MALAYSIAN INSTITUTE OF ACCOUNTANTS

2018 JUL-AUG

THE MALAYSIAN INSTITUTE OF ACCOUNTANTS

accountants today

ACCA Malaysia: Empowering Women

at-mia.my/2018/08/01/acca-malaysia-empowering-women

August 1, 2018

The ACCA Malaysia Women's Network was launched on International Women's Day on 8 March.

ACCA Malaysia Women's Network offers a platform for networking, sharing insights and support for senior advancement to women who comprise 59% of its membership in Malaysia.

By ACCA

On International Women's Day last 8 March, the **ACCA Malaysia Women's Network** was officially launched. Despite the positive advances made by women in many fields, barriers still exist, Dato' Merina Abu Tahir, president of the ACCA Malaysia Advisory Committee, said in her welcoming remarks. Urging business leaders to 'lead the charge' for gender pay parity and equal opportunities, Dato' Merina acknowledged that it was imperative for ACCA to walk the talk: 'I am proud to be part of an organisation that embraces diversity so openly and thoroughly,' she said.

Women make up 59% of ACCA's membership in Malaysia so it is only natural to offer a platform for networking, sharing insights and supporting women who want to take on more senior roles in the profession, Dato' Merina pointed out. She described how the network will offer young, aspiring female ACCA members access to senior members who can act as mentors, together with programmes and networking opportunities that cater to their needs. This is important, she added, as meeting the needs of the talent pool means that the future needs of employers will also be met; recruitment strategies are thus an integral part of the diversity plan.

Panellists sharing inspiring stories and insights at the launch of ACCA Malaysia Women's Network.

The guest of honour at the launch was Vicki Treadell, British high commissioner to Malaysia. As a strong advocate of women's empowerment, she was delighted to officiate. 'Efforts like this are in line with government policy that puts the interests of women and girls first,' she said. 'In the UK, we do so by ensuring that girls get the education they need to succeed in their career and life. This will create economic and business implications which will benefit the nation.

'Women need to believe in themselves,' she added. 'The ACCA Malaysia Women's Network will encourage women and raise their confidence and self-belief. When we press for progress, our motivation shouldn't be just about us. It should be about how we create a better environment – and a better world – for all.'

The launch included a panel discussion with Datuk Alexandra Chin FCCA, network chair and ACCA past president; Jessica Macias, development director at Lean In Malaysia; Andrew Chan, consulting leader at PwC Malaysia; and Sugunah Verumandy, head of industry partnership & Malaysian professional talent at TalentCorp Malaysia.

Datuk Chin stressed the need to take a wider view and seek progress on social mobility. She pointed out that unequal access to opportunities still exists for many women – as well as men. Citing ACCA's Open Access Policy as an example of providing equal opportunities to all, Datuk Chin said there were now more opportunities for women than ever before but 'Women now have to be role models and create opportunities for women who come later,' she said.

Warning that women sometimes created their own glass ceilings by waiting for things to happen rather than making them happen, Datuk Chin urged that they empower themselves to achieve their dreams, adding: 'We shouldn't wait for someone else to do it for us!'

ACCA: a history of firsts

In 1909, Ethel Ayres Purdie became the first female member to be admitted to a professional accountancy body: ACCA. Since then, ACCA has helped women achieve many firsts in its capacity as a professional accountancy body. ACCA's first female president, Vera Di Palma, was also the first female president of any professional accountancy body, as was Anthea Rose, ACCA's first female chief executive. In 2016, Datuk Alexandra Chin was the first woman from the Asia-Pacific region to become president. Today, ACCA's chief executive is Helen Brand, who took up the position in 2008. The statistics are encouraging: 58% of ACCA's Council members (21 out of 36), 46% of members, 56% of students and 55% of staff are women.

Automate Your Accounts Receivable for Better Cash Flow

at-mia.my/2018/08/01/automate-your-accounts-receivable-for-better-cashflow

August 1, 2018

How can we leverage on technology to improve collections of Accounts Receivables?

By Nithea Nadarajah

An efficient Accounts Receivable (AR) system can ensure increased cash flow for working capital purposes which is crucial for business sustainability. Vice versa, unpaid debts can create negative cash flow impacts. However, businesses can sometimes be so focused on making sales that the importance of a proper functioning AR system is somewhat neglected.

According to an Edge report in August 2017, RAM Credit Information Sdn Bhd (RAM CI) stated that in the second quarter of 2017, average debt collection days increased to a period of 70 days although most companies grant credit terms in the range of 30 days only. “People generally only pay those who remind them or chase them. That is the psychology of the debtor,” observed Mr. Keshmahinder Singh, Founder, President and CEO of Kollect Systems Sdn Bhd, a leading technology provider of Revenue & Arrears Collections, Debt Recovery and Agency Management Software Solutions at the recent MIA AccTech 2018 breakout session on automating Accounts Receivables.

This shouldn’t be the case anymore as technological advancements have disrupted business operations, including current AR systems. However, many businesses are still behind the curve in automating AR systems e.g. the traditional aging report is still the primary tool used to determine overdue invoices. Think of the opportunity costs squandered when staff spends time managing aging portfolios and matching payments received to outstanding invoices instead of focusing on value-added services and optimising business productivity.

Keshmahinder advised businesses to augment their current AR systems by leveraging on tools such as Artificial Intelligence (AI) driven solutions. AI-driven intelligent applications are capable of interacting with existing business operational systems to simplify and automate certain AR processes. For example, there are applications that can swiftly process large volumes of data into suitable information used to automatically generate reminders via Short Messaging Service (SMS) or Electronic Mails (emails) prior to generating e-Statements. Most importantly, remittance data relating to debt settlements can be extracted, processed and reconciled with corresponding invoices and simultaneously outstanding debts can be negated from the system. Achieve better cash forecasting by extracting existing customers' historical and external data to generate predictable outcomes in relation to debt settlements. Revolutionise customer service management by better managing disputes, putting in place a transparent workflow to handle complaints, analyse symptoms and track resolutions.

Keshmahinder Singh

By using web-based applications for AR systems, business and accountants can do the following:

Revenue Collections Management

- Generate and assign a Dynamic Worklist
- Manage SMSs, emails, Calls, Notices, etc.
- Use an Adaptive Scoring Engine to monitor Collections Risk, Behaviour, Profile, etc.
- Profiling and Segmentation of revenue
- Unified Collections of multi-products or multi host systems
- Online Performance Monitoring of Collectors / Teams
- Reports on Collections

Debt Recovery Management

- Charge-off or write-off debt
- Restructure and reschedule debt

- Legal Management (where the software can behave like an Internal Legal department)
- Collateral Asset Disposal / Foreclosure Management
- Write-off & Full Settlement Management using a Financial Ledger processing engine
- Distressed Asset Management Company Automation
- Reports on Recovery

Reports

- Design and schedule reports
- Create reports in multi-format (xls, pdf, xml, etc.)
- Distribute reports via email
- Provide comprehensive Charting and visual depiction tools

As augmented AR systems become more structured and methodical, business can gain tremendous opportunities to harness competitive advantage, especially in terms of improved customer relationships and improved cash flows. So do explore how to automate your AR function to achieve greater efficiencies and scale your business to a higher level.

Big Bang for Islamic Investment Banks?

at-mia.my/2018/08/01/big-bang-for-islamic-investment-banks

August 1, 2018

Sustainable Economy Limited's Managing Director and former CEO of the UK's leading Islamic financial institution Gatehouse Bank plc, Richard Thomas OBE, FCSI, tells why he thinks an Islamic investment bank has potential.

By Anis Ramli

Post the global financial crisis that subsequently put the investment banking business model under tremendous scrutiny, banks continue to redefine their roles. Challenges such as volatile market conditions, scandals, new regulations and low interest rates, to name a few, have seen the landscape for investment banks changing drastically over the last 10 years. In a special mentorship and engagement session for MIA's Islamic Finance Mini Pupillage programme, Richard Thomas shares **his thoughts on how a new more sustainable ecosystem can shape more efficient models for investment banks and why an Islamic investment bank** is the way to go.

Rollback of Regulations

Regulatory frameworks put in place after the 2008 financial crisis have pressured banks into reassessing and adjusting their business models, making it both more difficult and expensive for investment banks to operate. But those regulatory changes have also resulted in the ongoing maturity of areas such as ethics, corporate conduct, corporate responsibility, and corporate governance. In Malaysia for example we have seen this result in organisations such as the FSPB. I see those changes bringing sustainability to the banking environment. We are now witnessing the relaxation of some of the regulatory requirements in the American system, will be a net positive for banking profitability and given bank investors much to cheer on. Likewise in Europe, Brexit is expected to stimulate competition between London and other European cities bringing more loosening of regulatory requirements. This is likely to be repeated in most major markets. With decreased regulatory burdens, but a stronger more sustainable and ethically robust governance and business model, investment banks can build towards a stronger banking sector.

Richard Thomas

Increase in Mid-Tier Corporate Market

Malaysia's potential for robust economic growth and the increase in business in the mid-tier corporate market, specifically this sector's demand for investment banking services to support development and expansion will fuel the growth and development of investment banking activities beyond just the public sector and conglomerates. This will be good for any kind of investment banking activity.

New Technology

New technology has been at the forefront of investment banking development in recent years. A lot of money has been spent on R&D, data capture and management. Much of this has been to improve regulatory compliance and risk modelling. The outcomes have not only revolutionised FinTech and RegTech activities, but fast-forwarded business to business tech. We can see examples such as DDCAP's ETHOS Asset Facilitation Platform for Islamic Banks making activity more efficient and more profitable. Banks today are being driven by an entirely different technology to make business simpler and more competitive. Investing in such technologies, as exemplified by Malaysia, resonates well with the international community because an environment that focuses on these technologies breeds confidence in investors. The growth is clear and there are exciting tools in development that can add value to the business. Investment banks have much to reap from a wider adoption of AI.

Rethinking Accountability

There are new individual accountability rules to strengthen bank governance, such as the Senior Managers Regime (SMR), introduced in the UK in 2016. This is an opportunity to embed a higher level of professional transparency and give confidence to the banking market. It's garnering worldwide attention and Malaysia has indicated interest to consider the SMR in the near future. When it does, this would see the raising of standards of conduct for those in the financial services, making the Board more responsible for their actions instead of the regulators. Strong governance like the SMR is welcome as it helps investment banks achieve regime compliance and give clarity to bank governance.

Geographical Shift

Continued market pressures and changing regulatory requirements mean investment banks need to think hard about their geographic presence to boost competitiveness. Investment bankers should leverage on the fact that the world's economic centre of gravity is shifting from the Atlantic in the 1980s to the East and South. We're looking at not just Southeast Asia, but also Africa and South America as well. There is a south shift alongside a west east movement in economic development. These economies have all developed faster than Europe, and a place like Malaysia – with its sophisticated environment for investment banking – provides the ideal environment for investment banks to thrive.

Infrastructure Support for Creating Competitive Advantage

To succeed in investment banking, it's all about reaping the competitive advantage. For example, Malaysia is at the forefront of creating a positive and nurturing environment for Islamic regulatory development. It has invested more effort post-2008 in key areas such as financial stability, liquidity management and other initiatives to help the industry. The move signifies Malaysia's commitment to advance the country's position, not only in Islamic finance but also in related sectors like the halal economy. An environment that supports syariah-compliant growth is the new source of competitive advantage for Islamic investment banks.

Richard Thomas lectured to participants in the exclusive Islamic Finance Mini Pupillage programme's mentoring sessions which took place from April 2017 to July 2018. The Mini Pupillage programme aims to build up the competencies and capabilities of selected accounting professionals working in Islamic finance.

Big Data Analytics: Use It or Lose It

at-mia.my/2018/08/01/big-data-analytics-use-it-or-lose-it

August 1, 2018

(L to R) – Nickson Choo, Farouk Abdullah, Rachel Grimes & Thillai Raj T Ramanathan.

Accountants warned to embrace BDA fast, or risk becoming obsolete.

By Amalina Anuar

Accountants must be fearless in adopting Big Data Analytics (BDA) – or risk becoming fossilised.

"Data is changing the way we live, the way we work, the way we interact and play. No one can assume that traditional bases of competitive advantage will continue to last," cautioned Fusionex CEO Ivan Teh at Plenary 2 of the inaugural MIA AccTech Conference 2018.

