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A Culture of Integrity: It Starts With Purpose

at-mia.my/2020/05/13/a-culture-of-integrity-it-starts-with-purpose

May 13, 2020

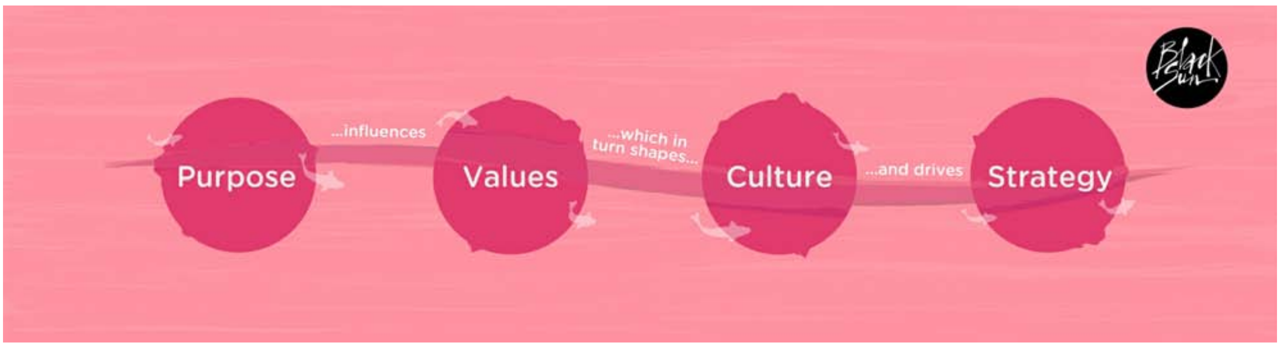
By Uantchern Loh

George Mallory was an English mountaineer who became famous over the mystery as to whether he was the first man to summit Mount Everest. He was last seen in 1924, and just 245m from the summit when he disappeared. Although his body was found 75 years later, the mystery was never solved.

But perhaps Mallory is even more famous for replying to the question, "Why did you want to climb Mount Everest?" with the retort "Because it's there", which has been called "the most famous three words in mountaineering".

Purpose is the why and a commitment to what it is there to do. Stating a purpose sets a clear focus and direction for everyone involved. A properly defined purpose influences the right values, which in turn shapes culture and drives strategy.

Section 17A of the MACC Act emphasises the need for commercial organisations to promote a culture of integrity. It is easy to define integrity – it is the honesty and truthfulness of one's actions. But honest and truthful to whom, and how do you embed integrity into the behaviour of everyone in the organisation? It starts with purpose.



Purpose (the Why)	Engagement with Stakeholders	A Culture of Integrity	Strategy (the How)
Delivering value to our customers	• Customers • Employees	Employees believe that customers should understand what they are buying Customers' feedback are regularly solicited and promptly responded to	Employees are trained to help customers understand what they are buying A customer engagement framework has been implemented
Investing in our employees	• Employees • Shareholders	Shareholders believe that all employees should abide by a Code of Conduct and Ethics The Board believes that regular internal communications should be conducted to ensure that employees are kept informed in a transparent manner	A whistleblower hotline has been implemented, with oversight by the Audit Committee and Internal Audit An internal communications function has been established and will report directly to the CEO
Dealing fairly and ethically with our suppliers	• Suppliers • Employees	The procurement function believes that all suppliers should be treated transparently Employees believe that all suppliers should be given equal opportunities to supply to the company	Suppliers are properly briefed and trained on the company's procurement policies and processes Suppliers are given the opportunity to provide feedback on the company's procurement processes to an independent party
Supporting the communities in which we work	• Communities • Shareholders	Shareholders believe that there should be a balance between purpose and profits The community should be given the opportunity to engage openly with the company	An ESG function ensures that the organisation has equal focus on sustainability matters, and has adopted the relevant UN SDGs The company produces a sustainability and impact report
Generating long-term value for shareholders	• Shareholders • Employees	Shareholders believe in long-term value creation and that employees will communicate openly and regularly with shareholders on financial and operational performance Value should be measured in both financial and non-financial indicators	The company has adopted the Integrated Reporting Framework to ensure that its value creation story is effectively communicated to shareholders The company will implement KPIs for value creation and report on performance

A culture of integrity can only grow with the right tone at the top – commitment of the Board to the company's purpose. It is also the behaviour and actions of management that cascade down and influence the rest of the company.

The tone at the top, literally, was clear to George Mallory.

"People ask me, 'What is the use of climbing Mount Everest?' and my answer must at once be, 'It is of no use.' There is not the slightest prospect of any gain whatsoever. Oh, we may learn a little about the behaviour of the human body at high altitudes, and possibly medical men may turn our observation to some account for the purposes of aviation. But otherwise nothing will come of it. We shall not bring back a single bit of gold or silver, not a gem, nor any coal or iron… If you cannot understand that there is something in man which responds to the challenge of this mountain and goes out to meet it, that the struggle is the struggle of life itself upward and forever upward, then you won't see why we go. What we get from this adventure is just sheer joy. And joy is, after all, the end of life. We do not live to eat and make money. We eat and make money to be able to live. That is what life means and what life is for."

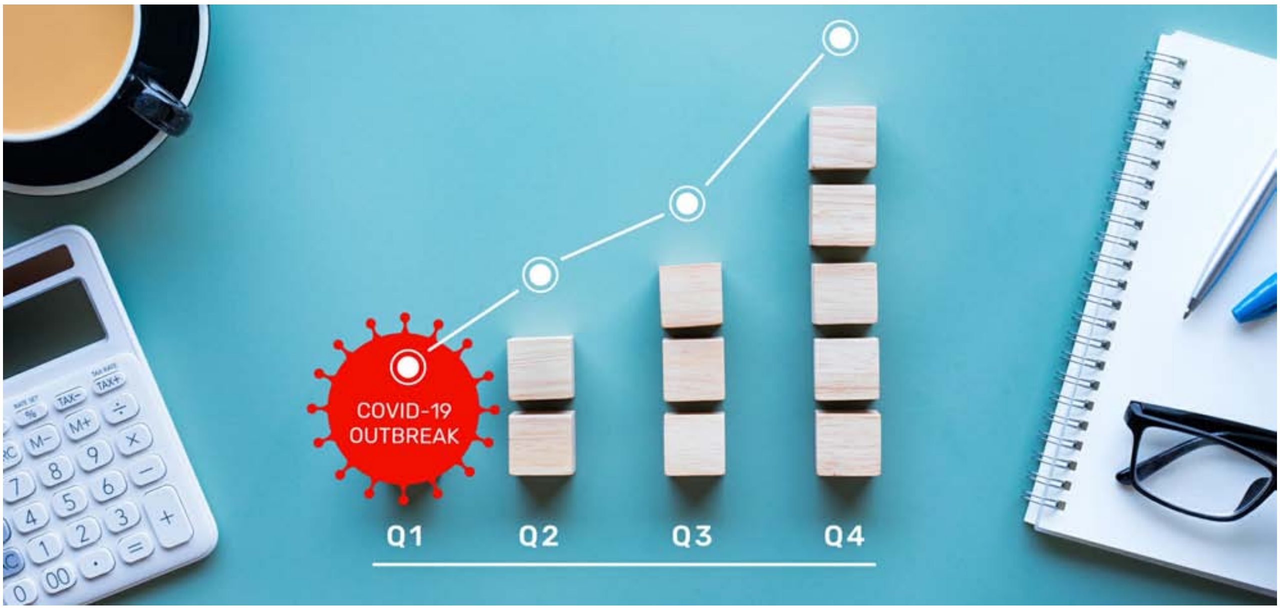
What is your why?

Uantchern Loh is the CEO, Asia Pacific at the Black Sun Group.

Agility and Resilience – Strategic Tools for Survival in the COVID-19 Crisis

at-mia.my/2020/06/05/agility-and-resilience-strategic-tools-for-survival-in-the-covid-19-crisis

June 5, 2020



By Dr.Nurmazilah Dato' Mahzan, CEO, Malaysian Institute of Accountants (MIA)

COVID-19 and the imposition of the Movement Control Order (MCO) and Conditional Movement Control Order (CMCO) from 18 March to 9 June 2020 over five phases have not only been a mega stress test for our healthcare infrastructure, economy and society, but similarly a gigantic stress test for businesses and the accountancy profession.

While the Movement Control Order (MCO) has been a systemic shock, it has also revealed the weaknesses and gaps that must be overcome for economies and societies to become more resilient and sustainable in the future. And, in order to become more resilient, we need to be more agile and adaptable, able to go with the flow and cushion the blows.

Where the profession is concerned, MIA advocates embracing the following strategies as the gateway to resilience and agility, based both on our direct experience as a regulator and a Professional Accountancy Organisation (PAO) as well as our ongoing stakeholder engagement:

Need for Effective and Data-driven Scenario Planning

In times of crisis, it is most important for any organisation to assess the risks and opportunities, and this must be done continuously given the current uncertainties. When there are uncertainties, scenario planning has tremendous utility as a tool to guide action plans and invoke the business continuity plan.

As MIA staunchly advocates data analytics and data-driven decision-making, scenario planning must be backed by data and discussion to cut through the miasma of uncertainty and ambiguity. A reasonable reforecast for 2020 will centre on business continuity, survival and rebuilding of reserves; growth targets will take a backseat until 2021.

To help the profession and businesses to leverage on data and enhance scenario planning, MIA recently organised a webinar on Data-Driven Decision-making, the first of many to come. There are two sides to every crisis – opportunity and challenge. The COVID-19 crisis presents a window of opportunity for finance and accounting professionals to learn how to make informed and timely data-backed decisions that can optimise operations, business models and business continuity, and that can help us become more agile and resilient in this economic downturn.

Need for Effective Crisis Management and Strong Leadership

I also encourage accountants to be guided by the wisdom of Nancy Koehn, the James E. Robison Chair of Business Administration at Harvard Business School, a historian and specialist in crisis management who has been speaking and writing extensively on "leaders who are forged in crisis." According to Nancy, leaders are not born or nurtured, but made, and crises are the crucibles that forge outstanding leaders, men and women.

In her recent sharing on "how to lead courageously during a crisis", Nancy outlined what she referred to as "some rules for the road":

1. Get comfortable with extraordinary ambiguities and uncertainties.

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2. As there is no GPS or directional navigation system for this unprecedented crisis, you have to be comfortable with "navigating point to point." Be able to pivot and switch directions as you recognise mistakes and learn and experiment.

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3. Get comfortable with rapid-fire experimentation. As there are no rulebooks, we have to be more creative and willing to keep looking for solutions.

In the process of experimentation and problem-solving, we must keep on learning in order to build up our agility, resilience and ability to pivot. For example, MIA has pivoted by developing more virtual learning programmes to inspire members and keep them motivated throughout this crisis. Our webinars on current topics such as the implications of COVID-19 on taxation, IFRS and business continuity and crisis leadership have received tremendous response.

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4. Communicate regularly with a routine, whether through townhalls, fireside chats or virtual meetings. During these sessions, frame the crisis and what's at stake with "brutal honesty" — clarity and openness on the challenges being faced by your organisation, your team and your people as well as the resources and qualities available to battle and endure. This helps dial down fears to a manageable level.

At the same time, be optimistic and steer away from the least probably worst-case scenarios. Leaders should take the tone of inspiring "credible hope" – that by working collaboratively together, we can marshal the resources and determination to work through these challenges and emerge stronger and more resilient. Addressing people's fears is also critical to avoid paralysing panic and fears that disrupt efforts to experiment tirelessly and find solutions.

I can attest personally to the effectiveness of constant communication. To keep the profession and members informed of the true state of affairs and to calm the situation, MIA has revved up its communications efforts and we are working around the clock, even on weekends and public holidays, to keep members up to date.

For the members' and stakeholders' benefit, the Institute has created a page on "COVID-19 Resources for MIA Members and Other Stakeholders" as well as the new MIA Telegram Broadcast (Official) channel, in addition to MIA's other communications and social media platforms.

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5. First and last, take care of yourself. Leaders need to be healthy in order to be available for their people. Be kind to yourself and others as crises can be debilitating for morale and health, whether mental, psychological and physical. We need to conserve our energy for the long haul, as this is shaping up to be a multi-chapter crisis and we have a long way to go. Remembering that each chain is only as strong as its weakest link, we need to cultivate collective strength in order to weather these unprecedented challenges and emerge stronger, "forged in crisis."

Implement Effective Remote Work Solutions

To be productive during the crisis, it has been essential to implement an effective work from home (WFH) culture. Due to the MCO, all MIA staff have been working from home since 18 March 2020, supported by technology and digital tools.

A healthy WFH culture also depends on continuous engagement and two-way communication, both top-down and bottom-up. At MIA, management works very hard to put people first and ensure their wellbeing. As exhorted by Nancy and other leadership experts, we hold weekly division meetings, regular staff meetings and high-level townhalls to ensure that all our staff are kept in the loop and on the same page, in order to ground their fears. Managers review KPIs and progress with staff, while staff are tasked to turn in a job sheet, which not only help tracks performance on the Institute's targets but serves as a record for work appraisal.

Technology is a Must-Have, not a Nice-to-Have

Technology is essential to WFH success, and MIA believes that COVID-19 measures for social distancing and remote work can be a further driver for technology adoption and digital transformation, which we have championed since 2016 and strengthened through our Digital Technology Blueprint launched in 2018.

