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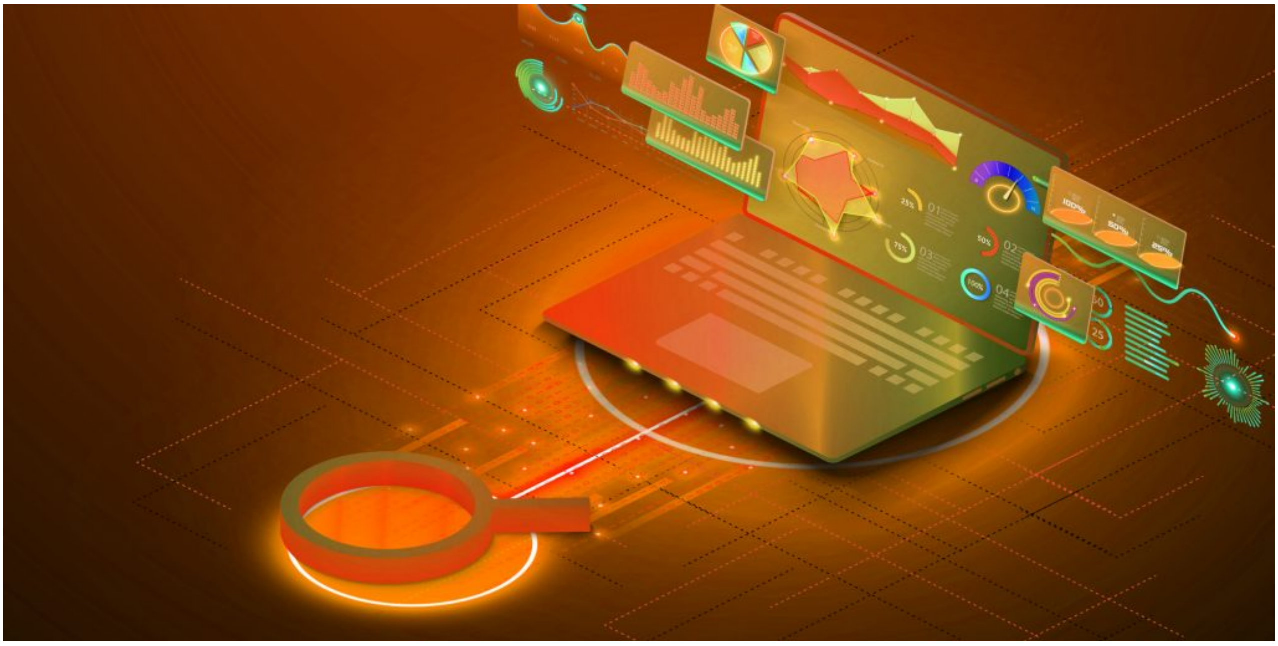
# accountants today

# Audit Committee Conference 2021

at-mia.my/2021/03/01/audit-committee-conference-2021

March 1, 2021



Governance is becoming more complex and challenging in the COVID-19 new normal, as audit committees can surely attest.

The Audit Committee Conference 2021 organised by the Malaysian Institute of Accountants  and the Institute of Internal Auditors Malaysia explores the pressing issues that audit committees face in this turbulent year, and how they can frame, prioritise and manage these issues to deliver robust oversight and good corporate governance.

In 2021, it is vital to balance technical skills and vast experience with the “softer” qualities of agility, empathy and resilience that will differentiate an effective audit committee from the herd.

The Audit Committee Conference 2021, to be held over two half-days on March 15 and 16 2021, will share strategies and best practices that audit committees can use to pivot to a more effective approach for good governance. The following are some highlights of the sessions:

## 1. 2021 AUDIT COMMITTEE AGENDA

Understand how to set an effective audit committee agenda for 2021 by prioritising material issues and customising your own unique board audit agenda in this panel session.

## 2. PRIORITISING ESG FOR BETTER DISCLOSURE

Investors and stakeholders are demanding more information on ESG as part of the movement towards socially conscious investing. This session advises audit committees to collaborate with management for enhanced oversight and integration of ESG information and risks into better quality disclosure.

### 3. AGILE AND RESILIENT – LESSONS LEARNED FROM THE AUDIT COMMITTEE

This discussion explores how the extraordinary circumstances of the pandemic over the past year have affected audit committees. Senior audit committee members will share their experiences and assess how the state of their relationships with their Board and management shaped their responses towards the crisis.

### 4. INVESTING IN A COMPETENT FINANCE FUNCTION

This session looks at how audit committees can take the lead in identifying and addressing the challenges and/or bottlenecks at the board level when it comes to investing in finance resourcing and approving budgets for finance function investment, especially for technology transformation. This is essential to strengthen the competency of the finance function as well as the quality and reliability of financial reporting.

### 5. TECHNOLOGIES, RISK AND AUDITOR'S FOCUS

Internal auditors are a pivotal support for board audit committees. This panel session highlights the key issues that internal auditors must focus on with the increasing use of emerging technologies in the financial reporting process. This technological shift puts further emphasis on management's internal control over financial reporting and requires that internal auditors exercise heightened judgement and professional scepticism when assessing the sufficiency and source of audit evidence, as they will likely be less able to design traditional substantive tests (e.g. tests of details or substantive analytical procedures) that would provide sufficient appropriate audit evidence.

