A Look at Asset Impairment

By Rasmimi Ramli

What are the different accounting treatments for impairment of assets under the Malaysian Public Sector Accounting Standard (MPSAS) 21 non-cash-generating assets and MPSAS 26 on cash-generating assets, Malaysian Financial Reporting Standard (MFRS) 136 and Section 27 of the Malaysian Private Entities Reporting Standard (MPERS)

This analysis focuses on the significant requirements in MPSAS that are similar and different from the requirements in MFRS and MPERS in relation to (i) identification; (ii) recognition and measurement; (iii) disclosures and (iv) first-time adoption. This comparison does not discuss the requirements in MFRS or MPERS that are not available in MPSAS.

Non-Cash Generating and Cash Generating Assets

Cash generating assets are assets held with the primary objective of generating a commercial return, while non-cash generating assets are assets other than cash generating assets.

MPSAS has two separate standards i.e. MPSAS 21 and MPSAS 26 that provide guidance for each group of assets. In each standard, an entity needs to assess whether its assets are non-cash generating assets or otherwise.

Identification

All three frameworks require an entity to assess, at each reporting date, whether there are any indications that an asset may be impaired. As a minimum, an entity should consider the following indications:
Intangible assets

MPSASs, MFRS and MPERS require that intangible assets with indefinite useful lives or not yet available for use be tested for impairment annually. Both MFRS and MPERS also require that goodwill acquired in a business combination be tested for impairment on an annual basis. The MPSAS framework does not deal with such items or transactions.

Recognition and Measurement

When there are indications of impairment, MPSAS 26, MFRS and MPERS requires the recoverable amount to be estimated, while MPSAS 21 requires entities to measure the recoverable service amount.
The above is summarised in Diagrams 1 and 2 below.
Cash generating unit

Under all three frameworks, the recoverable amount should be estimated for an individual asset. However, MPSAS 26, MFRS 136 and MPERS provide that when it is not possible, an entity should determine the recoverable amount of the cash generating unit to which an asset belongs. These three standards then provide further guidance on dealing with the cash generating unit.

Disclosure

MPSAS 21, MPSAS 26, MFRS 136 and Section 27 of MPERS have some similar requirements in relation to disclosure. MPSAS 21, MPSAS 26 and MFRS 136 have some additional requirements on disclosure compared to Section 27 of MPERS.

First-Time Adoption

General requirements in relation to first-time adoption in relation to impairment of assets are as follow:

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<tr>
<th>MPSAS 26</th>
<th>MFRS</th>
<th>MPERS</th>
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<td>A first-time adopter shall apply the requirements in MPSAS 21 or MPSAS 26 prospectively from the date of adoption of MPSAS, except in relation to those assets where it takes advantage of the exemption which allows a three-year transitional relief period to not recognise and/or measure assets. In this case, it applies MPSAS 21 or MPSAS 26 when the exemption that provided the relief has expired, and/or the relevant assets are recognised and/or measured (whichever is earlier).</td>
<td>A first-time adopter is required to test certain assets for impairment on the date of transition.</td>
<td>When MPSAS 21 or MPSAS 26 is applied, a first-time adopter should assess whether there is any indication that the non-cash generating assets recognised and/or measured are impaired. Any impairment loss is recognised in the opening accumulated surplus or deficit on the date of adoption of MPSAS, or in the opening accumulated surplus or deficit in the reporting period in which MPSAS 21 or MPSAS 26 is applied.</td>
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Dr. Radzi Jidin, Deputy Minister of Economic Affairs urged public sector internal auditors to constantly check if their work and actions have achieved the intended purpose of good governance.

“Audit must always be an independent, objective activity that adds value to organisational operations,” he said in his keynote address at the MIA Public Sector Internal Audit Conference 2018. The need to add value is even more imperative when it comes to public-sector auditing because public sector internal auditors are accountable to an entire nation. “Ask if what you have done has achieved the intended purposes, and if not, why not,” he advised.

**Independence, Objectivity, Tone at the Top**

If public sector internal auditors and the government’s internal audit functions are to be more effective, certain key elements must be present, enumerated Dr. Radzi:

One, they have to demonstrate constant vigilance and hyper awareness of issues that affect good governance and public interest, whether in the procurement process or in administration. They also need to be independent and objective without fear or favour. “However, it is not easy to be independent and objective because these involve managing the respective cultures of public sector organisations,” said Dr. Radzi.

Two, it is imperative that the tone at the top be established correctly from the outset to overcome the prevailing challenge of power distance, where lower-grade staff are unlikely to gainsay their superiors and they run the risk of being ignored even when they raise red flags about wrongdoing.

“Tone at the top is the atmosphere of an organisation created by top management, and
the public sector is no different,” he asserted. The paradigm shift in the highest echelons of government today is palpable. “Malaysia’s top management of the country – the newly-elected government – is serious about combatting fraud and corruption,” said Dr. Radzi. “Setting the right tone and instituting the right controls are prerequisites to this. The public sector is set for a mindset overhaul.” He warned that excuses will not be entertained.

Now that the tone at Federal level is clear with a focus on integrity, minimisation of leakages and combating corruption, hence the real remedial work must be carried out. Dr. Radzi indicated that “the approach will be preventive rather than detective, with a systematic, disciplined approach to evaluate and improve overall management and governance. Having good governance mechanisms in place as a major preventive measure will mean that fewer resources will need to be allocated to policing the systems and ensuring compliance in the long run.”

With such mechanisms being put in place, the role of the public sector auditor will evolve, necessitating a parallel increase in professional capability, especially professional scepticism. Auditor competency will have to be improved, which is where MIA comes in to provide support. However, the problems of auditor inadequacy and audit weaknesses must be dissected at their roots to determine the cause. “Do incidents occur because auditors are not sceptical enough? Is our professional scepticism enough, or is incompetency an issue? Are auditors being sufficiently trained, or are issues related to a lack of accountability?” said Dr. Radzi, urging auditors to redouble efforts at curbing spending and improving performance and efficiency.

Remarking that General Election 14 (GE14) was pivotal to turning the spotlight on good governance, he said the public now had the space to discuss public fraud openly and propose methods of countering corruption and wastage, particularly those highlighted every year by the Auditor-General’s Report. It is important to implement protective and anti-retaliatory measures to support whistleblowing, noted Dr. Radzi. “Protection for whistleblowers is another method of combating corruption,” he said, pointing out that internal audit departments were ideally situated to deal with such matters, as their unique position allowed them to identify and remedy weaknesses in the system, while cultivating its strengths.

But nothing will happen if auditors in the public sector themselves are not proactive in responding to challenges. Auditors, regardless of whether they are in the private or public sectors, must respond professionally as they have been trained to do. Rather than perpetuate the status quo, they should voluntarily rock the boat. “We can do better than this!” he concluded.
Accountants: First Line of Defence in Curbing Money Laundering

By Nazatul Izma

As the new regime cracks down on graft and money laundering, accountants and Those Charged With Governance (TCWG) must be alert to their obligations under the relevant legislation. To educate members on their duties, MIA in partnership with TraTax and Lee Hishammuddin Allen & Gledhill recently organised a panel session on Money Laundering: The Functionality, Impacts and Consequences as part of the one-day event on Recent Tax Disputes and Directors’ Responsibilities in the Present Regime. The lively panel was moderated by Umapagan Ampikaipakan, producer and presenter from BFM.

Legislation

Pursuant to Part IV of the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLATFPUAA), accountants are reporting institutions (RIs) when they prepare or carry out Gazetted Activities for their clients as published in P.U.(A) 340/2004 and P.U.(A) 293/2006. Additionally, accountants who are RIs under the AMLATFPUAA, are subjected to Anti-Money Laundering / Counter Financing of Terrorism (AML/CFT) – Designated Non-Financial Businesses and Professions (DNFBPs) & Other Non-Financial Sectors (Sector 5 Policy Document).

While many focus on the anti-money laundering aspect, “unlawful proceeds is a powerful tool that allows the authorities to actually go in and investigate to see what is there,” said Bahari Yeow Tien Wong, Partner, Lee Hishammuddin, Allen & Glenhill. “If
there are proceeds that the authorities suspect as being from unlawful activities, they can actually freeze these and seize these for the purposes of investigation. Finally, the authorities have the power to forfeit these, if at the end of the investigation, it is established that these are unlawful proceeds.”

From the IRBM’s tax perspective, three of the sections in the Income Tax Act 1967, were gazetted in the AMLATFPUAA under Sections 112, 113 and 114 where Section 112 is non-compliance, 113 is incorrect return and 114 is wilful evasion. Any crimes that fall under these three sections are considered serious offenses subject to the AMLATFPUAA “During the course of an audit or investigation, the IRBM might flag companies with active accounts but no operational businesses as these are red flags for minor money laundering activities covering unlawful proceeds, that could fall under the ambit of AMLATFPUAA,” explained Shazmin Shamsul Ariffin, Division Director, Special Task Department, Inland Revenue Board Malaysia (IRBM).

High-risk Activities

For accountants who provide taxation services, for example, “While you think you are just managing tax, money laundering could occur in the tax return and tax declaration, such as tax evasion which is a serious offence (or predicate offence) under AMLATFPUAA,” said Dr. Sarah Azlina Che Rohim, Acting Deputy Director, DNFBP Division, Financial Intelligence and Enforcement Department, Bank Negara Malaysia (BNM).

“Money laundering has three layers: placement, layering and integration. Accounting firms could be abused as a conduit to money laundering during placement, when clients deposit money into their client accounts with the firms,” she clarified.

