Accountants Call for Action to Strengthen Economy, Public Practice

at-mia.my/2019/08/14/accountants-call-for-action-to-strengthen-economy-public-practice

August 14, 2019

In January 2019, the Malaysian Institute of Accountants (MIA) and ACCA (the Association of Chartered Certified Accountants) jointly released the Business and Economic Outlook (BEO) Report 2019.

Subsequently, MIA and ACCA organised follow-up roundtables with chief financial officers (CFOs) and accountants in public practice respectively to gather more data and insights for further action. The findings of these roundtables have been documented in the CFO Roundtable on BEO Report 2019 and the Practitioners' Roundtable on BEO Report 2019.

Key Findings from the CFO Roundtable on BEO Report 2019

In summary, CFOs called for:

- Raising productivity through increasing investment in human capital and technology at organisational level, supported by targeted tax incentives and laser-focused policy-making/implementation at government level.
- Wage reforms to stimulate domestic demand and consumption to offset global headwinds including decelerating global trade.
- Greater regional and global participation focusing on ASEAN and the Belt and Road Initiative.
- Bridging the talent gap by broadening the talent base, increasing the focus on technical and vocational education training (TVET), and continuous upskilling and reskilling for the Malaysian workforce, funded by tax incentives and subsidies.

- Embracing digitalisation by adopting better organisational data practices; finance function transformation to support the overall strategic business model; upskilling talent; promoting culture change and buy-in for the digital agenda; and ensuring inclusivity for digital native talent. As changemakers, regulators should advocate for finance function transformation with executive decision makers and Boards, while government should reengineer education and training syllabi to produce fit-for-digital talent.

Key Findings from Practitioners' Roundtable on BEO Report 2019

In summary, practitioners called for:

- Renewed focus on areas of judgement in financial statements and audits, especially those involving asset valuation and long-term cash flow projection. This could conceivably be achieved through heightening professional skepticism; keeping abreast of regulations and standards and communicating and clarifying these to clients; reviewing internal processes and controls related to areas of judgement; collaborating with experts in auditing processes, and integrating technologies to support tech transformation e.g. cloud-based auditing.
- Leveraging opportunities to scale up and combine resources and expertise through mergers and acquisitions, and extending accounting and finance competencies to SMEs lacking an internal finance function.
- Harnessing emerging opportunities across ASEAN by replicating firms' service offerings in regional markets and leveraging on Malaysian firms' competencies and English proficiencies, supported by increased intra-ASEAN efforts to improve talent mobility in the professional services sector.
- Operationalising talent management strategies, via transforming or outsourcing the internal human resource function, adapting to millennial work culture, offering flexible work arrangements, piloting two-way mentorship programmes, offering longer training contracts and empowering younger employees to help transform the firm's culture and operations.
- Greater technology adoption and automation of service offerings supported by government subsidies for adoption of accounting and auditing-specific technologies.

Conclusion

"These reports are firsts for MIA that build on the earlier BEO Report 2019. In line with our nation-building agenda, MIA is making continuous effort to help improve the performance and governance of business and government," said MIA CEO Dr. Nurmazilah Dato' Mahzan.

"CFOs and public practitioners are key advisors to business and government who are keenly aware of the latest developments and unfolding issues in the market. By tapping their wisdom, MIA trusts that these reports will help provide the insights for private and public sector organisations to inform their policy making and implementation, to help shape sustainable and forward-looking policy and implementation initiatives to build the nation," she added.

Edward Ling, ACCA Malaysia Country Head concluded, "It is our hope that CFOs and practitioners would find these reports relevant and consider incorporating the action points into their strategic plans to help shape the present and future success of their businesses from within."

The Business and Economic Outlook (BEO) Report 2019 is free to download:
https://www.mia.org.my/v2/downloads/resources/publications/2019/01/29/MIA_Business_and_Economic_Outlook_2019_Report.pdf

The CFO Roundtable on BEO Report 2019
https://www.mia.org.my/v2/downloads/resources/publications/2019/07/10/MIA_CFO_Roundtable_On_Business_And_Economic_Outlook_2019_Report.pdf

The Practitioners' Roundtable on BEO Report 2019
https://www.mia.org.my/v2/downloads/resources/publications/2019/07/10/MIA_Practitioner's%E2%80%99_Roundtable_On_Business_And_Economic_Outlook_2019_Report.pdf.

Championing Technology, Driving Nation-Building

at-mia.my/2019/08/14/championing-technology-driving-nation-building

August 14, 2019

By Nazatul Izma Abdullah

MIA's strategic digital agenda is to future-proof the profession and support nation-building by advocating and enabling technology adoption.

"The accountancy profession is the backbone to a prosperous nation in Malaysia," said MIA CEO Dr. Nurmazilah Dato' Mahzan at the AccTech Conference 2019, themed "Advancing Tech for the Next Generation".

"MIA is the regulator and developer of the accountancy profession in Malaysia, as stated in the Accountants Act 1967. By improving our regulation and development using enablers such as digital and technology, we develop ethical and professional accountants who operate with good values and governance to support healthy business and economic development. This in turn supports good governance in the markets and business and social ecosystems, protects the public interest, creates credibility, confidence and trust, and makes Malaysia more sustainable and competitive," she explained.

To drive technology adoption in the profession, MIA has put in place an integrated digital strategy that is being driven through several key initiatives:-

– The AccTech Conference franchise – kicked off in 2018, designed to expose accountants to the latest technological solutions and trends impacting them

– The award-winning and internationally recognised MIA Digital Technology Blueprint launched in 2018

- outlines five principles for accountants to adopt technology in their organisations.
- a platform for MIA's increasing global and regional recognition as an authority on digital adoption for the profession.