Those firms and accountants that have transitioned to digital technology earlier on are continuing to work seamlessly throughout the MCO, subject to clients' digital preparedness. Key solutions that support WFH include the use of cloud-based applications and data storage, VPNs (virtual private networks) for enhanced security, and virtual meeting software such as Microsoft Teams for meetings and team projects.

Going ahead, MIA is also emphasising strongly on data analytics, as stated earlier. Inculcating a data-driven culture among accountants will help them make the best resource allocation decisions, which ultimately will support business sustainability and our overarching vision of sustainable nation- building.

Accountants Must Help Others Achieve Resilience

This is the time for professional accountants, especially SMPs, to be relevant and add value by stepping up and providing services geared to business continuity and survival, especially for vulnerable small and medium enterprises (SMEs). This links back to giving everybody a role and purpose, and emphasising how everybody can play a role to support the broader community with compassion and empathy.

SMPs' expertise is particularly needed to advise affected SMEs lacking resources in finance on how to gain access to the government's stimulus package measures or the necessary financial advisory to obtain funding assistance from financial institutions and other agencies.

Address Compliance Challenges

One of the challenges faced by members who are audit practitioners during this period is the impact of COVID-19 on risk assessment, audit procedures and the audit report.

Other than being in constant engagement with the respective Ministries and regulators to advocate for the audit and accountancy profession, the Institute has been working on a very tight schedule to have a quick turnaround of announcements and circulars to inform members regarding extension of reporting deadlines by relevant regulators and other matters impacted by the COVID-19 outbreak.

For example, the Institute has worked overtime to produce a set of frequently asked questions (FAQs) to assist auditors with the impact of COVID-19 on auditing.

MIA is also in the process of launching e-confirm.my, the Industry-wide Electronic Bank Confirmation Platform in Malaysia which MIA is spearheading to help audit firms to expedite bank confirmations and enhance the audit process.

Looking Ahead

These are broad stroke strategies and best practice examples; organisations and leaders must identify and craft the strategies that work best in their own context. The overarching message here is one of agility and resilience – we have to be adaptable, prescient, responsive and able to pivot our business models to remain relevant and sustainable in good times and in bad times.

By pivoting our own model to leverage on digital and virtual platforms and strengthen our strategic collaboration with our members and stakeholders, MIA intends to uphold our purpose of sustainable nation-building, in this time of crisis and beyond.

This is the expanded version of an article that first appeared in AFA Connect, the strategic communications platform for the regional profession. To read the original version and other perspectives on COVID-19 by accountancy leaders in ASEAN, please visit http://www.afa-accountants.org/files/AFA%20Connect%2005%20-%20April%202020%20(A5)%20-%20FINAL.pdf.

Benchmarking: The Markers for SMPs

June 22, 2020

By Jenny Chua and Billy Kang

Running an assurance and compliance practice offers plenty of satisfaction and rewards, while at the same time, poses certain challenges. There are many difficult questions that you have to contemplate: Are you doing better than other accounting firms? Are the results you are achieving through long hours greater than those being achieved by your peers? Or are other firms doing better simply by working smarter, such as through achieving cost-structure efficiency, employing better talent management strategy and investing in technology?

Publicly available survey results are often not so relevant to your firm or provide narrow insights. Perhaps it is easier to find answers for those questions when you know how your peers are handling similar concerns. Benchmarking allows you to measure your business performance against your peers in your profession across key performance indicators (KPIs).

The Malaysian Accounting Profession's Benchmarking Exercise

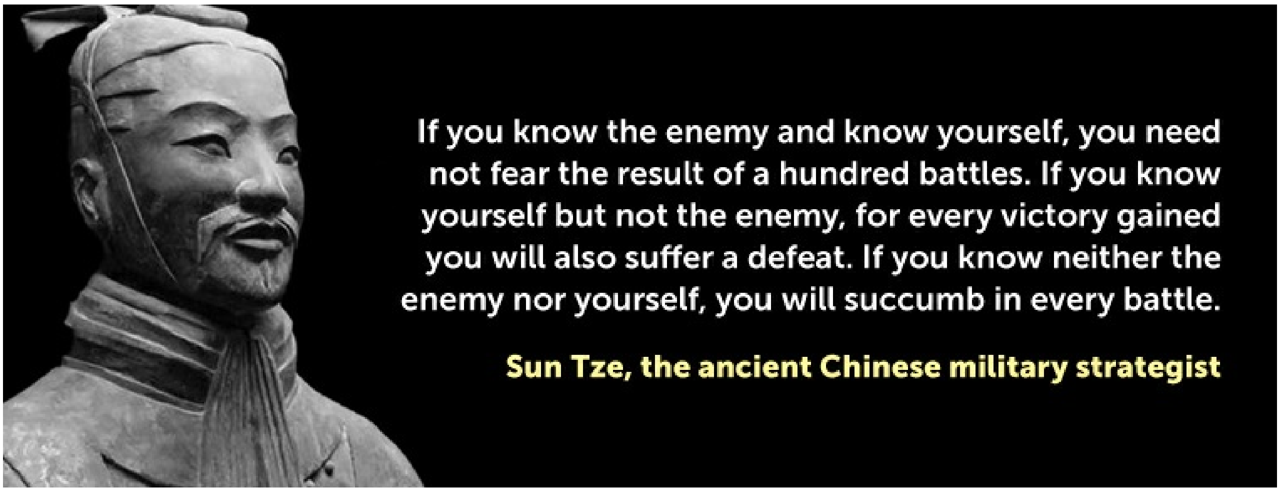
Working together with the Professional Services Productivity Nexus (PSPN) of the Malaysian Productivity Corporation (MPC), the Malaysian Institute of Accountants (MIA) conducted a benchmarking exercise with the aim to assist Small and Medium-Sized Practitioners (SMPs) to better understand their place in this very competitive landscape.

From a clear set of 17 KPIs, the benchmarking provides participating firms with measurements across the four pillars of running a successful accounting practice: financial, customer, internal process, and learning and growth. Excelling in each of these 17 areas under the four (4) overarching pillars is how firms can achieve a higher level of practice excellence. Participating firms first provided their data which was collated into the MPC's e-benchmarking system. Based on this data, the participating firms were ranked across these KPIs, indicating where they stand in comparison to the other participants.

MIA has collaborated with the MPC since 2007 on this project and the last benchmarking exercise was in 2010. In 2019, this exercise was revived and about 20 participating firms successfully completed this exercise.

Why is Benchmarking so important?

Finding out how other firms are performing and gaining insights



It is not good enough for the firm just to know how well it is performing. The firm can gain much insight if it can compare its KPIs with its peers and take corrective measures to improve. Whether the firm wants to drive performance to the next level or identify new approaches and efficiencies that can improve current profitability, the benchmarking data can help inform the firm to achieve its goals. When analysing the results, firms should ask themselves, "What actions do we need to take to improve performance across specific KPIs in our firm?"

Group photo of organisers and participants of the MPC Benchmarking

Deciding the type of practice and setting the right strategy

Starting an accounting firm is no different from starting any other small business. You start by figuring out your purpose, goal, and market. This will then influence many other decisions, including the type of services you provide. Generally, practising firms have several revenue streams (see Table 1) that they can rely on.

Table 1: Types of services

How a firm allocates its resources to capture that part of the business will depend on the strategic stance of the firm. It is common for an SMP to focus on traditional compliance services such as audit, taxation and accounting. Although these services are easier to capture, they are also very competitive and crowded. It is a 'red ocean' market. Operationally, the firm must strategise for growth and operational efficiency.

Table 2 shows the many façets of managing an SMP.

Table 2: Practice Management

Source: IFAC Guide to Practice Management for SMPs

The majority of SMPs in Malaysia adopt low operating cost and low pricing as their business strategy. Under this scenario, it is important that the firm knows its cost structure and that of competing firms. Only with this knowledge can the firm allocate its resources and build a cost-effective and efficient structure.

Knowing where the firm stands will point it to the right path of setting the right strategy.

Benchmarking Exercise in 2019

In 2019, MIA and the PSPN MPC revived the benchmarking exercise with 20 participating firms. The details of participating firms and benchmarking KPIs are as follows:

Table 3: Profile of participating firms

Audit Firms	KL	Melaka	KB	Total
Sole proprietorship	6	0	1	7 (35%)
Partnership – 2 partners	5	1	1	7 (35%)
Partnership – > 2 partners	5	0	1	6 (30%)
Total	16	1	3	20 (100%)

No. of employees	No. of firms
1 - 5	3 (15%)
5 - 10	7 (35%)
11 - 15	2 (10%)
> 15	8 (40%)
Total	20 (100%)

Table 4: 17 KPIs

Perspective	No.	KPIs
Financial	1.	Revenue per partner
	2.	Revenue per professional staff
	3.	Revenue to professional staff cost
	4.	Revenue growth
	5.	Gross profit margin
	6.	Net profit margin
	7.	Debtors turnover days
	8.	Degree of operational leverage risk
Customer	9.	No. of clients per professional staff
	10.	No. of clients per partner
	11.	Average no. of services per client
	12.	Client growth rate
Internal Process	13.	Adoption of practice tools
Learning and Growth	14.	Off-the job training costs as a % of revenue
	15.	Training hours per professional staff
	16.	Percentage of staff turnover
	17.	Investment in technology

Table 5: The results of some key KPIs (based on data in 2018)

Perspective	KPIs	Average for Top 3 KPIs achieved	Average results for participating firms
Financial	Revenue per professional staff	RM175,737	RM113,142
	Revenue growth	46%	11%
	Net profit margin	33%	15%
	Debtors turnover days	17 days	84 days
Customer	No. of clients per professional staff	46	25
	Average no. of services per client	2	1
	Client growth rate	53%	12%
Internal Process	Adoption of practice tools	5	3
Learning and Growth	Off-the job training costs as a % of revenue	2.5%	1.1%
	Training hours per professional staff	54 hours	19 hours
	Percentage of staff turnover	9%	62%
	Investment in technology (as a percentage of revenue)	5.4%	1.7%

Seven firms which placed within the top three for at least three KPIs were invited to share their best practices in January 2019. Below are some insights gained from their sharing:

Insights from high-performing firms

Retaining the "right" staff for your firm and taking the time to develop loyal relationships with those staff should be a high priority. It is significantly more expensive to attract new staff to an accounting firm than to invest in staff retention. In addition, without cultivating relationships with the "right" staff, accounting firms are apt to face high staff turnover. The firm that scored highest in this KPI only experienced 8% of staff turnover rate (out of the total number of professional staff).

Takeaways: Initiatives that are well-received are flexible working arrangements in terms of working hours, where to work and what to wear; long service awards in multiple tiers based on years of service; sponsorships for further study and study leave; as well as recreational activities such as family day, annual dinner, staff-clients event, etc. It is also important to cultivate an open and consultative culture at the firm – allow staff to come forward and surface issues relating to their job satisfaction and well-being. As communication is often at the heart of the problem, keep the channels open.

- **There is a need to strike a balance between profitability and other KPIs.** Your firm may not achieve the financial KPIs in the short-term due to investment in staff, clients and technologies. The top three firms that generated the highest net profit margin on average trained their staff for 30 hours per annum, spent 1% of their revenue in off-the-job training programmes for staff and invested 1% to 8% of their revenue in technologies. This resulted in staff turnover rates ranging from 9 to 20%.
- **Many high performing firms are embracing technologies and change for the betterment of both firm and clients.** Among firms that have invested heavily in technologies over the past few years (ranging from 4 to 8% of total revenue), some did not fully utilise tools (i.e. used on a very limited basis) that could drastically reduce the costs of compliance and improve client service. This lag is typically caused by a combination of factors within a firm, some of which can be summarised as the lack of appropriate reviews on harmonising existing processes with the new technology and users' denial of the urgency for change at all levels in the firm.

Tips: Based on some existing research, the inclusion of an integrated IT support team to assist auditors in understanding and adjusting the tools, helps at the time of adoption and facilitates usability. The accounting knowledge of the supporting IT consulting team facilitates adoption because of better understanding of auditors' needs. It seems that the complexity of current audits requires this integration.

Small firms are not always worse off. While big firms have the advantage of a global network, an extensive portfolio, and a large number of employees at their disposal, smaller is not always worse off, especially when it comes to a service-based industry such as the accountancy profession. Make the most of your status as a smaller firm and create the best work environment possible. This helps you to attract talent who perhaps want to travel less and seek to experience pleasant working conditions and better work life balance. A firm that treats its employees well and delivers good job satisfaction is also attractive to prospective clients, hence resulting in a 'win-win' situation for everyone.

Takeaways: Smaller in size also means easier to manage as shared by some participating firms. Some smaller firms with 1-2 partners actually have low debtors' turnover days, which can be as low as 6 days, and high net profit margin (as high as 34%).

Appreciation

MIA would like to express its appreciation to the MPC for sponsoring and facilitating this exercise. Special thanks go to the dedicated 20 participating firms as well. Our ultimate aim is to conduct an industry-wide national benchmarking survey, with cross-states' data for firms of all sizes ranging from sole practitioners to large multi-partner firms. Begin your journey to practice excellence today by contacting the SMP Department at smp@mia.org.my to express your interest to participate in future benchmarking exercises. By participating, you can compare your firm to your peers and pinpoint your key strengths, weaknesses and opportunities for improvement.