Dr. Sarah also quoted the creation, operation and management of companies as a risk area for accountants, broadly termed as gatekeepers, together with lawyers and company secretaries. For example, the Panama Papers debacle revealed how tax evasion schemes were designed to layer companies and create trust arrangements involving gatekeepers, who acted as nominees and trustees to those schemes. Although these are ordinary activities in the course of business, “the bottom line is that layering may have happened through companies and nominee shareholders as well as nominee directors for the purpose of concealing dirty money,” explained Dr. Sarah.

Accountants’ preventive role

So, what are the preventive measures that accountants can take to protect themselves from being ‘abused’ by the money launderers?
“As RIs under the AMLATFPUAA, financial institutions, as well as Designated Non-Financial Businesses and Professions (DNFBPs) act as the first line of defence to curb money laundering activities.”

“These RIs are required to comply with the AML/CFT measures as provided under the AMLATFPUAA and relevant instruments in order to protect themselves from being abused for money laundering and terrorism financing activities. AML/CFT requirements pursuant to Part IV of AMLATFPUAA include among others customer due diligence (CDD), record-keeping requirements, compliance programme, and reporting of suspicious transactions reports (STRs),” explained Dr. Sarah.

There are also requirements to screen clients against the terrorism financing (TF) and proliferation financing (PF) lists, which refer to the United Nations Security Council Resolutions (UNSCR) Lists on TF and PF, as well as the TF list published by the Malaysian Ministry of Home Affairs (MOHA). Failure to comply with AML/CFT requirements under the AMLATFPUAA may attract criminal penalty.

**Conducting CDD and Lodging STRs**

Dr. Sarah further elaborated that when conducting CDD, accountants need to ask the relevant questions to know their customers. “The apex of the preventive measures is CDD and determining the customer’s identity. You need to know who you are dealing with. In providing services related to the purchase of a property for example, you need to find out the purpose of the purchase and the client’s source of funds in financing the purchase.”

“You also have to know your business and what is the norm and what would be a red flag. There is no quantum or threshold for suspicious transactions, rather accountants must look out for unusual transactions,” interjected Bahari.

Lodging STR does not mean that the relevant transaction / business relationship must be terminated immediately. “Usually, we don’t stop you from making that transaction (that is connected to the STR). The STR is your protection; you are going in with eyes wide open. The problem arises when you don’t properly undertake CDD at all and hence are unable to detect unusual transactions or irregularities to report STR,” continued Dr. Sarah. “If you think that the transactions conducted by the same client are of higher risk, you need to conduct enhanced and ongoing transaction monitoring and consider the need to report STR. Unless the client is on UNSCR or MOHA lists; then you cannot do business with the client at all, and you need to freeze any of the clients’ funds held and submit a STR to BNM immediately.”

For detailed requirements on CDD, STR and other preventive measures, accountants can refer to the AMLATFPUAA and the guidelines i.e. the AML/CFT – Sector 5 Policy Document for DNFBPs which is accessible at [http://amlcft.bnm.gov.my](http://amlcft.bnm.gov.my). The form to submit STR can also be downloaded from the same website/link.

**Protection of persons reporting**
Pursuant to Section 24 of the AMLATFPUAA, there is a protection for RIs that report STRs to BNM. No civil, criminal or disciplinary proceedings could be taken against a person who reported an STR, unless the information is disclosed or provided in bad faith.

RIs are also required under the AMLATFPUAA to keep the information in STR submitted to BNM confidential. On the other hand, BNM also implements strict security to preserve confidentiality of information provided in STRs.

The current low level of DNFBPs’ (including accountants) awareness of, and compliance to AML/CFT requirements underscores the need for close collaboration between BNM and the relevant self-regulatory bodies, e.g. MIA. Such is aimed at elevating the accountants’ awareness and effective implementation of the AML/CFT requirements through a national compliance programme, to protect themselves from being abused for money laundering and terrorism financing activities. “Lodge STR when in doubt of any transaction conducted by your client, as the STR is part of your protection,” Dr. Sarah reiterated.

Wrapping up, the panellists urged accountants to do their duty to the country as reporting institutions, to eradicate money laundering and graft. “The International Monetary Fund (IMF) estimates that 2-5% of a country’s GDP consists of unlawful proceeds. Hypothetically, put in a Malaysian context, that is around some RM36.5 – RM91.2 billion of dirty money. That’s a lot of money that could have been used for the productive capacity of the country,” said Dr. Sarah.

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Creating a Vision for the Future: How Technology Will Revolutionise the Finance Function

By Venkkat Ramanan

Technology is disrupting every industry, every sector and every business function. New tools allow finance professionals to gain greater insight into their organisations’ data, to share information more effectively, and to identify the patterns and trends that will shape the future. Yet the adoption of new technology is not evenly distributed across organisations, industries and sectors. Some finance functions are much further along the transformation journey than others. So how can we speed up the rate at which all finance functions exploit new technological tools?

In 2016, a report by Deloitte, Finance in a digital world, identified seven key technologies that are impacting on modern finance functions. These are:

- Cloud solutions, which enable shared computing services over the Internet;
- Robotic process automation, which reduces costs and improves efficiency by automating processes and repetitive manual tasks, such as data entry and report generation;
- Visualisation, in other words, using technology to turn raw data into pictures and infographics that clearly set out the organisation’s story;
- Advanced analytics, which automates the examination of data to discover patterns that finance professionals can turn into insight;
- Cognitive computing, a suite of technological tools that includes artificial intelligence, machine learning and speech recognition;
- In-memory computing, where random access memory (RAM) servers are used to store data; and
- Blockchain, the database ledger technology that keeps immutable records of transactions on a distributed, peer-to-peer network.
These powerful emerging technologies are coming together to create a new finance model, where human intelligence is augmented by technology. As technology enables humans to become faster, more efficient and more productive, the success of the finance function of the future will largely rest on how well it integrates the technical capabilities of algorithms and robotics with the creativity and empathy of human accountants.

Increasingly, finance professionals will move away from performing mundane tasks. Instead, their role will be geared towards knowledge collection and creation, and curating and interpreting the information outputs produced by software. The automation of repetitive tasks will free up their time so that they can focus more on constructing and preserving business value and determining the context and human story behind seemingly abstract numbers.

None of us can foresee the future, but with the right insight, we can prepare for it. This is where management accountants come in. Through ambitious and clever use of technological tools, they can turn data into insight, and insight into strategy. Inevitably, this will require them to change their mindsets and to adapt to new technologies and working practices. It will also require them to understand how different tools can be used in combination with each other to improve basic finance activities. For example, cloud and robotic process automation technologies together generate vast realms of data, which can be queried by advanced analytics and in-memory computing to provide automated insight.

Certain companies and certain sectors are the real pioneers when it comes to implementing disruptive technologies within their finance functions. Innovation tends to be led by multinationals and large national companies and, at the other end of the scale, agile and ambitious start-ups run by young entrepreneurs. Furthermore, innovation is more common in certain highly regulated, data-intensive sectors, such as financial services and telecommunications.

Research by consultancy McKinsey, A Future That Works: Automation, Employment and Productivity, highlights five factors that influence the pace and extent of automation within organisations. These are technical feasibility; the cost of developing and deploying solutions; labour market dynamics; economic benefits; and regulatory and social acceptance. Our own research suggests there is a sixth factor, as well, which is social demand within the ecosystem. Put simply, when other members of an organisation’s supply chain implement a disruptive technology, they help to speed up the adoption of similar technologies across the ecosystem.

Management accountants have a comprehensive view of their organisations’ finances and operations, which is why they are set to play a critical role in developing the digital strategies of the future. If they are to fully seize this opportunity, however, they need to positively embrace the Fourth Industrial Revolution. The first step in the process is to understand where their finance function is on the journey towards technological
transformation and to assess the technologies that are most likely to disrupt the business in future. We have developed our own tool, the CGMA horizon scanner, precisely to support these kinds of assessments.

After that, it is necessary to use the latest technologies to release the full capacity of the finance function, and to widen the remit of finance to cover a broader range of management information. Organisations also need to encourage their finance professionals to develop new competencies and growth mindsets, which will enable them to help with creating and preserving value over the long-term. No business wants to fall behind in this age of disruption. So the conversation around what the future of finance will look like in your organisation should be happening – and it should be happening today.

*Venkkat Ramanan is Regional Vice-President – Asia Pacific at the Association of International Certified Professional Accountants (AICPA).*

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By Majella Gomes

When confronting risk, understanding the prevailing culture of one’s environment underpins the level of success of any risk strategy.

Speaking at the recent MIA Risk Management Conference 2018, Nik Shahrizal Sulaiman, Assurance Partner, Risk Assurance Services, PwC Malaysia said that even the best standard operating procedures (SOPs) cannot save a firm if it doesn’t have a culture in place that embraces risk, determines risk appetite levels and how to manage crises.

Shahrizal debunked prevailing myths about risk culture that will hopefully help firms in rebooting their own risk culture for better governance.

**Myth 1:** As long as a firm complies with regulations, its risk culture is good enough. Wrong. You must understand risk and what drives it to manage risk effectively. This necessitates an understanding of what drives risk culture, and the factors which cultivate it, in each firm’s respective unique environment. Building a risk culture is not exclusively about designing and implementing policies and procedures; more importantly, firms must set the right KPIs, processes, monitoring, performance reviews and attitudes that fit their particular industry and circumstances.
Myth 2: Tone at the top is enough to change a firm’s risk culture. It isn’t. As the saying goes, “It takes a village.” An organisation’s risk culture may be influenced by the tone at the top, but it has to permeate all layers before it can be internalised.

STRATEGIES FOR SUCCESS

Firms should take the following steps to beef up risk culture.