- following the launch of the Blueprint, the International Federation of Accountants (IFAC) invited Dr. Nurmazilah to speak at its Chief Executives' Forum in February 2019 in New York on the "Future of the Profession: Embracing the Drivers of Disruption".
- MIA contributed an article on the Blueprint as a guide for ASEAN accountants in AFA's publication AFAConnect. As the Asean Economic Community (AEC) grows, intraAsean business transactions must be supported by efficient, competent and digitally adept accountants.
- MIA was awarded the OpenGov Malaysian Recognition of Excellence award for the Blueprint, as part of OpenGov's regional Recognition of Excellence series in conjunction with the 5th Annual Malaysia OpenGov Leadership Forum held in Kuala Lumpur in 2019. OpenGov is a content platform focused on ICT-related knowledge and information sharing for the public sector and governments in Asia Pacific.

– **Strong advocacy for public sector digital transformation** to enhance public sector financial management and good governance.

- MIA has organised several recurring conferences and programmes such as the Data Intelligence Conference 2019 – Public Sector to educate the public sector on related technology adoption.
- MIA supports the government's proposed initiative on data sharing between government agencies and statutory bodies to enhance delivery of public goods and services.

– Support for MIA members and the profession as they adopt technology

- MIA is championing the Industry-Wide Electronic Bank Confirmation Platform which facilitates electronic confirmations by Malaysian auditors in order to enhance the efficiency and security of the external confirmation process.
- Providing free trial access to the RoboCFO AI-enabled analytical platform that enables members to test accounting solutions and familiarises them with the tools on the market prior to purchase.
- Delivering learning events and conferences designed to address members' and accountants' technology issues such as data intelligence analytics conferences, cashless economy conferences and AccTech

– Digital Policy Recommendations for Economic and Social Development

- Presented memoranda on digital transformation incentives and policy recommendations from the perspective of the accountancy profession at the NAPSEC Roundtable and MITI CONSULTATIVE DIALOGUE 2019 (MCD 2019)
- Key recommendations for digital transformation were picked up by the government and incorporated in the upcoming Budget 2019

- Leading statutory body and voice of the profession advocating for Industrial Revolution 4.0 (IR4.0) programmes and initiatives for the Malaysian services sector

– Strategic Collaborative Leadership

- Spearhead collaborations between MIA as the profession's regulator and developer with expert technical and technology partners to transform the profession, business and the nation.
- Examples of collaborations with expert partners include the Industry-Wide Electronic Bank Confirmation Platform championed by MIA and endorsed by Bank Negara Malaysia (BNM) and the
- Association of Banks Malaysia (ABM) as well as the RoboCFO workshop.
- Established a dedicated Digital Technology Implementation committee (DT IC) chaired by an MIA Council Member and comprising five working groups to drive implementation.

– Ensuring MIA's Digital Transformation to Support the Profession

- Strengthening MIA as a digital organisation through implementing initiatives such as the MIA Digital Membership Privilege Card, the MIA Membership Information System (MMIS) and e-
- Accountants Today to support development and regulation.
- Gathering data from stakeholder engagement and surveys to support informed decision-making, laser-focused initiatives as well as effective and efficient allocation of MIA's limited resources
- Launched the 2019 survey on technology adoption in the accountancy profession, as a follow-up to the 2017 benchmark survey.

Embedding Ethics

Even as MIA urges accountants to embrace technology to enhance their relevance and add value in the IR4.0 era, the Institute is placing equally strong emphasis on embedding ethics and upholding digital governance in the public interest. "As accountants, the founding principles of trust and integrity will still prevail in whatever world we live and operate in," concluded Dr. Nurmazilah.

Creating a Business-Friendly Tax Ecosystem

at-mia.my/2019/08/19/creating-a-business-friendly-tax-ecosystem

August 19, 2019

By Majella Gomes

Creating a business-friendly tax ecosystem will greatly benefit commerce and the country in general but what exactly does it entail?

It involves multiple dimensions working together in harmony to promote cooperative compliance – the Inland Revenue Board Malaysia (IRBM), individual and corporate taxpayers, practitioners who are the bridge between the IRBM and taxpayers, banks and accounting/tax systems or solutions providers. "All parties must collaborate on a taxation system to move the country forward," said panel moderator Tai Lai Kok, Member, Taxation Practice Committee, MIA at the session on Creating a Business-Friendly Tax Ecosystem at the Malaysian Tax Conference 2019.

A business-friendly tax ecosystem should make it easy for the taxpayer to report, file and pay taxes. Manual filing used to be the norm but with online or e-filing facilities now available, many processes have been automated, expediting the filing of tax returns. The whole process will ultimately be paperless, thus removing the need for storage as well.

Improving Efficiency and Effectiveness

Reforms – legislative, standards, and operational processes to name a few – are key to building this business-friendly tax ecosystem.

"Malaysia's new tax reforms are aimed at making the environment fairer, more competitive and efficient," said Lee Heng Guie, Executive Director, Socio-Economic Research Centre (SERC). He added that Malaysia experienced a drop in direct taxes because of a decline in oil prices worldwide in recent years. Indirect taxes increased but revenue buoyancy was trending lower.

Anand Chelliah, Managing Partner, Tax Services, Baker Tilly Malaysia said, "Key drivers of a good tax system include good corporate governance and transparency. Government corruption, leakages, wastage and illegal outflows have to be nipped in the bud."

Incentives also need a relook, as some of these have overstayed their utility and are no longer relevant. These may be hindering rather than enhancing productivity.

Leakages still abound and despite improved processes, tax collection is not as efficient as it should be. Malaysia's tax burden is the third highest in ASEAN and the country's tax base is narrow in relation to its population, so there is a need to broaden the tax base and increase indirect taxes. Key concerns include how to meet the GST-SST revenue shortfall, and easing consumers' tax burden in view of rising prices. "The outcomes of taxing consumption are better than taxing revenue," conceded Tai. "The current SST environment is very narrow. The public is not better off with SST. Prices have not decreased as expected."

