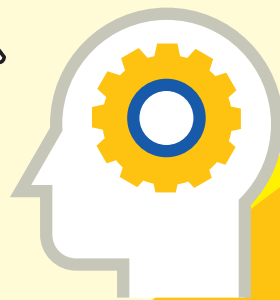


REVISED
2025



Why Audit Matters to SMEs

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This booklet was created especially for owners and managers of Small and Medium Enterprises (SMEs) to illustrate the value of an external audit. It was first published in December 2016 and has been revised in June 2025 to ensure its continued relevance and usefulness.

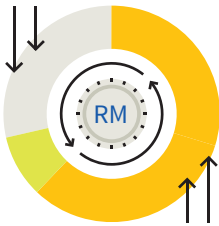
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The Malaysian Institute of Accountants (MIA) believes that in order for SMEs to flourish, it is necessary for SMEs to:



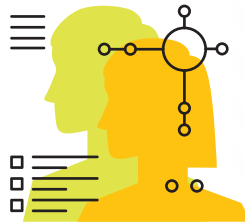
Apply basic financial management skills to manage cash flow which is the lifeblood of a company



Have access to credit and financing



Cope with the tax system, employment and other legislations



Consult competent professionals to bridge the skill and knowledge gap

Having your financial statements audited represents a positive step towards meeting the above criteria.

AUDIT is a message of CONFIDENCE and ASSURANCE!

WHAT IS AN AUDIT?

Audit, in the context of the Companies Act, can be defined as an independent examination of the financial statements of a company to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with applicable approved accounting standards so as to give a true and fair view of the financial position of the company and its financial performance.



An audit is conducted in accordance with the International Standards on Auditing and upon conclusion the auditor issues a report that provides his opinion on the financial statements.

“ *Directors are responsible under the Companies Act 2016 to prepare financial statements in line with approved accounting standards. An independent audit is more than a legal formality, it is a critical component in verifying the integrity of the financial statements and is essential for directors to properly discharge their duty.*

For me to be on a company's board, audited accounts are a must for transparency and good governance, no matter the size of the company. ”

Dato' Merina Abu Tahir

Company Director

THE PRIVILEGE OF LIMITED LIABILITY

A limited liability company is a corporate structure where owners are legally responsible for its debts only to the extent of the amount of capital they invested.

Companies enjoying the privilege of limited liability should consider subjecting their businesses to annual audits to safeguard the interest of third party users and other stakeholders. An audit can be construed to be a service to the public at large and it is a small price to pay for the limited liability protection that a company enjoys.



The limited liability privilege should come with accountability and the requirement for an independent audit.



VALUE OF AN AUDIT TO SMEs

An audit can help you save time and money.

Audit brings financial discipline

- Audit necessitates the need to prepare proper accounts. Under Section 245 of the Companies Act 2016, a prosecution action can be taken against directors for failing to prepare adequate financial statements and the prescribed penalties include a fine not exceeding five hundred thousand ringgit or imprisonment for a term not exceeding 3 years or both. Under Section 593, a prosecution action can be taken against errant companies and directors for lodging false and misleading statements. Presently, the prescribed penalties under Section 593 include imprisonment for a maximum term of 10 years, a fine not surpassing RM3 million, or a combination of both.
- Audit is a major deterrent against fraud, money laundering and other illegal activities.

Although the audit process is not designed to detect fraud, there is no doubt that in the absence of an audit, fraud and errors are more likely to occur and go undetected without any independent examination.

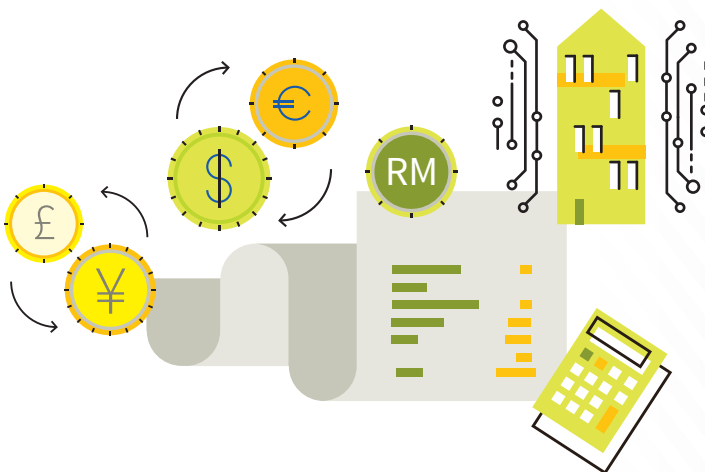
“Audits for SMEs are more than just an act of fulfilling statutory obligations. Beyond this, it fosters discipline and promotes good governance by committing to the highest standards of transparency and accountability. This enhances the organisation’s credibility, making it more appealing to investors, banks and partners, thereby paving the route for long-term success.”