Billy Kang, sole proprietor of Billy Kang & Co PLT, is the immediate past member of the MIA Public Practice Committee. Jenny Chua is the Head of Small and Medium Practices at MIA.

Contemporary Issues in Applying International Financial Reporting Standards

at-mia.my/2020/06/17/contemporary-issues-in-applying-international-financial-reporting-standards

June 17, 2020

Highly experienced IFRS instructor Danny Tan recently helmed an MIA webinar on **Contemporary Issues in Applying International Financial Reporting Standards**. Beginning with a review of the conceptual framework and the key concepts of prudence, measurement and materiality, he then segued into the treatment of issues arising from the current COVID-19 crisis and the subsequent economic downturn, before taking several questions from webinar attendees.

The following are the key points of his webinar, which was oversubscribed.

Revision of the Conceptual Framework for Financial Reporting

The International Accounting Standards Board (IASB) has issued the Revised Conceptual Framework for Financial Reporting (Revised Framework), which became effective on 1 January 2020.

The Revised Framework introduced new concepts, elucidated several high-level concepts, and provided updated definitions for assets and liabilities, including clarifications on prudence concept (previously eliminated from the Accounting Framework), in response to global business developments.

The Revised Framework refers to prudence as 'the inclusion of a degree of caution when exercising judgement under conditions of uncertainty' along with its proscriptive principles on overstating assets and conversely, understating liabilities.

The Revised Framework further provides for two distinct measurement concepts. The first being the historical cost method which determines the price as at transaction date as its basis of measurement. The second, a stark contrast to the first, is the current value method which applies either the market-specific, entity-specific or equivalent cost basis of determining value as at measurement date.

Materiality, another core concept, was further enhanced through amendments to the International Accounting Standard (IAS) 1 and its alignment with accounting standards clinched. An information is deemed material if its omission, misstatement or obscurement could reasonably be expected to influence the decision of the primary users of financial statements. “The recognition of materiality also depends on the nature or the magnitude of the information in question, or sometimes both,” noted Danny. The IASB issued Practice Statement 2 on Making Materiality Judgement, a non-authoritative guidance document, to further promote a greater application of judgement to the concept of materiality.

The 2020 Coronavirus Pandemic (COVID-19)

No current webinar can omit the implications of COVID-19, with its devastating economic and social footprint. Government policies to contain COVID-19 and protect public health has had significant ramifications for most businesses and their ability to continue on a going concern basis.

What does this mean in terms of IFRS? Intelligent estimations of looming uncertainties, along with reasonable judgements in line with accounting principles, should be applied in such a way that clear and unbiased disclosures are the order of the day. Moreover, with the numerous time sensitive information affecting recognition and measurement such as impairments, obligations, fair values, expected credit losses, contingent liabilities, etc., it becomes not only vital to ensure transparency of these information as at reporting date, but to also disclose the effects of rapidly unfolding events occurring beyond the reporting date, be it adjusting or non-adjusting. Danny noted that the Malaysian Accounting Standards Board (MASB) may issue a set of Question and Answers (Q&As) to guide businesses with their reporting obligations.

Companies which publish interim financial statements are required to recognise and measure all items, events, and transactions on the presumption that the period in question were a discrete period, according to IAS 34. Therefore, it is imperative that the impact of COVID-19 be duly accounted for during interim reporting, which includes updates to the disclosures of significant estimates, the impact of COVID-19 on financial positions and performances, and the necessary action taken to maintain control over business operations during COVID-19 such as staff retention exercises and other relevant business innovations.

Furthermore, dividend distributions will only be allowed if the distributing company is solvent at the time of dividend declaration and immediately after the distribution is made. A company is regarded as solvent if it is able to pay its debts (as and when the debts become due) within 12 months from the date of dividend distribution. In this regard, although a company may have sufficient profits earned prior to and throughout the year 2019, the impact of COVID-19 may negatively affect its liquidity and consequently, negate the possibility of any dividend distribution.

Financial Instruments

All financial instruments that are subject to impairment accounting are expected to adhere to the IFRS 9's expected loss model to estimate relevant credit losses. Estimations must be based on reasonable, supportable, and forward-looking information relating to past events, current conditions, and future economic forecasts. Given the volatility of the current economic condition, expected credit loss measurement procedures should first consider the risk of default, thereafter the exposure to default based on assessed risks, and finally the estimated amount of losses resulting from default. The Malaysian government, in its efforts to ease the cash flow of borrowers during COVID-19, introduced a 6-month loan moratorium on mortgage payments (interest compounded) and hire-purchase payments (interest not compounded). Although these relief packages may not indicate significant credit risk increase, lenders must nevertheless assess possible default exposures and probable estimated losses.

When it comes to investments in unquoted equity instruments, fair value is the mandatory measurement basis under IFRS 9. However, where there is insufficient recent market information or where there could be a wide range of possibilities to negate a proper application of fair value measurements, cost may be an appropriate estimate of fair value. Under the current volatile economic conditions caused by the COVID-19 pandemic, preparers and auditors are expected to exercise significant judgement to determine whether historical cost of the unquoted equity investment can still be an appropriate estimate of fair value at measurement date.

Hedge accounting, which represents the financial effects of an entity's risk management activities, is an optional method. The use of hedge accounting – particularly cash flow hedge – under the current volatile business activities and with the unpredictable volume of sales or production, may cause a designated hedging instrument and a hedge item to not meet the hedge effectiveness requirements.

Leases

Lease contracts may be renegotiated by either reducing lease rentals, allowing for interest free periods, changing lease terms (lengthening or shortening the term), or even changing the purchase option. However, where there are lease concessions provided, it must be suitably determined if such concessions could be considered lease modifications with the principles of IFRS 9 accordingly applied to such modifications.

Lease modifications can be treated as a separate lease with new rights and obligations (including the new discounted rate) with the earlier lease arrangement derecognised through profit and loss account adjustments.

The IASB's educational material released on 10 April 2020 covers the application of IFRS 16 to rent concessions granted during COVID-19. The key highlights to note are:

- Identification factors in order to determine whether identified rent concessions could be considered lease modifications.
- The applicable requirements relating to rent concessions that are not part of lease modifications.
- To consider whether any partial extinguishment of lessee's obligation may fall within the ambit of derecognition requirements.
- To determine whether a rent concession could likely indicate that the assets in question may be impaired.
- To ensure relevant disclosure requirements are adhered to.

Danny further clarified that the IASB, duly aware of the current crisis, may allow a one-off and short-term relief exemption to lessees from having to consider whether a COVID-19-related rent concession could be a lease modification. And thereby, allowing for such rent concessions will be accounted for as if they were not lease modifications. Such an exemption would remove the monumental challenge of having to review numerous contracts simply to identify whether such rent concessions granted could fall within the ambit of lease modifications. This exemption, once granted, will also absolve the need to re-measure lease liabilities using a revised discounted rate.

Update: On 28 May 2020, the IASB issued an amendment to address the issue of COVID-19-Related Rent Concession to provide temporary relief from the burden of identifying and applying the complex requirements of lease modifications, with an effective date of 1 June 2020.

Other Assets and Liabilities

Specific forms of assistances provided by the Malaysian government during COVID-19 such as wage subsidies, although not within the ambit of government grants, should nevertheless be accorded similar treatment since it is a transfer of resources to the receiving entity. Furthermore, other general forms of assistance precluded from compliance with the above treatment should be disclosed at minimum.

Restructuring costs, bearing a direct consequence to COVID-19, should be accounted for as a provision but only to the extent that there is a present obligation and probable outflow of resources which can be reliably estimated. Additionally, future operating losses and post-COVID-19 recovery costs are specifically disallowed to be provided for in the financial report.

The effects of COVID-19 could also cause additional assessment of indications of impairment to property, plant and equipment. These assessments would require qualitative and quantitative data to assess the impact of COVID-19 on the potential of existing property, plant and equipment to generate future economic benefits. If there are indications that these property, plant and equipment are not capable of generating sufficient economic benefit over their useful life, the entity shall estimate the recoverable amount and compare this amount to the existing carrying amount to determine the amount of impairment caused by the adverse effect of COVID-19. Disclosures of such impairments along with changes to the useful life of the asset(s) concerned, its residual value and other relevant information must be duly documented in the financial report.

COVID-19 – Revised Deadlines for Annual Report Submissions and Key Challenges in Financial Reporting for Listed Companies

at-mia.my/2020/06/23/covid-19-revised-deadlines-for-annual-report-submissions-and-key-challenges-in-financial-reporting-for-listed-companies

June 23, 2020

By Mohd Ilham Mat Rabi

The COVID-19 pandemic and the Movement Control Order (MCO) have affected how businesses operate. In this 'new normal', businesses need to strategise and adapt quickly to survive and sustain their operations.

This article highlights the revised deadline for annual reports and the key challenges in financial reporting for listed companies in the Main Market and ACE Market of Bursa Malaysia.

Issuance of the annual report

Paragraph 9.23 of the Main Market/ACE Market Listing Requirements states that "a listed issuer/corporation must issue its annual report that includes annual audited financial statements together with the auditors' and directors' reports of the listed issuer/corporation, to the Exchange and shareholders within four months from the close of the financial year of the listed issuer/corporation".

In light of COVID-19 and the MCO as well as to ease the burden of complying with the Listing Requirements, Bursa Malaysia granted an extension of time to the listed companies with financial year ends of 31 December 2019, 31 January 2020 and 31 March 2020 to submit their annual report.

This can be depicted as follows:

Financial Year End	Deadline as per paragraph 9.23	Revised deadline (where applicable)
31 December 2019	30 April 2020	30 June 2020*
31 January 2020	31 May 2020	30 June 2020**
29 February 2020	30 June 2020	30 June 2020***
31 March 2020	31 July 2020	31 August 2020**
30 April 2020	31 August 2020	31 August 2020***
31 May 2020	30 September 2020	30 September 2020***
30 June 2020	31 October 2020	31 October 2020***
31 July 2020	30 November 2020	30 November 2020***
31 August 2020	31 December 2020	31 December 2020***
30 September 2020	31 January 2021	31 January 2021***
31 October 2020	28 February 2021	28 February 2021***
30 November 2020	31 March 2021	31 March 2021***

** Applying an extension relief of two months*
*** Applying an extension relief of one month*
**** No relief given and to follow the existing deadline as per listing requirements (per Bursa announcements up to May 2020)*

Notwithstanding the extension of time, listed companies are reminded to comply with their continuing disclosure obligations under the Listing Requirements, including the obligation to make immediate announcements of any material information to ensure that shareholders and investors continue to receive information in a timely manner. Bursa Malaysia will continue to monitor the situation and determine if further measures are required.

Key challenges on financial reporting

In preparing and auditing financial statements of the listed companies, some of the key challenges for the preparers and auditors to comply with the Malaysian Financial Reporting Standards (MFRS) during this challenging period are as follows:

No.	MFRS	Accounting consideration	Relevant paragraph in MFRS
1.	MFRS 9 *Financial Instruments*	To assess the impairment of financial assets and the calculation of the expected credit loss (ECL)	An entity shall measure expected credit losses of a financial instrument in a way that reflects: (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (b) the time value of money; and (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. [MFRS9.5.5.17]
2.	MFRS 15 *Revenue from Contracts with Customers*	To critically evaluate the revenue recognition due to challenges in satisfying performance obligations	An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. [MFRS15.31]
		The effect of an uncertainty on an amount of variable consideration to the transaction price	An entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled: (a) The expected value - the expected value is the sum of probability weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of

			contracts with similar characteristics. (b) The most likely amount - the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e. the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (for example, an entity either achieves a performance bonus or does not). [MFRS15.53]
3.	MFRS 16 *Leases*	To consider renegotiation impact in the lease modification	Paragraph 20 specifies that, after the commencement date, a lessee reassesses the lease term upon the occurrence of a significant event or a significant change in circumstances that is within the control of the lessee and affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term. [MFRS16.B41]
		To elect whether a rent concession is a lease modification	As a practical expedient, a lessee may elect not to assess whether a rent concession that meets the conditions in paragraph 46B is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change in applying this Standard if the change were not a lease modification. [MFRS16.46A] The practical expedient in paragraph 46A applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (b) any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and (c) there is no substantive change to other terms and conditions of the lease. [MFRS16.46B]
4.	MFRS 101 *Presentation of Financial Statements*	To assess entity's going concern and material uncertainties	When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. [MFRS101.25]
		To provide separate presentation in the notes for material items	Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items in the financial statements. If a line item is not individually material, it is aggregated with other items either in those statements or in the notes. An item that is not sufficiently material to warrant separate presentation in those statements may warrant separate presentation in the notes. [MFRS101.30]
5.	MFRS 102 *Inventories*	To write down inventories to the lower of cost and net realisable value	The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale or use. [MFRS102.28] For further guidance, please refer to paragraphs 30 to 32 of MFRS 102.
		To consider an impact in the cost of conversion	The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it

			approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities. [MFRS102.13]
6.	MFRS 110 *Events after the reporting period*	To critically evaluate any adjusting or non-adjusting events after the reporting period	An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period. [MFRS110.8] An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period. [MFRS110.10] An entity shall disclose the following for each material category of non-adjusting event after the reporting period: (a) the nature of the event; and (b) an estimate of its financial effect, or a statement that such an estimate cannot be made. [MFRS110.21]
7.	MFRS 112 *Income Taxes*	To reassess recoverability of deferred tax assets	A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that: (a) is not a business combination; and (b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). [MFRS112.24]
8.	MFRS 116 *Property, plant and equipment*	To depreciate or not to depreciate property, plant and equipment	Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation, the depreciation charge can be zero while there is no production. [MFRS116.55]
9.	MFRS 120 *Accounting for Government Grants and Disclosure of Government Assistance*	To consider in some cases, whether any government assistance to businesses meets the grant definition	In some circumstances, a government grant may be awarded for the purpose of giving immediate financial support to an entity rather than as an incentive to undertake specific expenditures. [MFRS120.21]
10.	MFRS 123 *Borrowing cost*	To consider whether capitalisation should be suspended	An entity shall suspend capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset. [MFRS123.20]
11.	MFRS 134 *Interim Financial Reporting*	To disclose significant events and transactions that resulted from changes in the entity's financial position and performance that was presented in the most recent annual financial report.	An entity shall include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report. [MFRS134.15] For further guidance, please refer to paragraph 15B of MFRS 134.
12.	MFRS 136 *Impairment of Assets*	To assess the potential impairment from changes in projected cash flows	Evidence from internal reporting that indicates that an asset may be impaired includes the existence of: (a) cash flows for acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted; (b) actual net cash flows or operating profit or loss flowing from the asset that are significantly worse than those budgeted; (c) a significant decline in budgeted net cash flows or operating profit, or a significant increase in budgeted loss, flowing from the asset; or (d) operating losses or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future. [MFRS136.14]
13.	MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*	To assess any unavoidable cost of meeting the obligations	If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision. [MFRS137.66]

Preparers and auditors of financial statements should also consider the impact of COVID-19 on the relevant disclosure requirements of the applicable standards above, including disclosures of major sources of estimation uncertainty at the end of the reporting periods that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year under the MFRS 101 Presentation of Financial Statements and disclosures on liquidity risk, credit risk and market risk under the MFRS 7 Financial Instruments: Disclosures.