(L – R) Tai Lai Kok, Anand Chelliah, Dr Rasyidah Che Rosli & Lee Heng Guie

Although the panellists commended ongoing efforts to reshape the current tax framework, Chelliah noted that "there are still too many rules and criteria to fulfil," said Chelliah "Incentives are good but tedious to apply for. MNCs especially want certainty, rule of law, efficiency, fast turnaround time and transparency." A "smart" tax system, ideally, will be able to integrate tax agents and authorities, review processes, be automated, and offer real-time data. However, the availability of so much data creates another problem of data confidentiality and security.

The divergence between MFRS accounting and tax reporting also needs to be addressed to improve efficiency. A tax ecosystem that works will see fewer accounting divergences and more alignment with accepted standards like MFRS. "Authorities need to close the gap by adhering to generally accepted accounting practice," recommended Chelliah.

IRBM’s Response

The IRBM recognises that simpler, less complex structures will enable taxes to “move with the economy” resulting in less paperwork and less documentation which could in turn help plug leakages and improve transparency.

In its efforts to improve, the IRBM has streamlined online tax filing and payment, shortened tax number registration time, upskilled its staff, conducted tax clinics, increased its media outreach and become more customer service-oriented.

The IRBM does recognise the need to build trust and instil taxpayer confidence in the system, said Dr Rasyidah Che Rosli, Principal Assistant Director, Tax Operation Department, IRB Malaysia. “We want to help the taxpayer with compliance,” she said. “But we do need the support of all to improve service delivery.”

Driving Tax Compliance

September 11, 2019

By Majella Gomes

Make no mistake; governance, controls and compliance are becoming more stringent globally, making it more difficult to avoid paying tax regardless of which jurisdiction a business may be operating in. The recent Malaysian Tax Conference 2019 organised by MIA included a panel session on tax compliance developments and issues, moderated by Alan Chung, Head of Indirect Tax, Grant Thornton Malaysia.

Regulatory reforms are key. Country By Country Reporting (CBCR) is demanding more transparency of firms with a global footprint, and amendments are being made to tax treaties worldwide. “Tax treaties are being amended to ensure there is no ‘treaty shopping’,” said panellist Theresa Goh, Partner, Deloitte Tax Services. “BEPS (base erosion profit shifting) laws are pushing for more transparency.”

The reforms have also increased cooperation and coordination among the different legal, enforcement and regulatory agencies, making tracking data easier, and leading to the development of international measures like the Automatic Exchange of Information (AEOI). The volume of data has grown in parallel, making it necessary to apply higher levels of technology to improve compliance; analytical tools like big data analysis allow targeted analysis, identifying trends and patterns that bring wilful evaders to light.

Educating Taxpayers to Drive Voluntary Compliance

Malaysia has a taxpayer base of fewer than two million. Unpaid expatriate taxes stand at RM50 million, and according to the IRB, almost 80,000 individuals did not pay tax in 2017. But there is a broader political context to compliance; taxpayers need to have a deeper understanding of why taxes need to be paid, before they can be expected to fully and voluntarily comply. “The tax base will not get bigger anytime soon, so the focus needs to be on improving compliance” said Laurence Todd, Director, Institute for

Democracy and Economic Affairs (IDEAS). “Research has shown that levels of tax compliance in Malaysia correlates with perceptions of how fair the tax system – specifically whether the money collected is and used transparently. In other words, the priority is to build trust and ensure that taxes are collected fairly and spent wisely.”

The need then is for regulators to further engage with taxpayers to achieve higher rate of voluntary compliance – a common goal for both regulators and tax agents. Licensing and enforcement should be reviewed, in view of the less-than-honest tax agents who give their clients bad advice! “Only education can improve compliance,” said Huang Shze Juin, Vice-President, MIA. He added that regulators have to engage with tax agents to reach a larger number of taxpayers but the tone has to be set from the top. “The top must be intent on promoting compliance, not merely punishing evasion,” he stressed. “The tone must be correct.”

(L to R) Huang Shze Jiun, Laurence Todd, Theresa Goh & Alan Chung

Aligning Standards

Accounting standards too are becoming more complex and divergent from tax reporting requirements, and thus require more effort to reconcile the two during submission of tax returns. The compliance environment can be expected to become even more complex as enforcement of requirements such as transfer pricing, , becomes more widespread. Indeed, it does appear as if the environment is becoming more hostile to taxpayers, with a myriad of factors to comply with when preparing taxes. There have been instances where what had been done earlier had to be reversed, causing further complications e.g. with regards to tax treatments which go against accrual accounting principles, such as the taxation of monies received in advance for services to be rendered. “Reduce divergence and increase convergence to promote ease of compliance,” Huang advised.

Creating a Culture of Compliance

Todd meanwhile opined that compliance was connected to the culture of the taxpayer, and that it was necessary to create a compliant culture “on the ground” although “it takes time for people to feel that it’s worth their time to pay their taxes.”

Citing the example of Scandinavian countries where living standards, taxes and compliance are high, he added that Malaysians need to be invested in paying taxes to support nation building. “They need to buy into the idea of paying taxes,” he said, “and the tone from the top should encourage this.”

Higher Education Strategic Financial Management Conference 2019

at-mia.my/2019/08/14/higher-education-strategic-financial-management-conference-2019

August 14, 2019

By Nazatul Izma

Over the past few years, reduced funding has forced higher education institutions (HEIs) to think out of the box in order to manage their costs and diversify their income streams.

MIA's annual Higher Education Strategic Financial Management Conference 2019, which is a highly popular franchise among academics and finance professionals working in education, will focus on the technologies and innovations that can help HEIs to become more technologically adept, commercially relevant, and financially resilient.

Conference Highlights

What can you expect from the Conference?

- ***Policy Insights*** – A senior representative from the Higher Education Department at the Ministry of Education will be speaking on the policies and reforms being implemented by the government to improve the quality of talent and produce graduates that are fit-for-purpose in the evolving digital economy.
- ***Panel Discussions*** – To help HEIs run strategically like Business Enterprises, the Conference will feature several panels comprising CFOs and leaders from industry and private and public universities, share their best practices and insights.

