

April 2026

## **GUIDANCE NOTE ON AUDIT EXEMPTION**

Guidance Note on the Impact of Subsidiary Legislation 372.33 Audit Exemption Rules (Legal Notice 139 of 2025 Audit Exemption Rules) on practitioners.

### **Notice of Updates**

This Guidance Note is issued for the assistance of practitioners as of the date of publication. Please note that the contents of this document may be reviewed and updated from time to time to reflect developments in legislation, regulation, standards, or best practice.

The Institute will notify practitioners of any amendments or revisions. Practitioners are, however, advised to remain vigilant and to ensure that they are consulting the most recent version of this guidance at all times. Notifications of updated versions will be communicated through the Institute's usual communication channels.



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This Guidance Note provides a high-level overview of Subsidiary Legislation 372.33 Audit Exemption Rules, highlighting how a company could become eligible for an exemption from the audit requirements set out in Article 19(4)(a) of the Income Tax Management Act. It remains subordinate to Cap. 372 Income Tax Management Act, Subsidiary Legislation 372.33, and all official MTCA guidance issued thereunder and referred herewith. This Guidance Note also makes reference to IFAC's Guide to Review Engagements published in December 2013.

## 1. Overview of Subsidiary Legislation 372.33 Audit Exemption Rules

Subsidiary Legislation 372.33 Audit Exemption Rules, herewith referred as the 'Rules' was published under the Income Tax Management Act (Cap. 372 of the Laws of Malta), herewith referred as 'ITMA' to introduce a modernised framework partially aligning Malta's tax audit requirements with the audit exemptions already available under article 185 (2) of the Companies Act (Cap. 386 of the Laws of Malta).

The Rules provide for exemptions from the audit obligation under Article 19(4)(a) of the ITMA for certain qualifying companies and establish three principal routes of relief:

**1.1 Start-Up Route** (effective for accounting periods beginning on or after 1 January 2024). This route was previously regulated under Subsidiary Legislation 372.29 Audit Report Waiver and Deduction Rules, which has since been repealed and replaced by Subsidiary Legislation 372.33 Audit Exemption Rules (the Rules)."

Newly incorporated companies may benefit from an audit exemption for their first two accounting periods provided that:

- o All shareholders are individuals holding at least an MQF Level 3 qualification as recognised by the Malta Qualifications Recognition Information Centre;
- o The company is incorporated within three years of obtaining such qualifications; and
- o The annual turnover does not exceed €80,000 (or proportionately adjusted for shorter/longer accounting periods).

Where a statutory audit is voluntarily undertaken, a tax deduction of 120% of the audit fee (capped at €700 per accounting period) may be claimed.

## 1. Overview of Subsidiary Legislation 372.33 Audit Exemption Rules (Continued)

**1.2 Exempt Company Route** (effective for accounting periods commencing on or after 1 January 2025) - The provisions of this route also extend to entities established or regulated under the Merchant Shipping Act (refer to Section 1.3 below).

With reference to the thresholds referred to under Article 185(2) of the Companies Act (Cap. 386 of the Laws of Malta) - based on thresholds for balance sheet total, turnover and average employees - may:

- a. Opt to prepare a review report instead of a statutory audit when on their balance sheet dates they do not exceed the limits of two of the three thresholds; or
- b. Opt to be fully exempt from audit and review when on their balance sheet dates none of the three thresholds are exceeded.

Consistent with Article 185(3) of the Companies Act, where, on any balance sheet date other than that of the first financial period, a company either exceeds or ceases to satisfy the thresholds specified in points (a) and (b) above, this will only affect the exemption if it happens in two consecutive financial years.

Where a company is required to prepare consolidated financial statements, the company shall, subject to the group qualifying as a small group under Article 185(5) of the Companies Act, be entitled to either (a) or (b) as stipulated above.

**1.3 Companies Registered under the Merchants Shipping Act (Cap. 234 of the Laws of Malta) and benefits from an exemption provided for in regulation 64 of the Merchant Shipping (Shipping Organisations – Private Companies) Regulations** (effective for accounting periods commencing on or after 1 January 2024)

This rule provides that a company registered in Malta under the Merchant Shipping Act and qualifying for the exemption under regulation 64 of the Merchant Shipping (Shipping Organisations – Private Companies) Regulations is deemed to have satisfied the audit report requirements related to the accounting records referred to in article 19(4)(a) of the Income Tax Management Act, even in the absence of a statutory audit.