- While it is critical to identify the factors that drive risk culture, firms must also identify impediments to risk culture. Shahrizal recommended that firms come up with a risk appetite statement that identifies risk and its impact on the various departments in an organisation, as well as the consequences of not managing these risks. For instance, management could assess KPIs from the perspective of what will happen if certain procedures are not followed, rather than from the viewpoint of just completing the tasks for the sake of fulfilling KPI requirements.
- Extend or enhance the traditional lines of defence – internal controls, financial controls and internal audit – more robustly to tighten risk management.
- Establish more channels to respond to risk once it is identified, or to escalate material risk issues to the appropriate authorities. For this to be effective, firms must put in place robust communication and information-sharing measures, backed by an environment of openness and transparency.
- Take an integrated approach to risk management and culture. Risk affects all departments, sectors and units across the board; it cannot be addressed as a standalone matter. Businesses today need a risk management strategy that works in tandem with sustainability strategies. “You cannot have a “silo” culture when it comes to risk management strategy,” Shahrizal said. “You need to have specific strategy to address it, and the initiative has to be applied organisation-wide.”
By Nithea Nadarajah

“Fair value is the new mainstream basis of accounting,” observed Tan Khoon Yew, Partner, Learning & Professional Development, BDO in his presentation at the recent MIA MPERS Conference 2018.

Referring to an objective estimate of the current market value of an asset (or liability), fair value measurement is a paradigm shift away from the historical cost method of recognising the cost of an asset (or liability) upon its acquisition.

Under Section 2.34(b) of MPERS, fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s-length transaction.

Even thrashing out the semantics is challenging.

One, the contention that ‘an asset could be exchanged’ does not necessarily imply an outright cash or credit payment made for an asset. The asset exchanged could also fall within the ambit of barter transactions, which could evoke circular reference issues between the value of an asset given away versus the value of an asset received.

Two, ‘liability settled’ could also be perceived to include indirect settlement mechanisms such as debt novation agreements usually undertaken during de-gearing exercises. Should the fair value of the liability in question be measured at its carrying amount in the balance sheet or the amount payable to the third party assuming the liability?

Three, deciphering the context behind ‘knowledgeable, willing parties at an arm’s length transaction’. Willing parties at arm’s length transaction can be easily inferred to mean willing participation without any pressure or force amongst parties that are acting
independently. However, in instances whereby the information required to accurately
determine the fair value of an asset (or liability) is not readily accessible, are the parties
deemed “knowledgeable”?

Measuring Fair Value

Fair value and historical cost are the two common measurement bases under MPERS.
Section 2.46 of the MPERS specifies that at initial recognition, an entity shall measure
assets and liabilities at historical cost unless another basis such as the fair value method
is explicitly required.

MPERS requires that the fair value method be applied upon initial measurement of
certain balance sheet items such as financial instruments, government grants, certain
biological assets and service concession agreements. Additionally, revenue income
under the profit and loss statement is also accorded the equivalent fair value basis
treatment upon initial measurement.

Most non-financial assets are initially recognised at historical cost and subsequently
measured using the fair value method. However, in relation to investment in associates
and joint ventures, companies can apply either the cost method or the fair value
method.

MPERS also introduced the concept of ‘undue cost or effort’ whereby an asset or liability
is exempted from applying the fair value method should there be undue cost or effort
suffered during the valuation process. However, this exemption is limited to only certain
items identified under the MPERS e.g. financial instruments in Section 11 or investment
properties in Section 16.

Applying Fair Value
Small and Medium Enterprises (SMEs) must maximise the use of observable inputs and reduce the use of unobservable inputs when measuring fair value. MPERS introduced a fair value hierarchy which prioritises the importance of observable inputs in the fair value measurement process.

- Observable market price or the current price of an identical asset in an active market is the best evidence of fair value.
- In the absence of observable market price, the next option will be the application of entity-specific observable market data which includes prices stated in a binding sales agreement or a recent transaction (provided there are no significant time lapses or undue changes in economic circumstances).
- If the market for the asset is not active and recent transactions are not good estimates of fair value, another method of measurement called the valuation technique is applied. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm’s length exchange motivated by normal business considerations. The two most commonly acceptable valuation techniques are the discounted cash flow analysis and option pricing models.
- In the absence of asset market prices, it is reasonable to rely on the concept of determining the available market price for the transfer of an identical liability relating to that asset.

Regardless of the fair value technique adopted, the financial statements must adequately disclose the basis used to determine fair value, the observable or unobservable inputs relied upon, as well as the necessary assumptions made.

**Challenges**

“MPERS does not prescribe beyond the general requirements, how fair value must be calculated for each type of asset or liability, especially in relation to non-financial assets,” cautioned Tan. SMEs are thus required to apply professional judgement in situations that lack clarity during the fair value measurement process.

Furthermore, MPERS does not provide guidance or specify the type of markets that SMEs are expected to rely upon, e.g. criteria for the most advantageous market. In reality, the existence of numerous financial markets and widely disseminated information present preparers with a surfeit of choice and their decisions could result in flawed and diverse fair value measurements.
It’s not easy being a CFO in today’s complex landscape, where the traditional role of financial steward has evolved into that of co-pilot and business partner.

“The role of CFO, as the leader and senior person involved in the finance function of an organisation is very important to drive the organisation forward in achieving its goals,” said MIA CEO Dr. Nurmazilah Dato’ Mahzan at the MIA Regional CFO Forum 2018.

To enhance CFO competency and effectiveness, MIA has released a CFO Competency Framework for Public Interest Entities (PIEs) with the aim of upskilling CFOs to operate in the highly-regulated PIE environment where good governance and protecting public interest is paramount.

The Framework is extremely timely, given the new government’s focus on good governance, and will guide organisations on how to appoint the right CFO. “The CFO Competency Framework seeks to enlighten those charged with governance (TCWG) and C-suite executives that a competent finance function led by a competent CFO can improve corporate governance and hence, strengthen reputation, public confidence and trust,” added Dr. Nurmazilah.

**Setting Baseline Competencies**

By clarifying and delineating the scope of work that CFOs in PIEs could be doing and the competencies that are expected to go with it, the Framework can serve as a reference guide for companies, Audit Committees and CFOs on how to optimise the finance function and finance leadership to benefit all stakeholders.

At the Forum, moderator Simon Tay Pit Eu, Executive Director Professional Practices and Technical, MIA explained the Framework's five key principles guiding the roles and expectations of a CFO and the six roles that represent the full breadth of the CFO’s
Using IFAC’s five key principles as a guide, the PIE CFO’s roles and expectations are to:

1. Be an effective organisational leader and a key member of senior management
2. Balance the responsibilities of stewardship with business partnership
3. Act as the integrator and navigator for the organisation
4. Be an effective leader of the finance and accounting function
5. Bring professional qualities to the role and the organisation.

In defining the roles of a CFO in a PIE, MIA also looked to the definition set out by Ernst & Young (EY) as a guide. These roles are:

1. Ensuring business decisions are grounded in sound financial criteria
2. Providing insight and analysis to support the CEO and other senior managers
3. Leading key initiatives in finance that support overall strategic goals
4. Leading key funding, enabling and executing strategy set by the CEO
5. Developing and defining the overall strategy for your organisation
6. Representing the organisation’s progress on strategic goals to external stakeholders.

Applying the Framework

During a panel discussion at the Regional CFO Forum, Teresa Chong, Audit Partner, KPMG PLT Malaysia said that the Framework is very comprehensive and spells out the required skillsets for CFO competency. She added that applying the CFO Competency Framework will ultimately improve corporate governance and public trust.

“Accountability and public trust are key to auditors. With so much information shared with the public, there is a need to verify the reliability of the information, whom we can trust and who’s preparing it.” Put another way, implementing the Framework will heighten public trust in CFOs as purveyors of financial information.
Jeremy Nasrulhaq, Chairman, Professional Accountants in Business Committee, MIA, recommended that CFOs embrace technology to become future-proof. “The emergence of the digital age is very relevant to the CFO. You need to keep up to date with all the developments that are coming up in the future. CFOs should know what is happening in Fintech, AI (artificial intelligence), etc.”

To ensure that CFOs can lead strategically, Dr. Farouk Abdullah, Chief Data Scientist and Country Head, Natural Intelligence Solutions -LLOOPP advised CFOs and organisations to transform the finance function by leveraging four forces: digital, data, risk and uncertainty. “The CFO mindset needs to change. You can have all the strategy in the world but if the culture that you drive within your financial department does not change, it will be difficult to move forward in the digital world.”

“CFOs should be the custodian of data and analytics within the organisation,” recommended Dr. Farouk. “You don’t own data, but you are in charge of the data governance, data dictionary, where and how the data is stored, who uses and have access to the data and what decisions are made on the back of the data – basically the whole data ecosystem from point of capture to storage to use and to cleanse.” The CFO basically needs to manage data in real time and to collaborate with the different departments to inform them on how to achieve the organisation’s targets.

In short, CFOs should be the “lubricant” of the company – “the one that gets things going and moving forward. The best way to embrace technology and drive the technology agenda is to understand what the vision of the company is and where it hopes to be in the future,” said Dr. Farouk.

**Competencies – Other Required Training**

Other than emphasising technology, the CFO Competency Framework for PIEs recommends that CFOs undergo training in the following core competencies:

Preparation of financial statements and external reporting in compliance with accounting standards and relevant laws and regulations as befits the local context.

Financial management, strategy development and execution, and communication with stakeholders.

MIA will continue to provide the necessary and tailored CPE to help CFOs bridge competency gaps and prepare for their expanded roles. For a start, MIA recommends that CFOs undertake a minimum of 20 credit hours of structured and verifiable CPD learning for each calendar year.