*To see the full programme and learn more about the Audit Committee Conference 2021, please visit https://member.mia.org.my/mia/mia_uat/mia/flyer/37477/Flyer*

# #CHOOSETOCHALLENGE: Digital Inclusivity

at-mia.my/2021/03/08/choosetochallenge-digital-inclusivity

March 8, 2021


The world today is on the cusp of hyper digitalisation, yet many women are excluded or lack access to technology despite making up half of the global population. According to the OECD's Going Digital Summit from 11-12 March 2019, "A digital divide by gender sees women lagging behind in information and communications technology (ICT) professions, and more than twice as many young men as young women are able to programme. In some countries, the gender divide in Internet usage is still too high."

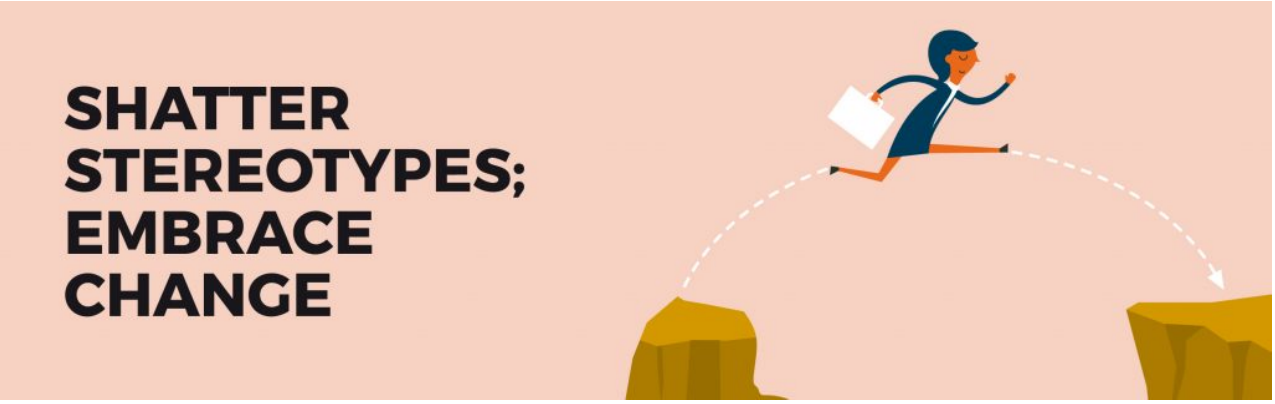
In conjunction with International Women's Day, MIA is delighted to share inspiring accounts of women leaders who are helping to push the accountancy profession's digital frontiers. These women are proof that digital inclusivity is possible, with the right attitude and circumstances. Their sharing is especially timely as the government has recently launched the MyDigital initiative and the accompanying Malaysia Digital Economy Blueprint to counter digital inequality and steer the nation towards becoming digitally driven.

To support the nation's digital aspirations and climb out of the middle-income trap, it is critical for Malaysia to reinvent itself as a digital economy. "For us to stay competitive and relevant, we need to be ahead of the game and propel ourselves in technology," urged Lim Fen Nee, Council Member and Chairperson of the Digital Technology Implementation Committee, MIA who shared that 63% of the workforce in Singapore as the regional digital leader, are digitally skilled as of February 2021, according to a businesstimes.com.sg report. "In Malaysia, the high technology industries sector is considered of strategic importance and we as accountants need to be part of the journey."

MIA is strongly advocating for digital transformation of the profession to support business continuity and economic sustainability, and MIA efforts are aligned with MyDigital initiatives. "MIA is already supporting our members in their digital transformation journey through the ongoing implementation of the MIA Digital Technology Blueprint that was launched in 2018," stated Dr. Nurmazilah Dato' Mahzan, Chief Executive Officer, MIA.

“This will ensure that MIA members are prepared for the digital economy and its implications in order to remain relevant and useful to businesses as financial advisors and managers of value.”

Below, Dr. Nurmazilah, Fen Nee, Josephine Phan, Education Board member and Digital Technology Implementation Committee Member, MIA and Siti Rohana Haji Mohamed Amin, Executive Director, Membership, Technology & Operations, MIA narrate how they successfully embraced technology. They also share the steps and strategies that can help other women to do the same if they #ChooseToChallenge the digital gender divide:




Don’t fear the unknown and embrace change. “Technology is an enabler. They are tools that augment and assist human beings to play a better role in the spiritual, social and economic context,” said Dr. Nurmazilah.

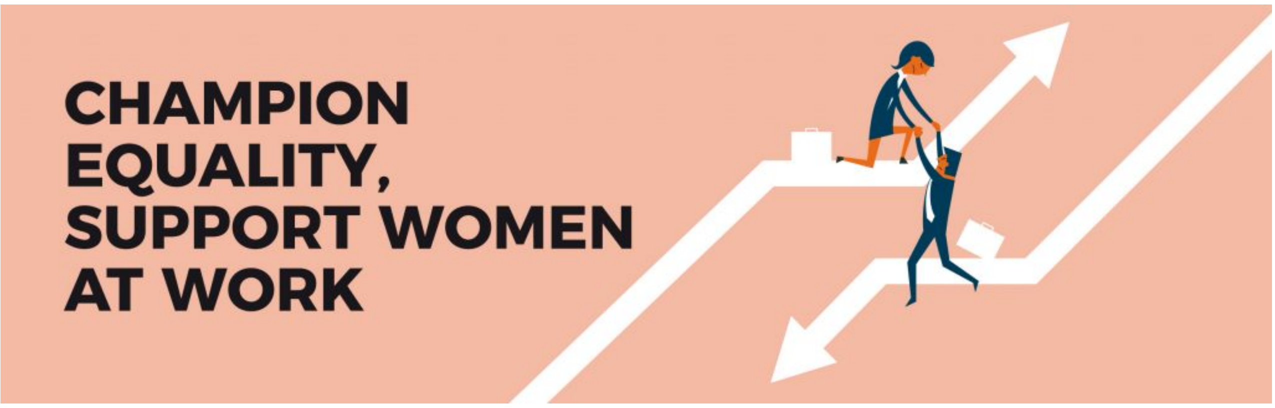
Frame technology in a context that makes sense to you, for an authentic and personalised experience. Unlike IT or tech aficionados, Fen Nee is not an IT geek. “I am drawn towards the value proposition that technology has to offer. Personally, I like to explore ideas or tools that facilitate pragmatism and efficient outcomes.” Technology enables an organisation to advance its strategic objectives and enables an individual’s personal development. “Setting the target to be more productive and efficient, reducing cost in the longer term and shaping a sustainable business model, including a diversified IT workforce, are some reasons behind technology investments. The Return on Investment (ROI) depends on how you make good use of technology,” elaborated Fen Nee.