He warned, however, that "data is only valuable when it's refined. Raw data is a liability and the main challenge here is to change these liabilities into assets. This is the key thing that will differentiate our organisations from the rest of the world."

A brief, standard review of data yields hindsight: it reveals what happened. Accountants are already accustomed to analysing and reporting on historical data. Yet as Nickson Choo, Director of Risk Advisory at Deloitte Malaysia and moderator for AccTech Plenary 3 noted, reporting is not analytics in itself. Analytics occurs on a deeper level and requires both insight and foresight. It goes beyond reporting on what transpired to explain why the event occurred, how to predict its occurrence, and measures to manage such anticipated events. In this sense, explained Choo, “data analytics is a crystal ball to see the future, one that allows us to make the best possible decisions.”

Ivan Teh

Most organisations and practitioners excel at collecting and reporting data, but few possess competencies in predictive and pre-emptive analytics. Yet moving up the data value chain is precisely what will allow businesses to capitalise on the best opportunities promised by BDA e.g. cost savings, identifying untapped markets for new products, improving operating efficiency, and enabling decision-making backed by data instead of intuition. Operationalising BDA also enables organisations to implement more customer-centric services. By revealing emerging patterns and future trends, organisations can personalise customer engagement and anticipate customer needs to provide a superior experience, improving retention and customer acquisition.

From Accountant to Data Scientist

Talent is a necessary ingredient for effective BDA. The bulk of the BDA process revolves around data preparation: verifying data sources, cleansing it and harmonising any dissimilarities. As these tasks are extremely technical, ASEAN Data and Analytics Exchange Centre Chief Data Scientist Farouk Abdullah encouraged organisations to have dedicated data personnel in some form. He stressed that data scientists and engineers are not IT experts and that the two should not be conflated.

The actual data analytics is only one part of a long process, which also includes communicating the value of these insights and foresights effectively to relevant stakeholders. Accountants, noted Farouk, are suitable for the role of communicators since their jobs straddle both technical and communicative functions. In addition to working with data, accountants must also drive business transformation and “control IT because you hold the money and you also have a direct link to business.” Plus, there are several roles in the data value chain: practitioners simply need to distinguish their strengths and play to them. “There is no right or wrong talent for Big Data Analytics,” said Farouk.

Some accountants are better communicators, able to visualise and translate data into easily understood narratives. Others may prefer working with numbers and are better suited for data engineering. Making the switch to more technical data science jobs is not complicated for accountants with some statistical and programming training, advised Farouk.

As such, accountants need not fear BDA. “Accountants have been analysing data from Day 1,” said International Federation of Accountants President Rachel Grimes. “They see trends in numbers.” As BDA is an inclusive, company-wide process driving business transformation, she urged accountants to take the lead and “own this space”. Choo added that the skills necessary in BDA are synonymous with the profession, including accuracy, validity and benchmarking.

Grimes advised organisations to include younger employees in the BDA process, since many of them more recently handled data analytics in university and are very keen to add value to the business and be valued in turn.

Panellists brushed off fears that technology will replace humans. Farouk added that there will always be demand for human intelligence and a premium on common sense and background, contextual information because data by itself doesn’t tell a story. According to Teh, “Technology just does the raw data crunching, so that humans can make better, faster, more informed decisions.”

Specific Data Practices for Accountants

In practice, Farouk encouraged accountants to plot as many data baselines as possible. Having a fully detailed database on an organisation’s activities will help accountants and finance professionals to identify patterns, outliers, and anomalies; garner insights; and predict upcoming opportunities and risks more competently.

Further, he advised accountants to be present at the initial stages of data collection by meeting with vendors, for example, instead of only verifying data and reviewing accounts at the end. More data is likely needed than what other departments are collecting.

Accountants must also understand their organisation’s business model and landscape in order to ask the right questions, or risk producing irrelevant data and analysis.

BDA For All

BDA is scalable for all organisations, regardless of size, and doesn’t need large funding. “Start small and keep it simple,” said Mimos Berhad Chief Technology Officer Thillai Raj T Ramanathan. Microsoft Excel “is the starting point of simple data analytics, especially when you don’t have large amounts of data” and can now handle machine learning.

Although SMEs could have challenges in acquiring data, since data sharing has yet to become common practice in Malaysia, Teh noted that there is more than enough data to start using BDA. Public data from regulators like MIA and the Malaysian government exists, albeit efforts should be channelled towards facilitating access to more data. From there, organisations can determine what data is lacking and partner with external institutions to fill the gap. Organisations must also focus on ensuring compliance with basic security: know where data is sourced from and who has access, in addition to working with legal divisions to ensure compliance with Malaysia's Personal Data Protection Act.

Although BDA is still evolving, accountants in the Asia Pacific and Malaysia must get onboard now. Be ready and prepared to reap the benefits and potentials of BDA by continuously upskilling and changing their mindsets towards data, adopting BDA as a holistic and permanent platform for business transformation. The best assets are the drive for self-disruption and openness to change, said Farouk. "Malaysia does have the talent but we have to want to change and we have to want to learn."

CFO ASEAN Leadership Journey

at-mia.my/2018/08/01/cfo-asean-leadership-journey

August 1, 2018

The CFO Leadership Journey Asia, a programme supported by MIA, is specially tailored to hone leadership skills and heighten career development for senior finance leaders in Asia.

By Accountants Today Editorial Team

MIA is encouraging its members and senior finance leaders to participate in the CFO Leadership Journey Asia (CFOLJ), billed as a powerful executive leadership development programme for CFOs. The CFOLJ is specially designed for senior finance leaders who are one or two steps away from board level or equivalent (Finance Controllers. Finance Directors, Head of Finance, VP of Finance) or newly promoted CFOs, who are looking to develop themselves professionally and personally for higher career advancement and a more fulfilling and satisfying career.

Mike Hughes

Over eight months, the participants will experience interactive workshops, one-to-one executive coaching, one-to-one external mentoring, peer learning group discussions and executive networking sessions. At the end of the programme, they are better prepared to lead at a boardroom level in the dynamic and highly demanding business environment in Asia.

Participants can choose from the following modules:

Module 1: 20-21 September 2018 (KL)
Module 2: 08-09 November 2018 (SG)
Module 3: 21-22 February 2019 (KL)
Module 4: 11-12 April 2019 (SG)

CFO Leadership Journey Asia was nominated in the 'Best Corporate Leadership Programme' category in HRM Asia's Readers' Choice Awards of 2016.

Below, Mike Hughes, Executive Coach & Facilitator for the CFO Leadership Journey Asia for the Singapore and Malaysia markets, explains the CFOLJ, and what makes the programme so different and worth investing in:

What are the core qualities and skills that participants can expect to acquire by the end of this programme? Are the outcomes measurable?

The CFO Leadership Journey Asia programme was originally designed by the ICAEW in the UK and now in its fifth year in Asia. The programme lasts eight months and comprises four modules each focused on a specific aspect of leadership:

(i) leadership in the 21st century
(ii) leading across cultures
(iii) leading in a volatile, uncertain, complex and ambiguous world and
(iv) communicating at the C-suite level.

The programme seeks to help participants develop their executive presence and higher-level leadership skills through self-assessments, self-reflection, coaching, mentoring and being part of facilitated peer learning groups as well as participating in highly interactive workshops. Past participants have especially benefited from learning from their peers who have experience in other markets and industries. The best measure of success is the quality and progress of past participants. Many continue to stay in touch with the CFO leadership journey network and have moved into more senior roles in finance and beyond.

Why is it important to develop CFOs in particular? Is there a dearth of competent CFOs in Asia?

There are many excellent, high performing CFOs in Asia. However, with the current and expected growth in the region, the demand for high-level finance executives who can move into roles where they operate effectively at a senior leadership level remains high. As they move upwards, their success and continued career progression becomes less dependent on technical skills and knowledge (which are a given for finance executives at this level) and are more closely linked to their ability to connect with others through exhibiting high levels of emotional intelligence and strong communication skills. As an ex-CFO, I can appreciate that our comfort zone is often in the more technical areas where we process and analyse information. Therefore, coming on a programme which is totally focused on developing our soft skills is critical.

What differentiates a poor CFO from an effective CFO?

As the “co-pilot” to the CEO, the CFO must be both a technical expert in their functional area and a business expert, able to understand and communicate the organisation’s vision and strategy both internally and externally. They need to demonstrate a passion and commitment to both team and individual development within their function and beyond. Too many senior finance executives tend to stay within their comfort zone, focusing on purely finance matters and lack the confidence to ask questions and give opinions on areas outside their function. They are often perceived as competent (a safe pair of hands), but undynamic by other leaders and they are often overlooked when it comes to identifying the next CFO or business leader. By blending their technical skills with strong business acumen and exceptional leadership skills, they can develop into an outstanding member of their organisation’s leadership team.

What are the boardroom leadership behaviours needed by today’s CFOs?

How are these developed and inculcated within the Asian context?A CFO needs to blend technical with soft skills to be successful. Through attending programmes like the CFO Leadership Journey, they can identify and develop those areas where they have a capability gap and work with coaches, mentors, faculty and fellow participants to develop themselves.

This programme is specifically tailored for Asia with one module looking at the cross-cultural challenges of working in Asia.This may be when participants work virtually with international teams or when they interact with key stakeholders. While many of the principles of successful leadership are global, it is vital that senior finance executives have an appreciation and understanding of how culture impacts the behaviours they exhibit and face. Looking through an Asian lens is critical whenever leading and communicating in the region and it is often a blind spot for finance executives.

How do you develop the components of ethics and good governance so necessary for robust oversight on Boards?

During the first module on 21st Century leadership we discuss the concepts of authentic leadership and what makes a great leader. We use a self-assessment to help participants increase self-awareness and identify traits and behaviours where they are strong and where they need to develop. The programme then helps participants develop into confident members of a leadership team, willing to challenge conventional thinking and help ensure the organisation operates with integrity. By forming a strong bond with other senior finance executives who are facing similar challenges in areas such as compliance, we help participants create a sound Board and support network that can help them significantly when faced with governance challenges.

How many of your programme graduates have gone on to become part of Boards? Do you track their board performance post-programme?

This will be the fourth time we have run this programme in Asia and we have an alumni network of over 40 senior finance executives in the region. We do not formally track their career progression, but we do keep in contact informally and have seen a number move into CFO roles with a few branching out into general management. One of our alumni was recently appointed as the Asian Managing Director for a large China-based multinational. In addition, there is a strong informal network within the alumni which arranges virtual meetings and seminars. To encourage and support this, we invite all alumni to our four networking dinners throughout the year. This gives them a further opportunity to stay connected with each other and meet our new participants. The mentors, coaches and faculty are also invited to these dinners as we continue to build a community and resource pool for all current and past participants.

Finance and accountancy are now dominated by women; is this dominance better reflected on Asian Boards today or does the glass ceiling still exist? Since diversity and inclusivity of women is such a hot topic in improving Board performance, do you see more women finance leaders signing up or being invested in by their organisations for future board membership?

It is quite noticeable how finance is female dominated in Asia compared to Europe. However, Asia faces similar challenges to promote diversity at senior levels in organisations and on Boards. I can only give my opinion why I think this situation has evolved. I believe the reason for the high numbers of women in finance is partly due to the perception of finance as a career in Asia. On the positive side, finance is seen as a reputable, safe career option, it is generally office-based and potentially allows for flexible working conditions. On the flip side, it may not be perceived as a natural pathway to senior management with a number of organisations seeing finance as a purely administrative, support function. The finance manager is there to report on the numbers and finance executives are generally expected to be seen, but not heard.

Our programme brings the topic of diversity up in a couple of modules and our female participants often benefit from working with coaches and mentors who have successfully broken the glass ceiling that often exists for female executives. The confidence and communication skills they gain on the programme help prepare them for future roles where they are working with or as part of a Board. Many female participants go through a transformative experience on the programme and gain the self-confidence to promote themselves and take on greater responsibility when they return to their organisations.

Why should participants sign up for CFO Leadership Journey Asia as opposed to another CFO development programme?

There are many leadership development programmes on the market. However, most focus on developing certain basic leadership skills through knowledge transfer and application. The CFO Leadership Journey aims to go much further. Most participants who attend are already seen as high potential and have either been (or will be going) on an internal corporate leadership development programme within their organisation. This programme aims to complement and build on this by helping participants make a sustainable (and potentially transformational) change in their overall leadership approach, by experimenting with new tools, techniques and behaviours and learning from the experience. The support of their peers, a personal executive coach, a mentor and the faculty helps them break through their personal barriers and reach a new level in terms of their executive presence and leadership potential.