Remarks

The standards mentioned above are by no means exhaustive and are intended to illustrate some of the applicable accounting standards under the MFRS for reference purposes only.

References

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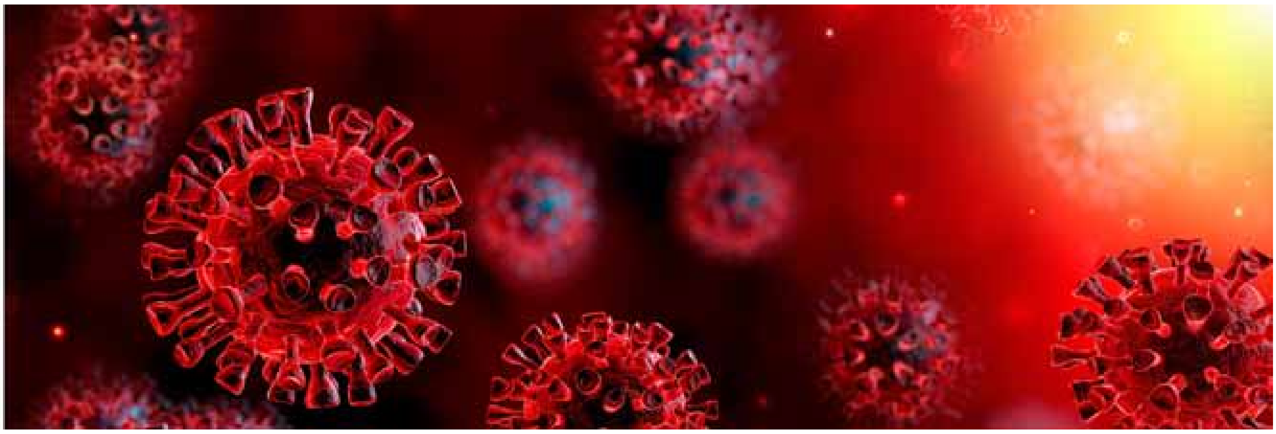
By Mohd Ilham Mat Rabi is Manager of Financial Reporting and Capital Market, Malaysian Institute of Accountants

Government Eases Movement Control Order (MCO) Restrictions from 4 May 2020

at-mia.my/2020/05/01/government-eases-movement-control-order-mco-restrictions-from-4-may-2020

May 1, 2020



Prime Minister Tan Sri Muhyiddin Yassin announced this morning that the government will be implementing a Conditional Movement Control Order (CMCO) beginning 4 May 2020, during which a large portion of economic and social activities will be allowed to resume.

However, businesses and activities that involve mass gatherings of people such as cinemas, entertainment centres, bazaars and exhibitions are not allowed. Close contact sports activities such as football, rugby, swimming and indoor sports are also not permitted, although outdoor activities that do not involve close contact or mass gatherings will be allowed.

This restriction also remains unchanged for social activities such as family gatherings, open houses, parties, concerts, and all forms of gatherings, including religious activities. Educational institutions will remain closed and interstate travel will still be barred except for work purposes. Restaurants will also be allowed to reopen, with strict social distancing rules set in place. The same rule applies for public transportation, where users are advised to use masks and avoid crowding public transportation facilities. The government is proposing staggered working hours in order to mitigate this situation.

Businesses in the public and social sectors that are allowed to operate are subject to stringent standard operating procedures (SOPs), including wearing masks, practising social distancing and maintaining high standards of personal hygiene.

Employers are required to assess staff temperature on a daily basis, while staff must ensure that all items are kept clean and avoid body contact with colleagues. Employers may instruct their staff to continue working from home and are also encouraged to give leeway and flexibility to work on alternate days to families with small children.

Employers and staff are advised to adhere strictly to the SOPs, as should there be a resurgence in COVID-19 infections, the government may reimpose tighter MCO or alternative measures which would affect the reopening of the economy.

Specific Information Relevant to Member Firms

For member firms, kindly take note of the following:

- There is no requirement to make applications to the Ministry of International Trade and Industry (MITI) in order to operate from 4 May 2020 onwards.
- According to MITI, beginning from 4 May 2020, member firms must declare firm information and confirm adherence with MITI's SOP to notification.miti.gov.my. Firms are given up to 12 May 2020 to make such a declaration. MITI will provide further information on the format of this declaration.
- There is no limit in terms of operating hours, staff capacity and services allowed. However, clients' visiting time is strictly from 9.00 a.m. to 6.00 p.m.
- Operations in locations under Enhanced Movement Control Order (EMCO) are not allowed.
- Accounting firms are required to follow activities and protocols set by MITI. Click HERE for more information.
- The activities and protocols include the following areas:
  - Protocols for prevention of diseases
  - Health screening
  - Health declaration at office premises
  - Sanitisation of office premises
  - Social distancing, health and safety procedures for employees
  - Ethics at common areas
  - Company vehicles

Although member firms are allowed to operate from 4 May 2020 onwards, MIA would like to advise member firms to perform proper sanitisation of office premises and take precautionary measures for staff before allowing them to return to work. Should there be a need for COVID-19 screening, staff of firms can participate in the Social Security Organisation (SOCSO) Care Screening Programme (Program Saringan Prihatin – PSP) in order to enjoy free COVID-19 screening. Please click HERE to refer to the SOCSO media statement. The Care Screening Programme (PSP) is provided free of charge to all SOCSO contributors and will be conducted through service providers appointed by SOCSO. Employees can access the list of the service providers through the SOCSO PSP Portal HERE.

MIA will continue to closely monitor the situation, maintain close communication with our stakeholders, and will notify members of any future developments. MIA would like to advise all members to comply with the CMCO and to practice stringent health standard operating procedures. We would also like to advise all our members who are employers to adhere to the relevant laws and regulations stipulated under the CMCO.

Click HERE for the Prime Minister's speech.

Click HERE for more information on the SOP – Pembukaan Semula Ekonomi

MIA continues to offer support through its various digital channels, including the COVID-19 Resources for MIA Members and Other Stakeholders, which provides a one-stop access to essential resources, updates and guidance, including relevant information pertinent to our members and stakeholders.

We would also like to invite you to sign up to our Telegram channel, available here: MIA Telegram Broadcast (Official) channel.

For further information, our team will continue to be contactable via online channels. We thank you for your understanding and patience during this time and we hope that everyone will stay safe.

MIA team are contactable via online channels as follows:

CPE Audit: cpeaudit@mia.org.my

Complaints: nages@mia.org.my

CARE Programme: care@mia.org.my

General Enquiries: communications@mia.org.my

Membership Matters: membership@mia.org.my

Member Firm: memberfirm@mia.org.my

Practicing Certificate: pc@mia.org.my

Professional Development: pd@mia.org.my

Qualifying Examination: education@mia.org.my

Regional Offices
Johor: miajbu@mia.org.my
Northern Region: miapng@mia.org.my
Sabah: miakku@mia.org.my
Sarawak: miakch@mia.org.my

Technical Enquiries: https://member.mia.org.my

#STAYSAFE #ACCOUNTABILITY #INTEGRITY

Dr Nurmazilah Dato' Mahzan
Chief Executive Officer

Government Shifts to the Movement Control Order – Recovery Phase From 10 June to 31 August 2020

at-mia.my/2020/06/07/government-shifts-to-the-movement-control-order-recovery-phase-from-10-june-to-31-august-2020

June 7, 2020

Prime Minister Tan Sri Muhyiddin Yassin announced today that the Conditional Movement Control Order (CMCO) scheduled to end on 9 June 2020 would be replaced with the Movement Control Order – Recovery Phase (RMCO) from 10 June to 31 August 2020.

Click HERE for the Prime Minister's Speech.

During the RMCO, MIA will continue to operate its counter services with an optimum number of staff in MIA Headquarters and the Regional Offices, in order to handle matters that cannot be dealt with online. Minimal internal operations will be conducted in all the MIA offices (Headquarters and Regional Offices) during this period. Other services will continue to be provided remotely.

To ensure the safety of our visitors, MIA will continue to implement stringent standard operating procedures (SOPs) as set by the Government and approved by MIA's management (Click HERE for SOPs).

MIA will continue to closely monitor the situation, maintain close communication with our stakeholders, and will notify members of any future developments. We advise all members to comply with the RMCO SOPs, and exhort all our members who are employers to adhere to the relevant laws and regulations stipulated under the RMCO.

MIA continues to support our members and stakeholders through resources available on various digital channels, including e-updates, e-Accountants Today, Social Media and the MIA Telegram Channel. To join in the MIA Telegram Channel, please download

Telegram using the Android Google Play or Apple Play Store to set up an account. Once the account is set up, please click on this link below to join the MIA Telegram Broadcast (Official) channel: https://t.me/joinchat/AAAAAFZbVqeUw2BQ9pvuhg.

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Dr Nurmazilah Dato' Mahzan
Chief Executive Officer

Guidelines on Submission of Working Papers to the Practice Review Department

June 12, 2020

By the MIA Practice Review Team

Advancements in technology and its common availability has led to profound changes in the way audit is being performed, with the majority of audit firms either taking the initiative or being pushed to evolve to embrace new ways of auditing such as data analytics, which has enabled the processing of huge amount of data in an efficient way. As such, the use of advanced technology has become an indispensable part of a reliable audit. In many cases, we are able to observe the audit practitioner as digital nomad, able to perform their work from any location and anytime with the help of technology.

From the Institute's perspective, we encourage digitalisation and the usage of technology in helping and enhancing the process of auditing. In line with the industry-wide evolution and the Institute's aspirations, the Practice Review Department (PRD) has incorporated the elements of technology into the practice review process.

Context:

After the review date has been agreed between the audit firm (AF) and PRD, the PRD will – based on a list of criteria, select sample engagement files for the review. Notification of selected audit engagements for review will be emailed or faxed to the AF one week before the commencement of the review. A sample letter for certification on completeness of the audit working papers for the selected engagements for practice review will also be attached together and the AF is required to submit the said certification together with the working papers prior to the review.

Commencing from September 2019, the PRD has been requesting the AFs to submit the audit working papers for the selected engagements in one of the following ways:

(i) Upload and share the documents into cloud storage;
(ii) Copy and transfer the documents into external storage devices; or
(iii) Google link of all the audit working papers.

The scanned copies of the documents must be in PDF format. The PRD will not accept JPEG, GIF, TIFF or any other types of digital image file formats. It is the responsibility of the AF to ensure that all scanned copies of documents are clear and legible.

This is mandatory for both first review and monitoring review, and regardless of the mode of review, which can be either desktop review or field review at the AF's premises, the AF must adhere to the above submission. The relevant audit working papers together with a copy of the signed audited financial statements for the respective selected engagements should be made available by the first day of the commencement of the review.

The said documents will be retained by the PRD and will serve as evidence for the findings noted. This is to avoid any dispute over the findings raised by the PRD, which based on experience, is an area of contention and time consuming for both the PRD and AF. The PRD would also like to reiterate the importance of the completion of working papers submitted as these will be what the factual findings be based upon. The onus is on the AF to ensure that no working paper is omitted in the submission, as any subsequent submission after the commencement of review will not be taken into consideration. Likewise, any alteration in the working papers is considered a serious offence.

Update – Impact of COVID-19

In light of the COVID-19 pandemic and the issuance of guidance from the government strongly advising people to practise strict social distancing, recent scheduled on-site practice review visits have not taken place as the PRD aims to minimise direct contact between people.