MIA is also planning to offer more support to CFOs from the vantage of the capital market, in terms of professional development and education in core areas such as business valuation, capital market financing solutions and integrated reporting.

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**BUDGET 2019 – KEY UPDATES AND CHANGES FOR CORPORATE ACCOUNTANTS**

15 November 2018 @ Connexion Conference & Event Centre @ Nexus, Bangsar South City, Kuala Lumpur

**2019 BUDGET SEMINAR SERIES**

Various dates @ Central and Other Regions

The 2019 Budget, to be tabled on 2 November 2018, will be the first major policy paper to be unveiled by the new government to drive the economy. Understandably, businesses and individuals alike are eager to learn more about the 2019 Budget with the theme of “Restoring Public Finances, Sustaining Growth and Enhancing Wellbeing”.

MIA is organising both the Budget 2019 Seminar targeted at Corporate Accountants as well as our MIA – MATA 2019 Budget Seminar Series that will look at the impacts of Budget 2019 proposals on business and the economy, as well as important direct tax and indirect tax developments, namely Public Rulings and insights into the Sales and Service Tax.

**MALAYSIA INSOLVENCY CONFERENCE 2018 – Gearing Up for Tomorrow’s Corporate Recovery and Insolvency Practice**

22 November 2018 @ Connexion Conference & Event Centre @ Nexus, Bangsar South City, Kuala Lumpur

Public practitioners are constantly being urged to add value to their offerings by
diversifying services. Insolvency holds exciting potentials for service diversification and advisory, especially given the volatile economic climate of risky business at home and abroad as well as the need to manage economic failures.

Specially for insolvency specialists, the Malaysia Insolvency Conference 2018 discusses the economic outlook post-Budget as well as new rules and regulations impacting insolvency, including a new corporate rescue mechanism under the Companies Act 2016. Also learn more about asset tracing, forensic methods and litigation funding that support an effective insolvency process. The Conference ends with a Legal Colloquium: Case Study, where legal experts will address the legal issues and challenges of the corporate rescue process and the legal perspectives of selected insolvency cases.

The Malaysia Insolvency Conference is jointly organised by MIA, Malaysian Institute of Certified Public Accountants (MICPA) and Insolvency Practitioners Association of Malaysia (iPAM).

NATIONAL ACCOUNTING EDUCATORS CONVENTION 2018 – NURTURING FUTURE ACCOUNTANTS

28 November 2018 @ Connexion Conference & Event Centre @ Nexus, Bangsar South City, Kuala Lumpur

Specially designed to update accountancy educators on the latest developments, this Convention brings together academicians and employers to bridge the talent gap. Placing technology and digital at the top of the agenda, the Convention focuses on how educators can impart the key skills and values needed by future accountants – leadership, empathy, ethics, problem-solving, professional judgement, communications, soft skills, etc. – to avoid obsolescence. On top of these expanded expectations, educators are expected to teach technical skills with clarity, so this Convention is followed by a special Masterclass on a new key standard – MFRS 16 Leases.

PUBLIC SECTOR FINANCIAL MANAGEMENT CONFERENCE 2018 – Upholding Trust and Accountability

10 & 11 December 2018 (Monday & Tuesday), Connexion Conference & Event Centre @ Nexus, Bangsar South City, Kuala Lumpur

Aligned with our purpose of nation-building, MIA is actively supporting the government to embed trust and accountability in the public sector, in order to uphold good governance and public trust. Key to building transparency and accountability is the management and presentation of information, especially financial information underpinned by accrual-based accounting systems, integrated reporting frameworks and the International Public Sector Accounting Standards (IPSAS).
This conference jointly organised by MIA, International Public Sector Accounting Standards Board (IPSASB) and the Accountant General’s Department of Malaysia (AGDM), will bring together IPSAS Board members, regional and national accounting specialists, senior representative in Public Sector and other interested parties to discuss topic such as:

- Using accrual-based accounting information to achieve effective and efficient public financial management
- Strengthening the Government Finance Function and upskilling public sector accountants
- Implementing integrated reporting in the public sector
- Complying with the IPSAS Board issued Recommended Practice Guideline 3 (RPG 3) on Reporting Service Performance Information to meet users’ needs.

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Managing your Tech Risks – with Tech

By Majella Gomes

To manage risk effectively, firms will need to rely increasingly on technology, and apply Big Data analytics (BDA) and artificial intelligence (AI) in support of their existing processes and operations. Far from displacing accountants, AI will be a boon that takes over onerous, repetitive tasks – freeing up finance professionals for higher value-added roles, including risk management and controls.

**Plan your Tech Strategy.** While AI can make work easier and enable humans to move to the next level of both tech and decision-making, organisations need to first understand their tech needs, and determine if they have the capacity to effectively harness it. ‘Before embarking on an AI journey, companies should plan a comprehensive, long-term tech strategy,’ advised Dr. Nurnazilah Dato’ Mahzan, CEO, MIA, moderating the first session on technology adoption, risks and governance at the MIA Risk Management Conference 2018.

**Ensure Risk Controls are Consistent with Long-term Strategy.** AI and BDA are able to capture and analyse huge amounts of data rapidly but risks – such as human error at the most basic programming level – could skew results. When these occur, the resulting damage could be irreparable, particularly when reputations are involved, hence the need to put in proper risk management measures and controls that are consistent with long-term business and risk management strategy, explained Dato’
Merina Abu Tahir, Head, Group Internal Audit, Malaysia Airlines Berhad. One key way of enhancing risk management is to use AI and computer-aided auditing tools and techniques to assist in identifying and managing risks and to continuously audit the business to ensure that there is no deviation from risk controls, she continued.

**Prioritise your risk management.** Technology use brings new risks in its wake. Topping the list is managing the risks that come with making digital payments, as the mode, frequency and amounts transacted are speeding up and diversifying at a dizzying pace. Suhana Ali, Axiata Digital eCode’s Head of Risk Management, confirmed that the company’s digital platform for customers already had a built-in risk management component.

**Find a niche.** BaliPay founder Dr. John Vong recommended that firms leverage on evolving technologies to find new areas of value. For example, extrapolate new uses from big data, along the lines of AI diagnostics that can tell whether a cough on the phone indicates bronchitis or pneumonia, by crunching cough patterns, and facial recognition software that can tell if a person is well or not from a smart phone photo; or the retina scanning security system he developed for a bank that was then utilised to spotting developing cataracts.

**Change mindsets.** In a dynamic business landscape that is evolving exponentially, firms need a more agile, 360-degree and integrated perspective and approach to risk management, advised Dr. Nurmazilah. To boost risk management culture that is supported by technology, she recommended that the current low levels of IT use could be boosted by having a champion in every firm, either the Chief Data Officer or an IT-savvy auditor “able to harness technology to make it work at optimum level” to support good governance and a robust risk culture.

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MIA Publishes 2018 Integrated Report

MIA is delighted to announce the publication of its second Integrated Report (IR), which narrates the Institute’s ongoing journey of integrated thinking and integrated reporting.

This report has been prepared in accordance with the International Integrated Reporting framework, and seeks to provide a comprehensive overview of MIA’s value creation framework and review of financial and non-financial performance across our four strategic objectives.

In this report, we highlight the material factors, market outlook and megatrends that inform our governance and risk management policies and business model, which in turn drive our value creation and stakeholder engagement initiatives.

We are honoured that based on our (IR) experience and advocacy, the International Integrated Reporting Council (IIRC) has appointed MIA as its only certified (IR) trainer for the ASEAN region effective from the next financial year. This is very much aligned with our drive to champion excellence in corporate and financial reporting as part of our purpose to regulate and develop the accountancy profession. As we go along, we hope that our sharing of our best practices and insights will be useful to other organisations embarking on their own (IR) journey, locally and regionally.


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The new MIA Membership Information system has gone live since end September 2018 for members/users, offering a seamless interaction and engagement experience with the Institute.

The MMIS incorporates new features that are available online, among which are: registration for events and applications for membership or other related applications for members, updating members’ profile/CPE hours and payment. Members/users are no longer required to submit hard copies to MIA.

In order to connect with MIA, all users are required to create a login id. However, existing members may continue to use their current user id (membership number) and password.

These are the new sections for members:
We hope the MMIS will give you a highly satisfactory new experience while supporting our green initiative. MIA will constantly enhance the development of the MIA system. If you have any queries or feedback, please email us at info.assist@mia.org.my

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Accountants and CFOs are well positioned to take up leadership on Boards because they are well-versed in aspects such as regulatory, risk management and corporate governance, and backed by codes of ethics that espouse integrity and accountability. Now that women make up about half of the profession, it is high time that Board composition reflects gender diversity and inclusivity.

The Malaysian Institute of Accountants (MIA) recently hosted a sharing session aimed at onboarding more women, delivered by the 30% Club representatives. The 30% Club is a business campaign to help drive higher women representation in leadership positions and on corporate Boards, and it aims to help Malaysia to achieve 30 per cent women representation on public-listed corporate Boards by 2020.

Forty-five C-Suite female MIA members attended the sharing session, which was presented by the 30% Club’s Project Management Officer, Marzida Mohd Noor, and members of the talent pipeline committee, Pun Tian Pouw (better known as TP), Principal, TP Pun Advisory and Raj Kumar Paramanathan, Partner, Malaysia & Thailand, CnetG Asia. Participants also had the opportunity to discuss challenges faced by Board members but more importantly, they learnt how to self-assess their skill sets to increase their opportunities for Board appointments and increase Board readiness. Some of the key skills and success factors emphasised by the 30% Club were:
Visibility. Learning how to build networks and connections is critical for Board visibility. While recent studies suggest that Board recruitment practices are undergoing some modification, the fact remains that suggestions of names for new directors continue to come primarily from the traditional sources – the CEO and current Board members. Hence, women need to make themselves visible and also more accessible. This includes reading up a lot on varied subjects and timely topics and issues and sharing their professional points of view so others take notice of them.

