

NEW "SMALL COMPANY" CONCEPT FOR AUDIT EXEMPTION (PART 2)

Practical Application for Groups



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On IS Chartered Accountant, April 2015, we illustrated the application of the new "small company" concept for companies which are

not part of a group of companies. This article illustrates the applicability of the "small company" audit exemptions in the context of group companies.

In the current business and economic environment, it is a common phenomenon that companies explore

overseas markets as they grow in size and as a result, group audits have become increasingly prevalent. To be exempted from audit requirements under the new amendments in the Companies (Amendments) Act 2014, a parent company or a subsidiary company must be a "small company" and part of a "small group". Paragraph 12(a) of the new Thirteenth Schedule to the Singapore Companies Act states that the question of whether an entity is part of a group is to be decided in accordance with the Singapore Financial Reporting Standards (SFRS).¹ This principle applies regardless of whether the ultimate parent company is a Singapore or overseas company, and regardless of the financial reporting standards the ultimate parent company may use for the purposes of its consolidation.

The determination of what is a "small company" was covered in Part 1 of this article. To qualify as a "small group", the group must satisfy at least two of the following three quantitative criteria in each of the immediate past two financial years:

- (a) Consolidated revenue² of not more than S\$10 million;
- (b) Consolidated total assets² of not more than S\$10 million;
- (c) Total number of employees of the group of not more than 50.

In this article, we focus on the application of the new "small group" thresholds in five scenarios using the data in Figure 1.

Figure 1 Illustrative Data (Company level)

Description	Ultimate Parent A	Intermediate Parent B	Subsidiary C	Associate D
Revenue	\$3,500,000	\$3,000,000	\$7,000,000	\$1,000,000
Total assets	\$5,000,000	\$4,500,000	\$1,500,000	\$100,000
Number of employees	7	18	25	20

¹ SFRS 110 Consolidated Financial Statements defines a "group" as "a parent and its subsidiaries".

² Paragraph 12(b)(ii) of the Thirteenth Schedule to the Companies Act states that for groups where consolidated financial statements are not prepared by a parent in relation to a group, "consolidated revenue" means the aggregate revenue of all the members of the group and "consolidated total assets" means the aggregate total assets of all the members of the group.



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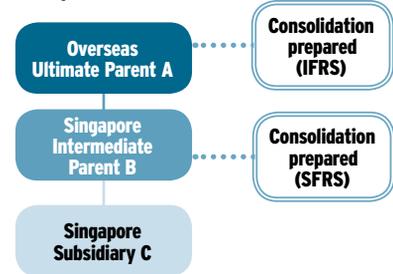
To be exempted from audit requirements under the new amendments in the Companies (Amendments) Act 2014, a parent company or a subsidiary company must be a “small company” and part of a “small group”.

apply if the subsidiary is both a “small company” and is part of a “small group”.

The same assessment illustrated in Figure 1a would apply.

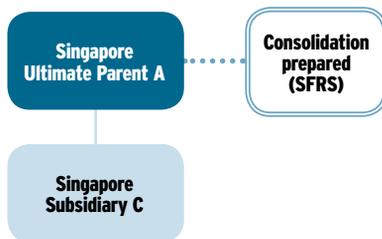
Scenario 2a

Three entities: An *overseas* ultimate parent A, a 100%-owned *Singapore* intermediate parent B and one 100%-owned *Singapore* subsidiary C; consolidation prepared at both levels, in accordance with SFRS for the intermediate parent and a similar financial reporting framework for the overseas ultimate parent, for example, IFRS.



Scenario 1a

Two entities: A *Singapore* ultimate parent A and one 100%-owned *Singapore* subsidiary C; consolidation prepared in accordance with SFRS.



Notwithstanding that the overseas parent does not have to comply with the financial reporting requirements under the Singapore Companies Act, the consolidated financial statements of the group (that is, overseas parent and Singapore subsidiary) will still have to be considered in determining if the Singapore subsidiary can be exempted from audit requirements. This is because the audit exemption would only

Scenario 1b

Using the same group structure as Scenario 1a, we will now examine the assessment for an *overseas* parent for which consolidation is prepared in accordance with the International Financial Reporting Standards (IFRS).

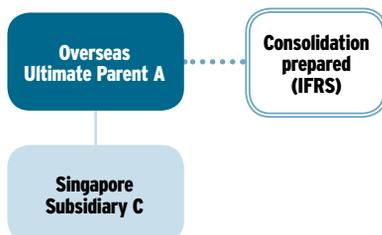


Figure 1a (Consolidation prepared)

Description	Singapore Ultimate Parent A	Singapore Subsidiary C	Group (Consolidated)	Met criteria?
Revenue	S\$3,500,000	S\$7,000,000 (including S\$3,500,000 intercompany sales to Parent A)	S\$7,000,000 (after elimination of intercompany sales to Parent A)	✓
Total assets	S\$5,000,000 (including S\$500,000 investment in Subsidiary C)	S\$1,500,000 (including S\$500,000 intercompany balances owing from Parent A)	S\$5,500,000 (after elimination of intercompany balances owing from Parent A and investment in subsidiary)	✓
Number of employees	7	25	32	✓
Fulfil “small group” criteria?				Yes

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"SMALL COMPANY" CONCEPT FOR AUDIT EXEMPTION

Figure 2a (Consolidation prepared)