Stop perpetuating gender stereotypes. It’s time to stop thinking along traditional gender lines that define men primarily as leaders and women as caregivers, advised Siti Rohana. “This mindset causes women to lack confidence, especially in areas of technology in which men dominate.”

“In fact, women make better leaders as it has been proven that women multitask better than men, which is an important aspect in technology due to the complexity and multiple components involved,” she added.

Women are able to excel in science and technology in spite of these stereotypes and cultural barriers, pointed out Josephine. A recent trailblazer is BioNTech’s Chief Medical Officer, Ozlem Tureci, a German scientist who together with her husband, developed the

Pfizer coronavirus vaccine last year. In 1961, Inventor Rear Admiral Dr. Grace Murray Hopper led a group of programmers to create a widely used computer programming language, COBOL (Common Business Oriented Language) for business and finance applications that runs on mainframe computers used by corporates and governments. In Big Tech, role models include Susan Wojcicki, CEO of YouTube and Marissa Mayer, former CEO of Yahoo!.




Women in leadership roles are in a prime position to influence gender positivity at their workplace.

MIA as the advocate for digital transformation in the profession ensures inclusivity across its initiatives and its talent. “The MIA Digital Technology Blueprint which guides our digital transformation initiatives is geared to everybody, without gender bias,” emphasised Dr. Nurmazilah.

Inclusivity also involves picking the right person for the role, man or woman. MIA has appointed several senior women executives to lead digital transformation. Other than Dr. Nurmazilah as the chief evangelist, Siti Rohana is in charge of technology transformation while deputy executive director Rasmimi Ramli heads the Digital Economy, Reporting & Risk Division.

As the partner leading the IT Risk Assurance practice in her firm, Josephine helps champion the culture of gender diversity. “Respecting the individual’s preference or priorities, I work with the team to ensure our women staff are not discriminated against when it comes to opportunities to work on engagements or participate in our digital upskilling programmes,” said Josephine.

At her workplace, Fen Nee chooses to motivate staff to explore new ways of resolving issues especially using data, trend analysis and analytics tools. “We don’t stick to one way or the traditional way of resolution. Adopting technology means spending time to learn and apply new knowledge although most current workforces would prefer the status quo.”

Furthermore, encouraging tech habits to stick for the long-term requires leaders to practise the following traits: “walk the talk, be transparent on key objectives, share the value proposition of technology adoption and communicate regularly on its impact on workforce and personal development,” said Fen Nee.

To encourage a robust culture of technology, organisations should also embed adoption of technology and involvement in innovation initiatives into the team's performance measures or KPIs, she added.


A veteran of global technology MNCs, Siti Rohana adds that technology companies are making the effort to become more inclusive and provide support systems for women at work. "There are huge opportunities for women in technology," she said, with the provision of on-premise day care, internal support networks, career comeback programmes, and flexible working arrangements supported by technologies that enable remote working.

Fen Nee concurred that many large companies are seeking inclusion and diversity, resulting in greater opportunities for a diversified IT workforce. At the same time, "it is critical that companies' strategies and policies empower women to facilitate the growth of interest in technology."

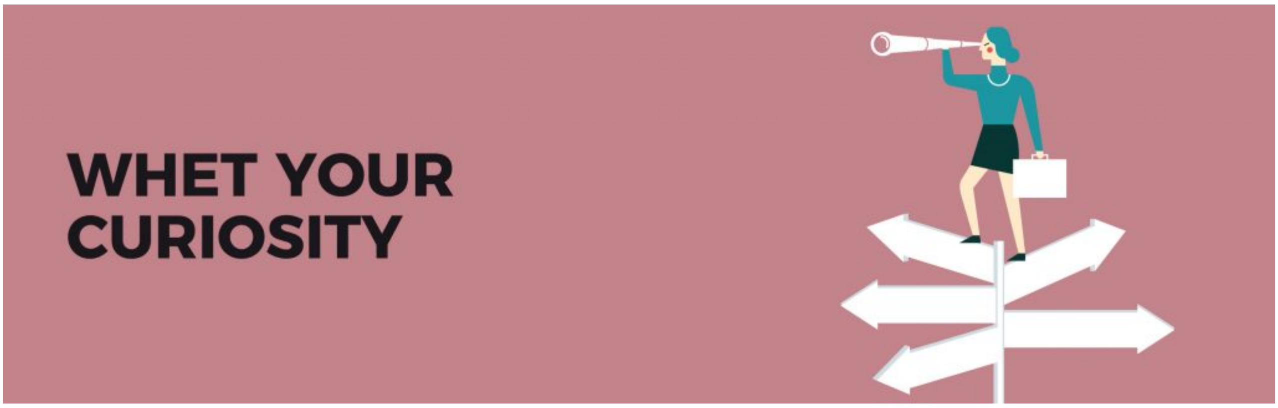
Early career exposure can be a game changer. Fen Nee related that she was first exposed to technology-related matters as a junior auditor, over 20 years ago. "I was involved in a pioneer audit transformation journey, including the adoption of technology and analytics to facilitate a more efficient audit. That experience was extraordinary as it allows me to adapt to new skills concurrently with exposure to traditional audit." Subsequently, she was selected over other candidates (men and women) to help trouble-shoot technology-related matters.

