

More Details on Small Company Concept for Audit Exemption

Effective Date

The audit exemption is applicable for financial years beginning on or after the change in the law (1 Jul 2015).

Qualification Criteria

Currently, a company is exempted from having its accounts audited if it is an exempt private company with annual revenue of \$5 million or less. This approach is being replaced by a new small company concept which will determine exemption from statutory audit. Notably, a company no longer needs to be an exempt private company to be exempted from audit.

A company qualifies as a small company if:

- (a) it is a private company in the financial year in question; and
- (b) it meets at least 2 of 3 following criteria for immediate past two consecutive financial years:
 - 1. total annual revenue \leq \$10m;
 - 2. total assets \leq \$10m;
 - 3. no. of employees \leq 50.

For a company which is part of a group:

- (a) the company must qualify as a small company; and
- (b) entire group must be a “small group”
to qualify to the audit exemption.

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 immediate past two consecutive financial years.

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:

- (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.

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.

Transitional Provisions for existing companies

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 FY commencing on or after the date of commencement of the “small company” criteria.

Illustration

Assumption:

- (a) The company is a private company throughout the period.
- (b) The company’s FY2015 commences on or after 1 Jul 2015.

Figure 1 Two scenarios to illustrate transitional provisions

Scenario 1a	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Meets quantitative criteria	✓	X	✓	X	X	✓
Qualifies as a "small company"	✓	✓	✓	✓	✓	X
Remarks	FY 2015 is the first FY after the commencement of the "small company" criteria. The company qualifies as a "small company" as it is a private company and meets the quantitative criteria in FY 2015.	As the company already qualified as a "small company" in FY 2015, it continues to be a "small company" despite not meeting the quantitative criteria in FY 2016. It will only be disqualified when it fails to meet the quantitative criteria for two consecutive FYs preceding FY 2016.	The company already qualified as a "small company" in FY 2015 and is not disqualified. It is not disqualified as it has only failed to meet the quantitative criteria for one of the two preceding FYs (that is, FY 2016).	As the company already qualified as a "small company" in FY 2015, it continues to be a "small company" despite not meeting the quantitative criteria in the current FY and for one of the two preceding FYs.		Although the company meets the quantitative criteria in the current FY, it is disqualified because it fails to meet the quantitative criteria for two consecutive FYs preceding the current FY (that is, FY 2018 and FY 2019).
Scenario 1b	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Meets quantitative criteria	X	✓	✓	X	X	✓
Qualifies as a "small company"	X	✓	✓	✓	✓	X
Remarks	FY 2015 is the first FY after the commencement of the "small company" criteria. The company does not qualify as a "small company" as it does not meet the quantitative criteria in FY 2015.	FY 2016 is the second FY after the commencement of the "small company" criteria. The company qualifies as a "small company" as it is a private company and meets the quantitative criteria in FY 2016 (that is, FY 2015 is not taken into consideration).	The company continues to be a "small company" as it qualified as a "small company" in FY 2016 and is not disqualified. It is not disqualified as it has only failed to meet the quantitative criteria for one of the two preceding FYs.	As the company already qualified as a "small company" in FY 2016, it continues to be a "small company" despite not meeting the quantitative criteria in the current FY. It will only be disqualified when it fails to meet the quantitative criteria for two consecutive FYs preceding the current FY.	As the company already qualified as a "small company" in FY 2016, it continues to be a "small company" despite not meeting the quantitative criteria in the current FY and for one of the two preceding FYs.	Although the company meets the quantitative criteria in the current FY, the company is disqualified because it fails to meet the quantitative criteria for two consecutive FYs preceding the current FY (that is, FY 2018 and FY 2019).

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Application of criteria to new companies incorporated on or after 1 Jul 2015

A new company incorporated on or after 1 Jul 2015 can qualify as a "small company" if it is a private company and meets the quantitative criteria in its first or second FY after incorporation.

The illustration for this scenario is similar to that for the transitional provisions for existing companies above.

Application of Qualifying Criteria

Assumption:

(a) The company is a private company throughout the period.

(b) The company's FY2015 commences on or after 1 Jul 2015.

Figure 2 Three scenarios to explain the applicability of the new "small company" criteria

Scenario 2a

- (i) Company *meets* the quantitative criteria in FY 2015 and FY 2016;
- (ii) Company is a "small company" in FY 2016.

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Meets quantitative criteria	✓	X	✓	X	X	✓
Qualifies as a "small company"	✓	✓	✓	✓	✓	X
Remarks	The company already qualified as a "small company" and is not disqualified.	As the company already qualified as a "small company", it continues to be a "small company" despite not meeting the quantitative criteria in the current FY. It will only be disqualified when it fails to meet the quantitative criteria for two consecutive FYs preceding the current FY.	The company is not disqualified as it has only failed to meet the quantitative criteria for one of the two preceding FYs (that is, FY 2018).	Although the company does not meet the quantitative criteria in the current FY, it continues to be a "small company" as it is not disqualified. It is not disqualified as it has only failed to meet the quantitative criteria for one of the two preceding FYs.	Although the company meets the quantitative criteria in the current FY, it is disqualified because it fails to meet the quantitative criteria for two consecutive FYs preceding the current FY (that is, FY 2020 and FY 2021).	

Scenario 2b

- (i) Company *does not meet* the quantitative criteria in FY 2015 and FY 2016;
- (ii) Company is *not* a "small company" in FY 2016.