Get A Buddy, A Coach and A Sponsor. Women do not believe that networking is important for their success. This is also supported by some studies,” said Raj. Having a male buddy helps give the woman that initial nudge out the door while networking, bringing down the barriers, especially in engaging positively with male members. A buddy is different from a sponsor and a mentor and a buddy will help you build and grow your network. A mentor provides advice and support around building skills and qualities to navigate successfully in the organisation. A sponsor sees you as their protege and talks about you without being solicited. They will suggest you for Board or senior leadership positions, pay raise or promotion because they believe in you. It also fineses access to other powerful networks. The bottom line is, said Raj, women considering Board or senior leadership roles should increase visibility and build rapport with sponsors and mentors in their career, ideally both male and female.

Be Prepared to Commit. To be considered for Board, TP suggested that women share the fact that they are available, capable, and interested in a Board position. “Find the right balance between getting the position you aspire while not seeming over-eager or desperate in the process.” And be discerning about the roles you accept; do not over-commit as this may adversely affect your contribution level. Realise too that there will be Board opportunities that may not fit you well, but do not despair. The right fit may eventually come along.

Brand You. You are your most vital asset. TP recommended getting acquainted with “headhunters who deal at the C-Suite/Board level who is knowledgeable of the industry ecosystem.”. Be self-aware and strategically articulate an effective personal branding. “Do not underestimate selling yourself with a well-presented LinkedIn profile,” TP advised. A good profile, he says, should not just give a general overview of your experiences and competencies, but also should articulate how you are able to contribute and achieve more in your future endeavours. “Do consider putting in LinkedIn your aspiration to be a Board member. This may assist some headhunters who do keyword searches such as “telco” “Board”, “CFO”. So if your LinkedIn does not have the significant keyword “Board potential”, your name may slip through the crack.”

Dynamics Every Board is a social enterprise. Women inducted into Boards may be seen as an “outsider” in the beginning, hence they must be prepared to rearrange social bonds and open up closed ties that may have long been established. This is when you show what you can bring to the Board, they concluded.
But it takes two to tango. Aspiring women can’t do all the work by themselves. Marzida said that working toward Board gender equality also requires aligning corporate culture and values with gender diversity. “The tone at the top must change, and the organisation’s governing authorities must believe in the diversity agenda.” To this end, the 30% Club has approached the top 100 PLCs’ Chairmen and some Board members, inviting them to be part of roundtable dialogues that can enable women and men to succeed professionally. This includes addressing stereotypes and unconscious biases and how to become champions of change to create a more inclusive environment.

What Women Thought. The women who attended found the session highly useful in clarifying the pathway to Board membership.

Josephine Phan Su Han, Senior Executive Director, Pricewaterhouse Coopers said, “The most engaging and valuable part of the session to me was the journey through a self reflection of the qualities, qualifications and skills that make women equally qualified for Board roles. That was very inspiring and encouraging and I think to a number of other participants in the session too.”

On whether the session helped boost their confidence on pursuing Board roles, Ang Hwui Tee, Head of Credit Analysis, HSBC said, “It certainly got me to think more on suitability, the right fit, board composition and the value I can bring to the Board should an opportunity present itself.”

Concurring, Siva Yamini Sivaperuman, Head Screening, Standard Chartered Global Business Services welcomed the insights on “what is required to be on Board and how women can make a difference to Board composition.” Kwek Yeang Ching, Senior Consultant, Asian Banking School Sdn Bhd, said the sharing of experiences by members who are already onboarded as women directors was particularly interesting and it boosted her confidence to be part of the 30% club.

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Rewarding Talent

The MIA International Accountants Conference 2018 was the ideal venue for MIA to recognise outstanding talent, through its MIA Islamic Finance Mini Pupillage Programme Certificate Presentation and the MIA Best Accounting Students Awards.

Held in the Premier Lounge, the certificate presentation for the inaugural MIA Islamic Finance (IF) Mini Pupillage programme celebrated pupils from large audit firms, regulatory bodies and Islamic financial institutions who had successfully completed the one-year programme. First launched in July 2017, the programme ran from August 2017 to September 2018 and comprised three modules: Module 1 – Training Sessions, Module 2 – Tutoring Sessions and Module 3 – Case Study Development. This programme was initially the brainchild of Dato’ Mohammad Faiz as the-then Chairman of the MIA Islamic Finance Committee, and it is now overseen by Prof. Dr. Maliah Sulaiman as the new Chair.

In her remarks, MIA CEO Dr. Nurmazilah Dato’ Mahzan said that, “MIA’s objective behind this mini pupillage programme is to enhance capacity and competency in Islamic finance by creating a pool of knowledgeable and highly trained accountants who will contribute to the industry. This is in line with our mandate of developing the profession in strategic sectors of national importance, where accountants can make a real difference to support nation-building.”
This IF Mini Pupillage programme is the first of its kind where participants benefit from a holistic exposure on diverse aspects of Islamic finance, including shariah, taxation, accounting and regulatory. Other than in-depth training, a highlight of the programme was the opportunity for participants to interact with leaders in Islamic finance to get a first-hand perspective on the industry in face-to-face knowledge sharing sessions on a wide array of topics such as shariah rulings, accounting and financial reporting for Islamic banks and takaful companies, sukuk, the history of Islamic finance in Malaysia, and Islamic capital market.

The Case Study Development module enabled the participants to contribute further to the IF body of knowledge by completing case studies in their area of interest. To promote knowledge sharing, MIA will compile and share these case studies on its communications and professional development platforms.

Dr. Nurmazilah noted that this programme exemplifies MIA’s approach of strategic collaboration, as it could not have come to fruition without the collaboration and support of all stakeholders in the IF ecosystem, such as the audit firms, Islamic banks and regulators.

Meanwhile, the MIA Best Accounting Student Award (BASA) has been going strong since 2008 to recognise and reward deserving candidates who have performed exceptionally well in both academic studies and curriculum activities. These candidates also serve as young role models for their peers, and will hopefully encourage more young talent to embrace the accountancy profession and build up the talent pool.

The BASA was first initiated by MIA in 2008 before MIA embarked on a joint collaboration with Institute of Chartered Accountants in England and Wales (ICAEW) in 2016. Under the joint collaboration, MIA will identify one candidate each from 17
universities recognised under Part I of the First Schedule of the Accountants Act 1967, based on criteria such as: academic performance, curriculum activities, and attributes such as soft skills, communication skills and leadership skills.

To celebrate their achievements and motivate them for further success, the BASA award winners received special fee waivers from ICAEW to pursue their ICAEW ACA programme as well as cash prizes, certificates of achievement, and plaques from MIA.
Robot and technology dominated the MIA International Accountants Conference 2018, with the theme of “Riding the Digital Wave, Leading Transformation.”

In her welcoming remarks, MIA CEO Dr. Nurmazilah Dato’ Mahzam urged accountants to address fears of tech-driven job obsolescence by “leveraging on digital, whether it is artificial intelligence, blockchain, cloud or data analytics, and to embark on transformational initiatives and apply the right tools.”

Later at the glitzy opening ceremony, robot joined the party as Cruzr – the cloud-based business-oriented humanoid from Chinese AI and humanoid robotic company UBTECH – did a little dance with its flexible arms and used voice recognition to greet Guest of Honour YB Dato’ IR Haji Amiruddin Hamzah, Deputy Minister of Finance who was escorted by MIA President Encik Salihin Abang and Dr. Nurmazilah. Cruzr was also present at the ceremony certifying the MIA International Accountants Conference as the ‘largest gathering of accountants in a single event’ by the Malaysia Book of Records.
The MBR certificate was presented to the MIA Conference Director, G. Shanmugam and Conference Project Manager, Pn Noor Azlina Abu Bakar by the Chief Operating Officer of MBR witnessed by our Guest of Honour.

In his welcome speech, En Salihin said that MIA is emphasising for its members keep up with the new standards, professional practices and regulations – such as the Companies Act 2016’s impacts on financial statements and reporting compliance. These are changing the landscape tremendously and placing increased pressure on accountants as managers of risk and custodians of the public interest.

During his keynote address, Dato’ Amiruddin touched on the implementation of the government’s shift from modified cash-based accounting to accrual-based accounting, led by the Accountant General’s Department of Malaysia under the Ministry of Finance. According to Dato’ Amiruddin, the integrated Government Financial & Management Accounting System (iGFMAS) has been live effective 1 January 2018 in all ministries and agencies.

“Accrual accounting fosters better financial planning to ensure that the government is able to meet its liabilities as they fall due and the requirement to identify, measure and report government liabilities will result in transparency,” said Dato’ Amiruddin, who thanked MIA for its support for accrual accounting implementation, including technical support, support for public financial management enhancement, support of compliance with international standards specifically the Malaysian Public Sector Accounting Standards (MPSAS) and capacity building for accountants in the public sector.

Importantly, Dato’ Amiruddin commended MIA for strengthening its enforcement to enhance regulation and signalled support for regulatory reforms. “The government believes more can be done to strengthen MIA’s powers and we are looking at enhancing and refining the Accountants Act 1967 to further empower regulation and enforcement of the profession,” he said.