These panels will focus on:

- The adoption and roll-out of data analytics and technology to enhance HEI finance functions and support informed decisions on capital allocation
- The key skills in finance and reporting that HEIs must acquire to enable strategic financial management and strategic decision-making
- How HEIs can embrace entrepreneurship and technologies and link up with the private sector and industry to become more commercial and relevant in a highly competitive and globalised education market
- How HEI finance functions can help to secure, manage and optimise scarce development and research funds to enhance the HEI's reputation and academic rankings.
- New Developments in Waqf and Corporate Reporting – MIA constantly looks out for tools and platforms that could help HEIs enhance their stakeholder communications and diversify income and funding streams.
- A promising new development relates to utilising blockchain's transparency and accountability to enhance waqf's appeal. HEIs might want to consider rolling out transparent and fraud-proof waqf-blockchain hybrids to tap into donations from the public, alumni and other donors.
- Meanwhile, MIA as the national advocate for integrated reporting (IR) is strongly encouraging HEIs to adopt IR to tell stakeholders how they are creating value and developing the country's talent pool. By communicating their purpose, objectives and achievements through the vehicle of IR, HEIs could gain new sources of funding and support, perhaps in the form of research grants and industry support for commercial research applications. A good IR also strengthens brand and reputation and pulls in students, donors and public support.
- Technical Updates – No higher education conference organised by MIA is complete without technical sessions to upgrade HEIs' finance and accounting professionals.
- This year's Conference focuses on best practices and updates on Financial Reporting Standards affecting HEIs along with comparisons of MPSAS, MFRS and MPERS in financial reporting.
- Another key session relates to compliance with withholding tax regulations and the impact of withholding tax on the higher education sector.

The Higher Education Strategic Financial Management Conference 2019 will be held from 27-28 August 2019 at the Connexion Conference & Event Centre @ Nexus, Bangsar South, Kuala Lumpur For more information, visit pd.mia.org.my or contact Vino at sp@mia.org.my

Leading with Ethics

at-mia.my/2019/09/11/leading-with-ethics-2

September 11, 2019

By Anis Ramli

In order to enhance governance to support nation-building, MIA recently launched its Thought Leadership Lecture series to help build ethical culture and values among accountants and those charged with governance (TCWG) such as C-suite executives and Boards.

The series will feature renowned business leaders who are specially invited to share their ethical dos-and-don'ts in order to improve tone at the top.

MIA invited YBhg Datuk Zaiton Mohd Hassan, Governance and Audit Committee Chairman of Sime Darby Plantation Berhad to get the ball rolling at its inaugural Thought Leadership Lecture. Datuk Zaiton is one of Malaysia's most respected business and Board leaders with a wealth of experience in the highly regulated sectors of banking, financial ratings services and financial advisory. She has been appointed by several organisations to help address their reputational and organisational risks as the government focuses on rebuilding good governance throughout the country.

The following are some key takeaways from her session:

1. Develop an Internal Ethical Compass

Datuk Zaiton emphasised that there is no "standard operating procedure" or "SOP for ethics". Ethics comes from your own conscience and it hinges on the word 'trust'. "It is something that is embedded in you." Underpinning this principle is also the fear of God and the consequences of bad behaviour. "This self-awareness is what enables you to build and strengthen that inner compass."

While some professional bodies like the ACCA have a compulsory ethics module which one needs to pass in order to be admitted as a member, ethics cannot be taught, she said. "The syllabus is more about putting up case studies to make people think 'what will I do in that situation'?" Therefore, you should self-reflect and ask yourself: what are the morals you grew up with? Then align these values with your priorities and code of conduct.

2. Document Everything

In the fight against unethical behaviour, you have to have a clear view of what matters to you as an individual. "There is no such thing as a grey area in governance," said Datuk Zaiton. "Once you start seeing grey, then you start to justify everything."

While there is no strategy or answer for all situations, Datuk Zaiton suggested keeping a record of relevant conversations and meetings – whether formal or otherwise. Recording everything helps you protect yourself and encourages clarity of thought when faced with an ethical dilemma.

3. Professional Competence Through Lifelong Learning

Deepening your knowledge of your industry helps build ethical awareness. Datuk Zaiton cautioned leaders to constantly monitor and strengthen their competence. Always ask yourselves: "Do we know enough to challenge? What is it that we bring to the table?"

To deepen knowledge, it is important to break silos while enhancing lifelong learning. Datuk Zaiton said that accountants especially CFOs and finance function professionals need to play an effective role that goes beyond traditional stewardship and financial management to one that value adds strategically to the organisation.

She urged accountants and leaders to capitalise on professional development courses such as those developed and delivered by MIA. This is critical because lifelong learning enhances the questioning spirit and builds the foundation "for exercising professional judgement and ethical behaviour."

4. Maintain Professional Scepticism

This leads to the next point, whereby developing competency and professional scepticism is vital for accountants in exercising professional judgement. Always have a questioning mind and be alert to anything that may indicate misstatement, cautioned

Datuk Zaiton. “Resist the temptation to accept everything at face value.” By keeping up to date on the latest and best practices, this will enable you to develop and strengthen an enquiring mind.