Earnings Stripping Rules – Pros and Cons

August 1, 2018

The proposed ESR will curb businesses, especially multinationals, from using interest deductions to pare down domestic tax.

By Abdul Razak Rahman

Announced during the 2018 Budget under the previous government, Earning Stripping Rules (ESR) are applicable for the financial year beginning on or after 1 January 2019 and for subsequent financial years. ESR aims to reduce the use of interest deductions by businesses, especially multinationals, to reduce domestic tax.

"The use of interest deductions is the simplest form of profit-shifting techniques and is considered as an easy exercise to adjust or manipulate," said Amir Zainuddin Abdul Hamid of the International Tax Department, IRB Malaysia (IRBM) at the recent MIA Malaysian Tax Conference 2018.

How the Proposed ESR Works

The types of interest under the proposed ESR are interest on all forms of debts, and payments which are economically equivalent to interest such as Islamic finance arrangement. However, the draft report on ESR excludes expenses incurred in connection with the raising of finance. The proposed ESR is applicable to interest paid or payable to a related party outside Malaysia, or on interest paid to a third party outside Malaysia where the principal loan is guaranteed by the holding company, categorised as specific third party interest, and where the total of such cross border interests exceeds RM500k. Interest limitation is then applied and under the proposed ESR, it is capped at 20% of the Tax-EBITDA. Tax-EBITDA is derived by aggregating Adjusted Business Income with the Qualifying Deductions and the Interest Expense in Business Income. In addition to individuals, financial institutions such as banks including Islamic banks which are considered as a highly regulated industry, are exempted from the ESR. This exemption may be extended to insurance companies and companies with losses.

Industry Reactions to the Proposed ESR

Panellists at the panel discussion on ESR at the MIA Malaysian Tax Conference 2018 acknowledged that the introduction of ESR is necessary to circumvent people who want to beat the system. However, interest is an important component of a business since funds are required for capital expenditure as well as for working capital and are usually financed by shareholders or through loans, either from a third party or related party. Therefore, they urged the regulators to carefully consider the impacts before imposing ESR.

“Loss-making companies or companies with downwards profit trend that rely on third party funding will be in a worse-off position with the introduction of ESR, since the funding from the related party will increase the interest cost to the troubled companies. Therefore, the rules will need to be revisited for such companies,” said SM Thanneermalai, Managing Director of Thannees Tax Consulting Services Sdn Bhd.

Surin Segar, Head of Investment Management & Tax, Maybank Berhad suggested that loopholes must be plugged because the implementation of new regulations such as ESR will lead to the creation of innovative structures to circumvent the rules. “In addition, the threshold of RM500k is considered rather low. On the question of economic equivalents to interest, does the IRBM consider discount or premium embedded in bond issuance as an economic equivalent?” asked Surin.

Yeo Eng Ping, Asean Tax Leader of Ernst & Young, commended the MoF and the IRBM for coming up with the draft rules for discussion as it promotes transparency and provides opportunity for valuable feedback from the profession and industry before ESR becomes legislation. However, she noted that some of the exclusions discussed were not documented in the draft rules. “Tax generally follows ‘form over substance’ rule and this is the first instance where the ‘substance over form’ is going to be applied with regards to payment economically equivalent to interest. Since it is open to interpretation, the IRBM needs to be specific on the definition to ensure clarity and avoid ambiguity,” she said.

Speaking from the industry viewpoint, Pragalathen Krishnan, Country Controller & Director, NXP Semiconductors Malaysia Sdn Bhd said ESR would have a negative impact.

"Most MNCs in Malaysia are practically contract manufacturers. If the financing is from the related party, the introduction of ESR will potentially increase the cost of manufacturing and affect competitiveness which is a key driver for FDI consideration. In the case of companies with fluctuating Tax-EBITDA, it is probably more prudent and accurate to use average Tax-EBITDA instead of a snapshot of one-year Tax-EBITDA."

Global Ethics Code Revamped, Bringing Malaysian Code Up to Mark

at-mia.my/2018/08/01/global-ethics-code-revamped-bringing-malaysian-code-up-to-mark

August 1, 2018

(L to R) – Ravi Navaratnam, Diane Jules, Gary Hannaford & Tan Khoon Yeow

What do professional accountants in Malaysia need to know about the changes to the Ethics Code?

By Nazatul Izma

In April 2018, the International Ethics Standards Board for Accountants (IESBA) released a completely rewritten Code of Ethics for Professional Accountants that is easier to navigate, use and enforce.

At the recent **MIA Ethics Seminar on Code of Ethics – A Key to Public Trust**, Gary Hannaford, Chair of IESBA's Safeguards Task Force and Diane Jules, Deputy Director of IESBA shared some insights into what professional accountants need to know about the revamped Code.

A Simplified Code

The revised Code is much clearer about how accountants should deal with ethics and independence issues. 'The most important message that we want to convey is that the Ethics Board has gone through a very comprehensive process of looking at the Code of Ethics that pertains to close to three million professional accountants around the world,' said Gary.

‘We have tried to make the Code clearer, more easily understandable and more helpful to the professional accountants to navigate and understand how they should be applying it,’ he continued.

This will also facilitate global adoption and enforcement. ‘That’s important in order to continue to reinforce the trust that the public has in the services provided by professional accountants,’ added Diane.

More Description, Guidance and an Enhanced Glossary

For clarity, the rewritten and restructured Code is far more descriptive. ‘We absolutely focused our attention on trying to making sure that the key terms were well defined and well described. The glossary has been enhanced to make sure that when professional accountants try to follow the Code, they really do understand what all the terms means, the requirements of the Code and how to apply the Code,’ emphasised Gary.

IESBA was careful to ensure that the restructured Code remains principles-based, although major revisions have been made to the unifying conceptual framework—the approach used by all professional accountants to identify, evaluate and address threats to compliance with the fundamental principles and, where applicable, independence.

‘The fundamental principles remain the same but the conceptual framework was revised to help professional accountants understand what they need to do when there are threats to those fundamental principles and the work that they do.’

The revised Code includes far more guidance and examples. ‘When there are identified threats that might not be at an acceptable level, we try to give guidance as to what type of actions they might take to reduce that threat to an acceptable level, or to eliminate it altogether. And if we find situations where it is just not possible to identify a way to address the threat, we make it clear that professional accountants understand that they must walk away,’ explained Gary.

‘That (guidance) is much more explicit than ever in several sections of the Code. For example, where auditors are providing non-assurance services, we’ve pointed out examples of situations where there might be far more risks than rewards,’ continued Diane.

Professional Judgement

The revised Code also calls for professional accountants to exercise stronger professional judgement in determining whether a fundamental principle had been violated.

Gary pointed out that the language used to introduce the safeguards in the Code was intentionally changed. ‘The Code doesn’t just state examples of safeguards anymore, but also states examples of actions that might be a threat. This was deliberately done and intended to trigger professional accountants to think about the specific circumstances and the facts that they're dealing with and apply judgement to determine whether this (action) is in fact a safeguard.'

Ravi Navaratnam, Chairman of the MIA Ethics Standards Board said that the extensive revamp of the Code and the widening of the situational examples was of great advantage to the profession.

'We want to encourage professional accountants to think about what they're doing,' said Gary. However, Ravi noted that this was of particular relevance in countries, including Malaysia, within the Malaysian context where professional accountants have either become so used to either 'rote actions or thinking that if something is not in the Code then it doesn't exist.'

Safeguard Independence

Gary and Diane emphasised the importance of adhering to independence standards. Following questions and answers from the floor during the panel session moderated by Ravi, Diane observed that within the Malaysian context, SMPs are advising SMEs on how to report financial statements. 'That is a no-no and there is a clear prohibition for doing that (preparation of financial reporting) which is a senior management responsibility – that is a no-no,' she clarified. 'You have to be independent. Auditors can't sign off on the audit on accounts that you helped to prepare,' continued Gary.

The ethics seminar also featured a short session by Tan Khoon Yeow, a member of the MIA Ethics Standards Board who spoke on the key challenges of complying with ethical requirements in Malaysia, specifically NOCLAR (non-compliance with laws and regulations) and long association conundrums.

Renamed the International Code of Ethics for Professional Accountants (including International Independence Standards), the new Code becomes effective in June 2019. Stakeholders can access the new Code on the IESBA's website, where implementation resources and other supporting materials were released throughout the period leading up to the effective date.

How can Islamic Finance Evolve?

at-mia.my/2018/08/01/how-can-islamic-finance-evolve

August 1, 2018

It is time for Islamic financial institutions to develop products that are superior to the conventional and target a growing millennial and Muslim middle-class that has pent-up demand for halal products and services, urged Dato' Mohammad Faiz Azmi.

By Anis Ramli

Malaysia can thank a very supportive Central Bank, the government and having played the right strategy for making the country a trailblazer in Islamic finance, said Chair of the Islamic Finance Consultative Group of the International Accounting Standards Board (IASB), Dato' Mohammad Faiz Azmi, at a special mentorship and engagement session for MIA's Islamic Finance Mini Pupillage programme.

IFRS for Islamic Finance

One of the strategies Malaysia used was the adoption of IFRS in 2012, reflecting Malaysia's commitment to align itself to a single set of global accounting standards. This adoption applied IFRS to Islamic transactions. So, both conventional and Islamic finance used a framework that international investors could understand. "We are still a small country that relies on FDIs. When investors come in now, they don't talk about accounting – they want to know about political stability, tax rates – our objective was to make the country's accounting framework familiar enough, so outside investors would be indifferent to local accounting practices," commented Dato' Faiz on how streamlining cross-border financial reporting has been good for business.

Following IFRS convergence, the initial decision to subsequently adopt IFRS for Islamic finance did not come without its challenges, in particular, addressing the accounting standards developed by AAOIFI. "AAOIFI was unique to Bahrain's interpretation of its syariah standards, and some approaches and standards were not applicable to us," said Dato' Faiz. This led him to spearhead the formation of the Asian-Oceanian Standard-Setters Group (AOSSG), a lobby group that looked into the region's accountancy standard setting and also helped push for the adoption of IFRS to Islamic financial instruments.

Wanted: More Sophistication

In driving the Islamic banking agenda, Dato' Faiz says Islamic financial institutions must develop and offer more sophisticated products in future. While Islamic finance has mainly mirrored conventional banks products in the past, Dato' Faiz believes it is now time to develop products that are superior to the conventional.

"We have got a market of 1.6 billion Muslims to tap into. But Islamic finance in terms of banking and takaful is already saturated. Another evolution is needed. I see a gap in the offering to middle-class Muslim market for products that work for them e.g. wakaf and asset management products and services for the millennial generation."

A comprehensive syariah-compliant wealth management service offering could be an initiative to attract millennials with its strategies for wealth preservation and distribution. Dato' Faiz also pointed to the growth of the Sustainable and Responsible Investment (SRI) Sukuk as an example of what millennials want as they prioritise social impact investing, looking for transparency and accountability in the areas of environment, social responsibility and governance.

As the user becomes more sophisticated, whet their appetites with syariah-compliant instruments that not only have attractive returns but like SRIs, such as green sukuk, pay attention to the purpose of financing as well. This gels with Islam's objectives of doing good and preserving the environment. "Using the power of money for better things such as financing solar farms or raising money for a social purpose will resonate with those who want more blessings with their wealth."

Dato' Mohammad Faiz Azmi lectured to participants in the exclusive Islamic Finance Mini Pupillage programme's mentoring sessions which took place from April 2017 to July 2018. The Mini Pupillage programme aims to build up the competencies and capabilities of selected accounting professionals working in Islamic finance.

How Should We Tax E-Commerce?

at-mia.my/2018/08/01/how-should-we-tax-e-commerce

August 1, 2018

Can global and local tax regulations catch up with the digital economy to ensure it pays its fair share of tax, without stifling growth?

By Abdul Razak Rahman

Where taxation of digital businesses are concerned, there is no single universally accepted method despite the relentless efforts of agencies like the Organisation for Economic Cooperation and Development (OECD) and governments including Malaysia that wish to get their fair share of tax revenue.

