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Continuing Professional Education Non-Compliance as Professional Misconduct

at-mia.my/2019/06/17/continuing-professional-education-non-compliance-as-professional-misconduct

June 17, 2019

By MIA CPE Compliance Unit

Staying Relevant

The accountancy profession has experienced significant challenges as a result of the ever-changing financial reporting landscape and the increased legislation and rules regulating the profession. As a profession, accountants must stay relevant and are expected to keep abreast of latest developments relating to the accounting fraternity in order to adhere to the highest standards of ethics and professionalism.

Holding Professional Accountants to Higher Standards

Continuing Professional Development has become mandatory for many of the statutory professions in recent years, which recognise the importance of continued learning and development not only for accountants but all professionals. The Institute's By-Laws have enforced the Continuing Professional Education (CPE) learning as a mandatory obligation for professional accountants. The Institute currently undertakes strict implementation of CPE requirements to ensure professional accountants are compliant with the Institute's By-Laws. Any failure to maintain and improve professional competence is seen to be a violation of one of the fundamental principles of the profession and can lead to disciplinary action.

Professional Misconduct

Recently, the Institute found a member guilty of professional misconduct for failing to maintain her CPE record and non-compliance with its CPE requirement. In the findings, the Institute placed emphasis on the dishonesty and integrity of the member, together with the importance of compliance with the CPE requirement.

The allegation surrounded the discrepancies in the member's CPE record in which she had made a false declaration of CPE hours for the CPE courses which were registered under her name but not attended by her. The failure to comply with the CPE requirement, together with the false and misleading CPE records, showed a deliberate disregard by the member of her professional responsibilities, and that amounted to professional misconduct.

The Disciplinary Committee (DC) of the Institute concluded that the charge of non-compliance with CPE requirement and the fundamental principles on professional behaviour laid against the member was established which was tantamount to professional misconduct. Severe punishment was meted out to the member, including suspension of membership, and she was ordered to pay costs and expenses of the DC inquiry, and to gain more CPE credit hours in addition to the requirement of 20 structured CPE credit hours per annum. Pursuant to the Institute's Disciplinary Rules, the Council shall publish the decision of the DC in the prescribed publications and inform all the relevant government licensing authorities, and any other associations of accountants with which the member was associated.

The decision sends a stern warning of the Institute's seriousness with regard to CPE non-compliance, particularly where an element of dishonesty subsists.

Ensuring Competency of Professional Accountants

As a monitoring process, the Institute conducts CPE Audit annually to ensure the compliance of the professional accountants. As a step-up effort in safeguarding the public interest, the Institute has imposed more stringent CPE requirements on the Approved Company Auditors and Practising Certificate (PC) Holders. The Institute has made the CPE a mandatory requirement for the members to uphold their Audit License and PC status.

Should a practitioner fail to comply with the relevant CPE requirement, the Institute will have discretion to examine the reasons for the non-compliance. Where there is no justifiable basis for the failure, the Institute shall not support the member's application for their renewal of audit licenses to the Accountant General and/or shall not renew their PC.

For 2018 / 2019, as a result of failing to comply with the CPE requirements, one member did not obtain the Institute's support in the application of renewal of audit license. Further, the Institute had cancelled twenty PCs due to non-compliance with 2017 CPE requirements.

Comply Honestly with CPE to Enhance Skills, Uphold Public Interest

Accountancy is one of the most highly respected professions in the world and ethics is central to being respected and trusted. Professional accountants should take responsibility for their self-development to uphold the values of integrity, accountability and trust. Compliance with CPE requirement should not be a "box-ticking" exercise for professional accountants. Instead, they should take recognition of the fact that effective maintenance of professional skills and knowledge is a key component to stay competent, relevant and able to safeguard the public interest. One should not act dishonestly in fulfilling the CPE requirement as the Institute views this as a serious matter that impacts directly on the credibility and reputation of the accountancy profession.

Emerging Need to Effectively Operationalise Transfer Pricing

at-mia.my/2019/06/18/emerging-need-to-effectively-operationalise-transfer-pricing

June 18, 2019

By Gagan deep Nagpal and Kunal Dutta

Curacao, Gibraltar, Liechtenstein, and Panama are among the more obscure countries on the world map, yet they have effective transfer pricing regimes. This only reaffirms that Transfer Pricing (TP) is a global phenomenon and a route for many sovereign jurisdictions to put their country on the world map.

The year 2015 will go down in the history of global taxation as a cornerstone, when anti-Base Erosion and Profit Shifting (BEPS) measures were introduced on an unprecedented scale. Further, if you look deeper, all key BEPS Action Plans (especially Action Plan 1 on Digitalised Economy, Action Plan 8-10 on aligning of value creation and Action Plan 13 on three-tier documentation) have a significant underlying element of TP. Thus, it won't be wrong to comment that in today's world of tax, TP is an overarching fundamental, which has expansive implications on various business functions and other tax related subject matters. With all these significant amendments, the loose ends in the TP framework are being tightened in an endeavour to transform the subject into more of a science than an art.

Since Transfer Pricing Regulations are undergoing complete transformation, it is time for Multinational Enterprises (MNEs) to take TP matters all the way up to the Board and ideate a format wherein TP can be effectively converged with the other operational functions of the organisation. In fact, putting a system in place to effectively operationalise TP is gradually gaining traction across many big MNEs already.

TP: A compliance exercise or a way to conduct business?

TP in the past was looked at more as a pure tax function focusing predominantly on a year-end compliance exercise and defending TP during audits or litigation. However, one has to understand that TP is assimilated in all commercial dealings and the value chains of the businesses. Therefore, TP cannot operate in silo just as a tax function without the extensive involvement of operations and top management. The active participation of multiple stakeholders within any organisation would be required in the entire TP function as it involves a series of steps as highlighted below:

Business conceptualisation stage –

At the commencement of any new business or value chain, there are many elements of TP that need to be knitted together, especially for MNEs with an entire supply chain spread over multiple jurisdictions. The discussion at this stage generally leans towards the structuring of the entire business based on the overall business strategy and intended geographical presence. Consequentially, the identification of related party transactions arising out of proposed business structure, characterisation of the entities, and price setting formulae for various situations are put in place in the form of Group TP policy. Of course, for any later expansion or change in business, similar elements need to be considered but may be at a lesser scale. Further, the above elements may not be considered at all for one-off or related party transactions with an insignificant volume.

The involvement of the tax function in all critical decision-making relating to the structuring of a business would be the bare minimum required. The legal team will also be required to be involved to put in place intercompany agreements.

Over and above, the top management that gets extensively involved at this stage would need to have the desired level of TP awareness to implement the business strategies effectively.

Price setting stage –

Once the business is structured, proposed transactions are identified and pricing formulas are defined, there is a need to pull out the right data from various sources for computing transfer prices. The reliability of right financial data and various economic and operating assumptions to be considered at the price setting stage would be another key to successfully operationalise the TP.

The role of the Finance and Accounting team cannot be ruled out at this stage, as they would provide most of the financial information. Further, this role also extends to monitoring, compliance and defending stages. The invoicing team should also be required to be informed, once the prices are determined.

Generally, the team from commercial side viz. procurement and sales is also extensively involved at the price setting stage and it is critical that they also understand the nuances of TP. Further, the sales and marketing team also is a key source of information for market related data such as market driven prices based on competitive pricing trends, sales forecast to take assumption of capacity for price computation, and information regarding advertisement and marketing activities to determine the right pricing for transactions involving marketing intangibles etc.

Price monitoring stage –

Once the TP is up and running in the business after taking the above steps, there is a need for constant monitoring and review. Herein, again the role of Finance and Accounting teams come into play to pull out the right data required to monitor the outcome of the transactions and take further decisions in relation to the review and revision of prices to meet the arm's length criteria.

The taxes are paid on the actual operating results at the year-end and therefore any deviations in an arm's length outcome arising out of variances between budgeted and actual numbers need to be rectified before closure of books of accounts by way of year-end adjustments. Herein, treasury function would also have a role to play to effectively manage the cash positions at the year-end arising out of year-end adjustments.

Any commercial transaction carried out also has indirect tax impact and it requires due consideration before making any change in transfer prices. Similarly, the regulatory control angle also needs to be looked into especially during the course of repatriation of funds. Therefore, all these stakeholders have to be equally involved during the price monitoring stage.