Other strategies and policies that companies can adopt to diversify their IT talent includes recognising and celebrating successful women in tech, which demonstrates what women can bring to the table, recommended Fen Nee. Organisations should also consider setting targets on women's representation and numbers in their IT workforce and leadership team to demonstrate commitment on inclusion and diversity, she added.

Josephine advised women who are keen on a career comeback to consider pivoting to cybersecurity services, which currently has a tremendous talent shortage. Since 2019, MDEC has collaborated with the Women, Family & Community Development Ministry on the "Comeback Career" scheme, specifically its "Empowering Women in Cyber Risk Management Programme" that includes on-the-job training attachments. Josephine also directed women to the various training programmes available such as "Women in Cyber Academy" and other back-to-work initiatives by tech companies such as Microsoft.

It’s not all roses. Siti Rohana admits that there are fewer women in technology due to the nature of work, whereby most technology areas have systems that are running 24×7. “There are perceptions that women may not be able to give the same commitment as men. However, this perception definitely needs to be realigned with technology advancement, as now people are able to utilise technology to work anywhere, anytime. This would enable women to fulfil their duties even from home.”

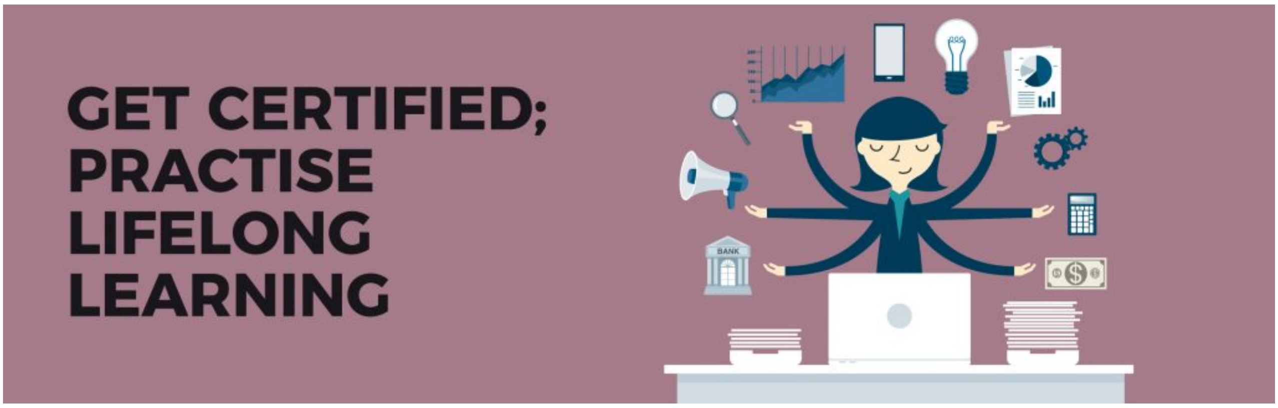
The COVID-19 pandemic has also accelerated the shift from on-site at the office to remote work from home. “Most organisations have now adapted to flexible work arrangements and performance is no longer measured based on time and material but on outcome. This would definitely enable women to work in more challenging fields such as technology,” concluded Siti Rohana.




Technology evolves at an overwhelming pace and people must be experimental and curious in order to keep abreast.

One tip: find inspiration in pop culture. Josephine has been keen on technology and science since childhood, sparked by a love of Star Trek and nurtured by supportive parents who encouraged her and her siblings to create their own gender-neutral toys. “Star Trek taught me that what was a figment of one’s imagination can be reality. To quote Captain Jean-Lu Picard, “Things are only impossible until they’re not”. I was thrilled by the use and potential of all the high technology, artificial intelligence, immersive virtual technology, and predictive analytics as depicted in the series, such as saving lives in the USS Enterprise sick bay, travelling at warp speed, and holograms.”

“Personally, I like to try new technologies and explore innovations to support my personal and organisational growth,” shared Dr. Nurmazilah, who chose to study the factors that influence auditors in the adoption of CAATTs (Computer Assisted Audit Tools and Techniques) or now better known as audit analytics for her PhD thesis. Interestingly, she applied psychology theories to better understand IT adoption behaviours among the auditors.




Gain more knowledge and certifications in technology to support your personal and organisational digital transformation. An innate researcher who is committed to lifelong learning, Dr. Nurmazilah likes to analyse case studies and best practices of technology implementation and recently acquired the Professional Certificate of Digital Leadership (offered jointly by MIA and APU) and the Certificate on Artificial Intelligence by IBM.

Meanwhile, Fen Nee earned a post-graduate qualification in e-commerce following her professional qualification as she predicted that the world is moving in this direction. “The challenge of technology is that it changes rapidly and continuous upskilling is essential for typical accountants like me.” However, knowledge and theory alone are insufficient as practical application is necessary.

Organisational expectations and leadership also set the tone for digital transformation. Josephine explained that everyone in her workplace is expected to embrace and continue to digitally upskill oneself; they benefit from training programmes that are designed for all staff based on their job competencies and skill needs, regardless of gender.

To ensure digital development of accountancy professionals across all segments, MIA offers a wide suite of inclusive digital and technology training programmes and certifications, in collaboration with expert speakers as well as leading digital education providers and brands. Do visit https://pd.mia.org.my/dashboard to find out more about MIA’s digital initiatives and training.