Once again, the Conference outdid itself by attracting close to 3,100 delegates, 70 sought-after speakers and 60 partners and many supporters. While the sessions were well-balanced, covering a mix of standards and regulation, digital disruption, economic prospects and trends, and technical issues on leasing and auditing, it was clear that delegates were most interested in the application and impacts of the emerging tools most relevant to the profession – blockchain, data analytics and robotics process automation. The concurrent session on analytics for accounting alone drew over 1,200 delegates who spilled out of the hall.

While it will be a hard act to follow, MIA pledges to deliver even more interesting and relevant content for the next Conference in 2019. “A key focus of this year’s Conference was whether accountants and auditors will lose their jobs to automation. The reality is that automation will only take away the routine and repetitive tasks, leaving accountants free to concentrate on higher value activities. For example, accountants are best placed to enhance governance and security using tools such as blockchain or to
offer advisory to customers and business partners through big data analytics. We will continue to expose our delegates to such developments and upskill them on how to become future-proof against obsolescence,” said G. Shanmugam, Conference Director and Executive Director, Strategy and Development, MIA.

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Root Cause Analysis (RCA) – An Essential Process to Improve Audit Quality?

By the MIA Practice Review Department

The success of the Remedial Action Plan (RAP) under the new Practice Review framework for audit firms with Type 3 rating, depends on the practitioners undertaking an in-depth analysis to identify the root causes that detract from audit quality.

RAP essentially relates to the positive measures undertaken by the audit firm to analyse, identify and design the most appropriate remedial actions to address those significant audit performance deficiencies identified during the practice review of the firm.

What are the underlying root causes behind the practice review findings, whether specific to the audit engagement or firm wide, so that an appropriate and achievable remedial action (or actions) can be taken to prevent the recurrence of negative outcomes and promote the recurrence of positive ones?

To answer this, we need to revisit the approved standards on quality control (ISQC1) and auditing standards (ISAs) made mandatory for all firms regardless of size which provides audit and assurance services to their clients. A robust system of quality control not only provides a sustainable structure for ensuring consistency in audit quality but will act as an effective and workable solution to fundamentally address the root causes underlying practice review findings and audit failures.

Advantages of Root Cause Analysis (RCA)
• Leads to consistent audit quality and reduction of review/inspection findings and positive monitoring results
• Enhances quality of audits and adds value to the firm, practitioner, partners and staff
• Provides a learning process for better understanding in relation to causes, effects and solutions
• Provides a logical approach to problem solving using data that already exists
• Reduces risk, and prevents recurring audit failures (that otherwise may lead to sanctions by Regulators)
• Improves performance of the firm and staff

• Leads to more robust systems, policies and procedures
• In a nutshell, the overall objective of RCA is for continuous improvement of audit quality within the firm as illustrated by **Diagram 1.1**.

An RCA helps to develop solutions that address the underlying problem rather than merely the symptoms. The underlying potential causes for any audit issues are complex and the result of a combination of factors, which could include the following areas in the context of ISQC1 elements. The list of potential root causes is provided for illustrative purposes only and is not intended to be comprehensive.
The RCA cycle is depicted in Diagram 1.2

To improve the likelihood of a successful Root Cause Analysis, you will need to consider the following:

**Root cause analysis is an iterative process – be open to revisiting decisions and remediation plans.**

Being open to revisiting decisions and remediation plans is important when new or updated information is obtained. This is especially so when the evaluation of remediation plans already implemented have not yielded expected results.

**Root cause analysis requires a high-level of judgement – consider pervasiveness and significance.**

Root cause analysis is an analytical process that calls for rigorous critical thinking about interrelated cause-and-effect relationships within a system, process or task that has failed or is deemed deficient. Root cause analysis requires judgement to identify the
behaviour, action or inaction requiring remediation and to avoid responding only to symptoms. Judgement is based on review of all potential deficiencies and considering the pervasiveness and significance of the issues.

**Be aware of traps and biases – don’t jump to the obvious conclusions.**
It is important to be aware of biases that may affect the quality of judgements made in determining the root causes of audit quality issues. Such biases may include the tendency to focus on explanations that confirm a preconceived belief or the tendency to base judgements on information at hand rather than on objective data. Awareness of these tendencies is the most effective way of avoiding them. Mitigating actions may include considering alternative explanations, not defaulting to selection of the ‘most obvious’ conclusion and consultation with others.

**Cause and effect are not a linear relationship – don’t assume each audit quality issue has a single root cause.**
Just as any system requires all of its ‘parts’ to work together to function properly, our system of quality control requires all drivers of audit quality to be operating as designed. Consider each of these ‘parts’ when performing root cause analysis and developing remediation plans.

**Focus on prevention – not blame.**
There may be consequences for individuals – but try to focus on ‘why’ a procedure wasn’t followed and ‘why’ a particular remedial action didn’t prevent or resolve the audit quality issue. This will facilitate open and honest communication with the audit professionals involved.

**Conclusion**
It is important to bear in mind that there is no shortcut, or one size fits all approach when identifying and addressing the root causes of audit failure. Therefore, it is incumbent upon audit firms to identify and address the root causes of any audit performance deficiencies highlighted during practice review as soon as they become aware of such deficiencies, it must not be forgotten that improving audit quality is a continuous journey and that patience is a virtue.

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By Majella Gomes

Cyber risks are a growing threat to business, and organisations must keep themselves abreast of risks and regulations in their respective industries, said session moderator Jason Lim, Vice-President, Cyber Security, Wiki Labs at the recent MIA Risk Management Conference 2018. Organisations shall practice security with the assumption that they have already been breached. In addition, organisations shall begin to no longer strive for perfect protection, but to implement controls that help them to detect and respond to malicious activity before it causes bigger damage and disruption to business. “Building the wall high enough is just not good enough. Organisations could have spent lots of money building good security perimeter preventing external attacks, but what about the insiders who are already in your network and accessing your crown jewels every day, they don’t even need to hack your system,” stressed Jason Lim.

How scary is the threat? MyCert Head, Megat Muazzam Abdul Mutalib said that statistics show more than 8,000 incidents pertaining to data security breaches were reported in 2017. The numbers are alarming enough; but this may only be the tip of the iceberg as many Malaysian companies prefer not to report breaches. Their reasons for keeping quiet about security breaches vary, although admitting them may have an adverse effect on share prices and shake investors’ confidence – but being stoic and tight-lipped in the face of cyber attacks may not be the best course of action. “Reporting is important so that the impact (of such incidences) can be mitigated,” stressed Megat Muazzam, adding that Malaysia has also seen a rise in incidents of crypto-jacking – the unauthorised use of computers to mine cryptocurrency.

When hacking first started, breaches were usually caused by “hacktivists” driven by a political or social rights agenda, or “script kiddies” who hacked for little more than bragging rights but this has changed. Today’s attacks are targeted, swift and brutal. Businesses can find themselves locked out of their own systems; entire organisations have been known to grind to a standstill. “We need to be educated about the types of
risk because cyber crime is widespread,” cautioned Anthony Tai Yu Kun, Risk Advisory Partner, Deloitte Malaysia. Although Malaysia has laws that deal specifically with cybersecurity, and Bank Negara has guidelines on e-banking, e-insurance and e-commerce, companies must determine what works best for them, starting with an internal framework.

Four Elements for Cybersecurity

Four elements are key for an internal cybersecurity framework: governance, vigilance, security and resilience. Megat Muazzam said firms should “start small” and develop internal capacity using their own resources and testing processes first, while raising staff awareness. While there are a lot of helpful softwares in the market, internal efforts will create a viable framework to support the four elements. Awareness is paramount; hence educating all staff, not just those in the IT department, is necessary. “Even the best-protected systems can be breached in the most basic way,” cautioned Tai.

One bright spot is that Boards today are more aware of possible breaches, and are generally supportive of efforts to mitigate them. This has become evident in the incorporation of cybersecurity measures and embedding cyber risks in corporate strategy and operations. While larger corporations may cope well, smaller enterprises may find themselves struggling to put a specific cybersecurity agenda in place; more proactiveness on the issue will be necessary. One strategy is for the firm’s Chief Information Security Officer (CISO) to have direct access to the Board, to be able to acquaint members with the main issues.

In the final analysis, how well an organisation manages its cybersecurity risks depends on the organisation’s capabilities – although third parties may provide supporting services. Firms need to put in place frameworks that can counter cyber attacks, and ensure that these frameworks are compliant with existing guidelines. Staff training is imperative, as most scams have been found to be carried out by those with knowledge of internal processes. Above all, understand your firm’s individual risks, identify what mitigative measures can be put in place and be prepared. Cybersecurity is everyone’s responsibility.
For years, Tan Sri Dato' Setia Haji Ambrin Buang’s role as the former Auditor-General from 2006 to 2017 was to bring corruption, fraud and mismanagement in the public sector to the attention of the authorities. But his findings, although published, were usually marked ‘No Further Action.’

In June 2018 however, the new government appointed him as Chairman of the Special Committee on Procurement, Governance and Finance, which is tasked with investigating and improving government processes, particularly public procurement and administrative procedures.

The scope of his new role in public procurement is as daunting as his previous role, as the public sector’s purchase of goods and services accounts for more than RM60 billion annually. “This is big business for the private sector,” he said. “It’s very lucrative – and the government is a good paymaster!”
Tan Sri Ambrin Buang

**Strengthening Internal Audit**

Internal audit is a key pillar in ensuring good risk management and good governance in procurement and administration. However, in his closing lecture at the recent MIA Public Sector Internal Audit Conference 2018, Tan Sri Ambrin flagged some key concerns that compromised the value of internal audit in the public sector, particularly where government procurement was concerned.