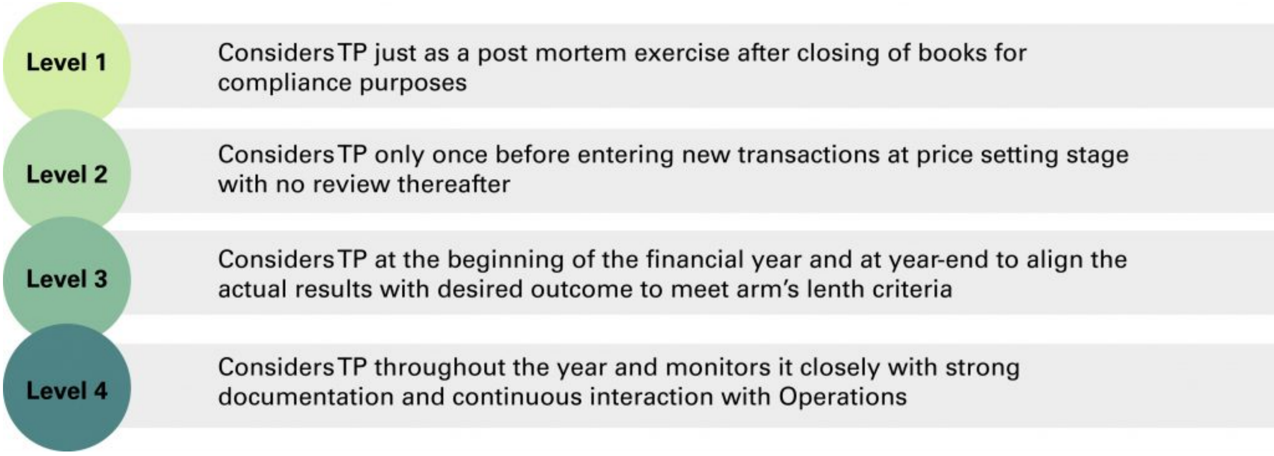
Compliance and audit defense stage –

The last and foremost stage is to justify the transactions carried out during the year by way of year-end testing while preparing TP documentation. Further, these transactions would also need to be defended during the course of any audits and litigation by the tax authorities. Although the activities involved at this stage are in the domain of the tax function, they would need the support of other functions as well especially at the time of audit, such as pulling out the right data to satisfy the queries of Tax Authorities or during the course of conduct of functional interviews.

The contribution of the IT team will be equally critical in all the above stages. In the case of a highly automated environment, the IT team would need to build an adequate infrastructure for live feed of transfer prices into the system to ensure creation of an adequate document trail. The IT team would also need to build in adequate flexibility for any business changes and provide room for exceptions and overrides with the necessary levels of control and access.

Discussions would be required between the IT team and TP representative from the tax function during the implementation stage and during subsequent modifications arising out of business needs.

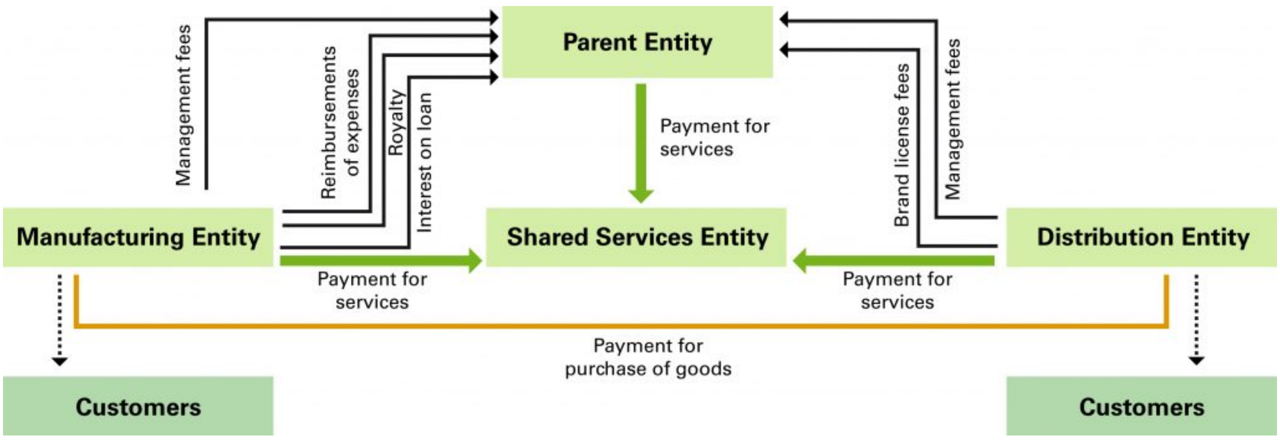
From the above, it is apparent that support from multiple stakeholders is required and TP really has to be in the genes of all relevant functions of the MNE organisation. The extent of TP embedded into business are generally found to be within the four levels below:



The obvious question is determining the appropriate level of OTP to be implemented by MNE. The challenges in determining this are discussed below.

Challenges in implementing effective OTP

OTP implementation within an MNE group can be a tedious and resource-intensive exercise. The diagram below is an illustrative representation of an oversimplified group which gives an idea of the number of intercompany transactions within four entities. Imagine a global giant with operations in over 100 countries and over thousands of complex intercompany transactions including intangibles and financing.



In relation to various challenges to operationalise TP, the resource constraints (in terms of time, cost and efforts) would definitely top the chart. However, there are other factors which add up as well and some of these are highlighted below:

1. Business is getting more agile and impacted by economic factors (such as forex, metal fluctuations, industry cycle etc.) and may therefore require frequent innovative changes in operations (e.g. business restructuring).

2. Sourcing the right data and information required for implementing and defending TP (such as inability to segment the operating results).
3. Aligning the priorities of various stakeholders required to be involved in the process.
4. Ensuring the balanced outcome from both sides of a transaction so that TP position can be defended from both ends to avoid any double taxation.
5. Catering to the unique requirements of various jurisdictions such as preference for local comparables, single year results, accounting treatment etc. to achieve consistency.
6. The need to evaluate the impact arising out of other regulatory aspects such as customs, withholding taxes, incentive grants, permanent establishment exposure etc.
7. Inconsistent positions arising out of any adverse rulings or mutual agreement procedures.
8. Managing significant uncertainties arising out of ever-evolving TP regulations under BEPS environment especially in relation to intangibles, data and financing.
9. Dealing with the expectations of managerial personnel whose KPIs are driven based on the operating results of the respective entities and may contradict the objective of effective OTP.
10. Building robust and flexible IT infrastructure required for operationalising TP especially in a decentralised set-up.

In the present scenario of onerous three-tier documentation requirements on TP and increasing centralisation of TP function, most tax teams are constrained by time and resources and are simply striving to remain compliant to diverse regulations of the respective jurisdictions they operate in. However, MNEs still have to adopt various ways and means to overcome the above challenges in effectively operationalising TP and cannot afford to lose the focus on this front.

Ways to overcome the OTP challenges

There are three key pillars for any business to be OTP savvy as portrayed below –

As can be observed above, the right tone at the top is required throughout and OTP would not be effective within an organisation unless top management is convinced to implement it.

How technology can help to operationalise TP

Trade wars, prospects of economic downturns, and implementing new forms of taxes on a unilateral basis (digital tax, GILTI, BEAT etc.) are all increasing uncertainty in the business realm. On one hand, tax authorities are getting more aggressive by introducing these measures to get their fair share of taxes to meet their economic growth targets. On the other hand, technology is evolving at a breath-taking pace and disrupting everything conventional.

While many tax functions are recognising the importance of technology and the value it can deliver by providing real-time information, there is however a need to embrace innovative solutions rather than just leveraging on technology for reporting and compliance matters. Tax leaders are feeling the pressure arising out of onerous compliance requirements and volumes of data to be handled amidst the constant changes in the business and economic environment. They are beginning to recognise the need for disruptive technologies to properly adopt, integrate and manage the entire tax function. A summary of a recent survey done by Deloitte in this regard is shown below:

Executing transfer pricing analysis of transactions in a disruptive technological environment is another story. However, continuing with the theme of this discussion, it is timely for us to imagine how disruptive technologies could help to effectively operationalise TP.

