

Audit Report

Table of Contents

Introduction.....	3
Statutory Audit for SMES In Accordance With Malaysian Laws and Regulations.....	3
Value and Benefits of Statutory Audit for Owners, Managers and Various Stakeholders.....	4
Benefits of an Audit Outweigh the Costs	5
Conclusion	5

Introduction

The present essay intends to summarize the ways in which statutory audits intend to add value to SMEs. Structurally, the essay is likely to evaluate the scope of SMEs in the Malaysian context and the contribution of SMEs to the Malaysian economy. Consequently, the discussion intends to evaluate statutory audit for SMEs in Malaysia and value and benefits of statutory audit in Malaysia. Lastly, the discussion in the report is committed towards identifying the costs of mandatory audit to an entity. According to Mohd-Sulaiman and Rachagan (2017), SMEs are the non-subsidiary independent firms that are accountable of providing employment for fewer numbers of employees. The SMEs are designed to differentiate businesses with relatively small amount of capitals that are found to be legally independent.

In accordance to within Malaysian context, SMEs are playing a significant role towards the contribution of economic development and social uplifting because it refers to the establishment of business activities within the urban and rural areas. It is an important driver of national economy because Malaysian Government has encountered an increase in the contribution of SMEs industry towards the overall economy of the company (Haron, Ismail, Ganesan and Hamzah, 2016). Statistically, it has been noted that development of SMEs has been increased from RM 1,561.6 million to RM 2,160.2 million. According to Companies Act 2016, many economists anticipate that SMEs are effective for Malaysian economy because they can facilitate in achieving the vision 2020 which can ensure the development of Malaysian economy. SMEs in Malaysia make the 99% of the businesses being established. Consequently, it is the source of job creation within the nation (Ganesan, Haron, Amran and Ooi, 2017).

Statutory Audit for SMES In Accordance With Malaysian Laws and Regulations

The work of Iskandar, Hassan, Sanusi and Mohamed (2017) determined that statutory audits of SMEs appears to be questionable in Malaysia because the government is pursuing Vision 2020 with the intention of moving Malaysian economy from a middle income to high income. Accordingly, Mohamad, Mohamad, Zakaria, Zakaria, Hamid and Hamid (2016) affirmed that in Malaysia, SMEs are allowed to decide whether to do audit or not; in fact, there is no legal regulation about audit of SMEs. In fact, SMEs within the nation have the access or are allowed to

decide whether to do audit or not. On contrary, Mahzan and Yan (2014) reported that if the SMEs in Malaysia prefer going for audit than it seems significantly impossible to acquire consensus because it is generally community based. SMEs community in Malaysia is contended with the decisions because they do not have to pay audit fees. Thus, it can be affirmed that the elimination of audit fees is likely to enable company is saving cost for the business. The expenses associated with audit of SMEs involve travel charges, reimbursable charges and supplies cost. Thereby, in accordance to Zabri, Kamilah and Lean (2014) the company act 2016 demonstrates that if SMEs prefer going for audit than the level of acceptance of audit exemption for dormant is eliminated. Consequently, it found to be ineffective for the SMEs operating in Malaysia. The companies intending to go for voluntarily audit are likely to employ external audits because they review the accounting processes for financial information. As a result, it increases the chances of audit risks for the company.

Value and Benefits of Statutory Audit for Owners, Managers and Various Stakeholders

According to Zabri, Kamilah and Lean (2014); Hayes, Wallage and Gortemaker (2014), statutory audit is effective for multiple concerned associates like; managers, investors and stakeholders. For owners, with statutory audit is beneficial because it facilitates in examining and identifying the weaknesses of accounting systems. On contrary, William, Glover and Prawitt (2016) affirmed that for managers of the companies, statutory audits can ensure the enhancement of trustworthiness of specific published financial statements. Moreover, the statutory audit for companies can benefit managers because it is an ultimate source of assurance for management. In addition, Hayes, Wallage and Gortemaker (2014) argued that with auditing, SMEs' management personnel are able to employ the external audits because they intend to review the accounting processes for the financial information.