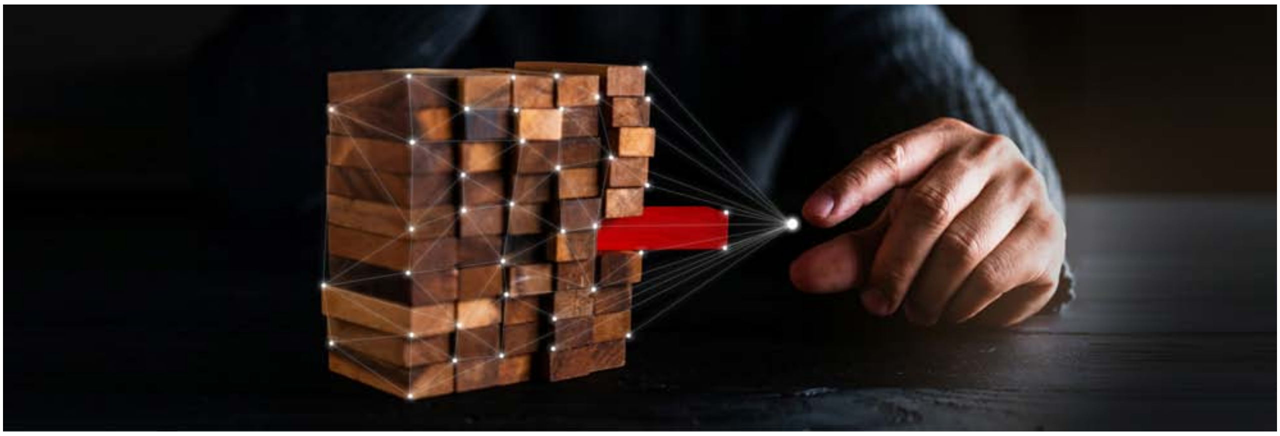
5. Be Alert and Courageous

As a leader, one is morally bound to disclose wrongdoing, even if formal whistleblowing channels don’t exist. Do take time to listen to what the employees have to say – or to pick up conversations along the corridor, by the water cooler or in the WC – as these can provide clues to misbehaviour. By doing your due diligence to investigate allegations, you can set a good example. By speaking up for the truth, we can build a culture of leading with ethics.

Risk Management Conference 2019

at-mia.my/2019/08/14/risk-management-conference-2019

August 14, 2019



Risk management is becoming increasingly challenging due to digital disruption. The integration of business and technologies means that risk and internal audit practitioners are now expected to manage technological risk as well as the accepted spectrum of risks: market, regulatory, compliance, governance and reputation.

Practitioners are also expected to provide more risk intelligence and strategic advisory as organisations adopt Risk Intelligence Enterprise frameworks that align risk management strategies with business strategies to support business sustainability.

This year's Risk Management 2019 conference jointly organised by the Malaysian Institute of Accountants (MIA) and the Institute of Internal Auditors (IIA Malaysia) explores the less charted terrain of Artificial Intelligence (AI) and technological risks, while mapping the more known risks. This will support risk practitioners and internal auditors to better flag and prioritise risks and manage internal controls more effectively even as your roles expand.

Conference Highlights

The Risk Management Conference 2019 will focus on the following areas:

Global and Regional Market and Regulatory Risks – Leaders from the regional insurance, banking and finance sectors look at the impact of new regional and global regulations on market and organisational risks and suggest solutions for mapping and mitigating these risks.

Digital Risks – The Conference focuses on three emerging areas of risk that risk practitioners cannot afford to ignore:

- Cyber risks and data integrity and protection risks especially relating to the adoption of big data, data analytics and artificial intelligence. How do you manage these effectively in your organisation?

- How organisations should best shape their risk strategies as they migrate to digital tools in the era of Industry 4.0.
- How organisations should use artificial intelligence and tools to flag risks and what are the inherent risks in using AI and machine learning.

Emerging Use of Risk Intelligence Enterprise and Corruption Risk Management (CRM) systems in Malaysia – There is growing momentum for organisations to utilise risk intelligence enterprise and CRM systems to support risk management processes and business performance and governance.

Raghupathi Rao, Global Chief Internal Auditor & Chief Risk Officer (VP), Tata Global Beverages, Singapore will speak on how a risk intelligence framework can effectively support you to create customised strategies to manage risk. A risk intelligent enterprise aligns people, process, tools, technologies, and governance into one system that is further aligned with the organisation's holistic business strategy and purpose. How do you tailor a risk intelligence enterprise system that fits your organisation and its unique context and circumstances?

Ending the day on a high note, Lee Min On, former risk consulting partner at KPMG Malaysia and current Audit Committee Member, Tan Chong Motor Holdings Berhad will talk about CRM, a management process that:

- helps identify structural weaknesses that may enable corruption
- provides a framework for all staff to take part in identifying risk factors and treatments, and
- embeds corruption prevention within a well-established governance framework.

MACC's Corruption Risk Management approach incorporates international risk management methodology, the ISO 31000:2009 – Risk Management: Principles and Guidelines, and UN's Global Compact: "A Guide for Anti-Corruption Risk Assessment".

Lee will discuss how organisations can implement CRM in the Malaysian context and the benefits and challenges of CRM implementation.

Don't miss the Risk Management Conference 2019 on 5 September 2019 (Thursday) at the Connexion Conference & Event Centre @ The Vertical, Bangsar South, Kuala Lumpur. For more information, visit www.mia.org.my or contact Fara at sp@mia.org.my

Share-Based Payment – A Way to Reward Employees

at-mia.my/2019/09/04/share-based-payment-a-way-to-reward-employees

September 4, 2019

By the MIA Financial Statements Review Committee

Application of MFRS 2 on Special Share Plan Issued to Employees in IPO Listing Exercise.

An Initial Public Offering (IPO) allows a company to raise funds from public investors. A company going public may be subject to certain new and complex financial reporting requirements as a consequence of the transactions entered into upon listing. These range from the recognition and disclosures in financial statements to complying with the listing and other statutory requirements.

It is common for entities to issue share options to employees in conjunction with an IPO exercise. Due to the complexity of share-based payment transactions, and that the facts and circumstances may differ in each scheme, it is considered one of the financial reporting areas that warrants careful attention in an IPO exercise.

Share-based Payment

Share-based payments are common features of employee remuneration for directors, senior executives and other employees. Typically, an employee share option scheme executed under an IPO involves allocation of shares to the eligible employees. Some entities also make settlement arrangement with vendors by issuing shares or share options. The Malaysian Financial Reporting Standard (MFRS) 2 Share-based Payment outlines the accounting requirement for these transactions.