Consistent with Article 185(3) of the Companies Act, where, on any balance sheet date other than that of the first financial period, a company either exceeds or ceases to satisfy the thresholds specified in regulation 64 of the Merchant Shipping (Shipping Organisations – Private Companies) Regulations, this will only affect the exemption only if it happens in two consecutive financial years.

## 1. Overview of Subsidiary Legislation 372.33 Audit Exemption Rules (Continued)

Where a company is required to prepare consolidated financial statements, the exemption continues to apply as long as the group qualifies as a small group, as established under regulation 64 of the Merchant Shipping (Shipping Organisations – Private Companies) Regulations.

## 2 Publications by Other Bodies

### 2.1 MTCA Guidelines

The MTCA has issued guidelines entitled “Guidelines in relation to the Audit Exemption Rules”, which clarifies the practical application of the Legal Notice and provides illustrative examples. [MTCA Guidelines in relation to the Audit Exemption Rules \(PDF\)](#).<sup>1</sup>

The MTCA guidelines:

- explain how companies should assess eligibility for audit exemption or review-report treatment;
- define the term “review report” as a report issued in accordance with [ISRE 2400 \(Revised\)](#); and
- provide worked examples illustrating qualification criteria and group situations. It is to be noted that these examples are non-exhaustive.

Thus, in addition to referring to the Rules and Articles 185(2), 185(3) and 185(5) of the Companies Act and Article 64 of the Merchant Shipping (Shipping Organisations – Private Companies) Regulations, members are also encouraged to refer to the MTCA guidelines.

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<sup>1</sup> The document annexed to this Guidance Note was downloaded on 19th January 2026. The MTCA Guidelines are also available online [here](#).

## **2 Publications by Other Bodies (Continued)**

### **2.2 IFAC's Guide to Review Engagements**

To support practitioners performing review engagements, the International Federation of Accountants (IFAC) has published the *Guide to Review Engagements*.

This guide assists small and medium-sized practices in applying International Standard on Review Engagements ([ISRE 2400 \(Revised\)](#)) and includes practical examples such as:

- model documentation checklists (engagement letters, management representations and analytical review templates);
- illustrative review reports including those with modifications or emphasis of matter; and
- sample case studies highlighting how procedures vary depending on entity risk profiles and complexity.

These examples help practitioners distinguish the level of assurance, evidence and documentation required in a review engagement compared with a full audit.

## **3. Restriction of Use of Review Engagements Prepared for MTCA Purposes**

Members are advised that where a review engagement is undertaken solely for MTCA purposes and the resulting practitioner's report is not intended for general use, the MIA recommends the inclusion of a restriction of use paragraph in the practitioner's report.

This recommendation is consistent with the guidance set out in Exhibit 6.2-3A of the IFAC Guidance Note which illustrates the use of an "Other Matter" or "Restriction of Use" paragraph to clearly communicate that the report is prepared for a specific purpose and intended only for specified users. Such a paragraph helps to mitigate the risk of inappropriate reliance by parties for whom the practitioner's report was not prepared.

## 4. Frequently Asked Questions

### **4.1 Are the thresholds for audit exemption application for companies registered under the Companies Act the same for companies registered under the Merchant Shipping Act, and is the applicability date of the exemption the same for both? <sup>1</sup>**

#### **Applicability Date**

For companies registered under the Merchant Shipping Act, the Rules are applicable with effect from accounting periods commencing on, or after 1 January 2024.

For companies registered under the Companies Act, the Rules are applicable with effect from accounting periods commencing on, or after 1 January 2025.

#### **Thresholds**

*The thresholds for the applicability of audit exemption for companies registered under the **Merchant Shipping Act** are the following:*

- Turnover: EUR 12,000,000
- Balance sheet total: EUR 6,000,000
- No. of employees: 50

*It is to be noted that companies registered under the Merchant Shipping Act are either required to undergo an audit or are exempt from audit, i.e. there are no thresholds in respect of which such companies have the option to prepare a review instead of an audit.*

If a company registered under the Merchant Shipping Act is a parent entity and meets the criteria for exemption under Rule 7(2) of LN 139 of 2025, the exemption continues to apply as long as the group continues to meet the definition of a small group.

*For companies registered under the **Companies Act**, the thresholds are those included in Article 185(2) of the Companies Act (Cap. 386 of the Laws of Malta), currently <sup>2</sup> being the following:*

- Turnover: EUR 93,000
- Balance sheet total: EUR 46,600
- No. of employees: 2

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<sup>1</sup> This reply is focusing on routes 2 and 3 referred to in Section 1 above. As explained in Section 1, the Rules also provide for the **Audit Report Waiver and Deduction Rules** previously in force through Subsidiary Legislation 372.29. While the latter has now been repealed, the same rules continue to be in force through Subsidiary Legislation 372.33, the Audit Exemption Rules, (i.e. the Rules that are the subject matter of this publication).