TECHNOLOGY	POTENTIAL APPLICATIONS
Cloud sharing	Cloud computing is generally defined as the practice of using a network of remote servers hosted on the internet to store, manage and process data, rather than hosting on a local server or a personal computer. Cloud computing primarily consists of three service models – Infrastructure as a Service (IaaS), Platform as a Service (PaaS) and Software as a Service (SaaS). Large MNEs can explore cloud computing capabilities by building private clouds for OTP. It will enable seamless access, collection, storing and sharing of pricing-related data within a well-secured environment.
Internet of Things	With computing and networking capabilities getting cheaper by the day, IT interactions are expected in everything. The networks will link data from products, company assets, or the operating environment and will generate real time information and analysis which ultimately can result in effective pricing-related decisions.
Big Data Analytics	In the current world of zettabytes, Big Data analytics which include descriptive, predictive and prescriptive types of analytics are a boon for users to help skim through large volumes of data. In the context of OTP, Big Data analytics could help reduce the effort in analysing thousands of transactions or CbCR data and quickly identifying red flags for taxpayers.
Robotics Process Automation	RPA builds on predetermined rules and algorithms, implements them in regular and routine workflows and does not require any human involvement. The usage of this in OTP context would be really impactful e.g. parameters can be set and fed into an automated system. Thereafter,the system can identify related party transactions, and apply pre-determined transfer prices which ultimately can be picked up by the inter-company invoicing system. Further, RPA can generate/analyse product / service line profitability, assist in allocation of cost, automatically correct the price or make true-up/ true-down adjustments to achieve arm's length results.
Blockchain	Blockchain technology creates complete transparency in the system wherein data is immutable and saved in blocks. This technology would be useful for PSM or global formulatory kind of scenarios which would require complete transparency and traceability across the entire value chain on a real-time basis.
Artificial Intelligence	AI will be able to collate all the necessary information from various sources and make rational judgements about a given circumstance (transaction). While humans can do one such exercise, AI after observing can thereafter do multiples and thereby cut down signficiant time and cost. In the OTP context, AI could help in defining the characterisation of the entity based on functions, assets and risks analysis and accordingly price the transactions. Similarly, it could be used to determine the most appropriate method in particular facts and circumstances of the case or selection of functionally comparable companies. Chatbots can help to get answers on the regulatory requirements / relevant case laws of respective jurisidctions and can also track timelines especially in relation to CbCR compliance.

Although it is too early to talk about the scaling up of these technologies for OTP, MNEs really have to embrace these to an extent in the current disruptive technology trend of "either adopt or fail". In fact, many players and consultants have already rolled out OTP tools based on these disruptive technologies. Even tax authorities are not behind in this race and are already adopting big data analytics to select cases for scrutiny or analyse CbCR data.

What is the trend of OTP in Malaysia?

With nearly over a decade after an introduction of specific TP provisions, Malaysia could now be rightly called a 'matured Transfer Pricing jurisdiction'. In an endeavour to get its fair share of taxes, Malaysia has aligned its TP regime to the OECD TP Guidelines and has recently adopted Action Plans 8 to 10 and 13 that are specifically for TP.

With new TP regulatory developments in Malaysia, the Inland Revenue Board Malaysia (IRBM) will gain more access to desired information on complete supply chains, group structure, reporting hierarchy, financial information about other entities within a group through CbCR and even more. Further, in many forums, the IRBM has highlighted their adoption of Big Data analytics, which is helping them to identify red flags much quicker than before. Importantly, based on recent audit trends, the IRBM has started looking beyond the issues of comparables and now places significant focus on pricing policy, characterisation and value chain information, leading to higher recovery per case as compared to the past. The IRBM during recent audit visits has rigorously questioned the operational teams of taxpayers on price-setting processes and related decision-making. We often see the IRBM challenging situations where the Malaysian entity is a subsidiary with limited control over business decisions and pricing but absorbing business losses. The contention is that such losses should be assumed by entities having control over the risk and with the financial capacity to assume such risks. Further, significant back-up documents are being sought in relation to the price-setting mechanism within a limited period.

With all of these developments, it has really become critical for taxpayers to effectively operationalise TP involving all stakeholders and implement proper channels to extract the relevant data in a timely manner to defend any potential audits. Many MNEs in Malaysia have already taken cognisance of these recent trends and developments and are taking active measures to effectively operationalise their TP such as by formalising proper Group Transfer Pricing Policies, which will be a good starting point to string together all these TP elements.

This article is the personal views of contributors Gagan deep Nagpal and Kunal Dutta from the Transfer Pricing Division, Deloitte Malaysia.

Financial Reporting Disclosures

at-mia.my/2019/06/17/financial-reporting-disclosures

June 17, 2019

Article prepared by the MIA Financial Statements Review Committee

Financial statements are intended to provide financial information about an entity that is useful to various stakeholders in making economic decisions. Disclosure of accurate, adequate and timely information is critical in order to achieve effective communication of quality financial information. While the industry is leaning towards transparency in financial reporting, some entities still strive to comply only with the minimum disclosure requirements in accordance with the applicable approved financial reporting requirements. The quality of disclosures is compromised as the entities are providing incomplete and/or irrelevant disclosures and in some cases, omissions of mandatory disclosure items.

In providing guidance to members on good financial reporting, the Financial Statements Review Committee ("FSRC" or "the Committee") wishes to highlight common deficiencies arising from the review of financial statements of public-listed entities for the period from July 2017 to June 2018, as shown in Table below:

Areas for improvement	FSRC findings
Property, plant and equipment ("PPE")	• Inadequate disclosure on events and circumstances that led to the recognition of the impairment loss on PPE [MFRS 136.130(a)] • Inconsistency in accounting policy - cost vs revaluation model. For example, PPE are measured at cost less accumulated depreciation and any accumulated impairment losses. However, in the notes, the leasehold land and building are stated at fair value. • Inadequate disclosure on fair value hierarchy of the PPE carried at valuation [MFRS 13.93]
Segment information	• Non-disclosure on information about each major customer [MFRS 8.34] • Non-disclosure on revenues from external customers and non-current assets attributed to the reporting entity's country of domicile and attributable to all foreign countries, unless the necessary information is not available and the cost to develop is excessive, in which case, this fact should be disclosed [MFRS 8.33]. However, where revenue/non-current assets attributable to an individual foreign country are material, separate disclosures should be made in respect of that foreign country. • All material reconciling items to be separately identified and described [MFRS 8.28] • Non-disclosure of material non-cash items other than depreciation and amortisation for each reportable segment [MFRS 8.23(i)] • Non-disclosure of judgement made in applying the aggregation criteria [MFRS 8.22(aa)]
Tax expense/(income) and/or deferred tax	• Non-disclosure of deductible temporary differences, unused tax losses and unused tax credits of which no deferred assets are being recognised [MFRS 112.81(e)]. • One should also be wary of the need to disclose the expiry date (if any) of the aforementioned items.
Related party transactions	Non-disclosure of, amongst others, the amount of outstanding balances and the amount of transactions between related parties [MFRS 124.18].
Quantitative disclosures relating to capital managementt	Non-disclosure of summary quantitative data about what the entity manages as capital [MFRS 101.135(b)].

The FSRC draws particular attention to the following, which continue to be the areas of deficiencies found in the financial statements since the past reviews:

Fair value measurement

There have been improvements in term of disclosures relating to MFRS 13 Fair Value Measurement following its application for financial statements with annual periods beginning on or after 1 January 2013.

MFRS 13 requires an entity to disclose the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety. The fair value hierarchy consists of the following three levels:

Level 01

Types of input
Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. [MFRS13.76]

Level 02

Types of input
Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. [MFRS13.81]

Level 03

Types of input
Level 3 inputs are unobservable inputs for the asset or liability. [MFRS 13.86]

The Committee noted that most entities have complied with the requirement of disclosing the fair value hierarchy.

However, the classification of fair value measurements into the above three levels is often challenging and judgemental. For example, the Committee noted differences in classifying fair value hierarchy for investment properties, which typically (based on the reviews) were classified as Level 2 and/or Level 3.

The Committee wishes to highlight that Paragraph 84 of MFRS 13 states that an adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorised within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.

In addition, the Committee has come across instances whereby there were transfers between Level 1 and Level 2 of certain assets during the financial year but there were no disclosures on the information as required by Paragraph 93(c) and Paragraph 95 of MFRS 13.

MFRS 13 also requires extensive disclosures in relation to assets and liabilities included in Level 3. The review of some of the financial statements revealed that insufficient information was disclosed and often included no discussion of unobservable inputs and/or benchmarks used.