Here in Malaysia, Section 3 of the territorial Income Tax Act (ITA) states that income tax is charged on income 'accruing in or derived from Malaysia or received in Malaysia from outside Malaysia'. Section 12(1) of the ITA further states that gross income from a business that is not attributable to the operations of the business carried on outside Malaysia shall be deemed to be derived from Malaysia. How then should these principles be applied to e-commerce transactions, when the business is everywhere and nowhere at the same time?

The Inland Revenue Board Malaysia (IRBM) in the Guidelines of Taxation of Electronic Commerce has defined e-commerce as 'any commercial transactions conducted through electronic networks including the provision of information, promotion, marketing, supply, order or delivery of goods or services though payment and delivery relating to such transactions may be conducted off-line'. Interestingly, the IRBM also makes it clear that location of server or website is not a determinant whether the individual is taxed or not. Instead, income from e-commerce is regarded as derived from Malaysia if the business operations test shows that the business is carried on in Malaysia.

Applying PE

"In determining the taxability of e-commerce businesses, the concept of Permanent Establishment (PE) and the business income attributable to the PE is of great importance," remarked Vijey M. Krishnan, Partner, Tax Practice Group of Raja, Darryl & Loh. "The traditional definition of PE is very much physical-based and generally refers to the nexus, an office or a branch where the business is conducted or as a place of management."

"Storage facilities or a place that merely display products do not constitute a PE and therefore any business income arising from e-commerce transactions derived out of such premises will not be subject to tax," Vijey explained. "The challenge then is dissecting complex e-commerce transactions since the tax implications should follow the terms and conditions, and the substance of the e-commerce transaction. Important information such as beneficiary of payment, purpose of payment and role of the recipient, either as agent or facilitator, need to be established in order to have the correct tax treatment."

Global Developments in E-Commerce Taxation

The BEPS (Base Erosion Profit Shifting) Action 1 report acknowledged that because the digital economy is increasingly becoming the economy itself, it would be difficult, if not impossible, to 'ring-fence' the digital economy from the rest of the economy for tax purposes.

In the area of direct taxation, the main policy challenges fall into three broad categories. First and foremost, the continual increase in the potential of digital technologies and the reduced need for an extensive physical presence in order to carry on business raises questions as to whether the current rules to determine nexus with a jurisdiction for tax purposes are appropriate. Second, the sophistication of information technologies has permitted companies to gather and use information across borders, which has led to difficulties in attributing value created from the generation of data through digital products and services. Lastly, the development of new digital products or means of delivering services creates uncertainties in relation to the proper characterisation of payments made in the context of new business models.

International tax disputes related to e-commerce such as Flipkart's disputes with the Indian Inland Revenue also warrant attention in formulating digital tax regulation. Flipkart, India's equivalent of Amazon, was selling products at a loss but the Indian Inland Revenue argued that the discounts and marketing expenses were not tax expenses but incurred to create intangibles and market share, which is crucial for the e-commerce sector. The expenses were reclassified as capital expenditure resulting in profits for Flipkart.

New legislations were also introduced in other countries such as UK's Diverted Profits Tax, India's Equalisation Levy and Australia's Multinational Anti-Avoidance Law to enable tax authorities to extend their territorial scope because of the fluid nature of e-commerce businesses.

Ensuring E-Commerce Pays Its Fair Share of Tax

Despite the strong growth in the digital economy, its tax contributions are still low compared to the traditional economy. In the European Union countries for example, the corporate tax rate in 2017 for the digital economy averaged between 8.5% to 10.1%, compared to the traditional businesses that paid between 20.9% to 23.2% tax. Malaysia is experiencing the same issue; therefore, there is an urgent need to review the tax mechanisms to enhance tax revenue contribution from the digital economy sector. "Malaysia has seen a gradual increase in the contribution of e-commerce revenue to GDP from 5.9% in 2015 to 6.1% in 2016 and this is expected to grow. The revenue from the e-commerce sector amounted to USD1,078 million in 2017 and is expected to grow at a CAGR (compound annual growth rate) of 18.6% by 2022," projected Abdul Aziz Kechik, Director, E-commerce Division, IRB Malaysia.

The fact that the digital economy transcends both the residence and source taxation rules makes it difficult for tax authorities to enforce tax compliance. Daniel Woo, Head of Tax Advisory and International Tax, Grant Thornton Malaysia said: "There is a great challenge in applying the PE concept in tax treaties since it has allowed enterprises to sell their products directly to consumers without establishing their presence in the said countries. Scientific innovations and emerging technologies such as internet of things, digital currencies, advanced robotics and 3-D printings will continue to push the digital frontier."

Daniel added that under the source taxation rules, which are applicable to Malaysia, a source country may only tax a foreign person if he or she participates to a significant extent in its economy in accordance with the PE rules. Applying international tax rules, source taxation may not be warranted in the digital economy as a business's principal participation in the source country in supplying of goods and services to local customers is not sufficient to constitute source taxation jurisdiction.

BEPS Action 1 – Possible Solutions

One of the recommendations put forth by the BEPS Action 1 committee to resolve digital taxation issues is to apply withholding tax mechanisms when the physical presence rules in establishing PE are broken. The withholding tax mechanisms can be used to broaden the scope of what is 'derived in Malaysia' via deemed derivation. If the withholding tax approach is adopted, the right classification of the income is important, either as royalty, technical fees, or gains or profits under Section 4(f). "In introducing the withholding tax mechanism, the rate should not be too high as it will affect the cross-border businesses or create an incentive for tax evasion. Neither can the rate be too low as it will become an elective toll charge," commented Daniel.

However, BEPS Action 1 does not define the digital economy and therefore it would be a challenge for tax authorities to impose withholding tax on payments relating to digital transactions. Unclear definitions may impose a heavy burden on the withholding tax agents to comply, resulting in an overly prudent approach in withholding taxes that could eventually hinder the digital economy's growth.

How will MFRS 15 and 16 Affect Tax Reporting?

at-mia.my/2018/08/01/how-will-mfrs-15-and-16-affect-tax-reporting

August 1, 2018

Two new standards, MFRS 15 – Revenue Recognition and MFRS 16 – Leases, effective from 1 January 2018 and 1 January 2019 respectively, are projected to have significant impact not just on accounting and financial reporting, but also tax reporting.

By Abdul Razak Rahman

MFRS 15 – Revenue Recognition

The objective of **MFRS 15 – Revenue Recognition** is to have a single revenue standard and model of accounting for revenue applicable across all industries and capital market. In addition to improving comparability across industries, the rationale behind introducing MFRS 15 includes: removing inconsistencies in the previous accounting model, creating a robust framework, enhancing the disclosure requirement and simplifying the reporting guidance.

At the recent MIA Malaysian Tax Conference 2018, Nurul Ezhawati Abdul Latif of Universiti Teknologi MARA highlighted the following key areas that might be impacted by the change in revenue recognition brought about by the new standard:

- Changes in accounting method of revenue recognition for tax purposes will impact the tax liability.
- New or different temporary differences may impact the deferred taxes.
- There is a need to harmonise the tax reporting system with the new revenue recognition modules for financial accounting purposes.
- Reconciliation of revenue against indirect taxes invoices and filings
- The effect on intercompany transfer pricing policies and amounts, particularly when transfer prices are set or tested using a revenue or profit-based formula.
- Amendments of existing contract terms to align with the MFRS 15 requirement.

"With the adoption of the new standard, the accounting revenue as determined under MFRS 15 is accepted as revenue for tax purpose since the tax principle generally provides for income to be subject to tax when it is accrued. The difference in the amount recognised under MFRS 15 is a mere timing difference and the entire amount from the contract would eventually be subject to tax," explained Chee Pei Pei, Executive Director, Deloitte Tax Services Malaysia. She further added that the exceptions to this principle are where specific tax treatment has been established through case law or provided under the law (Section 24 of gross income for tax purposes), or specific tax treatments for construction business, property development and leasing transactions, under Section 36 of the Income Tax Act.

MFRS 16 – Leases

MFRS 16 – Leases effectively eliminates the classification of leases as either operating leases or finance leases for a lessee. Nurul Ezhawati explained that the rationales are to present a complete and an understandable picture of an entity's leasing activities, faithful representation of lessee's assets and liabilities, and enhance disclosure requirements. The additional areas affected by the changes in classification of leases are:

- Deductibility of expenses i.e. interest and principal portion relating to assets under leasing
- Determination of qualifying assets for capital allowances claim (tax) and depreciation (accounting)

"For lessee accounting, MFRS 16 introduces a single measurement model where all leases with a term of greater than 12 months are recognised on the balance sheet. The right of use asset on the balance sheet represents the lessee's rights to use the underlying leased asset and the lease liability represents the lessee's obligation to make lease payments," added Pei Pei.

Despite these changes in lessee accounting arising from the introduction of the new standard, MFRS 16 does not change the treatment of leases for income tax purposes for the lessee. The general deduction rules under Section 33(1) still apply whereby lease rental (interest and principal portion) is a deductible operating expense if wholly and exclusively incurred in the production of gross income. However, depreciation and interest on lease liability are not deductible under Section 33(1). As for the lessor, there are no changes for income tax purposes.

"The introduction of the new rulings under MFRS 15 and MFRS 16 means that there will be more tax adjustments in arriving at taxable profits and it is the responsibility of the taxpayers to ensure that the reconciliations are properly documented. Information relating to the adjustments such as financing component and income recognition relating to transitional adjustments should be clearly disclosed in the tax computation," advised Norhaslinda Bukhari, Director, Tax Policy Department of IRB Malaysia.

MIA Digital Technology Blueprint – Guiding Your Tech Transformation

at-mia.my/2018/08/01/mia-digital-technology-blueprint-guiding-your-tech-transformation

August 1, 2018

(L to R) Dr Nurmazilah Dato' Mahzan, Rachel Grimes, Salihin Abang & Dato' Narendra Kumar Jasani

Preparing the Malaysian Accountancy Profession for the Digital Economy.

By Nazatul Izma

To help accountants manage sweeping changes arising from the digital economy and Industrial Revolution 4.0 (IR4.0), MIA launched its MIA Digital Technology Blueprint at its inaugural AccTech Conference 2018.

Although MIA observed rising interest in technology among its members ever since it held sessions on digital disruption at the MIA International Accountants Conference 2016 and 2017, it also noticed that accountants were uncomfortable with technology. 'Accountants were asking which technologies relate to us and which ones do we take up first – artificial intelligence, blockchain, robotics or data? This motivated us to come up with this blueprint which is the culmination of two years' worth of intense research and several roundtables with stakeholders,' explained MIA CEO Dr. Nurmazilah Dato' Mahzan. She noted that MIA also used numerous articles and resources from the International Federation of Accountants (IFAC) as guidance. 'We closely followed the developments from IFAC and from there, we adapted it to our own document.'

The Blueprint begins by laying out the landscape of IR4.0 and how it impacts MIA members in four categories – commerce and industry (69%), public practice (23%), public sector (8%) and academia (2%). 'We give an overview of the landscape and discuss Malaysia's initiative in bringing the country to the next level of technology, because our accountants need to be at par and in tandem within this ecosystem and within the initiatives of our own government, like the Digital Free Trade Zone.'

Dr. Nurmazilah Dato' Mahzan

Dr. Nurmazilah stressed that MIA is unable to provide individual solutions to members' technological issues, because each and every member works within their own ecosystem and their companies and businesses have their own strategies. This document tries to overcome this by outlining five principles that MIA members need to think about:

- **Assess digital technology trends**. 'First, be aware of what are the current technologies available out there. Get the information and learn more about these technologies.' MIA's role is to provide awareness of the trends and assess how they affect members.
- **Identify capabilities**. 'Identify the person within your organisation who can champion these technologies. Who should be assigned to lead this?' MIA will support members by providing training and the relevant certification for members to enhance their capabilities.
- **Harness digital technologies**. 'Put a plan in place to start adopting and start using these technologies.' MIA will help by promoting digital technology adoption and exploring collaboration with relevant stakeholders.
- Determine **funding** needs and identify funding options. 'MIA did our own survey on technology adoption, which found that cost is a hindrance. If that is the case, why don't you draw up a proper plan for funding? If your organisation is not able to buy the technology now, how about buying or adopting three years later? Start putting aside your budget for that. It has to be a conscious decision.' On MIA's part, it will engage with policymakers to enhance incentives and grants.
- Comply with good **Governance** practices including IT governance, as well as the relevant rules, laws and regulations. Here, MIA will help to develop and advocate good governance in digital technology usage and adoption.

