

Key changes to Companies Act relating to Audit and Preparation of Financial Statements

Topic	Current Provision/Requirement	Changes and Reasons
Audit exemption for small companies [New section 205C and Thirteenth Schedule]	<p>An exempt private company with annual revenue of \$5m or less for the financial year is exempt from auditing its financial statements.</p> <p>An exempt private company is a company which has not more than 20 members and in which no corporation holds any beneficial interest in its shares.</p>	<p>A “small company” is exempt from auditing their financial statements. A company qualifies as a small company if:</p> <p>(a) it is a private company in the financial year in question; and</p> <p>(b) it meets at least 2 of 3 following criteria for immediate past two financial years:</p> <ul style="list-style-type: none"> • total annual revenue \leq \$10m; • total assets \leq \$10m; • no. of employees \leq 50. <p>For a company which is part of a group:</p> <p>(a) the company must qualify as a small company; and</p> <p>(b) entire group must be a “small group”</p> <p>to qualify to the audit exemption.</p> <p>For a group to be a small group, it must meet at least 2 of the 3 quantitative criteria on a consolidated basis for the</p>

	<p>immediate past two consecutive financial years.</p> <p>Where a company has qualified as a small company, it continues to be a small company for subsequent financial years until it is disqualified. A small company is disqualified if:</p> <ul style="list-style-type: none"> (a) it ceases to be a private company at any time during a financial year; or (b) it does not meet at least 2 of the 3 the quantitative criteria for the immediate past two consecutive financial years. <p>Where a group has qualified as a small group, it continues to be a small group for subsequent financial years until it does not meet at least 2 of the 3 the quantitative criteria for the immediate past two consecutive financial years.</p> <p>Reasons for amendment</p> <ul style="list-style-type: none"> • The small company criteria recognises broader group of stakeholders (e.g. creditors, employees, customers) who may have an interest in the financial statements, other than just shareholders. • It would reduce regulatory costs for smaller
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		<p>companies that do not have wide market impact.</p> <ul style="list-style-type: none"> Similar criteria are used for differentiated financial reporting in other countries (e.g. UK, Australia).
<p>Exemption from preparation of financial statements for dormant unlisted companies</p> <p>[New section 201A]</p>	<p>A dormant company is exempted from the statutory audit requirements but is still required to prepare financial statements.</p>	<p>A dormant non-listed company (other than a subsidiary of a listed company) is exempt from requirement to prepare financial statements, if:</p> <p>(a) the company fulfils the substantial assets test; and</p> <p>(b) the company has been dormant from the time of formation or since the end of the previous financial year.</p> <p>The substantial assets test is that the total assets of the company at any time within the financial year must not exceed \$500,000. For a parent company, the consolidated total assets of group at any time within the financial year must not exceed \$500,000.</p> <p>Dormant listed companies and their subsidiaries, and dormant unlisted companies which do not fulfil the substantial asset test must prepare financial statements but are exempt from audit. This remains unchanged from the current position.</p>

		Reasons for amendment
		<p>The new exemption from preparation reduces regulatory costs for dormant companies which have lower public impact.</p>
Resignation of auditor before end of term of office [New sections 205AA to 205AF]	<p>An auditor can resign if he is not the sole auditor, or at a general meeting, and where a replacement auditor is appointed.</p>	<p>An auditor of a non-public interest company (other than a subsidiary of a public interest company) may resign before the end of the term of his appointment by giving written notice to the company.</p> <p>An auditor of a public interest company or a subsidiary of a public interest company may resign before the end of the term of his appointment by giving written notice to the company, and upon consent by the Registrar of Companies. The auditor must give the company reasons for his resignation, and any such reasons must be circulated by the company to the shareholders, unless the Court orders otherwise.</p> <p>A public interest company will be defined to include a company listed or to be listed on a securities exchange in Singapore or such other company as the Minister for Finance may prescribe. Additional categories of companies are intended to be prescribed to align the definition with similar concepts for the purposes of the</p>

		<p>Practice Monitoring Programme conducted by ACRA under the Accountants Act.</p> <p>Reasons for amendment</p> <p>The changes allow auditors to resign mid-term, especially in situations where the company refuses to hold a general meeting to appoint a replacement auditor. The requirement for Registrar's consent will allow the Registrar to stop the resignation in the public interest where necessary. The reasons for resignation for companies with greater public interest should be circulated so as to promote greater corporate governance.</p>
<p>Framework for revision of defective financial statements</p> <p>[New section 202A and 202B]</p>	<p>Currently there is no express framework for revision of defective financial statements.</p>	<p>A new regulatory framework is introduced to allow directors of a company to revise defective financial statements, where the financial statements do not comply with the Companies Act (including compliance with the financial reporting standards). Consequential revisions may also be made to the summary financial statement or the directors' statement.</p> <p>The Registrar of Companies may apply to Court for a declaration that the financial statements of a company do not comply with the Companies Act (including</p>

	<p>compliance with the financial reporting standards), and an order to require the directors of a company to cause the financial statements to be revised.</p> <p>Reasons for amendment</p> <ul style="list-style-type: none">• The Registrar's power to seek a Court order requiring compliance will be a complementary enforcement action which the Registrar of Companies may pursue.• The new framework which allows directors to revise the financial statements of their companies would allow diligent directors of a company to revise their financial statements on their own accord before the financial statements in respect of the next financial period are prepared.
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