By walking in these women’s footsteps, you too can #ChooseToChallenge your limitations and embark on your own personal and unique journey of digital transformation.

**How can Women #ChooseToChallenge the Gender Digital Divide?**

## DR. NURMAZILAH

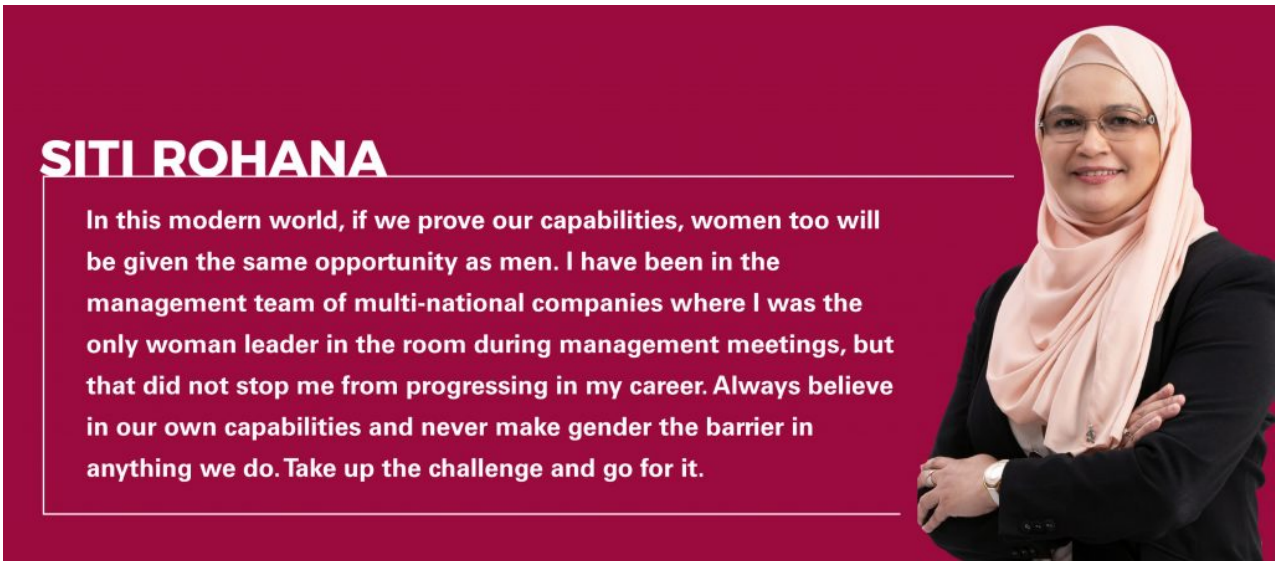
Keep enhancing knowledge and do not hesitate to try new technology. Harness these tools to help enhance our work performance and social life. Embrace digital wisdom as expounded by futurist and author Marc Prensky. Digital wisdom is the optimal combination of the human mind and technology, augmenting the power of the human brain with the thoughtful use of digital technologies for the good of humanity.

## FEN NEE

Women are resilient, adaptable and accommodative. The Covid-19 pandemic has forced us to embrace technology and women have risen to the occasion, whether employed or not. Look at women homemakers who learned Google Classroom, Zoom, and Microsoft Teams to assist their children in home-based learning. This shows that tech changes our world in ways we cannot imagine and women's strengths in adapting to tech cannot be underestimated. Women can be part of a larger IT workforce.

## JOSEPHINE

Pursue your dreams, don't let gender be a road block, watch the movie Hidden Figures and be inspired! As a mother, continue to nurture and support your children, providing equal opportunities for them to pursue their interest in tech and science.


SITI ROHANA
In this modern world, if we prove our capabilities, women too will be given the same opportunity as men. I have been in the management team of multi-national companies where I was the only woman leader in the room during management meetings, but that did not stop me from progressing in my career. Always believe in our own capabilities and never make gender the barrier in anything we do. Take up the challenge and go for it.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# Dr. Veerinderjeet at the Malaysian Tax Conference 2021: Regulate Shadow Economy, Improve Tax Administration to Speedily Boost Tax Compliance and Collection

at-mia.my/2021/04/19/dr-veerinderjeet-at-the-malaysian-tax-conference-2021-regulate-shadow-economy-improve-tax-administration-to-speedily-boost-tax-compliance-and-collection

April 19, 2021


*By Nazatul Izma*

Tax collection could be raised without resorting to additional new taxes such as capital gains tax, wealth tax and the reintroduction of goods and services tax (GST) by addressing tax non-compliance and systemic inefficiencies. Increased tax collection is critical in order to finance the sustainable development and transformation of the nation.

To support higher tax collection, "The shadow economy and tax administration are the immediate areas which we should be looking at while we push the economy forward. No new taxes need be implemented until we reach the status of a high income and developed nation. Of course, some refinements of the existing taxes to remove various unnecessary exemptions and special treatment of certain transactions should be looked into as part of the process of broadening the tax base," stated MIA President Dr. Veerinderjeet Singh at the recent Malaysian Tax Conference 2021, during a panel session entitled: **Reconstruction of the Malaysian Tax System: Where are We Heading?**

It is estimated that the shadow economy or informal economy could be equivalent to about a third of Malaysia's GDP, and hence regulating it could generate hundreds of millions in tax revenue. However, this will require stronger enforcement to boost tax compliance.