<sup>2</sup> January 2026

#### 4. Frequently Asked Questions (Continued)

For a company registered under the Companies Act that serves as a parent entity and is required to comply with Rule 6(2) of LN 139 of 2025, the applicable thresholds for determining whether consolidated financial statements must be prepared are outlined below:

- Turnover: EUR 8,000,000 net / EUR 9,600,000 gross
- Balance sheet total: EUR 4,000,000 net / EUR 4,800,000 gross
- No. of employees: 50

As already explained in section 1.2 above, a company registered under the Companies Act may avail one of the following options as applicable:

- Opt to prepare a review report instead of a statutory audit when on their balance sheet dates they do not exceed the limits of two of the three thresholds; or
- Opt to be fully exempt from audit and review when on their balance sheet dates none of the three thresholds are exceeded.

#### 4.2 Does the audit exemption impact the applicable accounting frameworks under Companies Act?

*No, the preparation of financial statements is not impacted by the Rules. The applicable accounting framework is not dependant on, and hence not impacted by, whether an audit or review is required.*

#### 4.3 Is a review engagement considered a relevant activity under the FIAU's AML/CFT framework? And if a company no longer requires an audit or review, am I still obliged to carry out customer due diligence and ongoing monitoring in line with the FIAU's Implementing Procedures?

*Given that a review engagement is an assurance engagement that can only be performed by a holder of a practicing certificate, it is a relevant activity in terms of the [Prevention for Money Laundering and Funding of Terrorism Regulations](#) and the [Implementation Procedures Part II](#). Hence, practitioners will continue having the obligation to carry out Customer Due Diligence and ongoing monitoring in line with the aforementioned regulations.*

*If a company no longer requires an audit nor review, and the practitioner is not providing any other service that constitutes a relevant activity, the practitioner is not obliged to perform due diligence or ongoing monitoring, as the professional relationship would have ended. [As agreed with FIAU, the auditor remains a subject person until the final day on which they sign their report, even if Forms DD3/DD4 are subsequently filed with the MBR].*

## 4. Frequently Asked Questions (Continued)

*With respect to tax compliance services, the FIAU is currently working on a guidance paper, which is expected to be issued in 2026. The Malta Institute of Accountants is one of the stakeholders involved in the discussions and providing feedback.*

### **4.4 What will the deliverables required by the Malta Business Registry (MBR) and the Malta Tax and Customs Administration (MTCA) by a company claiming an audit exemption under the new legal notice be?**

*The Rules do not introduce any changes to the current procedures with MBR.*

- *If an audit report is required because the thresholds in Article 185(2) of the Companies Act (Cap. 386 of the Laws of Malta) are exceeded, then companies will continue to file an audit report.*
- *If an audit or review report is not required by MTCA but is required by other stakeholders, companies need not file that audit or review report with MBR as it is not a statutory requirement.*
- *If a review report is required for MTCA purposes, it does not need to be filed with the MBR provided that a declaration via forms DD3/DD4 is made and submitted.<sup>1</sup>*

### **4.5 Will the audit exemption have an impact on situations where other aspects of the Income Tax Act and the Income Tax Management Act require some form of audit report or statement by an auditor?**

- *Through its Direct Taxation Committee, the MIA is working with MTCA to identify areas in respect of which reporting discrepancies resulted as a result of the entering into force of the Rules. For instance, if certain reporting requirements currently refer to a company's audited financial statements, but the company now qualifies for an audit exemption, those requirements will need to be reassessed and potentially revised.*

*Also, the MTCA will be implementing changes to the Income Tax Return to accommodate scenarios where a company is either exempt from submitting audited financial statements or is only required to submit reviewed financial statements.*

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<sup>1</sup> MIA is in discussion with MBR with respect to the content, format and use of these forms.

## 4. Frequently Asked Questions (Continued)

### 4.6 In the context of the audit exemption, what are the key differences between conducting a full audit under the International Standards on Auditing (ISA) and performing a review engagement in accordance with ISRE 2400, particularly in terms of the level of assurance provided, the extent of procedures performed, and the implications for reporting?