One challenge was that “anybody could become an auditor – no training was required.” But the National Audit Department seconded officers to government departments to pick up on the issues on the ground after the government agreed to caderise the internal audit posts in various ministries and agencies several years ago.

Weak independence and objectivity were more difficult roadblocks. In the private sector, the internal audit function reports to the Board of Directors, whereas in the Malaysian public sector the role of internal audit is defined by the controlling officer who in most cases is the Secretary-General or the Director-General of the department.

They have the power to decide whether or not to act on the audit report – which could cause awkward situations if the auditing officer’s confidential report implies wrong doing on the part of these officers. “This could lead to frustration because you cannot be too critical of the boss!” Tan Sri Ambrin said, recalling that some years ago, the government policy was that reports could be sent directly to the Auditor-General if they were ignored by the auditing officer’s immediate superior, but no cases were reported.

“I don’t know if this happened because of fear (of consequences) but there have been serious lapses in government, and in the procurement process,” he acknowledged. Regulations pertaining to government procurement have been neglected over the years, resulting in increased fraud, corruption and circumvention of the law in relation to...
public sector procurement. The number of government procurement exercises stretched the audit department’s capabilities, resulting in cost overruns and delays. “Public interest was not protected; the government did not get value for money,” he said.

Instead of a proper tendering process, direct negotiation of contracts became de rigueur. In reality, there was no ‘negotiation’; instead, there was extensive political influence on decision-making. “In the early 1970s and 80s, schools, hospitals, roads, bridges were all tendered out,” Tan Sri Ambrin recalled. “But these later became ‘direct negotiation’ projects. Things that can be tendered should be publicly tendered. Government procurement should be given priority.”

A New Regime

What are some of the best practices put in place recently to improve the new government’s procurement and administrative processes?

One, the practice of controlling officers receiving ‘Instructions’ pertaining to contracts has ceased. Tenders are the norm with the only exception being an emergency or where intellectual property is involved. Tender documents are now available on websites. No supporting letters are required or will be effective, thereby lessening political intervention in economic decisions.

Two, due diligence will have to cover price comparisons and every aspect of the tendering company, including background checks into its financials, operational capability and experience. “Prices accepted without comparison indicate collusion or fraud,” he asserted.

Three, auditors are urged to read the reports of other ministries and departments to flag procurement and administrative issues like improper planning, political influence, and action against errant contractors. “You must know the issues if you want to protect government interests,” emphasised Tan Sri Ambrin, citing examples where the lack of understanding of issues eventually led to the government suffering losses.

He urged internal auditors to access the Auditor-General’s Dashboard to monitor current issues, stressing that merely exposing weaknesses was not enough. These must be remedied, and for this to happen, auditors will have to be more vigilant, competent, sceptical and discerning.

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Tax Reform – Points to Ponder

By SM Thanneermalai

What an excellent move!

We have been talking too long about reforming our tax system. The income tax legislation and the indirect tax legislations go back to 1967, but times have changed, and our economy is now entirely different.

In the 1960s, Malaysia was largely dependent on rubber, palm oil and tin and we were not an open economy as we are today. The tax regime at that time did not focus on the internationalisation of our economy, the subsequent inflow of foreign direct investments, the extent of the use of transfer pricing, shifting of profits offshore, the current digitalisation of businesses or the emergence of double non-taxation through sophisticated tax planning.

Finance Minister Lim Guan Eng plans to reduce the existing tax gap, address tax leakages, explore new sources of revenue, study the taxation of the digital economy, and review the effectiveness of various tax incentives. He also wants a more efficient, neutral and progressive tax system, at the same time strengthening the enforcement and compliance measures against abuses of transfer pricing and tax planning activities, fraud, tax evasion and the smuggling of controlled items that contribute to the loss of revenue.
Fundamental points to ponder

Composition of the current tax committee
The composition of the current tax committee needs to be extended to include personalities with greater experience in dealing with indirect taxes. The current committee appears to be slanted towards direct taxes.

There is no representation from the current operatives of the tax system – the Inland Revenue Board Malaysia (IRBM) and the Royal Malaysian Customs Department (RMCD). We need them in the committee to provide insights on the current operational inputs and the impediments they face in enforcing the current tax regime.

Feedback needed
The tax reform committee must obtain feedback from various stakeholders (i.e. public, industries, chambers of industry, NGOs, tax professionals, the legal fraternity, IRBM, RMCD, and other government ministries / agencies).

Review of tax incentives
The criteria for granting tax incentives should be reviewed. Incentives should not appear to be discriminating against one set of taxpayers over another or giving an advantage to selected taxpayers. In return for providing incentives, the Malaysian economy must receive far greater economic benefits beyond the tax forgone.

Currently, the general observation is that once incentives are given, there is a lack of comprehensive monitoring on whether the conditions attached to the incentives are being adhered to or not. The post monitoring needs to be strengthened.

Merger of IRBM and RMCD?
Should the IRBM and the RMCD be merged into one revenue enforcement and collection entity?
There is a good case for merging the two agencies as there will be economies of scale, cost savings, sharing of information to avoid evasion or abusive avoidance, and easier monitoring of tax revenue generation activities for the government.

**Safeguarding of taxpayer’s rights**
It is absolutely important that taxpayer rights be reviewed and strengthened. The bureaucracy in the IRBM and the RMCD should be accountable to an independent third party. The powers of the IRBM and the RMCD also need to be examined to ensure that there is a balance between the taxpayer exercising his rights without impeding the two agencies from enforcing the tax laws.

**Discretionary powers of IRBM, RMCD and the Minister of Finance should be examined**
These powers should be subject to checks and balances and there must be transparency. Powerful forces such as large corporations or influential individuals should not be allowed to influence the use of the discretionary powers of the above parties.

**Improving the efficiency of the tax administrators**
A key area that needs to be focused upon is the level of empowerment given to the officials down the line and the speed at which they are dispersed. Both agencies need to streamline and digitalise their processes on an ongoing basis. It is recommended that they be given bigger allocations to invest in big data analytics and education of their personnel.

**Sanctions to deter tax evasion and abuses of tax avoidance and transfer pricing**
The sanctions should be commensurate with the seriousness of the offence. Feedback may be needed from the Securities Commission, Bursa Malaysia, Royal Malaysian Police, etc.

**Extending the tax jurisdiction**
Currently, Malaysia is on a territorial system of taxation. We only tax income that arises from a source in Malaysia (except for banking, insurance, shipping and airline income) and capital gains on real properties in Malaysia.

Since our economy is now an open economy, it is time to widen our scope of taxation to encompass a worldwide basis. All our important neighbours in ASEAN except Singapore and Brunei are using the worldwide scope of taxation. The same goes to most countries in the world.

Under the current territorial scope and the non-taxation of capital gains other than real property in Malaysia, corporations operating across borders and rich individuals could be using this legally to avoid taxes. In contrast, the ordinary taxpayers such as smaller companies and poorer individuals cannot enjoy this luxury.

There are many issues to be addressed and we hope the government will give the reform
committee sufficient time to come up with a comprehensive report. This report should be made available to the public for their feedback before any of the recommendations are implemented.

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By The World Bank

The MIA was invited to participate in the Strategic Reform Initiatives (SRI) Lab organized by Performance Management & Delivery Unit (PEMANDU) in 2011, whereby a technical staff member participated in the lab for three months. This has contributed significantly to the Government’s move to accrual accounting. On the invitation from the AcGD, the MIA nominated a technical staff member to be a GASAC member to share insights on the application and implementation of accrual-based accounting standards. In the same year, the MIA nominated the former Accountant General as a member of the IPSASB of the International Federation of Accountants; he was subsequently selected by IFAC to serve on the board. The MIA believes that as MPSAS are adapted from IPSAS, it is crucial for Malaysia to be involved in the standard setting process of the IPSASB. This appointment provided a conduit for Malaysia to network and learn from countries currently implementing IPSASs such as the United Kingdom, Canada, Australia, New Zealand, Morocco, and Switzerland. Throughout the appointment, the MIA was able to raise implementation and interpretation issues as well as seek guidance on the implementation of IPSASB’s pronouncements.
The MIA also appointed its technical staff as technical advisors to the Malaysian IPSASB member.

Through the technical advisors, the MIA provided advice and assistance before, during, and after the IPSASB meetings, undertook research, and provided input to IPSASB staff on its current projects. In Malaysia, the private sector adopts the Malaysian Financial Reporting Standards (MFRS) which are identical to the IFRS Standards in all respects other than the nomenclature. In addition to sharing experiences in the standard setting process because the MIA has been involved in various meetings and initiatives with the national standard setter—the Malaysian Accounting Standards Board—the technical staff member provides accounting guidance to members on MFRS.

The MIA Council approved the establishment of the Public Sector Accounting Committee (PSAC) in March 2013.

The committee is chaired by the Accountant General. Membership comprises officers from the AcGD, audit firms, an accounting standard setter, an academician, and a statutory body. The committee has the following objectives:

a. To review exposure drafts and other consultative documents issued by the IPSASB and to submit comments thereon;

b. To provide input on certain current IPSASB projects when an MIA member is appointed as the IPSASB member; and

c. To contribute toward the implementation of accrual accounting in the public sector in Malaysia.

As more initiatives were undertaken, the MIA established a public sector accounting subunit under its technical division, Professional Standards and Practices Division.
One of the roles of the subunit is to provide secretarial and technical support to the PSAC, which includes the drafting of comment letters to the IPSASB, facilitating working group discussions on the IPSASB’s consultation documents, undertaking research on current IPSASB projects, as well as identifying public sector accounting related issues in Malaysia. The subunit also provides training and awareness, undertakes engagements with various government ministries and agencies on the IPSASB’s pronouncements, and produces articles and publication on public sector accounting.