Our earlier article on Complying with MFRS 13 (Accountants Today, Mar/Apr 2016) showed a chart listing down the (minimum) disclosure requirements of MFRS 13. The chart* is re-produced below for your easy reference:

MFRS 13 paragraph	Hierarchy level	Disclosure requirements	Fair value measurement	
			Recurring	Non-recurring
93(a)	N/A	Fair value measurement at the end of the reporting period.	√	√
93(a)	N/A	Reasons for fair value measurement.	-	√
93(b)	N/A	Fair value hierarchy.	√	√
93(c)	Level 1 & 2	The amount of any transfers into and out of each level is to be disclosed and discussed separately. Disclosures include reasons for transfer and the entity's policy on transfers.	√	-
93(d)	Level 2 & 3	Valuation technique(s) and inputs used in fair value measurement. If there are changes in the valuation technique, disclose the nature of the change and the reasons for it.	√	√
93(d)	Level 3	Quantitative information on significant unobservable inputs.	√	√
93(e)	Level 3	Reconciliation from opening to closing balances disclosing: • gains or losses recognised in profit and loss (including the line item in profit or loss) • gains and losses recognised in other comprehensive income ("OCI") purchases, sales issues and settlements (including the line item in OCI) • transfers into Level 3. Transfers into and out of Level 3 are to be disclosed and discussed separately. Disclosures include reasons for transfer and the entity's policy on transfers.	√	√
93(f)	Level 3	Unrealised gains or losses recognised in profit or loss, including the line item in profit or loss	√	N/A
93(g)	Level 3	Description of valuation process, including a description of how the entity decides on valuation policies and procedures and how it analyses changes in fair value from period to period	√	√
93(h)	Level 3	Sensitivity analysis of fair value measurements to changes in unobservable inputs.	√	N/A
93(i)	N/A	If current use differs from highest or best use of non-financial asset, disclosure of that fact and the reason for the departure from best use.	√	√

** The chart above does not include the disclosure requirements for those items within the scope of MFRS 13 whereby the fair value is required to be disclosed in the notes only.*

Financial Guarantee Contracts (FGCs)

Typically, a parent company issues corporate guarantees to financial institutions to secure credit facilities extended to its subsidiary companies. These corporate guarantees are FGCs that meet the definition of financial liabilities and shall be recognised and measured in accordance with MFRS 139 Financial Instruments: Recognition and Measurement or MFRS 9 Financial Instruments (effective from 1 January 2018).

It is good to note that most of the reviewed financial statements have classified FGCs as financial liabilities, although there are still some that disclosed FGCs as contingent liabilities.

However, where the FGCs were classified as financial liabilities, there were no disclosures noted on the nature and extent of risks arising from FGCs, which typically includes credit risk and liquidity risk [MFRS 7.31-42], specifically on the disclosure of maturity analysis [MFRS 7.39]. Commonly, the reviewed financial statements were lacking in the necessary disclosures, citing that the risk of default is low. The Committee wishes to highlight that the entity is always exposed to these risks, notwithstanding the low risk of default.

Illustrated below is an example of how the relevant disclosures should be made:

Credit risk

The maximum exposure to credit risk in relation to the financial corporate guarantees given amounts to RM XXX (201Y: RMXXX) as at the end of the reporting period.

Liquidity risk

	Carrying amount	Contractual cash flows	Under 1 year***	1-2 years***	3-5 years***	More than 5 years***
Trade payables	5,000	5,000	5,000	-	-	-
Other payables	2,000	2,000	2,000	-	-	-
Term loans	16,900	18,000	3,000	5,000	5,000	5,000
Bank overdraft	2,000	2,000	2,000	-	-	-
	25,900	27,000	12,000	5,000	5,000	5,000
Financial guarantee contracts**	NIL	7,000	7,000	-	-	-

*** The disclosure represents the maximum amount that is required to be settled in the event of <triggering event>.*
**** The time band is for illustrative purposes. It is to be based on the earliest period to which the FGC can be called upon.*

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In addition, we also wish to highlight that MFRS 9 introduces new requirements relating to the subsequent measurement of FGCs [MFRS 9.4.2.1c and MFRS 7.B8E].

Conclusion

In communicating their story, preparers of financial statements are encouraged to critically consider what information is useful to the users of financial statements. In addition to complying with the applicable approved financial reporting requirements, the disclosure of adequate, meaningful and useful information is important to help the users to understand the financial statements better.

Above all, the FSRC wishes to reiterate that the responsibility for the preparation of financial statements under the Companies Act 2016 lies with the entity's management and Board of Directors. Financial statements are to be accompanied by a statutory declaration made by the person primarily responsible for the financial management of the entity setting forth their opinion as to the correctness of the accompanying financial statements. [S251(b), Companies Act 2016].

Whilst auditors play an important role in enhancing the credibility of the financial statements, this role would be further enhanced with the entity's management and Board of Directors engaging with the auditors throughout the financial reporting process.

The Financial Statements Review Committee ("FSRC" or "the Committee") of the Institute was set up with the aim of upholding the quality of financial reporting of entities listed on Bursa Malaysia.

The Committee reviews audited financial statements and audit reports that are prepared by or are the responsibility of members of MIA, for the purpose of determining compliance with statutory and other requirements, approved accounting standards and approved auditing standards in Malaysia.

Forensic Investigation and Fraud Analytics Conference – Harnessing Tech to Fight Fraud in the Digital Age

at-mia.my/2019/07/12/forensic-investigation-and-fraud-analytics-conference-harnessing-tech-to-fight-fraud-in-the-digital-age

July 12, 2019

As the regulator and developer of the profession, MIA's expertise lies in accountancy and the developments disrupting accountants.

Forensic investigation and fraud analytics are a key area of expertise for accountants. But this area too is being disrupted and improved by technology.

This Conference zooms in on the current and future technologies and best practices that organisations can adopt to improve fraud detection and forensic accounting functions, one of the most challenging yet exciting areas for accountants today.

Highlights of the MIA Forensic Investigation and Fraud Analytics Conference

After attending the sessions, you will:

- See how embedding data analytics in accounting functions enables tracking of a large number of transactions in real time, which facilitates forensic tasks and fraud analytics. This session brings together the real-world expertise of former Axiata Group CFO Chari TVT, HK Polytechnic University law professor in the School of Accounting and Finance Cho Chi Kong and Hazimi Kassim, Group Chief Internal Auditor, Telekom Malaysia Berhad.
- Understand the current landscape of cyber risk, the hazards, and the perpetrators (including state-sponsored actors) and the geopolitical events catalysing cyber fraud. Theo Nassiokas, Director, APAC Cyber & Information Security (CISO), Barclays International, Singapore is uniquely qualified to talk about this.

- Get insights into how organisations can embed blockchain into accounting functions to fight fraud and improve forensic analytics. Don't miss this session moderated by Abdul Fattah Yatim, Chairman of the National Standards Committee on Blockchain and Distributed Ledger Technologies, Malaysia.
- Understand the scenario for implementing fraud-focused data analytics in your organisation and be introduced to new methods of utilising Data Modelling, by experts in artificial intelligence and analytics from Axiata.
- Build effective fraud alert systems that utilise virtual platforms: mobile, e-systems, social media, and e-currencies, better Know Your Customer (KYC) and flagging processes and reporting methods. See how these can improve your Digital Trust Index score to increase stakeholder and customer confidence. Get insights from leaders like Jim Roberts, Group CISO, Retail Banking, Private Banking & Wealth Management, Standard Chartered Bank and Scott Paxton, Global Finance Centre Controller, Baker Hughes, a GE Company to improve operations in the Malaysian context.

The Forensic Investigation and Fraud Analytics Conference takes place on 20 August 2019 (Tuesday) at the Connexion Conference & Event Centre @ Nexus, Bangsar South, Kuala Lumpur. The Conference carries 8 CPE hours and is HRDF claimable. To register, contact Fara at 2722 9194 or email to sp@mia.org.my. For more information please click here.

Highlights of ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures

at-mia.my/2019/06/18/highlights-of-isa-540-revised-auditing-accounting-estimates-and-related-disclosures

June 18, 2019

By Fauziah Begum

Changes in accounting standards have in turn brought about significant change to the audit of accounting estimates. Recurring audit inspection findings criticising the quality of audits of accounting estimates – where the auditor failed to sufficiently evaluate significant assumptions and data that clients used in developing the estimates – have also contributed towards the revision of ISA 540. Although ISA 540 (Revised) is applicable to all accounting estimates, the extent of audit procedures in relation to an individual estimate varies depending on its estimation uncertainty.

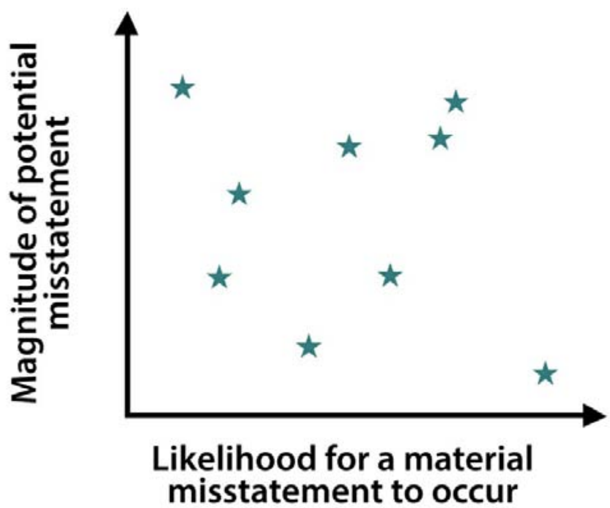
Extensive revisions to continuously improve scalability and address public interest issues have been made to ISA 540 (Revised) which is effective for audits of financial statements for periods beginning on or after 15 December 2019. The most salient changes are encapsulated in the diagram below:

Separate assessment of inherent risk and control risk

ISAs do not ordinarily refer to inherent risk and control risk separately, but rather to a combined assessment of the risks of material misstatement. However, ISA 540 (Revised) requires the auditor to separately assess inherent and control risk in identifying and assessing the risks of material misstatement relating to an accounting estimate and related disclosures at the assertion level.

