remain a private company.

However, if a company seeking to rely on this audit exemption is part of a group of companies, the entire group will also have to qualify as a small group in order for the company to avail itself of the audit exemption.

In order to qualify as a small group, the group needs to fulfil similar criteria, aggregated across the group. Specifically, the group needs to satisfy any two of the following three quantitative criteria in each of its past two consecutive financial years, or if the group is newly formed, for its first financial year after formation:

- the group's consolidated revenue does not exceed S$10 million;
- the group's consolidated total assets do not exceed S$10 million; or
- the group has, at the end of each financial year, an aggregate number of not more than 50 employees.

In this regard, the total revenue and total assets of a company are determined according to the Accounting and Corporate Regulatory Authority's fiscal reporting standards.
Should a company cease to be eligible for the audit exemption at any time after the last date of the three-month window after incorporation for a company to appoint an auditor, the company will be required under section 205A(2) of the CA to appoint an auditor before the next annual general meeting and the said auditor shall hold office until the conclusion of that annual general meeting.
In addition, a company that does not comply with its audit obligations under the CA without meeting the relevant exemption will, together with its directors, be guilty of an offence and shall be liable on conviction to a fine not exceeding S$5,000.

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