Encik Rizal Dato’ Nainy

Chief Executive Officer
SME Corp Malaysia

Proper tax return based on audited accounts could save you money, perhaps more than your audit fee!

- Audited accounts provide an independent verification of a company's financial position, thereby enhancing the integrity of tax submissions and avoiding penalties.
- An auditor may identify weaknesses in tax compliance and advise companies against breaking the tax law unintentionally and thus incurring penalties.
- Auditors can also facilitate your company's interaction with the tax authorities.



“ *For financial institutions, audited financial statements serve as a key indicator of an SME’s financial health and governance, offering greater credence when evaluating applications for credit facilities.*

Assurance on financial statements can facilitate access to financing, improve lending terms, and strengthen the SME’s overall creditworthiness in the eyes of lenders and other creditors. ”

Dato’ Khairussaleh Ramli

Chairman

The Association of Banks in Malaysia (ABM)

Reduce financing costs

- Audited financial statements play a key role in the raising of finance and capital.
- Without the comfort of an audit opinion, even if lenders make financing available, they would be taking on more risks and are thereby compelled to raise financing costs which will be counter-productive for SMEs.

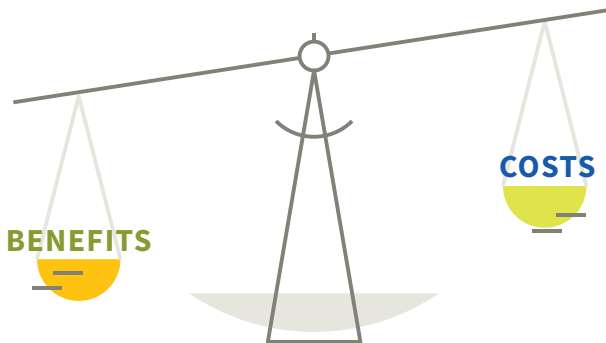
Audit improves decision-making

- Information is the lifeblood of modern businesses. Misleading or inaccurate information leads to bad decisions.
- An audit adds credibility because the result of the audit process is an independent opinion given by a trained professional who is governed by a strict ethical code.
- Audits therefore add value by equipping multiple stakeholders with more accurate information, which leads to better decision making by directors and managers, better investment decisions by investors and better policy decisions by the authorities!

Easy access to professional advice

- Auditors are trained professionals specialising in risk assessment and evaluating internal control systems.
- An audit may provide the management with insights to improve business processes and the system of internal controls.

With the help of an auditor, you will have more time devoted for revenue generation while having the peace of mind that an expert is addressing the details.



- ✓ Avoid penalties
 - ✓ Bring financial discipline
 - ✓ Access to professional advice
 - ✓ Improve decision making
 - ✓ Reduce finance cost
 - ✓ Increased focus on revenue generation
 - ✓ Peace of mind!
- ✓ Audit Fee



VALUE OF AUDIT FOR YOUR CUSTOMERS

Trust is at the heart of modern business. An audit provides customers with a series of strong messages about¹:

- The financial management of the business;
- The ethos of senior management of the company;
- The strength and efficiency of the business;
- The integrity of the operations.

1 ACCA (2008). *Why audit matters: Your guide to the benefits of the audit*, page 8.

GAINING THE CONFIDENCE OF YOUR SUPPLIERS



Credit is a major issue for suppliers. They want to know whether a customer is creditworthy, and whether a company pays its bills on time and will remain solvent in the near future.

An independent and professionally conducted audit can make a difference between a reputable supplier extending credit or refusing it.

The commitment to an audit shows customers and suppliers that you are a business partner that is well-managed, credible, open to professional advice and is keen to remain competitive in the business environment.





