Will the Compliance Burden on MSMEs be Reduced?

As a vital contributor to India's industrial landscape, the MSME sector plays a crucial role in manufacturing, exports, and employment. With more than 5.93 crore registered MSMEs employing more than 25 crore people, these enterprises generate a significant share of the country's economic output. The Government of India has implemented a series of initiatives aimed at bolstering the Micro, Small, and Medium Enterprises (MSME) sector, recognizing its pivotal role in the economy. These efforts range from financial support and procurement policies to capacity building and market integration.

Key initiatives include the Udyam Registration Portal, PM Vishwakarma scheme, PMEGP, SFURTI, and the Public Procurement Policy for MSEs, all aimed at fostering entrepreneurship, enhancing employment, and integrating informal sectors into the formal economy. These initiatives reflect the government's commitment to supporting MSMEs and driving inclusive economic growth nationwide.

For the purpose of governance, on 9 May 2007, subsequent to an amendment of the Government of India (Allocation of Business) Rules, 1961, the erstwhile Ministry of Small Scale Industries and the Ministry of Agro and Rural Industries were merged to form the Ministry of Micro, Small and Medium Enterprises (M/o MSME). This Ministry now designs policies and promotes/ facilitates programmes, projects and schemes and monitors their implementation with a view to assisting MSMEs and help them to scale up. This institutional strengthening provides MSMEs with a dedicated platform for policymaking, grievance redressal, and reform implementation, thereby improving efficiency and responsiveness to industry concerns.

The Companies Act, 2013 have also supported MSMEs by introducing the concept of "Small Companies" and have provided few exemptions for such small companies. Some of them are as follows:

1. **Board Meetings (Section 173)**

   Under Section 173 of the Companies Act, 2013, most companies are required to hold a minimum of four board meetings in a year, with no more than 120 days between two meetings. However, small companies are given relaxation: they are only required to hold at least one board meeting in each half of the calendar year, with a gap of at least 90 days between the two. This reduces compliance burden on small companies, especially those with limited business activity and also saves administrative costs of convening frequent board meetings (venue, notices, minutes, etc.). It still ensures governance by requiring at least two meetings annually.

2. **Cash Flow Statement (Section 92)**

   A regular company's financial statements must include: Balance Sheet, Profit & Loss Account, Statement of Changes in Equity, and Cash Flow Statement. Small companies are exempted from preparing a cash flow statement. Preparation of a cash flow statement requires more detailed bookkeeping and professional involvement. Exemption reduces accounting costs and time. Many small companies have simple financial structures where cash flow statements add little analytical value for stakeholders.

3. **No Pre-Certification for Certain Forms**

   For many statutory filings under the Companies Act, forms must be certified by a practicing professional (CA, CS, or CMA). Small companies are exempt from such mandatory certification for certain forms like INC-21, INC-22, PAS-3, DIR-12, ADT-1, AOC-4, etc.

4. **Signing of Financial Statements**

   Normally, the annual return of a company must be signed by both a director and a Company Secretary (if appointed). In small companies where hiring a full-time Company Secretary is not mandatory, the law allows the annual return to be signed by a single director.

5. **Simplified Disclosures in Annual Reports**

   Instead of detailed director remuneration reports, only the total amount paid needs to be disclosed, cutting down lengthy reporting requirements.

6. **No Mandatory Auditor Rotation**

   Section 139 of the Companies Act requires auditor rotation every 5 years (for individual auditors) or 10 years (for audit firms) for certain classes of companies. Small companies are exempt from this requirement which reduces disruption and compliance costs.

7. **Exemptions in Auditor's Report**

   For larger companies, auditors are required under Section 143(3)(i) to report on the adequacy and effectiveness of internal financial controls. This is a complex audit exercise. Small companies are exempted from this requirement. It allows auditors to focus only on basic statutory financial reporting.

8. **Easy Mergers (Section 233)**

   The law provides for a fast-track merger process for small companies, start-ups, and holding-subsidiary combinations. Such mergers do not require approval of the National Company Law Tribunal (NCLT) if there are no objections from the Registrar of Companies (ROC) and the Official Liquidator.

9. **Reduced Penalties (Section 446B)**

   Under Section 446B, small companies that default under the Companies Act are subject to only half of the penalty that applies to larger companies. This protects small companies from financial stress due to heavy penalties.

SPECIAL LEGAL PROVISIONS FOR SMALL COMPANIES

Small private limited companies can merge with another small company without judicial authority approval. Instead, they only need approval from the Central Government (Regional Director) as per the Companies Act, 2013. This mechanism saves time, legal costs, and compliance burden, while still ensuring oversight. It enables faster restructuring, consolidation, and scaling for MSMEs, making mergers more accessible and practical.

OPPORTUNITIES FOR PROFESSIONALS

While compliance is being reduced, there is a growing need for professionals like Company Secretaries. Their roles are now shifting from procedural to strategic:

1. **Advisory Services:** Helping MSMEs understand which exemptions apply, and how best to structure their business to remain compliant with minimal cost.
2. **Digital Transformation:** Assisting in adoption of MCA21 V3, GST automation, e-invoicing, and integrated reporting systems.
3. **Governance Consulting:** Providing lightweight governance structures tailored for small companies that balance efficiency with investor confidence.
4. **Mergers & Acquisitions Support:** Guiding small companies through fast-track mergers and restructuring.
5. **Capacity Building:** Training promoters and finance managers on compliance literacy, self-certification procedures, and risk awareness.
6. **Global Integration:** Preparing MSMEs for international reporting standards, ESG compliance, and cross-border taxation norms as they expand into exports.
7. **Policy Advocacy:** Professionals can channel industry feedback to regulators and act as a bridge between MSMEs and government.

Thus, with MSMEs, there is a growing need for professionals to focus on higher-value services instead of routine filings.

CONCLUSION

The cumulative effect of current relaxations, proposed reforms, and digital interventions suggests a clear direction towards enabling MSMEs to focus on growth, competitiveness, and innovation.

At the same time, there will be an increase in the importance of professional advisory and digital governance systems. For MSMEs, this means lower compliance costs and higher ease of doing business. For professionals, this opens up new opportunities in strategic advisory, automation, governance frameworks, and international business integration, ensuring that the ecosystem evolves without compromising accountability and transparency.

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