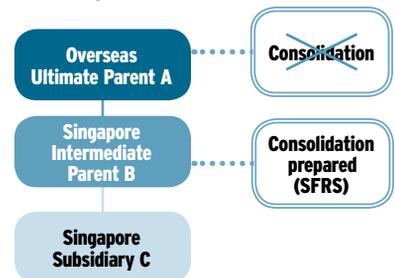
Description	Overseas Ultimate Parent A	Singapore Intermediate Parent B	Singapore Subsidiary C	Group (Consolidated)	Met criteria?
Revenue	S\$3,500,000	S\$3,000,000	S\$7,000,000 (including S\$3,500,000 intercompany sales to Parent A)	S\$10,000,000 (after elimination of intercompany sales to Parent A)	✓
Total assets	S\$5,000,000 (including S\$1,000,000 investment in Intermediate Parent B)	S\$4,500,000 (including S\$500,000 investment in Subsidiary C)	S\$1,500,000 (including S\$500,000 intercompany balances owing from Parent A)	S\$9,000,000 (after elimination of intercompany balances owing from Parent A and investments in subsidiaries)	✓
Number of employees	7	18	25	50	✓
Fulfil "small group" criteria?					Yes

Technically, the above scenario consists of two groups – one at the Singapore intermediate parent level and the other at the overseas ultimate parent level.

For the purposes of assessing a small group, paragraph 12(c) of the new Thirteenth Schedule to the Singapore Companies Act states that "parent" does not include any entity which is a subsidiary of any other entity within the meaning of SFRS. Essentially, this means that the Singapore intermediate parent B is not considered as a "parent" in the above scenario, that is, it would have to be treated as a subsidiary. Accordingly, only the consolidated financial statements of the overseas ultimate parent A shown in Figure 2a should be considered for assessment as a "small group" (that is, the group with three entities).

Scenario 2b

Using the same group structure as Scenario 2a, we will now examine the scenario where consolidation is prepared at the Singapore intermediate parent level *but not at the overseas ultimate parent level*.



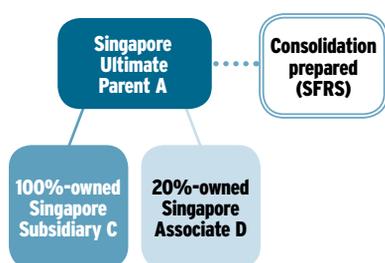
Applying the same principles as in Scenario 2a for the determination of a group, only the group headed by the overseas ultimate parent would be considered as a relevant group for the purpose of assessment as a "small group". However, since ultimate parent A does not prepare consolidated financial statements, the principles in paragraph 12(b)(ii) of the Thirteenth Schedule to the Singapore Companies Act would apply (that is, the *aggregate* revenue and aggregate assets of the group would have to be considered).



Figure 2b illustrates the aggregation of revenue and assets for assessment as a “small group”.

Scenario 3

Three entities: A Singapore ultimate parent A, one 100%-owned Singapore subsidiary C and one 20%-owned Singapore associate D; consolidation prepared in accordance with SFRS.



As defined in SFRS 110, a “group” does not include its associates and joint ventures. Hence, Associate D is not considered an entity within the group for the purpose of assessment as a “small group”. Accordingly, Associate D would not have to take into account the group in assessing whether it qualifies for the “small company” audit exemption. Similarly, the number of employees in Associate D does not contribute to the aggregate number of employees in the group. However, an investor is required by SFRS 28 *Investments in Associates and Joint Ventures* to account for its investment in associate or joint venture using the equity method, even on a standalone basis. No elimination of the share of Associate D’s profits from the consolidated assets is required for the purpose of the assessment of a “small group”.

SUMMARY

In a nutshell, the key takeaway of the “small group” concept is to apply the assessment criteria at the ultimate parent level, and the members of the group are determined in accordance with SFRS, regardless of whether that parent is incorporated in Singapore or overseas. ISCA

Figure 2b (Consolidation not prepared at overseas ultimate parent A level)

Description	Overseas Ultimate Parent A	Singapore Intermediate Parent B	Singapore Subsidiary C	Group (Aggregated)	Met criteria?
Revenue	\$S3,500,000	\$S3,000,000	\$S7,000,000 (including \$S3,500,000 intercompany sales to Parent A)	\$S13,500,000 (No elimination)	X
Total assets	\$S5,000,000 (including \$S1,000,000 investment in Intermediate Parent B)	\$S4,500,000 (including \$S500,000 investment in Subsidiary C)	\$S1,500,000 (including \$S500,000 intercompany balances owing from Parent A)	\$S11,000,000 (No elimination)	X
Number of employees	7	18	25	50	✓
Fulfil “small group” criteria?					No

Figure 3 (Consolidation prepared)

Description	Singapore Ultimate Parent A	Singapore Subsidiary C	Singapore Associate D	Group (Consolidated)	Met criteria?
Revenue	\$S3,500,000	\$S7,000,000 (including \$3,500,000 intercompany sales to Parent A)	\$S1,000,000	\$S7,000,000 (after elimination of intercompany sales to Parent A)	✓
Total assets	\$S5,000,000 (including \$S500,000 investment in Subsidiary C and \$S200,000 share of Associate D’s profits using equity accounting)	\$S1,500,000 (including \$S500,000 intercompany balances owing from Parent A)	\$S100,000	\$S5,500,000 (after elimination of intercompany balances owing from Parent A and investment in subsidiary)	✓
Number of employees	7	25	20	32 (excluding employees of Associate D)	✓
Fulfil “small group” criteria?					Yes

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The key takeaway of the “small group” concept is to apply the assessment criteria at the ultimate parent level, and the members of the group are determined in accordance with SFRS, regardless of whether that parent is incorporated in Singapore or overseas.

This article was jointly developed by Kang Wai Geat, Assistant Director, and Zoey Xie, Manager, Technical Standards Development and Advisory Department, ISCA, and Law Reform Department, Accounting and Corporate Regulatory Authority.