Transforming tax administration through digitalisation and technology adoption such as the application of data analytics is imperative to enhance tax operations and enforcement. Using data analytics could shift the onus for generating tax returns from the taxpayer by enabling tax authorities to compute the tax payable in real-time, for example. To optimise the use of data analytics, government ministries and agencies should be more integrated, cut through silos and share data. Greater inter-ministerial and inter-agency coordination and data sharing will lead to more efficient enforcement and better compliance. It is baffling as to why these steps have not been taken in a concerted manner.

Another key recommendation made during the panel is for tax authorities and regulators to prepare a Tax Blueprint, which will set the agenda for tax policy, and a supporting Roadmap for Implementation. This will apprise stakeholders especially taxpayers of the planned changes and provide sufficient time for transition and for education. This Blueprint and Roadmap should be combined with very clear communications processes, public relations and awareness building campaigns, and reporting mechanisms on the tax spending and outcomes to build transparency, governance and taxpayer trust. Gaining and sustaining trust of the people should be an imperative. Comparative studies on tax policies of different countries show that it takes between 2 to 7 years for the benefits to be realised and the authorities should have the resilience and patience to stick to the plan even if negative feedback is received via any public consultation process that may be undertaken.

Apart from Dr. Veerinderjeet as moderator, the panel featured Amarjeet Singh, EY Asean Tax Leader and Malaysia Tax Leader, Ernst & Young Tax Consultants Sdn Bhd; Roszita Dim, Deputy Director of Customs, Service Tax Policy and Implementation Branch, Internal Tax Division, Royal Malaysian Customs Department, and Prof Dr. Yeah Kim Leng, Professor of Economics and Senior Fellow, Jeffrey Cheah Institute on Southeast Asia.

Dr. Veerinderjeet Singh

In addition to advocating for restructuring, Dr. Veerinderjeet stressed that tax practitioners must be aware of the latest developments and risks in the global tax environment in his presentation on **Tax Governance Developments for Corporations.**

“Corporate tax has become a leading governance consideration, specifically in terms of corporate income tax responsibility; and disclosure targeting aggressive tax strategies,” he said. As such, Boards should include tax risks, tax governance and tax transparency within the scope of their accountability. Board Audit Committees especially should take the lead in strengthening tax governance of listed entities with the ultimate aim of enhancing value to investors in many aspects such as tax administration and compliance.

“Audit Committees and Boards should consider requiring listed entities to issue a Tax Risk Policy Statement or a Tax Strategy Statement in their annual reports,” recommended Dr. Veerinderjeet.

He also advised Boards to pay attention to ESG (environmental, social and governance) considerations. “Given the increasing momentum of ESG, it is clear that the Malaysian regulatory institutions will continue to encourage listed entities to uphold the ESG framework including ‘tax transparency’ so as to enhance their value to all investors.” As a benchmark, the FTSE Russell Environmental, Social and Governance (ESG) Ratings include ‘tax transparency’ as one of the factors to be considered under the ‘Governance’ aspect of the ESG Ratings. In line with this, the FTSE4Good Bursa Malaysia Index launched in 2014 encourages best practice disclosures as does the GRI Tax Standard.

“As advisors to corporations, tax practitioners need to be aware and prepared for these potential changes and possibly the move to cooperative compliance (for very large multinational entities) and enhanced tax compliance measures for large taxpayers related to tax controls embedded in the accounting system,” concluded Dr. Veerinderjeet.

The two-day virtual Tax Conference featured topics ranging from the OECD/G20 Inclusive Framework on BEPS (base erosion profit shifting) and Pillars 1 and 2 in response to the tax challenges of the digital economy to tax big data, updated transfer pricing regulations and tax self-regulation. This annual Conference was jointly organised by the Malaysian Institute of Accountants and the Malaysian Association of Tax Accountants and officiated by Datuk Mohd Nizom Sairi, Deputy Chief Executive Officer (Tax Operations), Inland Revenue Board of Malaysia who delivered the keynote address.

# Embracing eConfirm.my: The Experience Thus Far

at-mia.my/2021/04/14/embracing-econfirm-my-the-experience-thus-far

April 14, 2021

*By Nazatul Izma*

Early adopters recommend that their peer audit firms adopt this electronic bank confirmation platform, as the pros outweigh the cons.

In June 2020, the Malaysian Institute of Accountants (MIA) officially launched the industry-wide Electronic Bank Confirmation (EBC) Platform (eConfirm.my) together with platform developer and service provider, Extol Corporation Sdn Bhd (Extol).

The MIA collaborated with Extol on eConfirm.my to automate the current bank confirmation process and encourage its members to adopt digital technology that enhances audit efficiency and effectiveness.


To gauge the value of eConfirm.my to audit firms in practice, MIA solicited feedback from four early adopters – PwC, Crowe, Baker Tilly and another firm. These firms have been using the eConfirm.my for audits of companies particularly for those with financial year ended 31 December 2020. Their feedback will be applied to resolve expectation and delivery gaps and further improve the platform and its services.


## Reported Challenges in Practice

### Cost

A key challenge is to convince audit clients that the convenience of eConfirm.my is worth the extra cost of RM15 fee per confirmation request.

### Lagging Bank Participation

Currently not all banks in Malaysia are signed up with the eConfirm.my, which presents an administrative burden for auditors. Auditors must also follow up on the online confirmations made through another platform used by some non-participating foreign banks as well as manual confirmations through postal services, which are inefficient.

### Cultural Change

A firm reported that its staff's initial response to eConfirm.my was not encouraging but the firm successfully transitioned following educational briefings and staff's practical experience with eConfirm.my during the MCO.

## Say Yes to eConfirm.my

Despite some teething issues, the four firms polled recommended that their peers adopt the eConfim.my, regardless of the size of the firm. They particularly appreciated the time savings and expedited audits.