To prevent major disruption to the practice review work plan, the PRD has, therefore, opted for the alternative of desktop reviews and requested the AFs to submit working papers and relevant documents in softcopy for review. This is not something new as the PRD has been performing desktop reviews and taken copies of files and other materials from selected AFs for practice review since our establishment. The PRD believes that this is the best mode of practice for the time being and should the situation persist, the PRD may make additional requests to the AF to provide other relevant materials to enable the PRD to continue with the practice review. Should this pose logistical problems, the AFs are advised to reach out to the PRD as soon as possible to work out possible arrangements.

In addition, the PRD will also be conducting both initial and closing meetings with the AF through tele-conferencing, with all communications to be done without physical contact. This will be the practice of the PRD for all existing and upcoming practice reviews, unless otherwise advised in the future.

Conclusion

The AFs selected for review are advised to prepare for the submission of the working papers upon receiving the notification of files selection from the PRD to avoid any delay in submitting the documents and consequently delaying the practice review process.

The Institute acknowledges the predicaments faced by the AFs and understands that any major changes, in this case the necessity of digital acceleration due to the COVID-19 pandemic requires both time and monetary investment for those who have not or are late in embarking on this journey. However, this is undeniably the way forward and all parties are bound to embrace the changes, whether proactively or reactively, to ensure that our profession is fit for the future.

Improving the Effectiveness of Audit Committees in Malaysian PLCs

at-mia.my/2020/06/19/improving-the-effectiveness-of-audit-committees-in-malaysian-plcs

June 19, 2020

Board audit committees are the pillar of successful corporate governance in public-listed companies (PLCs), as boards are dependent on their audit committees to provide effective oversight of the annual audit process. Audit committee members do their best quality work when members are independent and objective. Almost all audit committees, irrespective of their expertise, have room to improve especially in emerging areas of regulation, sustainability and climate change, and digital literacy and leadership.

Based on the recent experiences of many public-listed companies, the following are several recommendations for improving the structure and performance of board audit committees within corporate entities to improve audit and financial reporting assurance, and forthwith to achieve heightened governance and public trust:

Restrict tenure of audit committee members

It is prudent to restrict the tenure of the audit committee boards in a corporate organisation to avoid complacency and situations that may endow more control, ownership, and entitlement to long-serving members. For instance, currently in Malaysia, there is no stipulation of audit committee tenure by the authorities. Companies will follow the terms of reference in the audit committee charter or tenure of independent directors as prescribed in the Malaysian Code of Corporate Governance (MCCG) 2017 (Practice 4.3). However in the United Kingdom (UK) for example, appointment of audit committee is restricted to a period of not more than three years, which is extendable for another period of three years (Para 2.5, Guidance on Audit Committees of the Financial Reporting Council, UK).

Develop the audit committee’s competencies

Audit Committee members should be independent of mind and have the necessary skills, experience, personal characteristics and diversity of thought for the position. They should have the experience, expertise and intuition to pick up on attempts to manipulate the financial reports. Members of the audit committee must be able to communicate with management and auditors and be willing to challenge and ask questions about the risk management and control systems, accounting and financial reporting of the organisation.

Conduct Formal Induction Services/Onboarding

Formal induction services for new audit committee and board members familiarises them with their duties as well as the current issues and specific circumstances of the organisation. The onboarding requirements for new members can vary, however, depending on a number of factors, including the background and experience of the committee members and the position that they are expected to play on the board and audit committee. All new members of the audit committee should be prepared to take responsibility for their own induction programmes and work with management and others to determine how best to accelerate and build a strong foundation for informed oversight.

Applying the concept of “Fraud Triangle Theory” in identifying the possibilities of fraud or financial distress

The audit committee can easily dissect the accounting fraud that may occur using the theory of fraud triangles (encompassing pressure/motivation, opportunity and rationalisation), which is commonly used to describe criminal behaviour in auditing and forensic accounting. A clear understanding of the fraud triangle allows a company to formulate tactics to battle actions and minimise fraud effectively.

Ensure that the independence of the audit committee is both real and perceived

It is critical that members of the audit committee not only have formal independence in compliance with defined requirements, but also independence of thinking, judgement and practice, so that independence is not only interpreted or seen, but is actual and implemented. Representatives of the audit committee should express their own views and not allow their trust in or relationships with management to undermine their continuing show of impartiality and objectivity.

The audit committee’s function is to evaluate, report and recommend, and in some cases authorise, review and duly approve the position of a board. However once the chair or member of an audit committee is interested in the “doing” part of the decision, by offering advice, there is an inherent conflict when one checks one’s own job, or a decision in which the chair or other member has engaged, even in a subtle manner.

In this regard, audit committees need to exercise great care, especially at a psychological level, in offering concrete advice to management, even the top management.

Describe the role and evaluate the performance of the chairs of the audit committees

It is unlikely that an audit committee will be effective without an effective chair. A detailed job description (or the equivalent) should be available for the chair of the audit committee, adapted to individual circumstances if necessary and used as a basis for recruitment, succession planning, assessment and remuneration. Many regulators in big countries have been advised to recommend job details for the president of the board and all members of the central committee. The audit committee chair's position description should include best practices and regulatory requirements.

Subsequently, perform a thorough evaluation of the chair's effectiveness, such as taking into account the job requirements and the skills and competences that the chair is expected to bring, providing feedback and reporting, taking prompt, corrective action as required, and reporting on the complexity of the review process in appropriate method.

Equip audit committee members with understanding of the reasoning behind the choices made by management and the consequences for financial abuse

At a minimum, the business model and how the business makes money must be understood by all directors. But audit committee members need to understand how these transactions require management to make judgements and choices, including the selection and application by management of critical accounting policies, judgements and estimates, and the potential for manipulating financial statements. Critical accounting policies require complex, subjective judgement and critical accounting estimates that require uncertainty assumptions where different assumptions can have a material impact.

There should be clear agreement that when an accounting procedure is open to interpretation or needs a decision or has a significant impact on the company's finances, there should be sufficient documentation of the essence of this calculation, such as its reliability or fragility, based on the management's current assessment of future events being wrong, in previous experience, or its equivalent.

Recruit, direct, inform and educate members of the audit committee

For all members of the audit committee, thorough succession planning should be in progress to ensure their continuing relevance and effectiveness. This includes:

- providing a systematic and transparent process with due consideration by the selection committee;
- identifying differences in existing member competencies or abilities and committee requirements; and
- ensuring a pool of managers with suitable credentials to serve on and chair the committee and, where necessary, retaining a recruitment firm to select these managers.

Additionally, the audit committee's financial experience should be current, applicable, meet regulatory requirements and suit the company's future needs for financial oversight, such as capital and balance sheet management, accounting, financial control and insurance, financial markets, treasury, fund management, investment banking, taxation, risk management, and the like as and when needed.

A detailed, structured and personalised induction should be given to all incoming audit committee members, including: committee charter, past agendas, documents, minutes and reports, key accounting standards and treatments, administrative, risk and control structure, auditor and other insurance provider work plans, and in-depth sessions with reporting management and auditors.

To maximise their contribution to the audit committee, all members of the audit committee should obtain and show commitment to continuous education on leading practices. Members should refresh or improve their knowledge of applicable accounting, auditing, business and other regulatory requirements through management briefings, auditors and subject experts, sponsored external opportunities and member preferential site visits. This last item, site visits, is particularly important because audit committees will regularly visit the company's operations and obtain first-hand information, such as seeing the results, talking to people, and hearing business unit managers' complaints about the control climate. Successful companies always consider site visits particularly useful as part of their broader management education system.

Have a "mapping" agenda and effective committee documentation and reporting from the audit committee to the board

There should be sufficient time between the meeting of the audit committee and the meeting of the board to enable any work that occurs before reporting to the board, such as reviewing minutes, follow-up activities and creating material, recommendation or policy matters, within the timeframes for financial reporting, other committee meetings and members' schedules.

The audit committee chair should also report to the board in a timely, thorough, substantive and focused manner. Meeting minutes provided / available should be clear, accurate, consistent, complete, timely and include the appropriate details, including supporting materials and due diligence on the basis of the recommendation to the board by the audit committee.

Ensure clear communication channels between the management and the audit committee

The audit committee should have good working relationships, interactions, monitoring and confronting with senior management staff, in such a manner that these managers are truthful, open, clear, attentive, proactive and accountable to the audit committee. If not, this issue must be addressed. The level of honesty in management of financial reporting, for example, should be high for the CFO and reporting team. They should maintain confidentiality, recognise, disclose and handle conflicts of interest; act in a manner that would withstand scrutiny; promote responsible, ethical decision-making, led by example; and instil a culture of accountability, transparency, and consistent financial reporting across the business.

Bad news should be recognised and reported promptly to the audit committee. These usually contain warning signs or red flags, such as contradictory industry practices, analysts and institutional investors' concerns, inappropriate identification of profits or capitalisation of assets, management constraints or fraud opportunities, material lawsuits or non-compliance issues.

The audit committee should also have similar positive working relationships with all assurance providers as needed, such as the lead external audit partner, the head of internal audit, appointed actuaries, regulatory auditors, compliance, IT, quality and other specialist auditors, so that these assurance providers are equally open, transparent, sensitive, proactive and directly responsible.

Effective monitoring of risk management by the audit committee

The board audit committee and management should have a mutual commitment to an efficient risk management programme, which ensures that it is wide-ranging, comprehensive, incorporated into activities, real-time, continuous and culturally ingrained, reacting to, detecting, assessing, tracking, managing and minimising the company's material business risks. The risk management framework will improve the audit committee's review process to demonstrate and should guide the internal audit programme, external audit process, insurance agreements, and other business processes, such as recognising key risks and enforcement requirements where independent monitoring is needed.

Second, the audit committee should have a clear understanding of the nature of risk supervision. The risk profile developed by the board should take into account the material business risks, financial reporting and otherwise as defined by the company's risk management programme, and the board should exhaustively and holistically delegate oversight of such risks to itself and the board committees; it should be properly recorded, including monitoring and transparency within management and subordinates.

The risk appetite set by the board, such as reasonable amount and type of risk, should be clearly articulated for each material business risk, subject to review by the audit committee. Risks should be graded, for example, and consistent tolerance thresholds or boundary limit metrics should be set in strategic management criteria and direct risk mitigation action. These should be notified in the meetings of the audit committee, as well as private sessions.

In addition, frequent, accurate, informative, and objective information on risk effects should be highlighted to the audit committee, such as reports on existing, ongoing, mitigated and tracked risk scores, such as extreme, moderate, medium or low categories. In addition, include "ownership" risk and control, allowing the audit committee to evaluate, informatively, the consistency between the current performance of risk management and the management's established risk appetite.

Have a strong internal audit feature reporting to the audit committee directly

The audit committee will seek to ensure that the internal audit director is independent from management and external audit and is impartial when reporting accurate results to the committee. The internal audit director (including senior staff) should not participate in organisational or non-internal audit or oversight activities and should have direct access to the chair of the audit committee.

In response to an internal audit report, the audit committee should also ensure that management follows up on corrective actions. Major findings for each report should be documented, including exceptions, differences, disputes and risk profile implications; a register of recommended changes should be maintained for each report received; resources and accountability should be allocated; and issues raised should be tracked, resolved promptly and reported to the audit committee.

Make effective use of "in camera" or executive sessions with the audit committee

Particularly important are private sessions with the internal audit director and the external auditor. Major issues to be addressed extensively with the internal auditor include: internal audit views on areas of high risk, judgement and responsiveness, potentially aggressive accounting practices, IT manipulations, control check automation, enforcement deficiencies, alleged fraud or irregularity, and any questions regarding independence, budget, resource or personnel.

Private sessions with the external auditor should also take place to discuss all major issues in a comprehensive way, including any disputes with management. There should be an open, transparent, honest dialog as a 'safety valve' on all substantive and material issues of concern, such as the external auditor's views on the application of accounting principles to specific transactions or events, the basis for judgements on estimates, audit scope, disclosure in financial statements or footnotes, etc.

Regularly assess the effectiveness and contribution of the audit committee

A thorough evaluation of the efficacy and involvement of the audit committee should be carried out, taking into account the structure of the audit committee and the roles that it is required to perform and, with regard to best practices, providing feedback and reporting to the committee and its members, taking prompt and corrective action if appropriate. This self-examination may be carried out internally or with the help of a third-party specialist, depending on the preferences of the audit committees.

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The above article is condensed from a doctoral case study on board audit committees and their impact on corporate governance by Rima Melini Md Tamin C.A(M) 15459, and Prof. Dr. Wan Nordin Wan Hussin, Universiti Utara Malaysia

Integrated Reporting – Telling the Value Creation Story

at-mia.my/2020/05/01/integrated-reporting-telling-the-value-creation-story-2

May 1, 2020

By MIA Professional Practices & Technical

Part 2: Addressing the Content Elements

This article, the second in a two-part series, focuses on the common findings arising from the Integrated Reporting <IR> Awards adjudication of the National Annual Corporate Report Awards (NACRA) 2018 and 2019, analysed by the Content Elements in the Framework. The first part addressed the Guiding Principles in the Framework.

To facilitate the drawing up of a holistic integrated report, the Integrated Reporting Framework (Framework) puts forth eight interlinking Content Elements to be included in an integrated report. The Framework expresses these Content Elements that are aligned to the value creation process of an organisation in the form of questions rather than as checklists to accord flexibility in telling the organisation's story.