Explicit recognition of spectrum of inherent risk

Inherent risk could be higher or lower depending on the type of assertions and related classes of transactions, account balances and disclosures. Under the spectrum of inherent risk concept, the assessment of inherent risk depends on the degree to which the inherent risk factors affect the likelihood or magnitude of misstatement and varies on the scale as illustrated in the diagram below.



Therefore, the nature, timing and extent of the risk assessment and further audit procedures will vary according to the spectrum of risk. For example, for a straightforward accrual relating to bonus that is paid to employees shortly after the period end, it might be more appropriate for the auditor to obtain sufficient appropriate audit evidence by evaluating events occurring up to the date of the auditor's report, rather than through other more detailed testing procedures.

Concept of inherent risk factors

Inherent risk factors are characteristics of conditions and events that may affect the likelihood of an assertion to misstatement, before controls are considered. In addition to estimation uncertainty, ISA 540 (Revised) introduces complexity, subjectivity and other inherent risk factors to be considered in identifying the selection and application of the methods, assumptions and data used in making the accounting estimate, and the selection of management's point estimate and related disclosures for inclusion in the financial statements. These factors would allow the auditors to recognise the potential inherent risk embedded within the accounting estimates. For example, inherent complexity may arise when data used to measure the estimates is difficult to obtain or relates to transactions that are not generally accessible.

Enhanced risk assessment procedures

To foster a more independent and challenging sceptical mindset in auditors, risk assessment procedures relating to obtaining an understanding of the entity and its environment, including the entity's internal control were enhanced in ISA 540 (Revised). For instance, additional requirements for the auditors to identify control activities (including IT controls, where applicable) relevant to the audit over management's process for making accounting estimates have been added to the standard.

Objective-based work effort requirements

In the event inherent risk is assessed as not "low", objectives-based work requirements will be applicable to accounting estimates. More granular work requirements to obtain audit evidence to respond to assessed risks of material misstatement are introduced in the standard. The work requirements are directed to methods, data and assumptions used by management in making the accounting estimate.

Emphasis on professional scepticism

Professional scepticism plays a central role in auditing accounting estimates. The following provisions have been added to ISA 540 (Revised) to enhance the role of professional scepticism:

- Auditors are required to design and perform further audit procedures in a manner that is NOT biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory.
- A 'stand back' requirement has been included for auditors to consider all audit evidence obtained – whether corroborative or contradictory – when evaluating if the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework.

The evolving business environment featuring increasingly complex information systems and the use of complex modelling systems to record accounting estimates has resulted in significant changes to ISA 540. If we look into the auditing standards that have been issued, they do not dive deep into a particular accounting transaction or items in the financial statements. The extensive revision of ISA 540 prioritises the importance of accounting estimates as one of the fundamental areas of audits. As accounting estimates are virtually found in most financial statements, auditors are advised to be up to date on the key revisions made to this ISA to determine and enhance the requisite audit procedures.

For more information and implementation support on ISA 540 (Revised), please visit the International Auditing and Assurance Standards Board (IAASB) website at www.iaasb.org.

Fauziah Begum is Assistant Manager, Assurance & Digital Transformation Department, MIA

Integrated Reporting For SMEs and the Role of SMPs

at-mia.my/2019/06/17/integrated-reporting-for-smes-and-the-role-of-smps

June 17, 2019

By Jenny Chua and Yu Jo Jin

In the era of multi capitals, intangibles contained within an organisation such as skills, knowledge and ideas, or outside an organisation such as the networking and good relationship with various stakeholders may be the true value drivers of a successful organisation. Organisations, regardless of size, can use IR to have a wider view of 'capitals' in order to create holistic understanding and trust in their businesses. Small and medium enterprises (SMEs) can achieve significant benefits from the adoption of IR, and accountants can be a key driver in their IR adoption.

SMEs interact with many stakeholders, and IR can be the main tool to demonstrate that they take into consideration and actively communicate with the community of which they are a part, said Jonathan Labrey, the Chief Strategy Officer of the International Integrated Reporting Council (IIRC), speaking at a roundtable with small and medium practitioners (SMPs) on the theme 'IR for SMEs in Malaysia'.

Benefit – Access to Finance

IR is crucial for Malaysian businesses as a means of attracting capital and enhancing their communication with key stakeholders. 'IR is very important for SMEs who wish to be listed in the Leading Entrepreneur Accelerator Platform — better known as the LEAP Market,' said Dato' Dr. Chua Hock Hoo, the Executive Chairman of Cheng & Co Group. LEAP Market is the capital raising platform for underserved SMEs in Malaysia. 'However, the fact is there are investors who want to invest but they are hesitating due to the lack of information. Therefore, I think that IR is wonderful if SMEs can connect the financial and non-financial factors that drive long-term growth, in order for investors to assess the true potential of SMEs,' added Dato' Dr. Chua.

Needed – SMPs to Advocate for SME Integrated Reporting Adoption

‘But at the end of the day, IR needs accountants, who act as business advisors for SMEs, to promote to SMEs the benefits of having IR,’ said Dato’ Dr. Chua.

Jonathan suggested that SMPs should guide SMEs in the IR journey and help them to realise their value creation potential over time. He encouraged SMPs to log on to the IIRC website for further technical guidance and some examples of IR are also available in the IIRC’s Examples Database. Although the IIRC can assist to create awareness via events, technical talks and report reviews, the impact will be greater if the push comes from regulators, investors and financial institutions that collectively will act as a catalyst and provide the momentum.

Accountancy firms and associations have played a leading role internationally in moving towards IR and similar developments are taking place in the accountancy profession in Malaysia where MIA plays a significant role in promoting the benefits of IR to companies and investors.

Managing the Information Deluge

Nevertheless, there are practical issues such as the perceived overload of information in the current reporting landscape by businesses in Malaysia. ‘As Malaysian SMEs are still struggling with the fundamentals of financial reporting, their priority now is to address the need of financial reporting, before they can move on to better reporting such as IR,’ said Michael Tan, sole proprietor of Tan Cheng Hooi & Co.

‘The usefulness and relevancy of IR must be evaluated in detail for those smaller listed companies. To encourage wider adoption of the new reporting approach, regulators can carry out a survey amongst the stakeholders, to determine the frequency of current periodical reporting and volume of reporting information generated. A balanced approach should be achieved so that the management and preparers can generate more relevant and useful information. Resources must be utilised effectively and efficiently to enhance value for the stakeholders,’ said Mr. Chen Voon Hann, CEO of CAS International.

Research done by the IIRC together with other organisations found that IR facilitated better understanding of strategy by investors, promoted higher market valuation of the company, and companies who are doing IR outperform others. These research findings showed that there will be demand for a more integrated reporting of non-financial information by reporting entities, including SMEs, given that they provide stakeholders and financial institutions more confidence in their long-term strategy. This may lead to greater demand for competent professional accountants in IR as advisors for SMEs.

To know more on how IR can create values for SMEs, please refer to IFAC’s publication on Creating Value for SMEs through Integrated Thinking: The Benefits of Integrated Reporting, at http://integratedreporting.org/wp-content/uploads/2017/08/IFAC_CreatingValueforSMEs.pdf

Please also visit the IIRC website at http://examples.integratedreporting.org/home for some examples of IR reports in the database.