*The fundamental difference between an audit under the ISAs and a review engagement in accordance with [ISRE 2400 \(Revised\)](#) lies primarily in the level of assurance provided and the nature of the procedures performed.*

*A full audit, conducted under ISAs, is designed to provide reasonable assurance that the financial statements are free from material misstatement, whether due to fraud or error. This involves performing extensive audit procedures including risk assessment, control testing (where deemed relevant) and substantive testing to enable the auditor to obtain sufficient appropriate audit evidence to support the auditor's opinion. The result is a positive form of opinion - an explicit statement that the financial statements present fairly, in all material respects, the financial position and performance of the entity.*

*In contrast, a review engagement under [ISRE 2400 \(Revised\)](#) provides limited assurance, which is lower than the reasonable assurance of an audit. The objective is to conclude whether, based on the procedures performed, the auditor is aware of any material modifications that should be made to the financial statements to be in accordance with the applicable financial reporting framework. The procedures that will need to be carried out are mainly inquiry and analytical procedures, which are generally less extensive and less detailed than audit procedures. The report to be issued is a negative assurance report, stating that nothing has come to the auditor's attention that causes them to believe the financial statements are materially misstated.*

### 4.7 What happens in situations where a company shifts from a full audit exemption to a review or audit requirement or from a review to audit requirement in terms of testing of opening balances?

*When an entity transitions from no assurance or from a review into a higher level of assurance, practitioners must consider whether the opening balances may contain misstatements that could materially affect the current period reporting.*

*In an initial review engagement, [ISRE 2400 \(Revised\)](#) requires inquiry and analytical procedures as the core methodology. Additional work is only performed when professional judgement and risk assessment indicate issues or inconsistencies. Examples of additional work include, amongst others, targeted inquiries, trend and ratio analysis, and, where needed, verification of specific balances or cut-off areas. Procedures remain proportionate to the size and complexity of the entity.*

#### 4. Frequently Asked Questions (Continued)

*For an initial audit, including cases where prior periods were reviewed or unaudited, ISA 510 requires the auditor to obtain reasonable assurance over opening balances. The extent of work depends on risk and materiality: low-risk situations may require limited testing, while higher-risk balances may require confirmations, substantive verification of assets and liabilities, and more detailed cut-off procedures. The practitioner's professional judgement determines how far beyond the prior review work they must go to reach audit-level assurance.*

##### **Impact on the auditor's report:**

*When adopting the corresponding-figures approach referred to in [ISA 710 Comparative Information – Corresponding Figures and Comparative Financial Statements](#), the opinion relates to the current year unless comparative issues arise. The auditor modifies/amends the report only if:*

- (i) prior-year qualifications remain unresolved (Paragraph 11 of ISA 710);*
- (ii) a material prior-year misstatement is uncorrected or inadequately disclosed (Paragraph 12 of ISA 710); or*
- (iii) the prior period was unaudited, which must be explicitly stated (Paragraph 14 of ISA 710).*

**By way of a concluding note, it should be emphasised that, irrespective of any prior assurance engagements, adequate procedures must be performed to verify that opening balances are accurate and do not result in any misstatement of the current year's financial statements.**

## 4. Frequently Asked Questions (Continued)

### Examples

#### Scenario A – Moving from No Audit to a Review Engagement

A company previously had no audit or review requirements. In the current accounting period, a review engagement becomes mandatory. The practitioner must perform procedures on the opening balances (i.e., prior year closing balances) because they were never previously subjected to assurance, and errors could materially affect the current period's financial statements.

#### Procedures on Opening Balances (Review Engagement)

Review engagements focus on limited assurance, so procedures are more inquiry- and analytical-based. Examples of procedures that may be performed on opening balances include:

##### 1. *Analytical Procedures*

- Compare prior year closing balances with current year opening balances.
- Identify unusual movements, trends, or inconsistencies.

##### 2. *Inquiry and Limited Substantive Work*

- Ask management how the opening balances were compiled and whether any adjustments were made.
- Perform limited recalculations where appropriate (e.g., checking prior year bank balances against available statements, confirming valuation methods for inventories).

##### 3. *Cut-off Considerations*

- Discuss with management any year end transactions and adjustments to confirm they relate to the correct period.

### Objective

Even though assurance is limited, sufficient procedure must be performed to ensure opening balances do not materially affect the current period results.

### Impact on the auditor's report

When the prior period financial statements are neither audited nor reviewed, the auditor shall state in an 'Other matter' paragraph of the review report that the comparative financial information is unaudited or unreviewed.

#### **4. Frequently Asked Questions (Continued)**

Such a statement does not, however, relieve the auditor of the requirement to perform procedure on the opening balances.