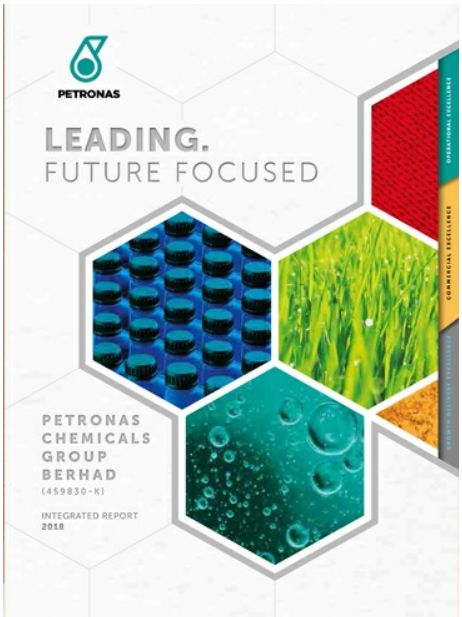
The Content Elements are not meant to serve as a standard structure with a requisite sequence. They enable each organisation to exercise judgement in applying the Guiding Principles of the Framework to articulate the necessary disclosures or coverage areas that shed light on an organisation and to present the integrated report in a manner that makes the connectivity of the Content Elements apparent.

The coveted Platinum Award for the <IR> Awards 2019 went to Sime Darby Property Berhad, setting the benchmark in integrated reporting. Petronas Chemicals Group Berhad clinched the Gold Award while Axiata Group Berhad garnered the Silver Award. As for the IR Awards 2018, the prominent winner was Sime Darby Berhad for the Platinum Award. The Gold and Silver Awards went deservedly to Sunway Real Estate Investment Trust and Petronas Gas Berhad, respectively. Commendation should also be given to participants that have commenced their journey of producing integrated reports.

The Integrated Reporting Steering Committee hopes that the common findings from the adjudication of the <IR> Awards 2018 and 2019 analysed by the respective Content Elements will guide preparers of integrated reports in enhancing the quality of their integrated reports and first-time adopters in getting started.

In discussing the observations, examples of good practices are featured, referring to the annual reports of the <IR> Awards winners above.

Organisational Overview and External Environment

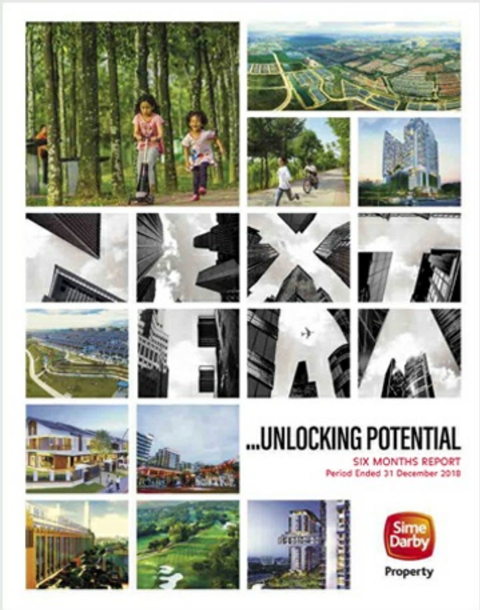


Observations: In articulating an organisation's overview and external environment, there can be improvement in the disclosure of significant factors impacting the external environment that affect the organisation's ability to create value in the short, medium and long-term and how the organisation responds to them. These factors, such as stakeholders' needs, macro and micro economic conditions, market forces at play, technological advancement, societal issues and environmental challenges, may affect the organisation directly or indirectly.

Examples of good practice: Petronas Chemical Group Berhad's Annual Report 2018 pages 10, 11, 13, 20-22, 63-65.

The Group discloses information on both its organisational overview and external environment in a succinct and informative manner. It links the external environment and outlook to its core business and articulates how the company responds to them. It also has a diagrammatic depiction of its integrated product value chain.

Governance



Observations: Better reporting under the lens of value creation would entail linking the overall organisation's leadership structure and the skills, background and diversity of the directors to value creation over time.

Examples of good practice: Sime Darby Property Berhad's Annual Report 2018 pages 118, 119, 123.

The disclosure of the Board and senior leadership composition illustrate maturity in its governance structure and framework with many senior members with various and diverse backgrounds, including healthy diversity in gender and ethnicity as well as age and tenure. There was a commentary on the Board's upholding of good governance to sustain long-term performance and create economic value to shareholders while aligning it to the interest of other stakeholders. There was a mention of how the diversity of the Board has a positive value-add impact on the Group and enables in-depth deliberations during Board meetings. The leveraging of the differences in perspectives, industry experience, knowledge and skill helps the Group retain its competitive industry edge.

Business Model

Observations: Features that can enhance the effectiveness and readability of the description of the business model are explicit identification of the key elements of the business model and having a simple diagram to highlight these key elements and their relevance to the organisation. Better reporting would be to also connect these elements to strategy, risks and opportunities and performance.

Examples of good practice: Axiata Group Berhad's Annual Report 2018 pages 31 to 38.

There are sufficient disclosures of the key elements of the Group's business model encompassing the value creation process and stating clearly the inputs, business activities, outputs, outcomes and value created. In addition, there is a clear connection to other Content Elements such as strategy, risks and opportunities.

Risks and Opportunities

Observations: Disclosures on key risks and opportunities should be a reflection of the material enterprise matters, including environmental, social and governance issues, that are specific to the organisation, including those that relate to its effects on the relevant capitals. An organisation should also explain the likelihood of each risk occurring and its magnitude. This can be illustrated in a risk matrix or heat map. There can also be better articulation of specific steps to mitigate or manage key risks or to realise key opportunities.

Examples of good practice: Sime Darby Property Berhad's Annual Report 2018 pages 36, 37, 40-47.

There is clear identification of risks and opportunities by capitals and disclosure of information on how they affect the organisation's ability to create value. These matters are linked to their source (including those stemming from the external environment), stakeholders, strategy and measures taken to address them.

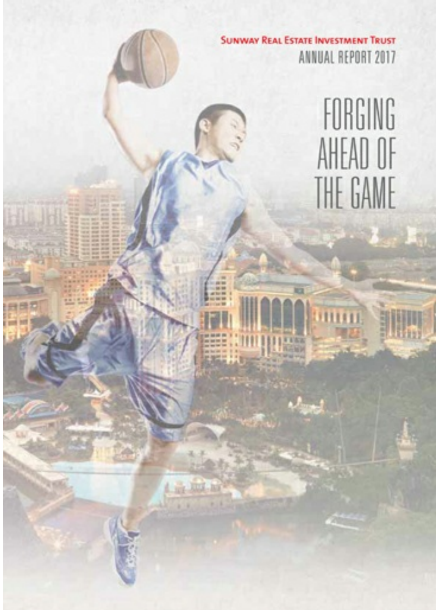
Strategy and Resource Allocation

Observations: It would be desirable to see reports with better linkage between the organisation's strategy and resource allocation plans and how it relates to the business model, external environment and capitals. Furthermore, a reporting entity should be able to explicate how the organisation develops and uses its intellectual capital and how it works on differentiating factors that give the organisation a competitive advantage.

Examples of good practice: Sime Darby Berhad's Annual Report 2017 pages 10, 55, 62, 69 76, 77 and 89.

The Group presented an overview of its strategic priorities. Thereafter, in the respective Division Operations Review section, the Group described the key strategic priorities, related external factors, risks and challenges encountered and the anticipated challenges in the pursuit of its strategic objectives and highlighted the priorities for the following period.

Performance



Observations: It is generally observed that there can be better correlation between key performance indicators or targets with strategy, risks and opportunities and actual past and present results and between the current performance and the organisation's outlook.

Examples of good practice: Sunway REIT's Annual Report 2017 pages 30-33, 52-77.

The Group's performance with a mix of qualitative and quantitative measurements for each business segment is linked to the four goals set by the Group. There were clear performance indicators with historical data to provide context. The key stakeholders' relationships and needs are linked to performance and their significance and implications are graphically illustrated. Linkages between past, current performance and prospects were also disclosed in the report.

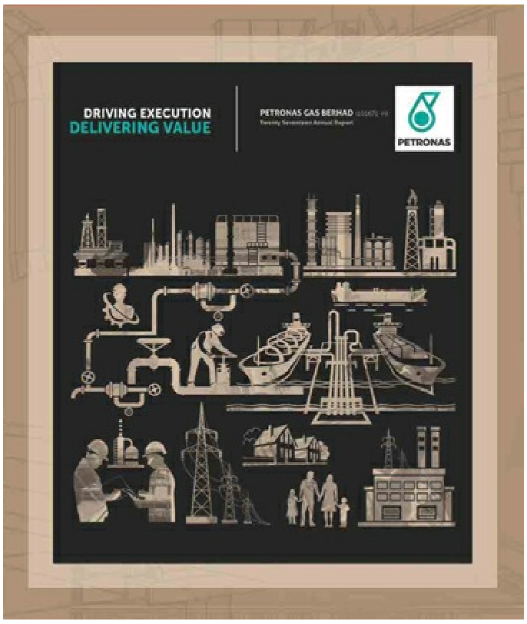
Outlook

Observations: There can be better narrative on the challenges and uncertainties that the organisation would likely encounter in pursuing its strategy and the potential implications for its business model and future performance.

Examples of good practice: Sunway REIT's Annual Report 2017 pages 25, 33, 101 and 103.

The Group disclosed its strategies to optimise its capital structure and cost of capital against risks. The company also demonstrated awareness of the impact of external environmental factors and narrated how it took pre-emptive measures upon identifying various macroeconomic, business, human capital, cyber and operational risks. In addition, the outlook for each sector in the investment portfolio was discussed in the "Detailed Market Report" section.

Basis of Presentation



Observations: There can be better clarity in how an organisation determines the matters to be included in the integrated report and how such matters have been collated, quantified and evaluated.

Examples of good practice: Petronas Gas Berhad's Annual Report 2017 pages 2, 80, 81.

The Group disclosed the reporting boundary, materiality determination process and specified the summary of the significant framework and standards to evaluate material matters.

Established by the Institute in 2014 upon the recommendation of the Securities Commission Malaysia, the Integrated Reporting Steering Committee (IRSC or the Committee) focuses on creating awareness and promoting <IR> in Malaysia.

The <IR> Awards category was introduced in the NACRA in 2017. The key observations identified during the review of the NACRA 2018 and 2019 submissions have been segmented using the Content Elements from the <IR> Framework as a basis for discussion.

To access additional materials on Content Elements, the Framework or to learn more about <IR>, please visit https://integratedreporting.org/.

To better apply and learn more of the breadth and depth of Integrated Reporting, check out MIA's extensive workshops on <IR> – A Better Vision for Corporate Reporting. These workshops are aligned with the International Integrated Reporting Framework and specially tailored to the Malaysian context to help businesses improve their corporate reporting and communicate better with their stakeholders. MIA is the official International Integrated Reporting Council (IIRC)-certified trainer for the ASEAN region.

Key Considerations of the Use of Technology during the Observation of Physical Inventory Counting

at-mia.my/2020/05/22/key-considerations-of-the-use-of-technology-during-the-observation-of-physical-inventory-counting

May 22, 2020

By Chew Li Ling

The outbreak of COVID-19 has certainly accelerated the use of technology in many organisations, including among auditors. One particular audit matter that has surfaced during this period of restriction in movement and the need to practice social distancing is the observation of inventory counts, including whether there are alternatives available to physical observation of the counts, for example, through the use of technology. Nonetheless, the auditor should exercise professional judgement in deciding on the appropriateness of using technology such as drones or live video conferencing to assist in observing the process of physical inventory counting.

ISA 501 ***Audit Evidence – Specific Considerations for Selected Items*** provides guidance when inventory is material to the financial statements and the attendance of physical inventory counting is impracticable, which could be a situation caused by the COVID-19 outbreak. The salient paragraphs of ISA 501 dealing with these matters are stated below.

Extracted from requirements of ISA 501 *Audit Evidence - Specific Considerations for Selected Items*	**Paragraph 4:** If inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by: (a) **Attendance at physical inventory counting**, unless impracticable, to: (i) Evaluate management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting; (ii) Observe the performance of management's count procedures; (iii) Inspect the inventory; and (iv) Perform test counts; and (b) Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results.
	Paragraph 6: If the auditor is unable to attend physical inventory counting due to unforeseen circumstances, the auditor shall make or observe some physical counts on an alternative date, and perform audit procedures on intervening transactions.
	Paragraph 7: If attendance at physical inventory counting is impracticable, the auditor shall perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. If it is not possible to do so, the auditor shall modify the opinion in the auditor's report in accordance with ISA 705 (Revised) *Modifications to the Opinion in the Independent Auditor's Report.*

Nevertheless, it is important that the auditor applies a professional skepticism mindset and be alert that alternative procedures such as those involving virtual attendance of physical inventory counting could pose additional audit risks and/or revise any risks previously identified. As such, the auditor should plan further audit procedures to address these risks accordingly.