To facilitate the transition to eConfirm.my for new adopters, the firms recommended that audit partners and firms do the following:


## Future Digital Potentials

The firms were also polled on other aspects of practice, audit and operations management that they think would benefit from digitalisation. One matter that has come up is the digitalisation of other areas involving confirmation such as confirmations by lawyers, key management personnel and related parties and confirmations of balances by debtors and creditors.

To add further value to members and ensure the future relevance of the profession, the MIA will engage with Extol to improve the user experience and benefits of the eConfirm.my. In addition, MIA will continue to look into other processes and areas that can be digitalised, as guided by the MIA Digital Technology Blueprint.

# Enhancing Members’ Wellbeing in 2021

at-mia.my/2021/04/08/enhancing-members-wellbeing-in-2021

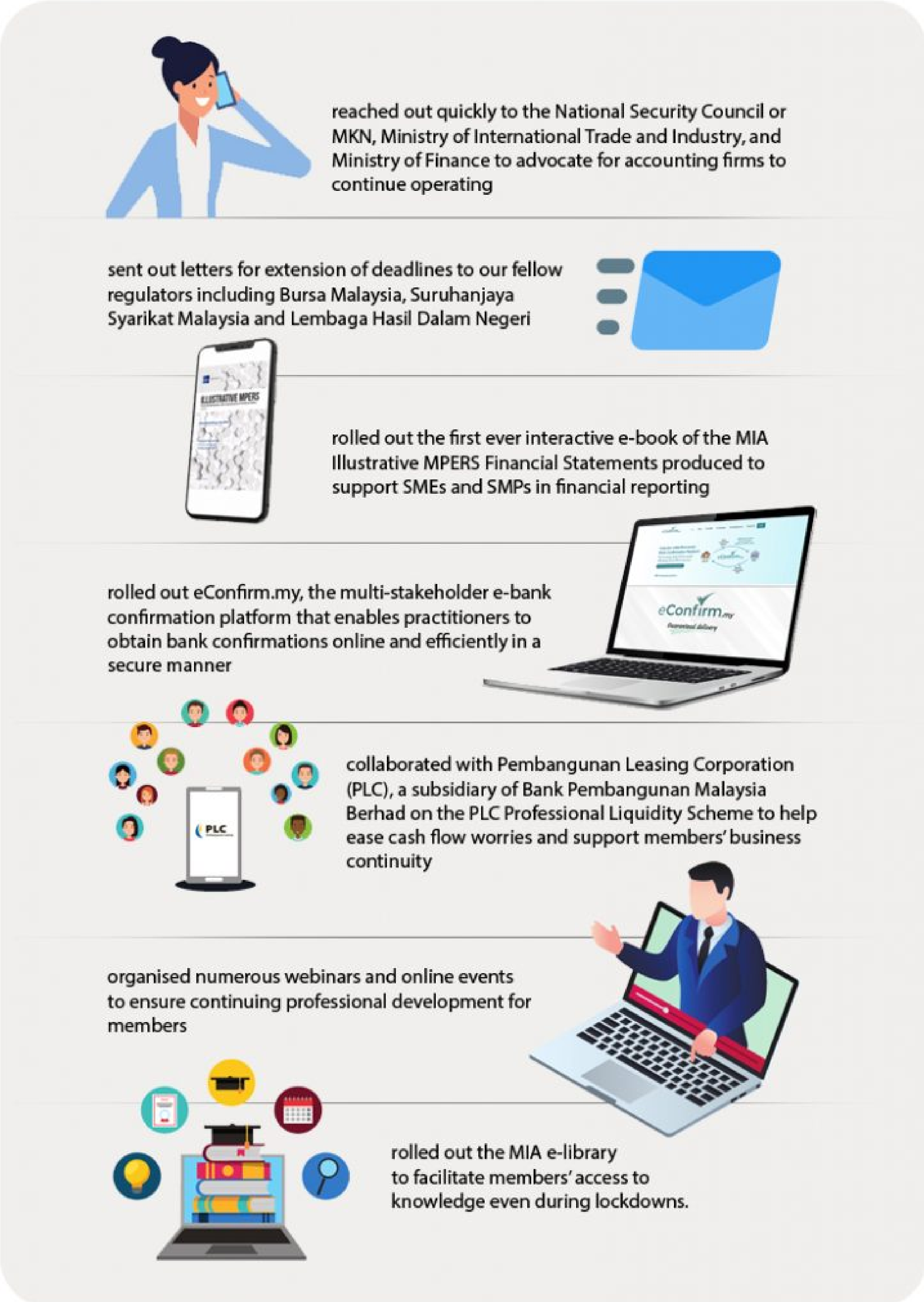
April 8, 2021

Like most segments of the society and economy, the profession endured an unprecedented *annus horribilis* in 2020. To help our members through the worst of the crisis, the Institute rolled out several initiatives to help alleviate the difficulties arising from COVID-19 and the related crisis management measures, such as the government-imposed Movement Control Orders (MCOs). The link to the MIA COVID-19 page can be accessed here.

Dr. Veerinderjeet Singh

“Our approach was to act swiftly and agilely in response to COVID-19 to clear up uncertainty and provide access to resources and assistance to protect members’ wellbeing,” stated MIA President Dr. Veerinderjeet Singh. The Institute’s initiatives included engaging with the authorities, accelerating digital transformation to support remote work processes, and scaling up virtual member services and virtual continuing professional development programmes for the upskilling of members.