In recent years, there are instances where the Promoters of listing schemes grant shares directly to eligible employees of the entity. This raises the concern of whether these share grants fall within the ambit of share-based payment for which an expense is required to be recognised in the statements of profit or loss of the entity.

Scenario – Special Share Plan

The listing scheme of Company X includes a Special Share Plan (SSP) in which shares of Company X will be granted by the Promoters (who are also the Offerors) to selected employees at zero consideration concurrent with the listing of the entity. The SSP is a one-off share plan for the eligible employees as a gesture of the Promoter's goodwill due to the long-term and close working relationship with these employees. The question arises as to whether the shares granted by the Promoters to the employees should be accounted for as a share-based payment given the following considerations:

- Neither Company X nor the Promoters have an agreement with the eligible employees which entitled the employees to receive equity instruments as payment for services rendered by them.
- Shares were issued to the Promoters pursuant to the listing scheme. There was no constructive obligation on the Promoters to grant shares to the eligible employees. The grant of shares is at the sole discretion of the Promoters without any involvement of Company X.
- The SSP was not meant as an arrangement to pay for services rendered by the eligible employees but rather as a gesture of goodwill by the Promoters.

MFRS 2 Applies

The application of MFRS 2 together with the Basis for Conclusion (BC) on MFRS 2 issued by the International Accounting Standards Board (IASB) addresses the scenario of the aforesaid SSP.

MFRS 2

MFRS 2 addresses group share-based payment transactions involving group entities, including shareholders of any group entity.

Paragraph 3A, MFRS 2

"A share-based payment transaction may be settled by another group entity (or a shareholder of any group entity) on behalf of the entity receiving or acquiring the goods or services. Paragraph 2 also applies to an entity that:

  - receives goods or services when another entity in the same group (or a shareholder of any group entity) has the obligation to settle the share-based payment transaction, or
  - has an obligation to settle a share-based payment transaction when another entity in the same group receives the goods or services
    unless the transaction is clearly for a purpose other than payment for goods or services supplied to the entity receiving them."

Application Guide Paragraph B49, MFRS 2

"An entity shall account for share-based payment transactions in which it receives services as consideration for its own equity instruments as equity-settled. This applies regardless of whether the entity chooses or is required to buy those equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement. It also applies regardless of whether:

- The employee's rights to the entity's equity instruments were granted by the entity itself or by its shareholder(s); or
- The share-based payment arrangement was settled by the entity itself or by its shareholder(s)."

A transaction in which the company receives employees' services and the employees receive shares of the company is a share-based payment transaction. The share-based payment transaction may be settled by a shareholder. In the listing scheme, the Promoters are shareholders of the company. The shares were granted to the selected employees at zero consideration and settled by the Promoters. Applying the above principles, regardless of whether the share-based payment arrangement was granted / settled by Company X or the Promoters, the transaction should be accounted for as share-based payment.

BC for MFRS 2

In the BC for MFRS 2, the IASB has addressed some of the issues encountered in the application of MFRS 2.

BC19 and **BC20** In some situations, an entity might not issue shares or share options to employees directly. Instead, a shareholder(s) might transfer equity instruments to the employees. Under this arrangement, the entity has received services (or goods) that were paid for by its shareholders. The arrangement could be viewed as being, in substance, two transactions, one transaction in which the entity has reacquired equity instruments for zero consideration, and a second transaction in which the entity has received services (or goods) as consideration for equity instruments issued to the employees (or other parties).

BC21 The second transaction is a share-based payment transaction. Therefore, the IASB concluded that the entity should account for transfers of equity instruments by shareholders to employees or other parties in the same way as other share-based payment transactions. The IASB reached the same conclusion with respect to transfers of equity instruments of the entity's parent, or of another entity within the same group as the entity, to the entity's employees or other suppliers.

Applying the above, Company X did not issue the shares directly to its employees. Instead, the Promoters had transferred the shares to the employees of entity through the SSP. As such, Company X received the employee's services that were paid for by the Promoters.

The BC on MFRS 2 addressed the arguments commonly made against the recognition of expenses arising from share-based payment.

i. The entity is not a party to the transaction

It is argued that the grant of shares is at the sole discretion of the Promoters without the involvement of Company X.

The effect of the above is that the existing shareholders transfer some of their ownership interests to the employees. The transaction is between the shareholders and the employees without the involvement of Company X.

BC34 Some argue that the effect of employee share plans is that the existing shareholders transfer some of their ownership interests to the employees and that the entity is not a party to this transaction.

BC35, IASB's opinion is that it is the entities and not the shareholders that set up the employee share plans and issue shares to the employees. Even if that were not the case, e.g. if the shareholders transferred shares or share options direct to the employees, this would not mean that the entity is not a party to the transaction. The equity instruments are issued in return for services rendered by the employees and it is the entity, not the shareholders, receives those services. Therefore, IASB concluded that the entity should account for the services received in return for the equity instruments issued.

To this effect, it is Company X and not the Promoters that set up the share scheme. The SSP is part of the listing scheme, in which the employees of the entity were identified and entitled for the SSP. Hence, the argument that Company X is not involved in the SSP is not justifiable.

ii. The employees do not provide services in exchange for the shares

It was argued that the SSP was not an arrangement to pay for services rendered by the selected employees.

BC36 Some who argue that the entity is not a party to the transaction counter the points made above with the argument that employees do not provide services for the options, because the employees are paid in cash (or other assets) for their services.

BC37 IASB is of the opinion that if it were true that employees do not provide services for their share options, this would mean that entities are issuing valuable share options and getting nothing in return. This concludes that by issuing such options the entity's directors would be in breach of their fiduciary duties to their shareholders.

BC38 Typically, shares or share options granted to employees form one part of their remuneration package. It is usually not possible to identify the services received in respect of individual components of the remuneration package. But that does not mean that the employee does not provide services for the benefits received. Rather, the employee provides services for the entire remuneration package.