Key considerations of the use of technology in assisting the auditor to observe the client’s process of physical inventory counting are as follows:

- Does the client maintain a perpetual inventory system?
- Is the quality of the technology tool being used during the observation of physical inventory counting at an acceptable level?
- Does it allow the auditor to look around the client’s premise without any limitation? Are there any restricted areas within the client’s premises?
- Does it allow the auditor to observe clearly the procedures of physical inventory counting? Would there be any limitations, such as observing the product code/label or verifying the weight of inventories?
- Does it allow the auditor to communicate with the client’s staff in order to select samples from the inventory list to physical inventory on the floor or from floor to list during physical inventory counting? The auditor may need to consider increasing the sample size for testing from floor to list.
- How will loose items be addressed in the observation of inventory count?
- How can random testing be done to open any sealed boxes?
- Does it allow the auditor to evaluate the condition of the inventory, including identifying any obsolete, damaged or aging items?
- Does it allow the auditor to confirm the GPS coordinates of the location of the inventory count?

- What is the qualification of the personnel who controls the technology tool? Would there be a need for the assistance of an auditor's expert? ISA 620 *Using the Work of an Auditor's Expert* deals with the use of an auditor's expert to assist the auditor to obtain sufficient appropriate audit evidence.

The above list of key considerations is not exhaustive. Therefore, auditors are expected to continuously exercise professional judgement in determining whether any additional considerations should be given to address their circumstances.

Auditors are reminded that the International Standards on Auditing (ISAs) are principles-based and therefore auditors are still expected to comply with the ISAs.

Auditors are also reminded that it is imperative to document the thought process on the use of technology as an alternative procedure when attendance at physical inventory counting is impracticable. Where the auditor uses technology in gathering audit evidence regarding the existence and condition of inventory, they are still required to include their conclusions reached thereon and the significant professional judgements made in reaching those conclusions.

Chew Li Ling *is Manager at the Assurance & Digital Transformation Department, MIA*

Key MIA Proposals Taken Up in Government's RM35 Billion Short-Term Economic Recovery Plan

at-mia.my/2020/06/06/key-mia-proposals-taken-up-in-governments-rm35-billion-short-term-economic-recovery-plan

June 6, 2020

On 5 June 2020, Prime Minister Tan Sri Muhyiddin Yassin unveiled a stimulus package of RM35 billion in the Government's Short-term Economic Recovery Plan (ERP) that aims to help the economy recover from the impacts of the COVID-19 pandemic and the subsequent Movement Control Order (MCO) and Conditional Movement Control Order (CMCO). Out of this, RM10 billion will be in the form of direct fiscal injections by the Government.

The ERP, or Pelan Jana Semula Ekonomi Negara (PENJANA), was established with three main thrusts: to empower the people, to propel businesses and to stimulate the economy. The key features of PENJANA are expected to benefit the accountancy profession and its stakeholders, as well as our larger agenda of sustainable nation building. Please refer to the booklet HERE for details of the 40 initiatives under PENJANA.

KEY MIA PROPOSALS UNDER PENJANA

We are pleased to note that some of our proposals to the Government on post-MCO measures to build capacity and ensure business continuity and socioeconomic wellbeing have been taken up under PENJANA as follows:

Continuation of wage subsidy schemes to reduce cost of doing business and ease cash flow burden

> The wage subsidy scheme has been extended for a further three months, with a subsidy of RM600 per month per employee up to a maximum of 200 employees for all eligible employers.

To train and upskill employees to prepare for economic recovery

RM2 billion allocated for reskilling and upskilling programmes to enhance employability of unemployed workers and youths.

Tax-free regime to incentivise new investors, especially global companies, to establish new operation sites in Malaysia

- 0% tax rate for 10 years for new investments in manufacturing sectors with capital investment between RM300 million to RM500 million, and 0% tax rate for 15 years for capital investment above RM500 million.
- This incentive is given to new companies that commence operations within one year after approval date and the investment amount must be made within 3 years.
- Existing companies in Malaysia that relocate their overseas facilities to Malaysia with capital investment above RM300 million qualify for investment tax allowance of 100% for 5 years.
- Both incentives are eligible for applications received between 1 July 2020 to 31 December 2021.

Incentives for digitalisation of companies and remote work post-MCO

- Further tax deduction for employers which implement flexible work arrangements (FWA) or undertake enhancement of their existing FWAs effective 1 July 2020.
- A grant of RM140 million has been allocated for digitalisation of SMEs, in the forms of subsidy and sales support to the sellers and digital discount vouchers, via a co-funded programme with MDEC and selected e-commerce platforms.

Reduction of Sales and Service Tax (SST) to boost consumption

- 100% sales tax exemption for purchase of locally assembled passenger cars and 50% sales tax exemption for fully-imported passenger cars from 15 June 2020 to 31 December 2020.
- Extension of service tax exemption for hotels to 30 June 2021.

Stamp duty exemption on any instruments executed for Mergers and Acquisitions (M&A)

Stamp duty exemption for SMEs on any instruments executed for M&A for the period from 1 July 2020 to 30 June 2021, which is in line with our proposal made to the Ministry of Finance for the 2021 Budget Consultation.

MIA SUPPORTS REGULATORY ENHANCEMENT FOR SOCIOECONOMIC REVIVAL

As a regulatory body, MIA fully supports and adheres to the Government's policies and announcements. In addition, MIA welcomes the Government efforts to enhance oversight and regulation for good governance and socioeconomic revitalisation.

This includes the Government's pending introduction of a COVID-19 Temporary Measures Act to minimise disruption to social and economic well-being and to provide relief from certain contractual obligations and financial distress for the revival of the economy. The Institute has been and continues to be proactive in providing feedback on the constraints of existing laws that are prohibiting members from meeting ongoing obligations due to the COVID-19 pandemic and its containment measures. The said Bill is expected to be tabled at the Parliament in July 2020.

MIA also welcomes the oversight of the PENJANA talent and jobs initiatives by Jawatankuasa Khas Pekerjaan Nasional, which will be chaired by the Finance Minister and the Human Resource Minister with representation from relevant stakeholders in the private and public sectors. As the developer of the accountancy profession which plays a key role in the economy and nation building, MIA looks forward to sharing further insights and recommendations for capacity building and innovation in the jobs and talent development space.

Click HERE for the Prime Minister's speech.

MIA continues to offer support through its various digital channels, including e-updates, e-Accountants Today and Social Media which provide essential resources, updates and guidance, including relevant information pertinent to our members and stakeholders. Members are also encouraged to engage with the Institute via the MIA Telegram Channel. To join in the MIA Telegram Channel, please download Telegram using the Android Google Play or Apple Play Store to set up an account. Once the account is set up, please click on this link to join the MIA Telegram Broadcast (Official) channel.

#STAYSAFE #ACCOUNTABILITY #INTEGRITY

Dr Nurmazilah Dato' Mahzan
Chief Executive Officer

Lead to Be Equal, To the Best

at-mia.my/2020/05/22/lead-to-be-equal-to-the-best

May 22, 2020

By Anis Ramli

Tan Sri Rafidah Aziz tells women accountants to stop competing with men, and instead benchmark performance against the global best, because benchmarks for excellence and leadership are gender, and race neutral.

One of Malaysia's most iconic leaders, man or woman, Tan Sri Rafidah has accumulated years in leadership, navigating the always choppy waters of international trade, to establish Malaysia as a vocal trade leader and one of the world's most open economies.

Delegates at MIA's inaugural Women's Leadership Symposium 2020 were privileged to hear Tan Sri Rafidah debate the symposium theme of "Lead to Be Equal", where in her typical iconoclastic fashion she threw the rule book out the window and questioned the defeatist nature of the topic. "Leadership qualities are gender-neutral," she began, "and by saying 'Lead to Be Equal', you (women) are already admitting defeat." Instead, Tan Sri Rafidah urges women to beat gender stereotypes and self-imposed barriers. "Stop competing with men; benchmark against the global best and know that good leadership qualities are inherent in all of us. Lead to be equal, **TO THE BEST**."

Tan Sri Rafidah shares her views on what makes an effective leader:

1. A high level of integrity

Integrity produces results in a positive way and drives effective performance. "Integrity is the main driver for motivation: why you do certain things, the decisions you make, and the actions you take," says Tan Sri Rafidah. Beyond being just a popular catchphrase, a leader that embodies a high level of integrity inspires trust in others, because he/she is making decisions and actions as they should be made for collective benefit; and not according to self-interest.

2. Manage one's self for better discipline

Managing one's self is as easy as being punctual and adhering to time management. Punctuality is not just about respecting other people's time, but it also demonstrates one's ability to self-manage. As Tan Sri Rafidah points out, "How can you manage others when you cannot even manage yourself?" Effective leaders, she says, are those who are skilled at time management and work discipline. In addition, the ability to manage one's self early in life, keeps a tight rein on what can shape the person as a leader, later on, especially when he /she is at the top. "If you are easily harassed at this early stage, then you will not be in the right frame of mind to lead with calmness and discipline, once at the top," she stresses.

3. Do not succumb to the "boss" complex

A leader does not equate to being "the boss". Recognise that a leader is the captain of a ship, and is part of a team. Everyone has a role to assume. If one person fails at performing his or her job properly, the ship can sink. "As a team player, a leader must also be able to galvanise the diverse strengths of the team. He/she must be able to generate collective enthusiasm and passion," says Tan Sri Rafidah. Demonstrating enthusiasm gets employee buy-in to achieve the set goals and targets, thus making the collective targets and goals something which every team member can relate to, and strive for.

4. Benchmark against the global best

All benchmarks for achievement and performance, must never be confined to merely the small group evaluation, or to standards prevailing at local and domestic levels.

Benchmarking must always be against the global standards, to ensure being amongst the global best and to be in a position to compete effectively, at the global level. "Don't just be a 'jaguh kampung'", says Tan Sri Rafidah. Standards must be set high, to enhance capacity to progress, expand and compete globally. While there is the need to aim for the highest possible acceptable benchmarks, every effort must be made to prepare mindsets, motivation and capabilities to achieve those targets. "Positive and forward-looking mindsets drive performance and allow a person to strive to be amongst the best," says Tan Sri Rafidah.

5. Be in tune with the younger generation, and have the agility to effect changes and adjustments

Innovation can create the necessary changes, and today, innovation can result in market place disruption, with the introduction of new value networks.

A leader must be future-proof and equipped with the right knowledge to lead, especially in the dynamic operating environment. Generational changes, such as the new Gen Z of the new millennial generation, are manifestations of the new human resources and workforce, as well as the new customers.

One cannot have a work environment that is “as before”, because the younger generation will determine how things will move forward in future. In short, an ever-changing environment requires leaders to pre-empt the next step, and be open and agile in making the required adjustments.

MIA Resumes Counter Service for Members in a New Normal

at-mia.my/2020/05/04/mia-resumes-counter-service-for-members-in-a-new-normal

May 4, 2020

On 1 May 2020, Prime Minister Tan Sri Muhyiddin Yassin announced that the Government would implement a Conditional Movement Control Order (CMCO) effective 4 May 2020, during which a large portion of economic and social activities are allowed to resume subject to strict compliance of SOPs in controlling and containing the spread of COVID-19.

Taking into consideration of the safety of our staff and members and adhering to the Government's call to minimise the movement of people from home to office and vice versa, MIA will reopen its office premises with minimal number of staff effective **12 May 2020**.

MIA's Schedule for Reopening of Office Premises

- From **4 – 8 May 2020**, MIA will conduct sanitisation exercises and take the necessary precautionary measures to prepare for the partial reopening of its office premises on 12 May 2020.
- From **12 – 29 May 2020**, MIA's counter service will resume to attend to matters that cannot be dealt with online as part of our ongoing support to members and other stakeholders. There will be minimal internal operation that will be conducted in the office during this period. Other services will continue to be provided remotely.
- From **30 May 2020** and beyond, MIA will update members and stakeholders in due course on its plan subject to further official announcements from the Government.
- Regional offices will follow and operate according to the requirements set by the respective state authorities.

Stringent Standard Operating Procedures (SOPs)

To ensure the safety of our staff and visitors from 12 – 29 May 2020, MIA will implement stringent standard operating procedures (SOPs) as set by the Government and approved by MIA's management as follows:

- Temperature screening for all staff and visitors before they enter the office. If their temperature is high (37.5° C) or they present COVID-19-like symptoms (such as cough, sore throat or shortness of breath), MIA will advise them to go to the nearest clinic. They will not be allowed to enter the office.
- Visitors are also required to complete the health declaration form.
- To observe strict personal hygiene practices including wearing masks, practising social distancing and sanitisation.

As a regulatory body, MIA will support and adhere to the Government's policies and announcements. As such members are strongly encouraged to avoid physical visits to MIA offices for the time being and continue liaising with MIA via virtual mode to reduce the risk of infection and maintain a safe environment.

MIA will continue to closely monitor the situation, maintain close communication with our stakeholders, and will notify members of any future developments. MIA would like to advise all members to comply with the CMCO and to practice stringent health standard operating procedures. We would also like to advise all our members who are employers to adhere to the relevant laws and regulations stipulated under the CMCO.

MIA continues to offer support through its various digital channels, including e-updates, e-Accountants Today and Social Media which provide essential resources, updates and guidance, including relevant information pertinent to our members and stakeholders. Members are also encouraged to engage with the Institute via the MIA Telegram Channel. To join in the MIA Telegram Channel, please download Telegram using the Android Google Play or Apple Play Store to set up an account. Once account is set-up, please click on this link below to join the MIA Telegram Broadcast (Official) channel: https://t.me/joinchat/AAAAAFZbVqeUw2BQ9pvuhg.