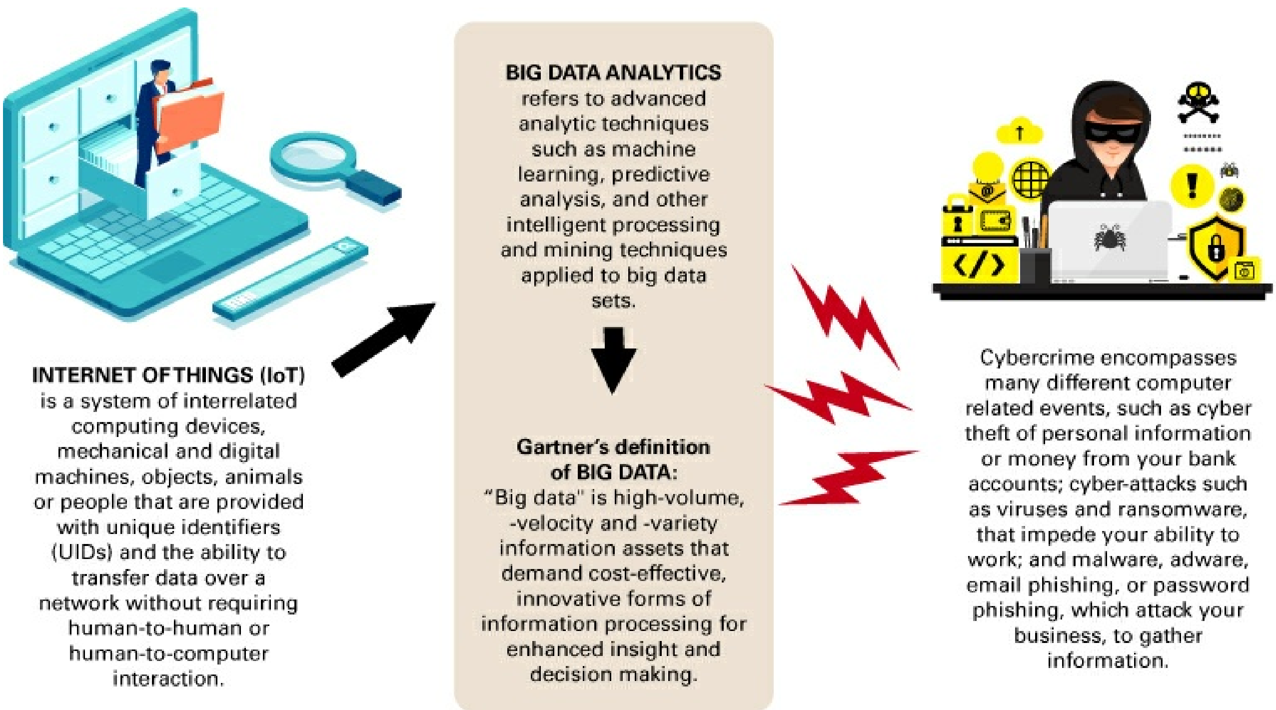
Key Steps to Manage Cybersecurity Threats

at-mia.my/2019/06/18/key-steps-to-manage-cybersecurity-threats

June 18, 2019

By Katharene Expedit

The current digital ecosystem, especially with the advent of Internet of Things (IoT), generates voluminous data – structured, semi-structured and unstructured at very high speeds, both internally within business systems and externally through social media sites and smart mobile devices. Using big data analytics, businesses harness this data extensively for decision- making and to identify new opportunities.



As a result of this extensive reliance on data and hyperconnectivity of the IoT, data has become a prime target for hackers. Advances in Big Data analytics also provide tools to extract and utilise data, making violations easier. As such, there is an urgent need to protect business data and information from cybercriminals and cyberthreats.

These threats are a key risk for businesses in the digital age and one of the major concerns of accountants in adopting technology in their business.

Do consider taking precautionary steps to secure your data and protect against malware (a contraction of malicious software) attacks, such as the following:

1. Ensure that your data is not compromised and safe, encrypt your data and create a backup on another hard drive or in the cloud.
2. Install cybersecurity software that could prevent attacks from the various types of malwares. These could include utilising:
   – Big Data Analytic tools to combat cyber-attacks. These enable users to observe, examine and analyse data and information collected and thereafter detect irregularities. It aims to uncover hidden patterns, intricate correlations, market trends, consumer preferences, and other useful information. It uses advanced statistical and data science models for speed detection, while real-time stream processing enables rapid threat analysis.
   – Big Data Security Analytics to monitor and automate workflows to curb employee related security threats. These enable the submission of a suspicious event to an internally managed or an outsourced security service for further analysis. With the help of network flows, logs, and system events, big data analytics can identify anomalies and suspicious activities.
   – Intrusion Detection System (IDS) which is much more powerful than the common security techniques of firewalls, data encryption, and multi-factor authentication, given the growing sophistication of cyber breaches. Intrusion refers to hacking the system or a network that harms the security of information. IDS is a type of security software designed to automatically alert administrators when someone or something is trying to compromise information system through malicious activities or through security policy violations. An IDS works by monitoring system activity through examining vulnerabilities in the system, the integrity of files and conducting an analysis of patterns based on already known attacks. It also automatically monitors the Internet to search for any of the latest threats which could result in a future attack.
3. Ensure your employees are aware of cyberthreats, able to identify websites or links that contain malware and the actions required as soon as a threat/potential threat to the system is detected.

By erecting the proper and effective cyber defences, accountants can harness the incredible benefits of digital transformation and technology adoption while making their practices and business faster, better and safer.

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Leading with Ethics

at-mia.my/2019/07/16/leading-with-ethics

July 16, 2019

As the regulator and developer of the accountancy profession, MIA believes that it is imperative to educate leaders – current and aspiring – on the right ways to behave and address ethical dilemmas, in order to pre-empt and prevent future frauds on this scale.

Research into good governance and well-run companies shows that strong ethics starts with sound leadership, driven by good tone from the top and robust organisational culture.

To help build ethical culture and competencies among accountants and those charged with governance (TCWG) such as C-suite executives and Boards, MIA is organising its inaugural Thought Leadership Lecture series.

This series invites renowned business leaders to impart their wisdom on how accountants and TCWG can acquire desired ethical traits and behaviours to become respected and effective ethical leaders. This in turn will help build goodwill and reduce governance risk, which can damage personal character and business reputation.

Kicking off the series is Datuk Zaiton Mohd Hassan, one of Malaysia's most respected business and Board leaders who has a wealth of experience in the highly regulated sectors of banking, financial ratings services and financial advisory.

Datuk Zaiton has been appointed by several organisations to help address their reputational and organisational risks as the government focuses on rebuilding public sector governance and Malaysia's global reputation.

Currently, she serves as the Governance and Audit Committee Chairman of Sime Darby Plantation Berhad. She was appointed in 2018 as the Chairman of the Board Risk Audit and Governance Committee of Lembaga Tabung Haji, and in 2019 as the Chairman of Bank Pembangunan Malaysia Berhad. She is also the Vice-Chairman of FIDE Forum, which seeks to enhance governance standards and behaviour among directors of financial institutions in Malaysia.

Don't miss this rare opportunity to hear this very busy leader speak and to ask questions on the core qualities needed of ethical leaders (such as courage, judgement and skepticism), Board risks and Board challenges, and how to practically manage ethical dilemmas facing Boards. This is an especially relevant session for aspiring directors who would like to understand how Boards work and the opportunities, risks and liabilities of serving on Boards.

The MIA Thought Leadership Lecture – Leading with Ethics featuring YBhg Datuk Zaiton Mohd Hassan will be held on 25 July 2019 at Nexus Bangsar South City, Kuala Lumpur.

For more information on registration, please click here or email to mcu@mia.org.my or contact Marti/Lynn at 2722 9163 / 9112.

Learn to Implement IR at MIA's Practical Workshops

at-mia.my/2019/07/05/learn-to-implement-ir-at-mias-practical-workshops

July 5, 2019

Integrated reporting (IR) is gaining recognition as the next step forward in corporate reporting that organisations cannot ignore if they want to engage markets and stakeholders and earn support and trust.

Globally, over a thousand organisations in diverse jurisdictions had adopted IR as of 2017 and their numbers continue to rise. These include some of the leading names on Bursa Malaysia, while numerous other PLCs and even government bodies have pledged to get started soon.

To help organisations jumpstart their IR process, MIA will be holding two practical workshops on Integrated Reporting IR – A Better Vision for Corporate Reporting. These workshops are specially tailored to the Malaysian context to help businesses improve their corporate reporting and communicate better with their stakeholders.

The workshops will be held over a series of months so participants can choose the most suitable dates for their schedule. Participants must attend and complete the first introductory one-day workshop – Introduction to IR before proceeding to attend the second advanced three-day workshop – Practical Guide on Implementing IR.

The workshops will be facilitated personally by MIA CEO Dr. Nurmazilah Dato' Mahzan and MIA Executive Director and de facto CFO Simon Tay, who have been advocating for IR adoption in the Malaysian market since 2016. Both are technically skilled and highly experienced in the issues and implementation process of IR affecting boards, management and preparers, as MIA has successfully produced its own IR since 2017. Indeed, the International Integrated Reporting Council (IIRC) has hailed the MIA Integrated Report 2018 as a worthy model for other organisations and appointed MIA as the IIRC certified trainer for the ASEAN region.

Workshop 1 – Introduction to IR – What to Expect

This introductory programme is designed based on the competency requirement for individuals who need to understand the benefits that organisations can gain from IR, although they may or may not be directly involved in the preparation of an Integrated Report.