BC30 In summary, the shares, share options or other equity instruments are granted to employees because they are employees. The equity instruments granted form part of their remuneration package, regardless of whether that represents a large part or a small part.

Applying the above principles, the intention of the SSP was an act out of goodwill to only selected employees due to the long-term and close working relationships with those employees. In this instance, it may be construed that this intention is indicative that it is akin to a reward for the selected employees' past services from which Company X benefited. Hence, this will further support the conclusion that the transaction is within the ambit of the MFRS 2, although there is no contractual arrangement between the Promoters and the selected employees.

Based on the application of the above, the SSP should be accounted for as a share-based payment in accordance with MFRS 2 and disclosed in the financial statements accordingly.

Conclusion

An IPO exercise may entail complex financial reporting requirements due to the transactions entered into upon going for listing, such as share-based payment. This warrants a greater level of diligence and care by the entity in ensuring compliance with the applicable financial reporting requirements. In a regulated IPO scenario, entities are under strict scrutiny by various authorities. It is therefore crucial that those involved in the IPO are familiar with accounting issues related to an IPO, such as share-based payment, to avoid any unexpected accounting implications on the financial reporting of the entity.

SukukChain: A Blockchain Solution for Islamic Capital Markets

at-mia.my/2019/08/14/sukukchain-a-blockchain-solution-for-islamic-capital-markets

August 14, 2019

By Farhang Maghdeed

Continually evolving and innovating, blockchain technology has gone through various stages of improvements.

Currently, there is a need to understand and interrelate different technology components such as consensus mechanism, cryptographic algorithms, distributed technology, token economy, and identification system, in order to derive a solid definition of blockchain.

By bringing these components together within a trusted platform, there is potential to revolutionise the world economy by shifting commodity, equity and asset markets over into a digital form.

The integration between current industries and the distributed technology of blockchain will provide a secure platform, where every online transaction or real digital asset will be distributed within the consensus mechanism and verified at any time without compromising the privacy of the digital asset(s).

Blockchain Technology and Smart Contracts

When we define the structuring of blockchain technology, it may consist of different application components such as token, block, ledger, distribution, transaction, conformation, consensus, and block reward.

Token here means a smart contract application, where this application consists of an address, and a set of roles. Roles here refer to the set of policies which has been structured to run a set of business models with the approval of authorities.

The smart contract is a protocol that is deployed on top of blockchain technology, in order to facilitate contract concepts between two or more parties, when transactions take place between a sender and receiver. This application runs within a decentralised environment, where contracts are executed within the blockchain pool of networks. This means that the contract is a programmable module which contains a set of roles that follows the terms and conditions of asset allocations.

Sukuk Similar to Smart Contracts

So, how do we then relate the smart contract application to Sukuk as a crowdfunding element of the Islamic capital market?

Deep research and analysis show that the behaviour of Sukuk in comparison with the principle of smart contracts is quite similar. The only difference between them is the automation processes; smart contracts are automated whereas Sukuk are manual.

Sukuk has been used widely by Muslim countries to represent the value of assets as an equity, bond, capital share, or commodity. This serves as a platform for investors to enter a shared capital market.

Today, Islamic finance institutions are in charge of issuing Sukuk, in alignment with certain standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Institute of Financial Accountants (IFA), and global International Financial Reporting Standards (IFRS). Despite this, there are fundamental disagreements and difference in opinions towards structuring the Sukuk principles followed by Shariah resolutions.

SukukChain Solution

To address this divergence, the concept of SukukChain has been introduced as a platform to run a programmable security token or smart contract within a pool of network participants, run by blockchain communities such as Ethereum.

The evolution of Smart Contracts has demonstrated a substantial improvement in this age of blockchain technology development. For example, Ethereum has introduced packs of standards, such as ETH20, ETH77, ETH1400, and ETH1410. These standards are not only programmable but can also follow and adapt to the dynamic rules and regulations from various jurisdictions. Standards ensure compatibility between the processes or rules that you set to run your business models using blockchain technology, while ensuring network compatibility and compliance with certain rules and regulations.

Introducing a new architecture called SukukChain as a standard will enable a devoted chain running within Ethereum Network to cover a specific Sukuk deployment complemented by a Shariah-compliant scheme. Following Shariah principles to comply with Islamic principles is very obvious, as certain rules and regulations must be met to be compliant with the Islamic Sharia law with regards to business structures, systems, documents, processes, contracts, treasury and accounting. The nature of smart contract and the execution of the roles is very close to the nature of the Sukuk from the Islamic Sharia point of view.

The fundamental framework of Sukuk is represented by using four basic components which will support Sukuk structuring fundamentals. In addition, distributed ledger technology will empower the deployment of Sukuk to achieve the common criteria between the nature of Sukuk and smart contracts, such as security, flexibility, scalability, and decentralised nature of transactions. Therefore, the four main components of Sukuk architecture consist of Digital Account, Digital Sukuk, Digital Asset, and an automation of the Shariah module within a legal framework.

Although there are different standards that have been Introduced by Ethereum Network, we are following a specific standard – ERC1400 / 1410 standard which is an upgraded version of ERC20 and ERC777. We chose ERC1400 / 1410 is because of its extended attributes offering interoperability, document management, and improved security features.

In summary, the application of smart contract and distributed ledger technology has the potential to transform the Islamic capital markets, stretching the mechanism of issuing Sukuk, and solving issues of standardisation of the legal framework of Sukuk. The impact here is not compromised or limited to simple instruments such as equity market or fund liquidity but can be extended to other complex mechanisms such as an automation of the Sukuk process issuance.

Farhang Maghdeed is an expert in developing blockchain technology and cryptocurrency regulation frameworks for better governance. He is actively involved in research and publications, while also building blockchain training programmes and structuring blockchain academic courses for enterprises and education platforms.