For instance, in the case of stakeholders, the audit is likely to benefit the employees through limiting the tax issue which consequently reduces the payroll taxes being imposed on the employees. In the case of stakeholders like employees, company's statutory audit facilitate in exploring the less clear challenges and problems for the company. The integration of the auditing for Malaysian based economies is effective because they are the source of offering validity for owners, managers and employees (Hayes, Wallage and Gortemaker, 2014).

Benefits of an Audit Outweigh the Costs

From the study of Iskandar, Hassan, Sanusi and Mohamed (2017), it has been learnt that with the auditing, companies are assured of the shareholders which is likely to reduce the risk of fraud in the company. It can also play a major role in offering comfort and quality factor for the company because it serves to be an audit report. Thus, it has been determined that it is worth having auditing because it can play a major role in enabling the companies in understanding the errors in the company which can be scrutinized externally. Up to some extent, auditing procedures in the company are not cost effective thus is not viewed as economically optimal in the firm. Consequently, it has been noted that the. In accordance to Mahzan and Yan (2014), for the business records, cost of auditing processes is high in terms of audit fees. The costs include verification of the cost accounting records, accuracy of cost accounts and cost statements. It has been acknowledged that there are some expenses that are associated with the auditing processes. These costs can be treated as contractual because it requires external consultants and parties. However, the benefits of the company are reliability and authenticity of the information. Considering these facts, it has been acknowledged that benefits of auditing in a company are not found to be enough which ensures that they cannot compensate the cost company is executing for carrying out auditing. Thus, the auditing processes in the SMEs Company charged high fees for the company which enabled in understanding that benefit of auditing is greater than the cost of auditing. The benefit of the audit in the company does not outweigh the cost.

Conclusion

From the discussion so far, it has been learnt that SMEs in Malaysia have the potential to contribute towards the substantial economic developments because they can provide a significantly strong strategic planning for the industrial effectiveness. SMEs in Malaysia are useful for the placement of economic contributions at a wider level.

References

- Ganesan, Y., Haron, H., Amran, A. and Ooi, S. K. (2017). Corporate Social Responsibility in SMEs: The Role of Non-Audit Services. In *Handbook of Research on Small and Medium Enterprises in Developing Countries* (pp. 345-359). IGI Global.
- Haron, H., Ismail, I., Ganesan, Y. and Hamzah, Z. (2016). Audit Exemption For Small And Medium Enterprises: Perceptions Of Malaysian Auditors. *Asian Academy of Management Journal*, 21(2).
- Hayes, R., Wallage, P. and Gortemaker, H. (2014). *Principles of auditing: an introduction to international standards on auditing*. Pearson Higher Ed.
- Iskandar, T. M., Hassan, N. H., Sanusi, Z. M. and Mohamed, Z. M. (2017). Board of directors and ownership structure: A study on small and medium enterprises (SMEs) in Malaysia. *Jurnal Pengurusan (UKM Journal of Management)*, 49.
- Mahzan, N. and Yan, C. M. (2014). Harnessing the benefits of corporate governance and internal audit: advice to SME. *Procedia-Social and Behavioral Sciences*, 115, 156-165.
- Mohamad, A., Mohamad, A., Zakaria, M. H., Zakaria, M. H., Hamid, Z. and Hamid, Z. (2016). Cash economy: tax evasion amongst SMEs in Malaysia. *Journal of Financial Crime*, 23(4), 974-986.
- Mohd-Sulaiman, A. N. and Rachagan, S. (2017). Shareholder primacy, controlling shareholders and Malaysia's Companies Act 2016. *Journal of Corporate Law Studies*, 17(1), 203-224.
- William Jr, M., Glover, S. and Prawitt, D. (2016). *Auditing and assurance services: A systematic approach*. McGraw-Hill Education.
- Zabri, S. M., Kamilah, A. and Lean, J. (2014). Owner/Managers' Financing Preferences and the Proportion of Firm's Capital Structure: Evidence from Successful SMEs in Malaysia. In *The International Conference on Business Strategy and Social Sciences* (pp. 16-17).