From this starting point, formulate a checklist and carry out your own SWOT (strengths, weaknesses, opportunities and threats) analysis along these five principles, advocated Dr. Nurmazilah.

Support from IFAC

IFAC President Rachel Grimes, who delivered the keynote address and launched the Blueprint at AccTech 2018, commended MIA for initiating the Blueprint, which is not just an ASEAN first, but 'also one of the first around the world that I've seen.' She noted that ASEAN and broadly Asia are racing ahead of other regions by developing events and courses to make people aware of and embrace technology.

Rachel stressed the importance of good governance in facilitating technological transformation. She urged 'technology steering committees to read the Blueprint because IT governance is rare and that is one of the key success factors. The inclusion of clear responsibilities and guidelines and steering committee members showing up are very important. They can't delegate their responsibility. The best projects I've seen (for technological transformation) are when the members of the steering committee are all in attendance.'

Usually defined as a subset of corporate governance that is focused on information and technology, IT governance provides a structure for organisations to ensure that IT investments support business objectives. Finally, Rachel reminded those charged with governance to check whether the rules for IT governance are 'still relevant and able to support tech adoption internally as part of our internal enterprise system.'

The Blueprint was prepared by the MIA technical team with inputs and guidance from MIA's Digital Economy Task Force. The Blueprint can be downloaded from MIA's website –
https://www.mia.org.my/v2/downloads/resources/publications/2018/07/12/MIA_Technology_Blueprint_Spreads_format.pdf

MIA’s Initiatives to Address Work Stress in Audit Firms

at-mia.my/2018/08/01/mias-initiatives-to-address-work-stress-in-audit-firms

August 1, 2018

84% of respondents report stress in the audit workplace.

By Nazatul Izma

Concerned by the perceived levels of stress among audit professionals in Malaysia, in 2017 MIA conducted a survey on work-related stress in audit firms.

A total of 2,418 respondents from small, medium and global audit firms participated in the survey that was conducted by MIA. 77% of the survey responses were received from those under the age of 40 where over half had less than six years of audit experience, providing insights into the minds of millennial assurance professionals. Based on the findings 66% of respondents are working with the Audit Oversight Board (AOB) registered firms.

Below are some of the key findings and the possible interpretations of the data.

1. **Poor Work-Life Balance**. 77% of respondents feel there is still no work-life balance within the audit profession, and a whopping 84% bring their work home with them. This could indicate that audit work during peak season is still overwhelming and there are insufficient audit professionals to share the workload.
2. **Health Challenges**. 60% of participants felt that their health had been impacted since they started at their audit job. More alarmingly, 86% of respondents concluded they would consider leaving the profession given the impact of stress on their health, which would definitely have an impact on talent attraction and retention as well as audit quality.

3. **Lack of sleep**. 76% claim they suffer from sleep disorders. Hence, they are not well rested and even more overwhelmed by stress at the workplace.
4. **Challenging Accounting Standards**. 81% either agreed or strongly agreed that new MFRS and MPERS is making work more difficult. Although international accounting standards have been adopted in Malaysia since 2012, their complexity and the continual changes to major standards appear to still be burdening audit professionals.
5. **Inadequate employer support**. 68% of the survey participants felt that the support from their firms was poor. Specifically, 62% felt they did not get access to the required resources to help them complete audit tasks. Interestingly, 70% chose to go to immediate family or close friends to share their work challenges, as opposed to fewer than 3% who chose to confide in their superiors. This could point to poor employer and management engagement with employees and could be an area for improvement.
6. **More pressure, low pay**. 83% from the total respondents felt that fees are not at a commensurate level for the work put in, and just 10% claimed to not feel the pressure from unyielding deadlines.
7. **Hands-off Preparers**. Based on the survey findings, it appears that clients of these audit firms are not preparing for audits as well as expected. 92% of respondents declared they feel clients overly rely on audit firms in preparing financial statements. Predominantly, audit employees in smaller, non-AOB registered entities also registered concerns with their level of independence in discharging their role.

To make matters worse, Malaysia adopting international best practices such as quarterly reporting and requiring earlier disclosure of annual results is increasing the pressure on both the preparers and the auditors to prepare timely and relevant information. There is also an impact whereby most companies have 31 December as a year-end and may not have adequately resourced their finance function to be able to prepare all aspects of the financial statements without external help.

The MIA Work Stress Task Force

After deliberating on the findings of this survey, the MIA Council set up a Work Stress Task Force to propose what the Council and MIA should do to respond. The Work Stress Task Force is chaired by MIA Council Member Dato' Mohammad Faiz Azmi.

As the profession moves forward, it is imperative that MIA prioritises work stress as a key issue, stressed Dato' Faiz. 'If we want to attract and retain more talent – especially young professionals – in the audit space, all of us in the profession have to work together to make conditions in the audit workplace healthier and more satisfying.'

However, Dato' Faiz cautioned against drawing simplistic conclusions linking stress to the flight of talent. 'We cannot say that these issues surfaced by the survey are the only reasons for work-based stress. Anecdotally, we can see that the current generation of young talent has different expectations of their employers, which could also explain why so many are reconsidering their choice of work. There are also views that there are more interesting options open to accounting graduates now which makes the move out of the profession attractive to some.'

'Whatever the reasons, more data is needed to understand and monitor the trends on stress,' said Dato' Faiz. MIA will continue to conduct follow-up surveys in future to gather more data for analysis to improve talent management. The Council thanked the 2,418 survey respondents for providing this valuable feedback.

What's Next

The proposals by the Work Stress Task Force were deliberated on and approved in April 2018 and will be implemented over the next year. Details of these proposals will be publicised later, but in summary, MIA will:

- do more to monitor what best practices and policies the preparers and audit firms implement with their staff
- engage with stakeholders to help reduce some of the pressure of deadlines and expectations, and
- revisit the role of preparers and auditors in the preparation of financial statements.

'MIA will seek the support of stakeholders and the senior members of the profession, more must be done to alleviate the pressure of stress at work and ultimately continue to make the profession attractive to future talent,' concluded Dato' Faiz.

Acknowledgement

Members of Work Stress Study Task Force

- YBhg Dato' Mohammad Faiz Mohammad Azmi (Chairman)
- Ms.Lim Fen Nee
- Mr.Kishan Narendra Jasani
- Assoc. Professor Dr.Zuraeda Ibrahim
- Mr.Meyyappa Manickam A/L M. Sethuraman
- Mr.Ong Chee Wai
- Mr.Khaw Hock Hoe

Property Developers: Transitioning from GST to SST

at-mia.my/2018/08/01/gst-zero-rating-impacts-on-property-developers

August 1, 2018

What's in store for the massive property development and construction services sectors?

by Nithea Nadarajah

A modified form of SST (Sales and Services Tax) will take effect from 1 September 2018 onwards, replacing the previous GST regime.

Property development and construction services are two massive sectors that were previously exempted from the SST purview. Once again, both developers and construction companies are not included in the modified SST, with the exception of some construction materials that are subject to Sales Tax.

However, under the previous GST regime, these two sectors comprised a third of all businesses registered for GST. As the GST Act 2014 is yet to be repealed, and in the absence of any transitional provisions, businesses will be required to fall back on the law and its governing principles set out under Sections 66 and 67 of the GST Act 2014, said Thenesh Kannaa, Partner of TraTax, at a recent MIA programme on the impact of zero rating GST changes to these sectors.

Unlike most businesses, the nature of construction and property development projects is such that they take years (and some even decades) to complete. Moreover, contract payments are made progressively throughout the construction process according to project milestones or specified dates. Determining GST impacts will definitely be challenging.

Compliance Under Section 66 of the GST Act 2014

Section 66(2) of the GST Act 2014 stipulates that,

(2) Where there is a change in the rate of tax, the rate at which the tax is chargeable on any supply spanning the change in the rate of tax shall be as follows:*

(a) tax shall be charged at the old tax rate on the higher of the following amounts:

(i) full payment or part payment received before the date of change in the rate of tax; or

(ii) value of the supply of goods where the goods are wholly or partly removed or made available or the services are wholly or partly performed before the date of change in the rate of tax; and

(b) tax shall be charged at the new tax rate on the difference, if any, between the amount of the whole supply and the amount referred to in paragraph (a).

**Note: Supply spanning the change in the rate of tax is further defined in greater detail under Section 66(5) of the GST Act 2014.*

In a nutshell, if a business were to receive monies under subsection 2(a)(i) above or supply goods or render services under 2(a)(ii) prior to 1 June 2018, the previous GST rate of 6% will be charged on the higher of either 2(a)(i) or 2(a)(ii); and the new GST rate of 0% will be applicable on the difference (if any) between the whole taxable supply and the amount referred to in subsection 2(a).

A pertinent point to note here is that Section 66(2) discussed above does not make any reference to invoices raised by businesses; it merely refers to monies paid, goods supplied and work-performed. For example, if a company raises its invoice prior to 1 June 2018 (with a 6% GST) but made payments or supplied goods or rendered services only after 1 June 2018, the company cannot expect its customer to absorb the 6% GST. The company would therefore be required to raise a credit note to reverse the 6% GST portion from the said invoice. Although, raising credit notes appear simple enough but its practical difficulty is evident in businesses where invoices are generated on a monthly basis e.g. monthly premiums charged by insurance companies or even monthly building maintenance charges. “The proposition for raising credit notes is legally correct but practically burdensome,” asserted Thenesh.

In terms of building contract payments payable by property developers (progressively according to project milestones) to the building contractors, an architect’s certificate is not mandatory to provide sufficient proof of work performed. However, in the absence of an architect’s certificate, the validity of the progress claim may be questioned by the Customs Department and proper justification would need to be provided by property developers to substantiate any claims made.

Thenesh advised contractors to adhere to Section 66(2) when calculating the appropriate GST rate applicable for retention sums. Retention sums are normally retained by property developers throughout the contract period and usually beyond the construction period, up to the expiry of the defects liability period. Hence, when the retention sum is invoiced by the contractor after 1 June 2018 in relation to work done prior to 1 June 2018, the 6% GST will apply on the retention sum and is payable to the contractor.

For commercial property development projects (residential development projects are exempt) involving a joint venture (JV) arrangement between two or more parties, the GST rate change and the application of Section 66(2) to calculate the GST rate may create some issues for the relevant parties concerned. For example, in 2016 a company that owns a parcel of land enters into a JV agreement (with a property development company) to supply the right to develop the said land (taxable service) for a non-monetary consideration comprising 30% of the completed units (taxable goods) which will only be completed in the year 2020. The question here is, when is the time of supply that would be used to determine the applicable GST rate? Is it the point of supply of the rights to develop the land (which is prior to 1 June 2018) or the point of supply of the 30% completed units to the land owner (which is after 1 June 2018)? Currently, there is no clear solution to address this issue which in the future may pose a huge problem for JV companies, he said. Hence, Thenesh reiterated the importance of the government issuing clear transitional rules and guides to address situations like the above accordingly.

Review of Agreements Under Section 67 of the GST Act 2014

Section 67 of the GST Act 2014 requires that contract values of any business agreements be automatically varied to take into account any changes in the GST rate, unless of course there is an express provision for the exclusion of any such change in the rate of tax charged, or where the change in the rate of tax has already been taken into account. All businesses (especially property developers), should review the provisions and clauses in their trade contracts and/or agreements to accommodate the variances in the GST rate.

Residential property developers (exempted under GST) would generally have potential cost savings (although these are not eligible for input tax credits) as development costs in relation to ongoing projects will be reduced in line with the new GST rate of 0%. Therefore, it is apparent that property developers will benefit from potential cost savings relating to ongoing projects [where the Sales and Purchases Agreements (SPAs) were entered into prior to 1 June 2018] and it would be necessary for them to not only review and revise the tax-related provisions in SPA but to relook at the selling prices in the SPA as well.

New property development projects with SPAs signed after 1 June 2018 should already include the necessary clauses. It is also advisable to account for any potential issues or variances that may arise upon the reintroduction of SST on 1 September 2018.

Rachel Grimes: Know Your ABCD

at-mia.my/2018/08/01/rachel-grimes-know-your-abcd

August 1, 2018

‘ABCD is going to form the foundation of everything we do as accountants,’ says the International Federation of Accountants President.