ENHANCING THE CREDIBILITY OF SUSTAINABILITY DISCLOSURES

In recent years, sustainability has become increasingly important for SMEs due to rising expectations from regulators, customers, and business partners. Embracing sustainable practices helps SMEs improve market access, financing opportunities, operational efficiency, and long-term resilience.

Accountancy professionals play a pivotal role in this process, serving as sustainability advisors and assurance providers. As sustainability advisors, they provide valuable guidance to SMEs in embedding sustainability/ESG principles into their operations and strategies, driving responsible practices and helping businesses thrive in a more sustainable and competitive environment.

In their role as sustainability assurance providers, accountants enhance the credibility and transparency of sustainability/ESG reporting, fostering trust throughout the supply chain.

SITUATIONS WHERE SMEs MIGHT WANT TO CONSIDER VOLUNTARY AUDIT

MIA anticipates that many SMEs will continue to demand professional audit services and benefit from the external audit.

MIA urges all eligible companies to carefully review and consider the updated audit exemption criteria and to seek advice from accountancy professionals when necessary. Thorough consideration of the implications is necessary for SME owners to make informed decisions about their compliance requirements. For more information about services provided by an accountancy firm, please refer to MIA's publication *Business Excellence Guide for SMEs*.

For audit exempted companies, the following are situations where SMEs may want to consider voluntary audits:

- Audited financial statements are mandatory for securing contracts with significant clients, including local government bodies and large organisations.
- When lacking an experienced finance team, seeking an independent opinion on financial statements can enhance the quality of reported information.
- Audit provides confidence to lenders and investors regarding the reliability and integrity of financial statements.
- SMEs need to assess their business growth trajectory, balancing the potential benefits of exemption against the risk of incurring substantial audit costs to perform work on opening balances, if they no longer qualify for exemption.
- When contemplating selling a business, a consistent record of audited financials over several years enhances trust among potential buyers.
- For high-profile organisations with wide readership of financial statements, the added credibility can be invaluable
- Opting for a regulated service subject to rigorous quality control may be a preferred approach.
- In the context of tax requirements, the shift to unaudited financial statements raises concerns about reliability and may increase the burden and responsibility on tax agents.

Where a company is exempted from audit but still continues to have its accounts audited, it will send out a strong signal that:

- It regards its own financial management as a high priority;
- The financial information which it publishes stands up to external examination;
- It is confident enough about the quality of its operations to allow external scrutiny.

CHOOSING AN AUDITOR FOR YOUR BUSINESS

In Malaysia, only an approved company auditor, i.e. an MIA member with practising certificate and who has passed an audit interview conducted by the Accountant General's Office and obtained an approval from the Ministry of Finance (MoF) pursuant to the Companies Act, can be appointed as a company auditor.

Companies should consider the following pertinent criteria when evaluating prospective auditors:

- **Qualifications and Licenses:** Inquire about the auditor's qualifications and licensure status.
- **Fee Structure:** Understand the basis upon which fees are calculated and charged.
- **Sector-Specific Experience:** Assess the auditor's experience within the company's particular industry sector.
- **Professional Staff Qualifications:** Investigate the qualifications and experience of the individuals who will be directly involved in conducting the audit.
- **Additional Services:** Explore any supplementary services that the auditor may offer beyond standard auditing procedures.



By carefully considering these factors, companies will be able to select an appropriate auditor who possesses the requisite expertise and experience.

Working with a qualified accountant as a business advisor will ensure that more SMEs survive, prosper and contribute to overall economic development.

MIA: GOVERNING THE MALAYSIAN ACCOUNTANCY PROFESSION

The Malaysian Institute of Accountants (MIA) is a statutory body established under the Accountants Act 1967. It is empowered by law to regulate the accountancy profession in Malaysia.

As the national accountancy body, MIA sets high ethical standards which must be adhered to by all accountants in Malaysia. All accountants are bound by MIA's By-laws. Any breach of the By-laws may render the members liable to disciplinary proceedings. Members may be suspended or even removed from membership, depending on the severity of the non-compliance.

MIA members are regulated and the public has a recourse by lodging a complaint to the Institute if they are dissatisfied with the services rendered. The public would also be assured of the quality of the professional services expected as it is mandatory for all MIA members to annually acquire a minimum hours of continuing professional education to ensure that they are updated technically, even after being trained as an accountant.

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