The MIA is a leading accounting training provider in Malaysia.

As part of the MIA initiative in building capacity of accountants in the public sector, the MIA signed a MoU with the CIPFA in March 2015. The MoU will enable members of the MIA in the public sector to gain full membership of CIPFA. The MoU also creates a formal basis for cooperation and collaboration between the MIA and the CIPFA for the advancement of high-quality PFM in Malaysia. This will be achieved through joint activities in a number of areas, including advocacy for financial management reform and the provision of a range of training opportunities. The MIA has also signed a MoU with two other professional bodies, as recognized in Part II of First Schedule of the Accountants Act 1967 to facilitate its members to gain professional accounting qualifications. The MIA offers other training to the public sector such as seminars and workshops on IPSAS, mini public sector conferences, a pre-MIA conference event, as well as featuring a public sector session in its annual flagship event, the MIA International Conference.

The AcGD recognizes that accountants in the public sector should progress to be business partners, rather than remain as mere record keepers.

As Malaysia continues further with implementation of accrual accounting, the MIA must play a bigger role on the PFM space. The MIA Council recently approved the PSAC to define and promote the roles of accountants in the PFM. As the role of accountants in the public sector will change significantly following the adoption of accrual accounting, the MIA will ensure that it provides relevant value proposition to its public sector members.

This article was extracted from the World Bank report entitled “Public Private Partnerships on Public Financial Management Reforms in Asia” which was first published in May 2017. The complete report can be obtained from http://documents.worldbank.org/curated/en/190271494602597931/Public-Private-Partnerships-on-public-financial-management-reforms-in-Asia-opportunities-and-lessons

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By Nithea Nadarajah

Wider scope, more punishing sanctions.

Ushering in sweeping reforms, the Companies Act 2016 (CA2016) consists of 620 sections and 13 schedules and was introduced in stages beginning from 31 January 2017. In addition to vesting additional duties and responsibilities on directors and officers of the company, the CA2016 imposes substantially more severe punishments for breach of law, said moderator Simon Tay Pit Eu, Executive Director, Professional Practices & Technical, MIA, at the recent MIA MPERS Conference 2018. For example, a breach under Section 591 of the CA2016 which covers false or misleading statements, is punishable (upon conviction), by a fine not exceeding RM3 million or imprisonment for a term not exceeding 10 years, or both.
While directors and company officers face more responsibilities, the reporting burden on auditors has been lightened. “To a certain extent, the CA2016 is a relief,” remarked Siew Kar Wai, Partner, PricewaterhouseCoopers Risk Services Sdn Bhd. Previously, under the CA 1965, auditors were required to provide “a fair bit” of extra reporting which are no longer necessary under the new legislation, although their duty of care remains unchanged.

Moreover, the CA2016 mandates full compliance to the applicable approved accounting standards issued by the Malaysian Accounting Standards Board (MASB). This supports full convergence of local and international accounting practices into a single source of reference with the force of law.

During the session, the panellists highlighted key areas impacting financial statements under the CA 2016.

**End of the Par value Regime**

The par value regime, viewed as a misleading practice riddled with complications, was abolished retrospectively along with its related concepts such as the share premium account, the capital redemption reserve and the authorised share capital which will no longer be relevant. Instead the amounts standing in the share premium account and the capital redemption reserves will be recognised as part of the company’s share capital.

Tham Hon Sin, Technical Director, Technical & Training Department, Crowe Malaysia, observed that there could be issues when redeeming preference shares. “How are you going to calculate the amount of preference shares that will be redeemed as well as to set aside the reserve with the abolishment of share premium accounts? The transitional period of 24 months granted to companies to utilise the amount standing in credit in the share premium account and capital redemption reserve may be insufficient, especially relating to large corporations with huge amounts of reserves where extensive planning is needed to analyse the financial implications upon redemption.”

In relation to the issuance of bonus shares, Tham pointed out that there is no specific requirement in the CA2016 except for a provision under Section 84 which merely allows a company to subdivide its shares. For example, if a company were to issue bonus shares to its shareholders, no double entry is required and the value of the share capital reflected in the financial statement remains unchanged. The company’s officers would need to put through a memorandum of entry to record the bonus issue exercise as well as to disclose the increased number of shares in circulation.

**Dividend Distribution and Solvency Test**

The CA2016 pays close attention to dividends and solvency as part of good business governance. Pursuant to Section 131 of the CA2016, dividend is to be paid out of a company’s profits and should not be paid if the payment will lead to the company’s insolvency. A company is regarded as solvent if it is able to pay its debts (as and when the debts become due) within 12 months from the date of dividend distribution. “This
requirement is necessary as it imposes a duty on directors to act in the interest of not only the company’s shareholders but that of its creditors as well,” said Norhisham Abd Bahrin, Partner, Corporate and Mergers & Acquisitions, Azmi & Associates.

Under the CA2016, directors are fully authorised to declare and distribute dividends with no requirement to pass a shareholders’ resolution. Moreover, should the dividends distributed exceed the amount deemed appropriate, this excess can be recovered from the shareholders, unless the shareholders have received the distribution in good faith and have no knowledge that the company did not satisfy the solvency test. The company’s director or manager who will fully phase out any dividend in contravention of Section 131 or 132 of the CA2016 will also be liable to the company to the extend of the amount exceeding the value of any distribution of dividend that could properly have been made. Furthermore, any director or officer found guilty of improper or unlawful distribution, will be liable to imprisonment for a term not exceeding five years, or a fine not exceeding RM3 million, or both.

Tham cautioned that “even after dividend declarations are made, directors are advised to exercise good corporate governance and to closely monitor their company’s financial health. Should there be even a whiff of insolvency issues, a swift decision must be taken to disallow the distribution.”

A solvency test is not a gauge of a company’s profitability but that of its liquidity and its ability to pay debts as they become due, said Siew. “Cash flow projections for a period of 12 months (beginning from the dividend distribution date), will be used to determine a company’s solvency status.”

Siew noted that the word ‘debt’ is not defined in the CA2016 which raises the question of “whether certain non-financial liabilities (such as provisions) and off-balance sheet items (such as possible contingent liabilities) should be included in the solvency test.” For example, if possible non-contingent liabilities are included in the cash flow projections, how would one determine their monetary value?

Directors and managers of companies are thus advised to scrutinise these issues to ensure that when dividends are paid, the company remains solvent.

**Disclosures in Financial Statements**

The CA2016 enhances accountability and transparency by requiring the appropriate disclosure of directors’ remuneration and/or compensation for loss of office as well as loans provided to directors. Remuneration and/or compensation (if any) paid to auditors will also be accorded the similar treatment, explained Siew.

“Although there are lesser disclosure requirements under the CA2016, there would not be a reduction of information provided in the financial statements as companies would now be legally complied to adhere to the applicable approved accounting standards issued by the MASB which has been given due weight by the CA2016,” explained Tham.

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The Key to Successful MPERS Compliance

MIA recently released the second edition of the Illustrative MPERS Financial Statements, which is thicker than the first edition by 100 pages and features the recent amendments and improvements to MPERS, the new accounting and reporting requirements introduced under the Companies Act 2016 (CA2016) as well as commentaries, guidance notes and additional illustrations.

In an interview session moderated by Simon Tay Pit Eu, Executive Director of Professional Practices & Technical, MIA, author and academician Tan Liong Tong highlighted the key changes and updates that are explained in detail in the second edition.

“One of the most significant updates to MPERS is the clarification on the application of the undue cost or effort exemption by a company which seeks to exempt itself from conforming to the fair value measurement principle for some assets, such as investment property, biological assets and equity investments. This amendment allows a qualitative – not quantitative – assessment to be made to decide whether the cost (or effort) of valuing an asset would exceed its benefit to users of financial statements. This allows management to make a judgement call to use the fair value method if the fair value can be measured reliably without undue cost or effort, otherwise if the exemption if availed, the cost method if applied in a valuation exercise.”

Another significant aspect covered in the second edition relates to financial guarantee contracts; a form of financial liability which does not satisfy the general conditions under Section 11 (Basic Financial Instrument) of MPERS. Instead, to conform with best practice principles, it would be accounted for in accordance with the provisions under Section 12 (Other Financial Instruments Issues) and measured at fair value through profit or lost at each reporting date.
He predicted practical difficulties in measuring the fair value of financial guarantees especially when assessing and tracking the underlying borrower’s risk of default and other credit risk related information. “It is hoped that in the future, the requirements under MPERS will be amended to be in tandem with the provisions covered under the Malaysian Financial Reporting Standards (MFRS), which do not require financial guarantees to be fair valued.”

**CA2016**

The second edition also covers the new accounting and reporting requirements under the CA2016, including amongst others: solvency requirements, changes in share capital, the treatment of different types of shares, as well as accounting procedures and clarifications provided to ease the transition from the previous par value regime to the current no par value regime.

Tan highlighted key discrepancies between the CA2016 and the MPERS. “Under the CA2016, all types of shares are classified as share capital and accorded the same treatment, unlike the principles outlined in the MPERS, where substance takes precedence over form. Therefore, certain classes of shares such as redeemable preference shares fall within the ambit of share capital under the CA2016 but meet the definition of a financial liability under the MPERS and would be presented as liabilities in a company’s financial statements. But when these preference shares are redeemed, the legal requirement applicable to shares under the CA2016 will have to be complied with.”
In conclusion, Tan advised that accountants and practitioners use the MPERS Illustrative Guide as a point of reference and guide to further understand the application of the MPERS. “Don’t just regurgitate its contents but apply good judgement along with the knowledge obtained from this book during any decision-making exercise.”

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