By Nazatul Izma

How can accountants embrace tech more easily? Think ABCD – where A stands for artificial intelligence with a subset of robotics, B for blockchain, C for cybersecurity and D for data and data analytics.

This is how the International Federation of Accountants (IFAC) has stripped down tech to make it accessible, relevant and easy for accountants of today and tomorrow. ‘Now we have a whole new definition of ABCD. That’s as hard as it needs to be,’ said Rachel Grimes, President of the International Federation of Accountants (IFAC) to a 400-strong crowd at the inaugural MIA AccTech Conference 2018. ‘The ABCD is really going to form the foundation of everything we do as accountants.’

ABCD

In her day job as Chief Financial Officer, Technology, Transformation and Operations at multinational financial services firm Westpac, also Australia’s oldest and second-largest company and largest bank, Rachel is in the thick of tech-driven transformation that has reaped ‘tangible results.’

Since the addition of transformation and operations to her CFO technology portfolio in early March 2018, she found smart accountants doing the repetitive work of accounts payable and invoicing. 'So, we put AI robotics into accounts payable, not to replace any jobs but to make the jobs more exciting. Those same smart people still work in accounts payable but instead of matching invoices they are working with every vendor to ask 'How can we work with you better? How can we offer you more opportunities? How can we pay our invoices on time and get discounts?' Instead of looking backwards, those people in accounts payable are now looking forward. They are adding value and saving money and making their jobs more interesting.'

Rachel Grimes

'What we have done with AI, specifically robotics, is taken away the more mundane and more compliance-focused parts of our jobs. We are removing the work that people think make accountants boring. Accountants aren't boring; this is the most exciting profession in the world! And there is no more exciting time to be an accountant than now because of the technology.'

A key application for **blockchain** in accounting is for inventory, although blockchain hasn't taken off as fast as predicted, she said. Rachel told the story of Australian vineyards exporting wine to the Asian markets – 'they know where every bottle is going because of blockchain and they can trace the ownership.'

She rubbished talk that blockchain's distributed ledger model will make auditors obsolete. 'The control environment around blockchain will make auditing more efficient and an easier process, but we will always need auditors to assist.'

Cybersecurity is the issue that keeps every director and CEO awake at night. 'Cybersecurity debacles are the only single thing that can wipe out an entire Board and the management,' said Rachel. 'Accountants are perfectly placed to assist in the governance around IT and cybersecurity. They don't necessarily have to be technical. But the controls framework in the first instance can eliminate a lot of the risks. Accountants are great at defining and realising what the risks are.'

Data and data analytics will drive new ways of thinking about audit and assurance and managing data. Rachel shared an anecdote about an auditor-general in Canada, who set out to perform 100% sample testing of a government entity. The data turned up 150,000 variations. So, she asked her staff: 'Are we testing the right controls? What skillsets do we need to analyse this data now that we've had so many variations?" Of course that auditor- general was also responsible for monitoring the bear population her Canadian province, so they are always looking at new technology to assist its annual bear count.

Data and data analytics can also unlock new value and new roles for accountants. While pet-sitting, Rachel bought dog food. The next day, she received a cross-selling e-mail asking if she wanted pet insurance. She investigated the organisation to find out more about who was behind this initiative. 'It was an accountant! They've realised the value of the data that they had and they were looking to increase the revenue. That's fun, that's a great opportunity and that's valuable.'

Standards and Technology

Everyday there are technological advances that change the way accountants perform their work so one of the key challenges for standard setters is how to keep up to date. IFAC has oversight of the audit and assurance standards, the education standards, the ethics standards as well as the public sector standards. Financial reporting standards are the province of the International Accounting Standards Board (IASB) while valuation standards come under the International Valuation Standards Council (IVSC).

"One of the most valuable assets in any entity in the world is data" said Rachel. She shared that membership organisations all over the world, for example, share data within relevant privacy provisions to earn substantial revenue streams. "From member organisations being able to offer members cheaper deals on all sorts of services and experiences, to just about every app we download on smartphones, the data collected is a value-generator. But from where is it derived? There is nothing in the balance sheet. Data is valuable and accountants can play a real role in recognising that.'

Technology plays a real role in producing inventory and sometimes human intervention is not possible, yet our standards request that the auditor be present for stocktake. Rachel relates the anecdote of an audit partner in Norway who cannot comply with the standard because all the company's stocktakes she audits are fully automated. Namely, she is supposed to inventory fish products in a hi-tech factory where no humans are allowed in to prevent contamination from end-to-end. 'In go the fish and out comes the final product. No human intervention. So, she gets a black mark against her name because technology has overtaken the audit standards.'

To mitigate all these issues, Rachel exhorts all accountants, not just the standard setters, to keep up-to-date, lobby and fight to change the standards. 'Asia's voice is so important. The Malaysian accountancy profession should make sure its voice is heard and then pick up the phone and call their neighbouring professions. Every time there is an exposure draft, you should have a look at it and put your hand up to share your experience.'

Technology – an advantage for developing economies

Technology is creating a more level playing field for developing countries. They don't have the legacy systems of old economies that cost a lot to maintain and they have populations who are keen to adopt advances. This can be seen across Africa and Asia.

Costs per unit of technology are becoming cheaper but as technology is adopted technology expenses are increasing but real savings are being made in other parts of the business – for example less property costs.

This is an exciting time for businesses everywhere.

Don't Fear the Future

Wrapping up, Rachel said that accountants don't need to fear the future because the status quo is still a 'two-speed technology economy' where existing tech is still going to be used for some time. However, newer technology will displace old school tools. "Get on board with the new tech. Learn as much as you can. Everybody needs to adopt technology".

"I know the standard setters are constantly reviewing standards to ensure they meet the needs of the public interest – accountants must also review their skillsets, invest in themselves and embrace a profession that encourages lifelong learning.

IFAC also believes governments and regulators must work together to produce smart regulation. The accounting profession and business have a real role to play to ensure regulation is fair, consistent and proportionate to the problem it's meant to be addressing.

IFAC has developed 10 principles for good regulation, including measuring post-implementation impact. Rachel describes good regulation as 'smart regulation'. "Regulation is an essential feature of strong economies and nations that govern in the public interest. Accountants are better placed than many to provide input, for example, on how a new business law or regulation could impact cross-border activity".

At the global level, IFAC has been calling for greater international collaboration on important regulation governing the financial ecosystem. "An IFAC study this year found the global cost to financial institutions of compliance with the vast array of cross-border regulation was USD780 billion … and that is a conservative estimate."

Riding the Digital Wave, Leading Transformation

at-mia.my/2018/08/01/riding-the-digital-wave-leading-transformation

August 1, 2018

The MIA International Accountants Conference 2018 promises to be even bigger and better.

By Nazatul Izma

Every year, MIA strives to outdo itself at its flagship professional development platform – the MIA International Accountants Conference (MIAC).

For 2018, 3,100 delegates – more than last year – are expected to throng the Kuala Lumpur Convention Centre to get insights into the latest topics that are important and current for accountants and members of the profession.

'This is the differentiation between the MIAC and our other events. The MIAC is a one-stop conference that gives you variety and a flavour of the issues. We tell you what areas you cannot ignore if you are an accountant in business, and what you need to know if you are an auditor or a tax practitioner,' explained G. Shanmugam, MIA Executive Director – Strategy & Professional Development and MIAC 2018 Conference Director.

If MIA members and non-members attend the MIAC, they grasp the breadth of the issues. Subsequently, they can enrich themselves by participating in focused CPD programmes. 'This is the value proposition that we want to provide for our members in supporting their professional development and lifelong learning,' continued G. Shan.

With the theme of **Riding the Digital Wave, Leading Transformation**, the focus of the MIAC 2018 is on digital once more, as MIA has observed that its members still require guidance on how to adopt technologies for business transformation. Earlier, MIA had organised the AccTech Conference 2018 to go in-depth into practical solutions and technology adoption for the profession. AccTech 2018 also featured the launch of the MIA Digital Technology Blueprint, which focuses on five principles that members and non-members can implement to adopt technology

Master Technology at MIA AccTech Conference 2018

Tech-heavy topics for the Conference will revolve around topics such as Industry Revolution 4.0 business and regulatory impacts, the disruption posed by Artificial Intelligence (AI), blockchain, cybersecurity and data analytics.

The first plenary session will focus on the theme itself, 'predicting how the profession will transform' while the content of the second plenary is yet to be decided. 'The Conference's key strategic partners – ACCA and CGMA – are coming onboard in a big way. These global professional accountancy bodies see value, so they keep coming back and being an integral part of MIAC year after year,' said G. Shan. This year, ACCA is the Diamond sponsor and CGMA is the Titanium sponsor.

There is something for all segments of the profession. The session on audit evidence in the digital environment is geared towards public practitioners, for instance, while all segments would benefit from topics like eXtensible Business Reporting Language (XBRL) compliance, corporate reporting in the digital economy, impacts of the new leasing standard, and leveraging technologies to achieve the UN SDGs.

Personally, G. Shan said he looks forward to the session on economic outlook every year to understand the business landscape. This year's economics session will zoom in on the outlook for the region in ASEAN Ascending: Emerging Global Powerhouse. 'The disparities between the ASEAN economies create a lot of gaps and opportunities where we can add value and move further as an ASEAN community. This session is great especially for the growing community of ASEAN CPAs and our regional delegates.'

G. Shanmugam, MIA Executive Director – Strategy & Professional Development and MIAC 2018 Conference Director

Finally, the Conference will wrap up with the final plenary, which is always a crowd puller. Previous years, we brought in superstars of sports. This year, we have something equally compelling planned, so do attend the Conference to find out who will be there!

Technological Ease

This year, delegates of MIAC 2018 can expect to enjoy an enhanced onsite registration experience on conference days. To ensure excellent customer service, MIA staff will be on standby to guide members.

The dedicated Conference app has also been upgraded to enhance delegate satisfaction and outcomes. 'Delegates can enjoy a more enhanced version of the Conference app, where the app can provide information and business networking either p-to-p or delegates to speakers or partners. All the Conference information and materials will be made available online, and questions can be posed through the app as well. 'The app will cover everything,' said G. Shan.

Don't Miss It

The Conference offers different benefits for different folks, he concluded.

Delegates get a platform for upgrading knowledge as professionals, and networking among likeminded professionals and as well as enjoying the luncheon entertainment. Speakers and the guest of honour get invaluable opportunity to engage with an audience of over 3,000 professional accountants. 'MIAC 2018 is looking forward to having the Minister of Finance as its guest of honour to deliver a keynote address and officiate the event and an opportunity for delegates to hear the government's latest views and policies. Last but not least, this is a fantastic branding platform for partners and supporters to connect with their audience.

'Definitely, the MIA Conference is an experience that every member must not miss. There is something for everybody, and the energy is very different!'

The MIA International Accountants Conference will be held from 9th to 10th October 2018 at the Kuala Lumpur Convention Centre. Please click here for more information about the Conference.

Save Time, Minimise Human Error with Secure Electronic Bank Confirmations

at-mia.my/2018/08/01/save-time-minimise-human-error-with-secure-electronic-bank-confirmations

August 1, 2018

Secure e-bank confirmations make life easier for auditors, preparers and banks, and bring Malaysia up-to-speed with current developments in e-auditing.

By Nazatul Izma

Online confirmations are now the preferred method for confirming client information in jurisdictions such as the United States of America, the United Kingdom and Australia. In Malaysia, online confirmations are currently being used in a limited manner for confirmations with some foreign banks.

To keep abreast of the latest market developments, MIA is championing the development of an Industry-wide Electronic Bank Confirmation Platform. 'This is the world's first industry-wide platform for bank confirmation in any country,' said MIA CEO Dr. Nurmazilah Dato' Mahzan.

'Electronic bank confirmations will eliminate duplications and provide authentication and authorisation procedures to detect fraud and deter fraudsters. This is a progressive step in auditing that will not only save time and resources but bring Malaysia up-to-speed with developments in leading markets," she explained. Dr. Nurmazilah thanked Bank Negara Malaysia (BNM), the Association of Banks in Malaysia (ABM), banking institutions especially Maybank, local audit firms particularly PwC, and other stakeholders for supporting the Platform.

Below are some FAQs on the new initiative:

Why is MIA championing the Industry-Wide Electronic Bank Confirmation Platform? How is the project progressing?