The Disruption in Accounting and Finance

at-mia.my/2019/08/14/the-disruption-in-accounting-and-finance

August 14, 2019

By Meera Eeswaran

When I received my offer letter to pursue a degree in accounting and finance, the first words from my dad were, “Accounting is a good field, and you will never be out of a job.”

Over the last year, I started to question this statement by Appa (my Dad). Is this profession sustainable? With the immense intervention of technology in everything we do, I started feeling that we were under an ‘alien invasion’.

Things were happening so quickly around me that there was no time to cope. There was chatter that in 10 years, there would be no more jobs or roles for accountants, software would take over the tasks assigned to an accountant, artificial intelligence (AI) could perform an audit, etc.

I took my time to ponder things through and then, I woke up to reality. Nope! None of this is ever going to happen. Appa was right.

Technology is not the enemy

I view technology as an enabler, not a disruptor – neither is it a destructor. We are in the era of information and we need to come to terms with the fact that accounting is an information system.

The way of transacting business processes has evolved with the utilisation of information technologies in enterprises and this has influenced accounting closely. Keeping up with the changing conditions of accounting is not a choice anymore, but a must.

Educators, practitioners, regulators and professional bodies must be led to new pursuits. Over the last two to three years, the Big 4 professional firms, global organisations such as the International Federation of Accountants (IFAC), Association of Certified Chartered Accountants (ACCA), Institute of Chartered Accountants England & Wales (ICAEW), Chartered Institute of Management Accountants (CIMA) and local authorities and regulatory bodies such as the Malaysian Institute of Accountants (MIA) and Bank Negara Malaysia (BNM) have published various articles, blueprints and guidance notes on preparation for the digital future.

It is necessary for university students to embark on a journey in the information era by utilising digital resources in an interactive environment and being able to convert these into practical applications in their future careers.

In order to achieve this, students must embark on target-driven accounting courses, where the ability to evaluate and interpret information beyond recording and make a difference through information and communication technologies can be inculcated.

The restructuring of accounting education and development of content by considering present conditions are necessary in order to train graduates to have sufficient skills to respond to the needs of this changing era.

The era of blockchain

There is no question that one aspect of technological advancement in accounting and finance – blockchain – is gaining momentum.

Blockchain delivers the potential for a powerful new form of transactional trust, and this is seen by some as possibly the most important technology-driven innovation since the introduction of the Internet.

The extent to which blockchain impacts capital markets and the corporate reporting process depends on how widely it is adopted. To the extent blockchain technology becomes established, government and regulatory bodies, financial institutions, law enforcement agencies, businesses, certified public accountants, lawyers, technology experts and all other stakeholders need to be involved.

New rules, controls, best-practice models and business skills will be needed to make a smooth transition to a blockchain-enabled future. In order for accounting graduates to be able to apply this structure in enterprises, they will need to obtain the relevant accounting education and work towards the implementation of these systems in enterprises.

The impact of IR4.0

The prospect of Industrial Revolution 4.0's arrival is both credible and intriguing. Though still at an infancy level, we should not wait another minute in embracing its journey to maturity. Professional accountants need to anticipate and address its potential.

You may have come across opinions that careers might potentially be lost, roles destroyed and accounting and audit services made redundant by new digital technologies. I personally don't think this is true.

There are vast opportunities for those with knowledge of new cyber-physical systems. Accountants can prepare for this new era by increasing their awareness, building knowledge through professional development and continuous education, encouraging technological skill development in new entrants, and collaborating with other professionals.

Accountants operating in the fourth industrial revolution will need to recognise that they have less control over accounting data compared to the past, as they are becoming part of a transdisciplinary mix of advisers.

For example, environmental accounting is heavily influenced by physical real-time information largely in the hands of engineers. New technology allows a greater analysis of business drivers, using insight and actionable analytics to achieve a competitive advantage.

The evolving role of accountants

We need to realise and acknowledge the possibilities inherent in AI. Software performs some number crunching and automates repetitive simplistic tasks more efficiently than any human possibly could.

As the technology continues developing, the robots will only get better. The implicit benefit is that human accountants can then be freed up to focus on more complicated issues.

As such, it is no longer an accountant's job to collect data but rather to interpret it, to make better and more informed decisions. Simple.

Leave it to AI to ensure accuracy of information. With the advantage of speed, human accountants will be empowered to verify, derive, synthesise and strategise almost immediately.

Now isn't this a breakthrough? That's what we call collaboration in the era of technology.

Technological developments have removed the need for snail-like, manual, redundant processes, enabling accountants to spend more time on adding value to the business. We keep reinventing the wheel with every client. We need to deviate from bookkeeping and stewardship and convert ourselves to strategic business partners.

Leave the routine roles and embrace the strategic ones mirroring the actual education needed for an accountant. No more non-value added, time-consuming roles for an accountant such as keying in dividend vouchers and spending weeks at an oil rig just to measure levels. Thinking about the new challenges facing accountants is a very exciting prospect!

As most accountants don't seem to have the luxury of time, even thinking about different ways of working is impossible. Most accountants will probably agree that change needs to take place. Now, we may actually have an opportunity to finally have work-life balance and a better quality of life.

It is important for us to always remember that with change, comes opportunities. Move quickly, get with this change, and stay agile. Some people may still need persuading that technology is the way forward, but we need to remember that our competitors are using technology to drive growth, so we would not want to miss this train. This revolution cannot be ignored.

Grasp this inexorable tide of technology!

Meera Eeswaran lectures at the School of Accounting & Finance, Asia Pacific University. She has over 15 years of academic and corporate experience in accounting, auditing and taxation and is currently pursuing her Doctor of Philosophy (PhD) in the area of digital disruptions in accounting and finance. To connect with Meera, email us at editor@leaderonomics.com.

This article first appeared on Leaderonomics.com in their June 2019 publication – https://leaderonomics.com/pdf/MSJ-190627.pdf

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