For further information, our team will continue to be contactable via online channels. We thank you for your understanding and patience during this time and we hope that everyone will stay safe.

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Dr Nurmazilah Dato' Mahzan
Chief Executive Officer

MIA Spearheads Electronic Bank Confirmation Platform

at-mia.my/2020/05/04/mia-spearheads-electronic-bank-confirmation-platform

May 4, 2020

Audit firms are exhorted to sign up for eConfirm.my, the Industry-wide Electronic Bank Confirmation Platform in Malaysia which MIA is spearheading and will go live on 5 May 2020.

eConfirm.my is entering the market at an opportune moment. The delays in receiving bank confirmation replies have seriously impacted on the timeliness of financial statements being approved by the Board of Directors and hence the delay in the signing of audit reports.

eConfirm.my will help audit firms to expedite bank confirmations and enhance the bank confirmation process, which will in turn support compliance with approved standards on auditing, financial reporting deadlines and practice review requirements especially during the restrictions imposed under the Movement Control Order (MCO) and even post-MCO.

Many MIA audit firm members, particularly small and medium practices (SMPs) that lag in adopting digital technologies such as cloud storage and remote work tools, report challenges working during the MCO. Cognizant of their challenges, the Institute has engaged with the relevant government bodies and regulators to extend the pertinent compliance deadlines.

In addition, the Institute is strongly advocating that audit firms sign up to use eConfirm.my. Currently, more than 100 audit firms are on board along with seven pilot banks in eConfirm.my. Despite the restrictions of the MCO, MIA has successfully facilitated the training of hundreds of auditors and bankers via remote video training sessions from 6 to 17 April 2020 to prepare them for the transition.

Fruition of MIA's Strategic Collaboration Approach

eConfirm.my is a multi-stakeholder platform that leverages on MIA's collaborative leadership approach. The plan to develop an industry-wide electronic bank confirmation platform (Platform) and eliminate the need for paper-based confirmation was conceived in 2016.

MIA then set up a task force in 2016 to look into various options for service providers, to facilitate the implementation process and to identify the roles and responsibilities of relevant stakeholders such as auditors, bankers, the Association of Banks in Malaysia (ABM) and Bank Negara Malaysia (BNM) within the electronic bank confirmation framework. A local vendor, i.e. Extol Corporation Sdn Bhd (Extol) was eventually awarded the tender to develop the Platform, with a much more economical usage fee compared to the current fee charged by a global vendor in the market.

MIA would like to accord its appreciation to BNM, ABM, banking institutions, audit firms and many other stakeholders as the Platform would not have materialised without their support.

Multiple Benefits of eConfirm.my

Audit firms that use eConfirm.my, which is slated to be launched in May 2020, will gain the following benefits:

• **Keep up with Global Trends and Local Market Developments** – Online confirmations are the preferred method for confirming client information in jurisdictions such as the United States of America, the United Kingdom and Australia. In Malaysia, online confirmations are currently being used in a limited manner for confirmations with some foreign banks, but they are predicted to become the norm once the eConfirm.my is rolled out and becomes the preferred method.

• **Work Remotely Even During Business Shutdowns** – Lockdowns and remote working are predicted to become normalised in the post-COVID-19 era as social distancing and remote work are mandated to reduce infection risks. Like it or not, audit firms that want to maintain their business continuity and sustainability must adopt digital tools. These can range from cloud storage to enable round-the-clock access to data, online meeting tools to simulate a virtual office environment and engage with staff and stakeholders, and the upcoming eConfirm.my to expedite audit processes.

• **Improve Efficiency and Security** – Manual bank confirmations are inefficient and time consuming, with an average turnaround time of 4 to 8 weeks. Any delays in receiving bank confirmations could affect audit work and subsequently impact the timely approval of financial statements by the client's Board of Directors. eConfirm.my is much faster.
Worse, the management of audit clients can conceal fraud by compromising the manual confirmation processes, for example, through the creation of false confirmation contact details, signature forgery and clients intercepting the confirmation process, making it difficult for even the most experienced auditors to detect financial fraud.

By embedding industry-standard authentication and authorisation procedures, eConfirm.my delivers a high standard of security and deters fraudsters. Verification of the organisations and users via the eConfirm.my ensures confirmations are only sent and received by registered and authenticated auditors and banks.

• **Minimise Risks of Human Error and Optimise Talent** – There is a risk of human error as the manual confirmation is labour-intensive, especially during the peak audit period. For example, posting confirmation requests to the wrong address will require re-sending the confirmation and further follow-up.
As a bonus, the eConfirm.my can eliminate the mundane tasks that affect talent retention. Retain younger talent by adopting technology and eradicating time-wasting and tedious jobs such as the numerous printing, mailing, follow-up and monitoring tasks that are part-and-parcel of the bank confirmation process. In a year, and depending on the size of the firm, auditors may have to manually send out hundreds or even thousands of such confirmation request letters. Put these hours to better productive use.

• **Improve Your Practice Review Rating** – One of the most common reasons for low practice review inspection ratings among audit firms is the failure to obtain bank confirmations. Electronic confirmations eliminate this risk and help you comply with one of the practice review requirements.

• **Save on Costs** – Costs are usually cited as the main barrier to technology adoption. Yet, evidence from other markets where eConfirm.my is the norm shows that it lowers costs while increasing productivity by diverting talent to other higher-value-added tasks.
An economical fee per online submission of confirmation request will be charged upon the successful receipt of the confirmation. Auditors will be billed twice a month on the 1st and 16th of the preceding period and enjoy a credit period of up to 30 days to process and settle the payment.

• **Extensive Support and Hand-holding** – Knowledge gaps are another frequently reported barrier to technology adoption. Drawing on its substantial expertise in professional development, which is still ongoing throughout the MCO and post-MCO, MIA will facilitate the training of auditors and bankers via remote video training sessions. Already, hundreds of auditors and bankers have been trained during the initial training sessions in April 2020 despite the restrictions of the MCO.

• **Expert and Tested Technical Infrastructure and Support** – The platform was developed by Extol Corporation Sdn Bhd (Extol), a specialist in Information and Communications Technology (ICT) with significant experience in providing ICT services to financial institutions.

The Institute encourages more firms to sign up in order to expedite bank confirmations and enhance their audit process, which will facilitate compliance with international standards on auditing, practice review requirements and other regulatory requirements during the MCO and post-MCO period.

How the Electronic Confirmation Benefits You as an Auditor

C. STREAMLINE YOUR CONFIRMATION PROCESS

Store the entire firm's bank confirmation requests and responses received for different engagement teams in one place for a period of six months

Assign just one or two staff to manage the centralised confirmation process for the entire firm's audit engagements

For more information, please visit https://econfirm.my/

MIA Website is Back to Normal

at-mia.my/2020/05/13/mia-website-is-back-to-normal

May 13, 2020

We are pleased to inform you that the MIA Website has been restored and it is up and running as normal. Thank you to all our members for your patience and continuing support.

To ensure full coverage of information in addition to the website, we will continue to update members on Institute matters via e-updates, e-Accountants Today and Social Media. Members are also encouraged to engage with the Institute via the MIA Telegram Channel. To join in the MIA Telegram Channel, please download Telegram using the Android Google Play or Apple Play Store to set up an account. Once your account is set up, please click on this link below to join the MIA Telegram Broadcast (Official) channel: https://t.me/joinchat/AAAAAFZbVqeUw2BQ9pvuhg.

Do note that while MIA has resumed counter services and minimal essential operations as of 12 May – 9 June 2020, we strongly encourage our members to liaise with us online to minimise the risk of infection. The MIA team is contactable via the following online channels:

CPE Audit: cpeaudit@mia.org.my

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MIA trusts that everyone will stay safe and comply with the Conditional Movement Control Order and all rules and regulations for our mutual benefit.

#STAYSAFE #ACCOUNTABILITY #INTEGRITY

Dr Nurmazilah Dato' Mahzan
Chief Executive Officer

MIA Website is Currently Inaccessible

at-mia.my/2020/05/03/mia-website-is-currently-inaccessible

May 3, 2020

We regret to inform that the MIA Website is currently inaccessible due to technical failure. We are working hard to get everything up and running as soon as possible, and we will update you in due course.

In the meantime, we will update members on Institute matters via e-updates, e-Accountants Today and Social Media. Members are also encouraged to engage with the Institute via the MIA Telegram Channel. To join in the MIA Telegram Channel, please download Telegram using the Android Google Play or Apple Play Store to set up an account. Once account is set-up, please click on this link below to join the MIA Telegram Broadcast (Official) channel: https://t.me/joinchat/AAAAAFZbVqeUw2BQ9pvuhg.

Our apologies for this disruption to our website and we hope that members will bear patiently with us as we endeavour to restore our website to normalcy as soon as possible.

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MIA hopes that everyone will stay safe and comply with the Conditional Movement Control Order and all rules and regulations for our mutual benefit.

#STAYSAFE #ACCOUNTABILITY #INTEGRITY

Dr Nurmazilah Dato' Mahzan
Chief Executive Officer

NACRA Organisers Announce Revisions for National Annual Corporate Report Awards (NACRA) 2020 Due to COVID-19 Impacts

at-mia.my/2020/05/28/nara-organisers-announce-revisions-for-national-annual-corporate-report-awards-nacra-2020-due-to-covid-19-impacts

May 28, 2020

The COVID-19 crisis and related restrictions are creating an unprecedented and very challenging landscape for organisations in all sectors. Despite these challenges, NACRA will continue with its advocacy to promote and recognise excellence in corporate reporting in 2020, given the pivotal role NACRA plays in support of the capital market.

However, changes will need to be made in this year's NACRA to reflect the new normal and to manage the impacts arising from the COVID-19 crisis and new social distancing norms.

The following are the changes to note as announced by NACRA joint organisers Bursa Malaysia Berhad (Bursa), the Malaysian Institute of Accountants (MIA) and The Malaysian Institute of Certified Public Accountants (MICPA):

- **Extension of submission deadline** – The submission deadline has been extended from 29 May 2020 to 15 July 2020, in parallel with the extension of time granted by Bursa on the filing of annual reports with financial year-ends of 31 December 2019 to 30 June 2020 (please click HERE for Bursa Malaysia's media release).
- **Revision of participation fee** – The participation fee is revised as follows:

The revised participation fee will be wholly used to meet the costs arising from the adjudication process. Please note that in previous years, the NACRA participant fee included one standard table at the awards presentation dinner but this charge will be omitted for 2020 as the dinner has been cancelled due to adherence with COVID-19 SOPs (see below).

> **Cancellation of the NACRA 2020 Awards Presentation Dinner** – As noted above, the NACRA 2020 Awards Presentation Dinner is CANCELLED due to the practice of social distancing and prohibitions on mass gatherings as announced by the Government. The NACRA 2020 winners and results will be announced via an alternative platform at a later date.

The revised NACRA 2020 brochure and entry form can be obtained HERE

For more information about NACRA 2020, please contact the NACRA Secretariat at nacra@mia.org.my.

Standard Operating Procedures (SOPs) for Visitors to MIA Offices

at-mia.my/2020/05/11/standard-operating-procedures-sops-for-visitors-to-mia-offices

May 10, 2020

Prime Minister Tan Sri Muhyiddin Yassin announced today that the Conditional Movement Control Order (CMCO) which was originally scheduled to end on 12 May 2020 has been further extended until 9 June 2020.

In line with this announcement, MIA will continue with its plan to resume counter services and reopen its office premises with a minimal number of staff, as stated in our previous announcement to Members on 4 May 2020. Please note that counter services and minimal operations in MIA Headquarters and the Johor Regional Office will resume on 12 May – 9 June 2020. However, the Northern, Sabah and Sarawak Regional Offices will resume on 13 May – 9 June 2020.

To continue supporting the Government in its efforts to control and contain the spread of COVID-19 while adhering to its call to minimise the movement of people, and taking into consideration of the safety of our staff and members, MIA strongly encourages its members and other stakeholders to liaise with the Institute online unless absolutely essential to visit its office premises.

Guidelines and SOPs for Visitors to MIA Offices

MIA's counter service will resume to attend to matters that cannot be dealt with online as part of our ongoing support to members and other stakeholders. Minimal internal operations will be conducted in all the MIA offices (Headquarters and Regional Offices) during this period. Other services will continue to be provided remotely.

To ensure the safety of our visitors, MIA will implement stringent SOPs as set by the Government and approved by MIA's management as follows:

- Visitors are required to make an appointment prior to coming to MIA's offices in order to limit the number of people present in the offices at any one time.
- Visitors are also required to complete the health declaration form before entering the MIA office. (HERE)

- Physical appointments and meetings are subject to the approval of the MIA management and must comply with all social distancing and sanitisation protocols.
- Temperature screening will be carried out for all visitors before they enter the offices. If their temperature is high (37.5° C) or they present COVID-19-like symptoms (such as cough, sore throat or shortness of breath), MIA will advise them to go to the nearest clinic. They will not be allowed to enter the offices.
- To observe strict personal hygiene practices including wearing masks, practising social distancing and sanitisation.

MIA will continue to closely monitor the situation, maintain close communication with our stakeholders, and will notify members of any future developments. MIA would like to advise all members to comply with the CMCO and to practice stringent health standard operating procedures. We would also like to advise all our members who are employers to adhere to the relevant laws and regulations stipulated under the CMCO.

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