Under the International Standard on Auditing (ISA) 505 External Confirmations, reliable audit evidence can be obtained in documentary form from a third party such as a bank, whether on paper, electronically or in another medium. Presently, electronic confirmations are used in a limited manner in Malaysia. Many bank confirmation letters are sent to banks annually by auditors to request for confirmation of their clients' bank balances and arrangements. This traditional process is slow and time-consuming, and delays could impact the timeliness of financial statements being approved by the Board of Directors after clearance by auditors.

To facilitate electronic confirmations by Malaysian auditors in order to enhance the efficiency and security of the external confirmation process, MIA conceived a plan several years ago to develop an industry-wide electronic bank confirmation platform, which will eliminate the need for paper-based confirmation requests and replies. The plan was supported by the Association of Banks in Malaysia (ABM) and some local banks and audit firms, particularly Maybank and PwC, that agreed to be the first pilot testing bank and audit firm in spearheading this initiative jointly with the MIA and the ABM.

MIA then set up an Online Bank Confirmation Task Force (OBCTF) in 2017 – chaired by MIA Council Member Dato' Mohammad Faiz Azmi and comprising representatives from ABM, Maybank and audit firms – to look into the implementation of the said plan. As at 20 October 2017, the OBCTF finalised the evaluation of vendors via an open tender process. Extol Corporation Sdn Bhd (Extol) was eventually awarded the tender to develop an industry-wide electronic bank confirmation platform, with a much more economical usage fee compared to the current fee charged by an international service provider.

How will stakeholders' benefit from the Platform?

Several fraud cases have revealed the inherent weaknesses in paper-based confirmations. In contrast to a paper-based process, electronic confirmations use additional security mechanisms to ensure that only appropriate personnel from a bank can respond to a bank confirmation request. For audit clients, it reduces the risk of fraud which may potentially go undetected by auditors and at the same time protects the interest of stakeholders that rely on audited financial statements.

In addition, auditors and their clients can achieve greater efficiency by minimising manual processes, eliminating duplications and lost confirmations, and expediting confirmation replies to the auditors.

For banks, the Platform removes duplication, provides a more secure way to send out customer information, saves time and minimises human error while providing a more secure process to confirm balances and arrangements.

For the capital market, it reduces delays in clearance of audited financial statements.

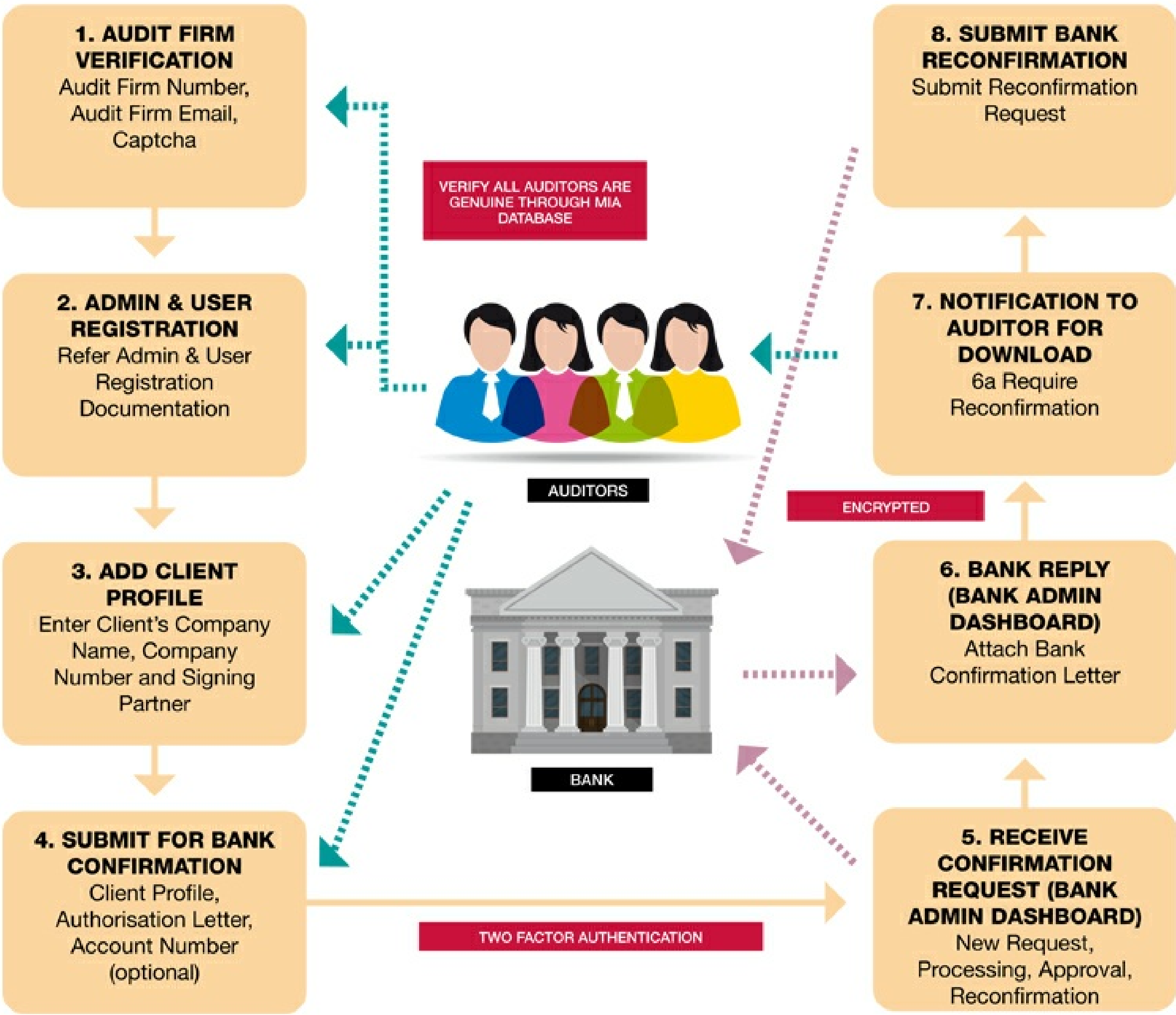
In addition, it mitigates the risk of confidential information being wrongly sent to other parties through postal services. Accountability is enhanced because the system trails the date and time a confirmation is requested and the date and time a confirmation reply is sent and received.

Benefits of the Platform

	Current	E-Confirmation Platform
Processing Time	Weeks	Around 3 Days
Postage Cost	RM5 to RM10 / reply	Reduced
Lost of Documents during Delivery	Likely	No
Printing Cost	Yes	Reduced
Auditors' Authentication	Unknown	Verified
Communication with Auditors	Slow - Fax / Post / Tel / Email	Easy - Online Platform
Humar Cost to follow-up with Auditors	High	Low
Human Error	Likely	Minimal
Traceable Logs	Difficult	Available
Risks of Fraud	Possible (Information hijacked, interception, no trail)	Low (Interception is very unlikely with full audit trail)
Consolidated Reports	Not Available	Available

How does the Platform work?

Tentative Workflow of the Proposed Platform



How do members gain access to the Platform? What are the expected fees and costs?

Members will log on to a secured web-based Platform which is currently under development by Extol. The usage fee to be charged is RM15 per confirmation. MIA's preferred method is for banks to direct debit bank customers' account and reimburse Extol since it is more efficient for reconciliation to be done by Extol with a smaller number of banks as compared to Extol having to reconcile with more than 1,400 audit firms.

Who should use the Platform?

All auditors who require bank confirmation from all conventional commercial banks in Malaysia are urged to use this Platform. In the next phase, the Platform will be opened to other types of financial institutions such as the Islamic banks and Development Financial Institutions.

How is the security of the Platform and the data assured?

Verification of Users

For the registration process, applicants must be associated with the audit firm's details as recorded in MIA's membership database. They will be verified with online and offline mechanisms to confirm their identity. Besides User ID and password, all applicants must provide authentic emails and mobile numbers for a 2-factor authentication process in order to validate their registration.

For bank users, registration will be through the bank's email account which will subsequently be used for a 2-factor authentication on the Platform.

All users must verify the pre-set security image and phrase during user authentication process to prevent phishing.

Storage of data and the encryption

The data will be stored at Extol's servers located in Malaysia.

All the sensitive data will be encrypted via HSM (FIPS 140-2 L3) and all PDFs received will be encrypted using the Steganography method in AES-256.

The Platform provides an audit trail system that logs all the activities conducted on the Platform, including submissions and downloads. It can be used to assist with any suspicious fraud or forensics investigation when required.

The Platform will also observe BNM's IT security standards and guidelines where necessary.

Platform Process Control Assurance Examination

To provide assurance about the security controls and processing integrity, the Platform shall be certified with Service Organization Control (SOC) examinations or other equivalent standards conducted by an independent auditor appointed by MIA.

Now that bank confirmations have become more efficient, what other areas of auditing and accounting is MIA looking at to leverage technology to enhance the profession?

A natural progression is the usage of the Platform for legal and other confirmations. Data analytics is another area that MIA is looking at to leverage technology to enhance the profession.

Taxing Bitcoin: A Cryptic Challenge

at-mia.my/2018/08/01/taxing-bitcoin-a-cryptic-challenge

August 1, 2018

In the murky bitcoin market, regulators are still figuring out the accounting and tax implications.

By Abdul Razak Rahman

Bitcoin is an internet-based cryptocurrency or virtual money that allows anyone to transact with anyone else, anywhere at any time, instantaneously at marginal cost, with confidence and privacy, without friction nor censorship. It has no central authority and no intermediaries and is a USD120 billion global ecosystem of users, developers, exchangers, traders and merchants.

Colbert Low, Vice-Secretary of Access Blockchain Association (Malaysia) said that bitcoin is very much a volatile and speculative market. Bitcoin values leaped 1,600% between May to December 2017 but dipped by 60% from January to April 2018. He hopes that “The volatility will bring maturity to the ecosystem as there is a need for mainstream adoption in Malaysia as well as the Asean region.”

Global Regulatory Developments

Even in the developed markets, bitcoin and its ilk are not yet mainstream and regulators are still studying the implications. At the time of writing, the US Securities and Exchange Commission (SEC) had not approved any exchange-traded products such as exchange-traded funds (ETF) backed by cryptocurrencies or assets related to cryptocurrencies for listing or trading. Neither had the SEC registered any initial coin offerings although in March 2018, the SEC had started the process to approve or disapprove a change in its rules that will allow two bitcoin ETFs to be listed on the NYSE Arca Exchange. In another blow to cryptocurrency legitimacy, the US Treasury also declared that virtual currency does not have legal tender status in any jurisdiction. Although the general perception is that bitcoin is a virtual currency, the US Commodity Futures Trading Commission treats bitcoin as commodity similar to gold or oil.

From the taxation perspective, the US Internal Revenue Service declared that bitcoin must be treated as property for tax purposes which will result in capital gain or loss if there is an exchange. If held for resale, it should be treated as inventory and will give rise to ordinary gain or loss. If it is used as payment, it should be treated like currency and must be converted, with its fair market value checked on an exchange. "These different interpretations and treatments from the regulators lack guidance and clarity and may hinder healthy innovation brought about by new technology," said Colbert.

Local Regulation

On the home front, mainstream adoption of cryptocurrencies similarly require clarity on regulation, accounting and tax matters. Whether bitcoin should be categorised as a currency or a commodity is the first question that comes to mind as this will dictate the corresponding accounting and tax treatments. If bitcoin is regarded as an asset, then there is the classification matter, whether as an inventory or as a property. The occurrence of taxable events and the corresponding tax treatments also require clarity in the case of exchange of one cryptocurrency with another i.e. crypto-crypto or crypto-fiat where the cryptocurrency is exchanged with normal currency. Another important area is assigning the fair market value to bitcoin.

Malaysia mainstream adopters are also facing practical challenges, primarily difficulty in securing the services of experienced accountants and auditors as well as integration with local ERP (enterprise resource planning) suites. Therefore, this is an area of opportunity for professional accountants and tax agents due to the huge potential of the cryptocurrency market, said panellists at the recent discussion on Bitcoin: What is the Tax Reality at the MIA Malaysian Tax Conference 2018. A volatile balance sheet is another issue to consider as matching the Ringgit liability against bitcoin assets creates extra risk. Finally, the cost of tracking and compliance are high, especially for the SMEs.