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Meets quantitative criteria	✓	✓	✓	X	X	✓
Qualifies as a "small company"	X	X	✓	✓	✓	X
Remarks	As the company does not meet the quantitative criteria in the two consecutive preceding FYs (that is, FY 2015 and FY 2016), it does not qualify as a "small company" in FY 2017 even though it meets the quantitative criteria in the current FY.	As the company only meets the quantitative criteria in one of the two preceding FYs, it does not qualify as a "small company" in FY 2018.	The company qualifies as a "small company" as it meets the quantitative criteria in the two consecutive FYs preceding the current FY (that is, FY 2017 and FY 2018).	As the company already qualified as a "small company", it continues to be a "small company" despite not meeting quantitative criteria in the current FY. It will only be disqualified when it fails to meet the quantitative criteria for two consecutive FYs preceding the current FY.	Although the company meets the quantitative criteria in the current FY, it is disqualified because it fails to meet the quantitative criteria for two consecutive FYs preceding the current FY (that is, FY 2020 and FY 2021).	

Scenario 2c

- (i) Company *meets* the quantitative criteria in FY 2015 and FY 2016;
- (ii) Company is a "small company" in FY 2016

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Meets quantitative criteria	X	X	✓	✓	✓	✓
Qualifies as a "small company"	✓	✓	X	X	✓	✓
Remarks	As the company already qualified as a "small company", it continues to be "small company" despite not meeting the quantitative criteria in the current FY. It will only be disqualified when it fails to meet the quantitative criteria for two consecutive FYs preceding the current FY.	The company is disqualified because it fails to meet the quantitative criteria for two consecutive FYs preceding the current FY (that is, FY 2018 and FY 2019).	As the company does not meet the quantitative criteria in the immediate past two consecutive FYs (that is, FY 2018 and FY 2019), it does not qualify as a "small company" in FY 2020.	The company qualifies as a "small company" as it meets the quantitative criteria in the immediate past two consecutive FYs (that is, FY 2019 and FY 2020).	The company continues to be a "small company" as it qualified as a "small company" in FY 2021 and is not disqualified.	

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Frequently Asked Questions

Q: When will the small company audit exemption take effect?

A: The audit exemption will be applicable for financial years beginning on or after the change in the law (1 Jul 2015). Transitional provisions have been provided for the first two years after the change in law.

Q: How does the small company criteria apply in the first 2 years (transitional period) after the exemption takes effect (1 Jul 2015)?

A: To determine if a company qualifies as a small company in the first 2 financial years commencing after the exemption takes effect, the company must assess if it fulfils the requirements in each of the years. E.g. in order to determine whether a company would qualify in FY2016, the company should look at whether it is a private company in FY2016 and whether it meets the 2 out of 3 quantitative criteria in FY2016. If it does not qualify for that year, it will still get a chance to qualify for FY2017, if it is a private company and meets the 2 out of 3 quantitative criteria in FY2017.

Q: How does a new company incorporated after 1 Jul 2015 qualify as a small company? For a new company, because the company is newly incorporated, there would not be any financial information to assess for the previous 2 years.

A: To determine if a company qualifies as a small company in its first 2 financial years after its incorporation, the company must assess if it fulfils the requirements in each of the years. E.g. if a company is incorporated after Jul 2015, in order to determine whether a company would qualify in its first financial year, the company should look at whether it is a private company and whether it meets the 2 out of 3 quantitative criteria in than year. If it does not qualify in that year, it will still get a chance to qualify in its second financial year, if it is a private company and meets the 2 out of 3 quantitative criteria in its second financial year.

Q: How do companies determine their total assets and total revenue?

A: The total revenue and total assets of a company would be determined by the accounting standards and what appears as the total revenue or total assets in the financial statements of the company.

Q: How do companies determine their number of employees?

A: The number of employees is based on the number of full-time employees employed by the company at the end of the financial year.

Q: If a company has corporate shareholders and meet the criteria, can they enjoy the small company audit exemption?

A: There is no longer a requirement that the company has to be an exempt private company (one of the requirements for which is that there is no corporate shareholder) to qualify for the audit exemption. A private company which has corporate shareholders but fulfils the criteria can be entitled to the small company audit exemption.

Q: If a holding company has audited the consolidated financial statements for the group, would the subsidiary be required to audit its financial statements, even if the subsidiary satisfies as a small company?

A: In order for a subsidiary to be able to qualify for the small company exemption, the group to which it belongs would have to qualify as a small group and fulfil the thresholds on a consolidated basis. Therefore, even if the subsidiary is able to qualify as a small company, but the group to which it belongs is not a small group, and the holding company has to audit the consolidated financial statements, the subsidiary would not be able to enjoy the benefits of audit exemption.

Q: Does the small company audit exemption apply to foreign companies?

A: The small company audit exemption only applies to Singapore incorporated companies. However, for the purposes of determining whether the group to which a company belongs is a small group, all entities within that group are taken into account, including foreign entities, in determining whether the consolidated total revenue and consolidated total assets of the group meet the thresholds.

Q: If the holding company is a foreign company, how do you determine the consolidated total revenue and consolidated total assets for the purpose of determining whether the group is a small group?

A: Even where the holding company is a foreign company, a Singapore subsidiary will need to determine whether the group to which it belongs qualifies as a small group, to determine if it can qualify for the small company audit exemption. Where the holding company has prepared consolidated financial statements, the “consolidated total assets” and “consolidated revenue” of the group shall be determined in accordance with the accounting standards applicable to the group. Where the holding company does not prepare consolidated financial statements, the consolidated total assets should be determined by the aggregation of the total assets of all the members of the group, and the consolidated revenue should be determined by the aggregated revenue of all the members of the group

Q: Does the small company criteria affect the obligations for filing financial statements with ACRA?

A: No. The obligations for filing financial statements are determined by whether the company is a solvent exempt private company. There are no changes to the current criteria for determining the obligation for filing financial statements.