### **Scenario B – Moving from No Audit to an Audit Engagement**

#### **Scenario**

A company previously had no audit requirement. In the current period, a full audit is now required. Because the opening balances were never subject to audit, the auditor must perform procedures to obtain sufficient appropriate audit evidence in line with the requirements of ISA 510 – Initial Audit Engagements: Opening Balances.

According to ISA 510, the auditor must obtain evidence on whether:

- Opening balances contain misstatements that could materially affect the current period's financial statements.
- Accounting policies used in the opening balances have been consistently applied in the current period or, if changed, are appropriately accounted for and disclosed.

#### **Procedures on Opening Balances (Audit Engagement)**

Audit engagements involve more extensive procedures, including substantive testing. Examples of procedures that may be performed on opening balances include:

##### *1. Analytical Procedures*

- Compare prior year closing balances with current year opening balances.
- Investigate unexpected changes.

##### *2. Substantive Testing*

- Inventory: Test valuation or perform roll-back procedures.
- Trade receivables: Test aged receivables at the beginning of the year, review subsequent collections.
- Cash and bank balances: Obtain bank confirmations or bank statements supporting prior year end balances.
- Payables and accruals: Examine supporting documentation and subsequent payments.

## 4. Frequently Asked Questions (Continued)

### 3. *Cut-off Testing*

- Test transactions around year end to ensure they are recorded in the appropriate period.
- Review and verify prior year adjustments posted at the start of the current year.

### **Objective**

Irrespective of company size, sufficient and appropriate audit evidence must be obtained to ensure opening balances do not lead to a material misstatement in the current year's audited financial statements.

### **Impact on the auditor's report**

When the prior period financial statements are not audited, the auditor states in an 'Other matter' paragraph of the auditor's report that the comparative financial information is unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence on the opening balances.

## 4. Frequently Asked Questions (Continued)

### Scenario C: Moving from a review to an audit engagement

If a company previously underwent a review engagement and now requires an audit, additional procedures must be performed to bring the assurance level on opening balances up to audit standards.

This is because:

- A review provides limited assurance. The depth of testing required when carrying out a review engagement is less than what is required during an audit.
- Given that an audit is now being carried out, the auditor must obtain reasonable assurance, which is a higher standard.

Examples of additional procedures may include but are not limited to:

- Requesting bank/debtors' confirmations to validate prior year end balances.
- More rigorous cut-off procedures around previous financial year end.
- Verify material prior year assets and liabilities with supporting documentation.

### Impact on the auditor's report

When the prior period financial statements are reviewed but not audited, the auditor states in an 'Other matter' paragraph of the auditor's report that the comparative financial information was subject to a review engagement and therefore not audited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence on the opening balances.

## **4. Frequently Asked Questions (Continued)**

### **4.8 What happens when, despite the applicability of an audit or review exemption, other business partners, such as banks or suppliers, call for the presentation of audited or reviewed financial statements?**

*The audit exemption is there to be claimed on an opt-out basis. If business partners will be requesting audited or reviewed financial statements as a means to assess the continuation of their relations with companies eligible under the Rules, then it will be necessary to prepare audited or reviewed financial statements as requested. However, the company will still not be required to file that audit/review report with MTCA/audit report with MBR as it is not a statutory requirement.*

### **4.9 For fiscal unit consolidations, will companies exempt from audit under rule 6(2) of the Rules be required to have these audited nonetheless?**

*The requirements of rule 11 of S.L. 123.189 Consolidated Group (Income Tax) Rules remain unaffected by the introduction of S.L. 372.33 Audit Exemption Rules. Accordingly, where a company's directors elect to form a fiscal unit, the audit requirement for that unit remains in force regardless of whether the individual entities within the unit qualify for an audit exemption. The audit obligation is tied to the fiscal unit itself and is not waived by exemptions applicable to its constituent companies.*

### **4.10 Is the audit exemption applicable to trusts and cooperatives?**

*The Rules refer to companies registered under the Merchants Shipping Act and the Companies Act. Trusts, foundations and cooperatives are registered under different acts and therefore the Rules are not applicable to such.*

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This Guidance is not exhaustive and does not address all circumstances that may arise in practice. Professional judgement must always be exercised, having regard to the specific facts and circumstances of each engagement. Audit, review, and other assurance engagements are governed exclusively by the applicable International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs), other relevant professional standards, and any applicable legal or regulatory requirements. In the event of any inconsistency, such standards and requirements shall prevail.

This Guidance should be read in conjunction with the relevant legislation and professional standards. It is not a substitute for a careful and independent assessment of the applicability and suitability of any standard or requirement to a particular engagement, which must be undertaken by appropriately qualified professionals.

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## **Publications**

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