Global Tax Guidance for Cryptocurrencies

"Not many countries have come up with special or new tax rules to tax cryptocurrency but many countries have come up with guidance or policy decisions on how the existing tax rules deal with cryptocurrency," explained Anil Kumar Puri, International Tax Leader, Ernst & Young. The UK is the first country that came up with the policy notes on the treatment of cryptocurrency from the capital gains tax and indirect tax perspectives.

This was closely followed by the United States IRS in the form of FAQs on tax treatments relating to cryptocurrency. Closer to home, Japan, South Korea and Thailand have issued rules or initiated processes to tax cryptocurrency.

With regards to classification, Anil noted that many countries are treating cryptocurrency as either a property or an asset, and not a currency since it is not issued or backed by the central banks or governments. Since cryptocurrency is categorised as a property or asset, there are challenges on how to apply the various tax rules on the unique cryptocurrency transactions. The US IRS and Canada, for example, deemed bitcoin mining as a taxable transaction. Similarly, the sale of bitcoin is considered a taxable event in countries such as the UK, US, Canada and Australia and therefore will be subject to capital gains tax (CGT) or income tax, depending on the tax laws of the country. Most countries are also treating exchange of bitcoin as two separate transactions of buying and selling, which will then attract capital gains tax as well as GST or VAT.

“As far as Malaysia is concerned, the IRBM has not issued any guidelines in dealing with tax issues of cryptocurrency as comprehensive study is required to fully understand the subject matter,” explained Mohamad Fauzi Saat, Director, International Tax Department, IRB Malaysia. However, as a member of the Inclusive Framework on BEPS (Base Erosion Profit Shifting), Malaysia is committed to work towards achieving consensus-based solutions on the tax treatments by 2020, said Fauzi.

Regulators also need to understand the business model for cryptocurrencies before formulating and implementing regulations that encourage business and tax compliance. “Running a cryptocurrency mining business is almost equivalent to running big data centres. With tax implication on cryptocurrency still a grey area, the feasibility of the cryptocurrency business in Malaysia is largely dependent on its economic model,” said Eric Ong of Trio ADS Sdn Bhd. “Although bitcoin mining primarily involves solving mathematical problems using machines, the overall costs have to include other costs such as the equipment cost, electricity, Internet, security and manpower. If bitcoin profits or gains are to be taxed, what are the reliefs available to the miners to cover the costs?”

Cryptocurrency regulations should also work to encourage foreign investment and diversify tax revenue sources. “Regulating the cryptocurrency through an exchange is actually beneficial to the business as evidenced by the success story in Japan, which has seen a 40% to 50% increase in the take-up of cryptocurrency business upon implementation of the regulated cryptocurrency framework by the authority. It is also beneficial to the government as the exchange creates an additional tax source to the government, in addition to the tax imposed on cryptocurrency users,” recommended Fakhrul-Razi Abu Bakar, founder of Pinkexc Sdn Bhd, the only locally-owned cryptocurrency exchange in Malaysia.

The Changing Mandate of Finance

at-mia.my/2018/08/01/the-changing-mandate-of-finance

August 1, 2018

By CIMA

The world is changing fast and finance is changing with it. Technological advances, demographic shifts, market upheaval and evolving customer expectations are impacting on business models and forcing organisations in every sector to rethink the way they operate. These developments are also challenging finance professionals to redefine their roles as business partners.

The pace of change that we see today is giving the finance function a clear mandate to go beyond its core accounting role and be much more influential within organisations. This mandate empowers finance to act as a guardian of the business model and an enabler of the organisation's ability to create and preserve value in the digital age. It calls for finance to move from being a technical function that is largely focused on budgeting, planning and reporting, to being a commercial function that works with internal and external stakeholders to identify and explore new strategic opportunities.

The argument for finance having this mandate is based on two key principles. Firstly, the finance function has a unique end-to-end view of an organisation since every business activity has a financial consequence and management accounting already provides the framework for performance management. Secondly, the chief financial officer (CFO) is already a steward of the business, with the necessary knowledge and skills to co-pilot the organisation alongside the chief executive officer (CEO).

So how can finance functions take up this new mandate? Fundamentally, they need to apply the same skills that they use to perform their most basic activities – such as assessing finance risk, reconciling accounts or compiling management reports – to the much broader process of developing and deploying solutions alongside the rest of the organisation. This means drawing on their ability to assemble information, analyse for insights, influence decision makers, suggest impactful actions and demonstrate commercial acumen. In other words, while the finance mandate may be changing, it is still rooted in the function's core accounting role.

Nevertheless, there is an inherent challenge for finance functions in shifting away from a world where core accounting is their central focus towards one where it's more of a foundation for them to add value to the organisation instead. They will need to broaden their skillsets so they are recognised as much for their capacity to question constructively, guide strategic decision-making, partner with peers, manage risks and implement projects, as they are for their current prowess in providing trusted management information.

In fact, it is through fusing together four broad roles – reporting, questioning, developing solutions and deploying solutions – that finance functions will be able to step up and become the custodians of organisational value in future. The Association's Global Management Accounting Principles reflect this fusion, and the changing role of the finance function, since they define management accounting as: "The sourcing, analysis, communication and use of decision-relevant financial and non-financial information to generate and preserve value for organisations".

To achieve this fusion, the finance function will need to shift its emphasis from pure accounting to management and get its people to change their mindsets. Finance professionals have traditionally been known as technical experts, who speak in accounting jargon and have a keen interest in facts and figures. Going forward, however, they will need to be commercially minded problem-solvers who can handle ambiguity and speak the language of the business fluently. Accounting skills alone won't be enough for the finance professionals of the future to succeed; they will also need the general commercial and social skills that will allow them to collaborate effectively with colleagues from a diverse range of disciplines, as well as external stakeholders.

There is no better time than now to start thinking about what your finance function needs to look like in future and how you can overcome the potential obstacles that stand in the way of transformation. For example, can you invest in technology to free up your people so that they can better support the business in broader roles? Do your people need to develop new skills, whether that's business understanding, data analytics, interpersonal skills or a commercial, ever-learning mindset? How can you enhance the credibility of the finance function so that it is equally regarded for its commercial nous as it is for its accounting expertise? Where are the opportunities to widen the remit of finance to cover a broader range of management information, thereby generating new insights and business solutions? These are some of the questions that you need to answer.

Finance now has the mandate to define, enable, shape and tell the stories of how an organisation creates and preserves value. That is really, really exciting. Yet while some organisations understand this, and are innovators on the journey to the future, many others are lagging behind. Why let your organisation linger among the laggards when you could be among those that lead from the front?

For more details, you may download the report on changing role and mandate of finance https://www.cgma.org/resources/reports/changing-role-and-mandate-of-finance.html

The Notion of Public Values

at-mia.my/2018/08/01/the-notion-of-public-values

August 1, 2018

The MIA Public Sector Internal Audit Conference focuses on fighting fraud and technology adoption for internal auditors in the public sector.

By Accountants Today Editorial Team

Public servants are under intense scrutiny under the new regime that is intent on stamping out corruption and restoring good governance and public confidence. Public sector internal auditors play a key role in providing assurance on public funds and public sector governance.

The MIA Public Sector Internal Audit Conference is specially designed to upskill public sector internal auditors to meet greater demands under the new government. The Conference opens with a broad analysis of policies and initiatives taken by the government to implement and enforce the principles of Competency, Accountability & Transparency (CAT) and how these will affect public sector internal auditors in their duties of providing assurance on the stewardship of the public coffers.

A key focus for the Conference is on fraud in the public sector and the role of the internal auditor. The new government is working diligently to repair and restore Malaysia's reputation, tarnished by corruption scandals labelled 'kleptocracy at its worst' by the US Attorney General Jeff Sessions. The Conference will dive deeper into the effective controls, policies and practices that can be put in place by alert public sector internal auditors to manage fraud risks.

Technology can provide amazing tools to assist with fraud management, and overall to enhance public sector internal audit effectiveness. For instance, analytics lets auditors analyse all items in populations as opposed to just sampling. While there are many benefits, you must contend with challenges such as data integration and upskilling in data science and analytics. There is also the not-so-small matter of finding the budget and convincing management and those charged with governance that AI is the future for internal audit.

To achieve better outcomes for audit and public sector governance, internal auditors are encouraged to work closely with their external auditors. How can the interaction and relationship between internal and external auditors in the public sector be effectively improved?

Finally, the Conference ends on a high note when our special guest, Tan Sri Dato' Setia Haji Ambrin Buang, Chairman, Special Investigation Committee on Procurement, Governance & Finance will speak about the Committee, Public Procurement and the Role of Internal Auditors in this not to be missed session.

The MIA Public Sector Internal Audit Conference will be held at the Connexion Conference & Event Centre @The Vertical, Bangsar South, Kuala Lumpur on 13 September 2018 (Thursday). Please click here *for the Conference Brochure.*

Where is the Next Big Risk?

at-mia.my/2018/08/01/where-is-the-next-big-risk

August 1, 2018

Understand the biggest and newest risks and how to manage them at the MIA Risk Management Conference 2018.

By Nazatul Izma

Risks surround us every day, whether they are known risks or black swans. Just ask Mark Zuckerberg, who saw billions of his net worth wiped out in end-July (**financial risk!**) as investors dumped Facebook Inc shares due to profit warnings. Worse for the beleaguered social media giant, Facebook and Zuckerberg face possible class-action lawsuits (**legal risk!**) brought by disgruntled shareholders over accusations of misleading earnings projections, on top of earlier lawsuits for data misuse (**cyber risk!**) and scandals.

But the more informed you are, the more prepared you can be. MIA's annual Risk Management Conference 2018 is specially designed to help businesses identify and shield themselves against an ever-growing spectrum of risks.

Since technological disruption is a major source of new and never-before-seen risks, the Conference kicks off with a panel session chaired personally by MIA CEO Dr. Nurmazilah Dato' Mahzan on a subject that she is passionate about – **Risk Management Trends and Developments In Big Data, Rise of Artificial Intelligence**. Headlined by Dato' Merina Tahir, Head, Group Internal Audit, Malaysia Airlines, this panel will examine the significant threats and emerging risk exposures that companies must know about in the short-term and the longer term. This panel will also highlight key legislation – namely the **MACC Amendment Act 2018** which has a new **Section 7 on Corporate Liability Provision** that may expose corporations, businesses, and those charged with governance (TCWG) to hefty fines and embarrassing custodial sentences.

The Conference will also focus on how companies can utilise whistleblowing to improve risk management and good governance, which is timely in a global and local landscape where governments and regulators are cracking down hard on corruption. Dr.Mark Lovatt, CEO, Trident Integrity Sdn Bhd moderates this panel that specifically highlights how Malaysia can institutionalise whistleblowing and nurture a culture of whistleblowing and accountability.

Boards and TCWG will also be guided on effective compliance with more stringent regulations, namely:

- Guidance 9.1 of the Malaysian Code of Corporate Governance, where the Board should determine the Company's level of risk tolerance and actively identify, assess and monitor key business risks to safeguard shareholders' investments and the Company's assets.
- Guidance 9.2, whereby disclosure must cover how key risk areas such as finance, operations, regulatory compliance and reputation were evaluated, and the controls in place to mitigate or manage those risks in line with internationally recognised risk management frameworks.

This year we delve deeper into cybersecurity, because this is a powderkeg of risks that could potentially decimate TCWG and the organisations under their watch. Find out what TCWG and Boards must do urgently to manage cyber risks and threats. Get guidelines on how to get started on managing this increasingly difficult area.

Last but not least, the Conference concludes with technical sessions on:

- using **root cause analysis** to correct for control failures and to enhance controls. How do you perform a risk assessment on threat mitigation, conduct automated control testing, and establish credible challenges against controls to measure the effectiveness and consistency of your organisation's controls?
- Managing **third party and outsourcing** risks, which could affect reputation risk. Focusing on contract management, this session lays out the Key Risk Indicators (KRIs) for third party and outsourcing risk, and the legal risks in these vendor relationships relating to data management controls. Get guidance on how to manage these third party risks and outsource effectively using monitoring tools.

The MIA Risk Management Conference 2018 will be held at the Connexion Conference & Event Centre @The Vertical, Bangsar South, Kuala Lumpur on 29 August 2018 (Wednesday). Please click here for the Conference Brochure.