This workshop will:

- Give an overview of how IR can help in telling your organisation's own unique and holistic story in an annual report.
- Explain the value creation process, the 'Capitals' used by the business to create value over time, Guiding Principles and Content Elements in the IR Framework that govern the overall content of an
- Integrated Report, and the fundamental concepts that underpin them.
- Guide organisations on how to achieve Integrated Thinking, which is the foundation of IR.
- Understand the role of senior management and those charged with governance in providing leadership for integrated thinking, identify the main barriers to integrated thinking within an organisation and how to demolish them.
- Get an introduction to systems thinking, the inherent approach in managing the connectivity of information, and insights into how the culture of an organisation can affect or be affected by the introduction of integrated thinking.

Upon completion, participants will receive a Certificate of Completion endorsed by both the IIRC and MIA. This certificate serves as a prerequisite for participants to enrol themselves in Workshop 2: Practical Guide on Implementing Integrated Reporting IR.

Workshop 2: Practical Guide on Implementing Integrated Reporting IR

This advanced programme exposes participants to practical guidance and real-life examples of companies that have successfully implemented IR, to help kickstart or improve their integrated thinking and IR process.

Participants will learn to:

- Evaluate Integrated Reports for evidence of integrated thinking, and to distinguish between and identify the relationships with IR and other forms of statutory, regulatory and voluntary reporting e.g. sustainability reporting, financial reporting and other forms of narrative reporting such as the management commentary or management discussion and analysis.

- Analyse the reporting requirements within a specific jurisdiction and how IR fits within these, apply appropriate tools and techniques to help manage the combination, interrelatedness and dependencies between the factors that affect an organisation's ability to create value over time.
- Evaluate the significant factors affecting the external environment in which an organisation is operating, and formulate their organisation's response.
  Upon completion, participants will receive a Certificate of Completion endorsed by both the IIRC and MIA.

Embrace the IR Vision of Excellence

Don't miss this opportunity to take your corporate reporting up a notch, or several. Through IR, you can elevate your corporate reporting into an invaluable branding, marketing and communications tool.

For more information on programme dates, details and registration, please click here or email to sp@mia.org.my or contact Vino at 2722 9290.

MIA AccTech CONFERENCE 2019

at-mia.my/2019/07/02/mia-acctech-conference-2019

July 2, 2019

Bewildered by the many confusing tech solutions out there? MIA makes it easy for businesses to plan and implement tech solutions by bringing you a one-stop conference on tech transformation geared to finance and accounting professionals – AccTech 2019.

AccTech 2018 was one of our most popular and well-received conferences in 2018, giving accountants an exciting introduction to technology. MIA also launched its Digital Technology Blueprint, a pioneering guide for technology adoption for the accountancy profession that has been referenced internationally and helped establish MIA as a wellspring for technology adoption best practices. Indeed, MIA is proud to note that IFAC has recognised our role in digital enablement for the profession, and connected the Institute to help advise emerging markets such as Brazil on their own tech adoption issues.

For 2019, MIA has lined up even more exciting contents to help accountants leverage technology for high-octane business performance.

At AccTech 2019, you will:

- Learn about the latest technologies specially geared to finance and accounting effectiveness
- Understand the skillsets and mindset change needed for finance tech transformation
- Enjoy superb value-for-money as we bring you SEVEN plenary sessions and several break-out sessions over two packed and fast-paced days.
- Rub shoulders with technology leaders leading the Malaysian wave of digital disruption.

AccTech 2019 Highlights

- **Keynote Address** by YB Tuan Eddin Syazlee Shith, Deputy Minister, Ministry of Communications and Multimedia Malaysia – understand the policy direction for technology that can potentially affect the business landscape
- **Plenary 1** focusing on MIA's Technology Innovation Agenda and Milestones – MIA CEO Dr. Nurmazilah Dato' Mahzan explains how MIA is driving technology adoption and innovation for the profession to ensure accountants' relevance and value creation for business. As accountants become more digitalised, this will also enable MIA to use technology to better regulate members and enhance the profession's governance to better protect the public interest.
- **Plenary 2** exhorts organisations to build a road map for digital transformation. This is a vital foundation to ensure efficient and effective tech adoption that fits the organisation's business purpose.
- **Plenary 3** shows businesses how to adopt the latest mobile accounting trends and tools to enable work from remote locations and offsite. Going mobile lets people work to different schedules for better flexibility yet makes work hyper-efficient.
- **Plenary 4** strips away the hype around blockchain and explains how businesses can realistically apply the technology to make accounting and records more transparent and efficient, befitting their own unique business models.
- **Plenary 5** looks beyond big data analysis (BDA) to cognitive analysis, which delivers insights into vast datasets with minimum human support. See how accountants and finance professionals can make the jump from BDA to cognitive analysis to provide improved advisory, make better financial decisions and achieve growth objectives more efficiently.
- **Plenary 6** focuses on cyberresilience and cybersecurity, key skill quotients for accountants as they handle high-value commercial data and sensitive financial information daily. Understand how you might inadvertently compromise cybersecurity and look into the key measures to maximise data protection.
- **Plenary 7** looks at the missing link – skills building to mould tech accountants to be able to integrate technology and finance to lead sustainable business in the digital economy.

AccTech 2019 also enables one-stop access to vendors and IT solutions providers who will explain the latest developments and solutions that address your business' pain points. These include:

- Tech solutions for sharing financial information between departments, which can eliminate the risk of one small error compounding to create serious problems down the line, thus necessitating corrections that waste valuable resources and company time.
- Customer centric accounting and cash flow management solutions that save costs and improve efficiency by combining multiple interactions at customer level instead of at each subsidiary level. Empower customers and internal sales teams to engage via the web or mobile for e-Invoicing, e-Statements and online.

Don’t wait. Make a date with AccTech 2019 to accelerate your tech transformation journey.

AccTech 2019 – Advancing Tech for the Next Generation will be held from 8 to 9 July 2019 (Monday-Tuesday) at Nexus Bangsar South. The Conference carries 8 CPE hours and HRDF claimable. To register, contact Marti/Lynn at 2722 9163 / 9112 or email to mcu@mia.org.my. Click Here for more information.

Preparing to Compete in the Digital Age

at-mia.my/2019/06/17/preparing-to-compete-in-the-digital-age

June 17, 2019

By Raef Lawson, CMA, CSCA, CFA, CPA, CAE

The Digital Age is upon us, bringing with it challenges and opportunities for businesses. Using advanced analytics, businesses are able to glean new insights from their data. The collection, assessment, interpretation, and use of data are enabling companies to create new business models and make existing ones more efficient. Most organisations now believe that enhancing their digital and analytical capabilities is critical to their continued success and survival.

Yet a forthcoming study by IMA® (Institute of Management Accountants) found that implementation of leading-edge analytics remains very much a work-in-progress for most organisations, with few having completely executed their goals in analytics techniques and technologies. Reasons for this include the wide variety of technologies that are being adopted, the varying stages of maturity of those technologies, and the benefits that can be realised by each technology, among others.

Becoming Data-Driven

There are four essential elements in establishing a data-driven organisation: data-savvy people; quality data; appropriate tools; and processes and incentives that support analytical decision- making. IMA's study found that organisations attempting to adopt leading-edge analytics often face challenges in each of these dimensions. The result is an inability to effectively support managerial decision-making through the use of analytical technologies.

Becoming a data-driven organisation requires creating structures, processes, and incentives to support analytical decision-making. It requires the organisation to resolve to be data-driven and define what it hopes to accomplish through the use of Big Data and analytics. The top leadership of the organisation needs to describe how analytics will shape the business' performance.

Identifying Key Factors

Our study identified six key factors for successfully establishing a data-driven organisational culture:

- **The right tone at the top.** Setting the right tone at the top is critical for most organisational initiatives, including developing a data-driven culture. In most organisations, executives are championing the use of leading-edge analytics, although in some companies, the initiative is being led from the bottom up, with various departments being first to embrace it.
- **Strategies for the effective use of technology.** Companies whose decision-making is reactive to the competition are less likely to have developed strategies for the effective use of techniques and technologies. Being reactive instead of proactive implies that these organisations lack the ability to predict trends or to turn customer data into useful insights that can be used to enhance the organisation's business.
- **A commitment to collecting and using data from both internal and external sources to support analytics efforts.** To harness the potential of leading-edge analytics, organisations need to utilise a wide variety of data sources, especially when it comes to strategy development and execution. In this regard, about half of organisations use data from both internal and external sources. Of concern is that the other half of organisations are only using internal data, only using data to validate strategy post-execution, or (in a few cases) not using data at all!
- **Using both monetary and non-monetary rewards to promote analytical decision-making.** Slightly more than half of organisations use incentives to promote analytical decision-making. These can be monetary, non-monetary, or both. Yet nearly half of organisations aren't doing so. This may be a mistake: The use of incentives is key to conveying the importance of developing enhanced analytics capabilities throughout an organisation.
- **Willingness to adequately provide resources to the analytics efforts.** Organisations often are facing resource challenges concerning the development of enhanced analytics capabilities. By far, the most frequently cited challenge is the ability to find staff with the necessary skill set. The next most common resource challenge is budget. A third challenge is a lack of staffing resources and competing priorities.

- **Alignment of analytics efforts throughout the organisation.** Responsibility for analytics can reside in various parts of an organisation. It's been argued that CFOs should "own" analytics as they are regarded as impartial "guardians of the truth." Most companies seem to agree, with finance being an owner (although often not the sole owner) of analytics. Other popular options include analytics being owned by IT, a dedicated analytics group, or operations, or having each department independently maintaining its own analytics capabilities.

The benefits of implementing a data-driven culture are clear – organisations possessing such cultures more effectively perform key business processes such as strategy formulation and performance evaluation. In implementing such a culture, establishing processes and incentives that support analytical decision-making (i.e., organisational intent) is critical.

When deciding to implement leading-edge analytics, evaluate the extent to which the six factors discussed above are present in your organisation. By ensuring that they are, you can improve the chances of successful implementation and achieving the competitive benefits that come with being data-driven.

Transfer Pricing – Navigating a New Landscape

June 17, 2019

Although Malaysia isn't a member of the Organisation for Economic Co-operation and Development (OECD), we are committed to supporting the international transfer pricing regime. We play an active role as observer and signatory to the Multilateral Competent Authority Agreement (MCAA). Furthermore, the OECD made an official announcement in March 2017 welcoming Malaysia as a Base Erosion and Profit Shifting (BEPS) Associate – monitoring and managing BEPS is central to effective policing of transfer pricing practices.

Discharging Malaysia's role as a good global citizen that honours the international tax regime, Budget 2019 ushered in key changes impacting the transfer pricing environment. Moreover, there is a need to understand the impacts of the latest developments in areas such as BEPS, Country-by-Country Reporting (CbCR), Intra-Group Financing services, Analysis of Contractual Terms and Anti-Avoidance provisions, in order to enhance compliance with current Transfer Pricing regulations and policies. Otherwise, businesses risk punitive action by the tax authorities.

The Malaysian Institute of Accountants (MIA) has curated what you need to know about the contemporary transfer pricing landscape in its popular annual Transfer Pricing Conference 2019 – with the theme Navigating a New Landscape. The following is a flavour of what you can expect to stay up-to-date on transfer pricing:

- ***Latest Transfer Pricing Trends in Malaysia***
  Get a big picture view of Malaysia's role and the development of transfer pricing in Malaysia.
- ***Intra-Group Financing Assistance/Services Issues***
  Understand the important elements and principles involved in computing the appropriate arm's length interest rate for Intra-Group Financial assistance and services. Go deep into challenges arising from comparability factors, which need to be considered when searching for and analysing financial transactions and determining the arm's length interest rate.

- ***Transfer Pricing Tax Compliance***
  This is the ideal forum for you to ask your questions on transfer pricing compliance, as this panel brings together tax authorities with tax practitioners and industry representatives to address the key issues affecting transfer pricing legislative compliance.
- ***Transfer Pricing Audit***
  This is a hot-button topic as the issues raised are challenging and may lead to potential disputes. This sharing session between tax practitioners and industry representatives seeks to promote a better understanding of transfer pricing audits and supports amicable resolutions.
- ***Recent Legal Cases***
  This session analyses the recent key transfer pricing decisions by the courts in Malaysia and the Commonwealth to discern the legal principles involved. The landmark transfer pricing cases selected for discussion are: Maersk Malaysia (related party management fees), PMP Auto Components (transfer pricing in a share sale transaction), Chevron Australia (interest payment in an inter-company loan arrangement), Cameco Corporation (commercial rationality of transactions) and SM (cost contribution arrangement vs intra-group services)
- ***CbCR and BEPS 2.0 – Transfer Pricing in a Digitalised World***
  As MIA is the digital champion for the profession, our conferences will highlight relevant digital impacts. This session provides updates on the newest digital-enabled developments affecting transfer pricing, specifically Country-by-Country Reporting (CbCR) and the Automatic Exchange of Information (AEOI). There will definitely be impacts to the local landscape as Malaysia has joined the Inclusive Framework to implement BEPS actions, including CbCR and the exchange of information.

The MIA Transfer Pricing Conference 2019 – Navigating a New Landscape will take place on 15 July 2019 (Monday) at the Kuala Lumpur Convention Centre. The Conference carries 8 CPE hours and HRDF claimable. The 8 CPE hours will also qualify as CPE Points for the purpose of application or renewal of tax agent licence under Subsection 153(3), Income Tax Act 1967. To register, contact Vino at 2722 9290 or email to sp@mia.org.my. ***Click Here*** *for more information.*

Who Bears the Taxes in the Digital Arena?

June 17, 2019

By SM Thanneermalai

The world is in a predicament on how to tax services provided over the Internet. This becomes even more difficult when the service providers do not have any physical presence within the country. The money flows cannot be stopped as banking systems are transnational and any stoppage would hamper the wider trade flows which will have an impact on the economy.

With the growth of the usage of the Internet to do businesses, taxing it is becoming a necessity.

Importation of Goods

Since goods move physically across borders, the tax authorities can collect the tax at the point of import. This is confined to the value of the goods imported. However, the foreign enterprises that do not have a presence in Malaysia can avoid income taxes.

Importation of Services

This is a bigger dilemma for countries like Malaysia. The challenge for the government now is how to tax the foreign service providers. Some of the companies like Facebook, Google, Microsoft, Alibaba, etc. are huge companies that have significant resources to organise their tax affairs in such a way that they can legitimately avoid paying taxes in countries like Malaysia.

What is the Current Situation?

Malaysia is attempting to tax digital services provided by foreign companies without a presence in Malaysia through the imposition of service taxes and withholding taxes.

Service tax

Business-to-business

In Budget 2019, Malaysia widened the service tax net to impose service tax on all imported taxable services, including all types of information technology services. Malaysian businesses, whether they are registered for service tax purposes or not, need to account for the service tax.

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The problem here is the definition of "all type of information technology services". In the Royal Malaysian Customs Department (RMCD)'s Guide on Information Technology Services, examples are provided but are not exhaustive. The Guide doesn't carry the force of law and therefore taxpayers are left in a dilemma as to whether the services they procure are subject to service tax or not.

As far as the RMCD is concerned, most of the services procured through the Internet are subject to service tax and this leaves the taxpayer with limited options: either pay the tax, or challenge the RMCD in the courts, which will be time consuming and adds to additional costs.

Generally, taxpayers are choosing to pay the taxes as opposed to challenging the RMCD. This adds to the burden of doing business in Malaysia.

Business-to-consumer

The government has announced that from 2020, foreign digital service providers providing more than RM500,000 worth of taxable services should be registered in Malaysia with the RMCD. In simple terms, they want the foreign service providers to collect the tax and pay it over to the RMCD.

The challenge the RMCD will face is whether it can enforce this law on the foreign service provider who has no presence in Malaysia. This is yet to be seen.

In most cases, Malaysian businesses or Malaysian consumers who buy the services are likely to bear the service tax.

Withholding tax

This is under the purview of the Inland Revenue Board Malaysia (IRBM). The withholding tax in question here will principally be withholding tax imposed on royalties.

The definition of royalty in Section 2 of the Income Tax Act 1967 is very wide, and the key subset within this definition that creates a dilemma for taxpayers is the following:

- the use of, or the right to use in respect of, any copyrights, software, artistic or scientific works, patents, designs or models, plans, secret processes or formulae, trademarks or other like property of rights
- the use of, or right to use, know-how or information concerning technical, industrial, commercial or scientific knowledge, experience or skill
- the alienation of any such property, know-how or information

The IRBM in practice takes the view that practically all payments made for Internet services to foreign service providers without a presence in Malaysia is subject to this withholding tax. This interpretation is subject to debate.

This withholding tax in most cases is also borne by the Malaysian taxpayer since the foreign service providers in most cases will not provide the services unless the Malaysian taxpayer bears the tax.

Overall

The burden of taxing foreign digital service providers in most cases ends up with the Malaysian taxpayers, thus adding to his cost of living, or the cost of doing business in Malaysia.

Hopefully the tax reform committee will come up with ideas such that at least the burden of taxation will be shared between the Malaysian taxpayer and the foreign digital service provider.

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