Specifically, the Institute:




## Members can Count on Additional Resources and Assistance in 2021

Although the outlook for 2021 is brighter as the mass vaccination programmes may confer herd immunity and restore public trust in normalising activities, the economy is still lacklustre. To assist members in weathering the ongoing economic slowdown, the Institute will continue to provide as much assistance as possible to members that have been adversely impacted, such as those affected by downsizing and vulnerable small and medium practitioners (SMPs). This includes the ongoing implementation of the MIA Member Assistance Programme.

The additional resources include:


"We hope that the microsite will help members navigate the resources available out there more efficiently. Meanwhile, the hotline aims to support members by offering them a friendly ear and advice that can help them manage their stress levels effectively. Finally, the MIA Member Assistance Programme will help members in their wellbeing," explained Dr. Veerinderjeet.

These resources will assist members with crisis management to build up their resilience and fortitude. Simultaneously, the Institute will keep pressing for the profession's transformation for future relevance and sustainability. Transformation is also imperative for members to be accepted as strategic business and financial advisors as well as creators and managers of value, as accountants' roles evolve in the digital economy of tomorrow.

To support members' digital adoption and equip them for the rapidly digitalising landscape, MIA will continue to implement the MIA Digital Technology Blueprint through its 3-year operational plan (July 2019 – June 2022) that features 39 initiatives with over 250 outputs and activities. This harmonises with the nation's thrust to join the ranks of digital economies via the recently launched MyDigital and Malaysia Digital Economy Blueprint. To learn more about the impact of MyDigital and the Malaysia Digital Economy Blueprint to members, click here.

To support the specific transformation of members in public practice, the Institute will continue to provide a broad spectrum of essential services in practice management, applicable to the following phases of a firm's lifecycle:


## MIA's Pledge

MIA hopes that all members and the profession will benefit immensely from its initiatives and aspires to improve its value-added services further for members' wellbeing.

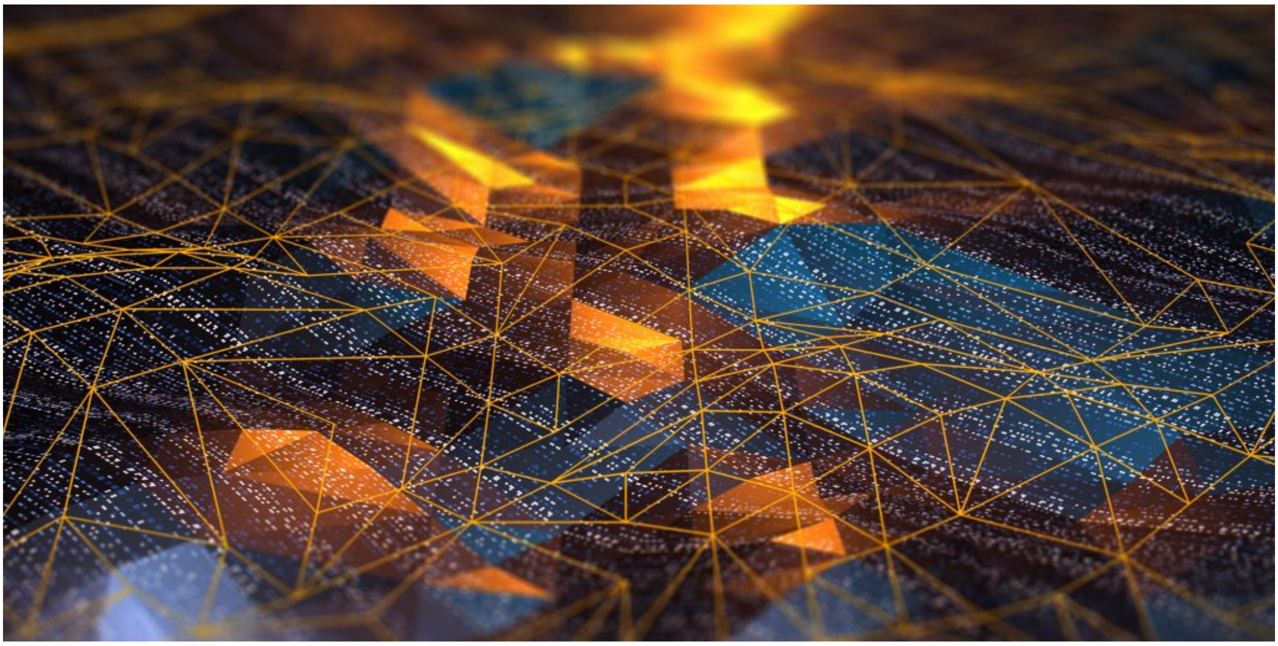
"We thank members for their consistent and unwavering support of MIA's efforts in these challenging times," said Dr. Veerinderjeet. The latest MIA Member Satisfaction Survey 2020 showed that 79% of respondents are satisfied with the Institute, similar to the 2018 Survey. The survey also showed that 82% of members are proud to be MIA members.

"Furthermore, the Survey also showed that 87% of respondents are satisfied with the resources and updates provided by the Institute on the recent COVID-19 crisis. MIA is committed to safeguarding members' wellbeing and resilience as we forge ahead into the new business normal," concluded Dr. Veerinderjeet.

# Ethics, Technology, and the Professional Accountant in the Digital Age

at-mia.my/2021/04/23/ethics-technology-and-the-professional-accountant-in-the-digital-age

April 23, 2021



Change is here—and more is coming—for the accountancy profession. New technologies are driving that change. This is nothing new: the profession adapted and thrived through the past century of technological revolution. But success is not a given. The profession will achieve it only with thorough and thoughtful responses to today's challenges and preparation for those to come.

The importance of ethics in the work of professional accountants will not change with the times, but the application of the profession's foundation in ethics will take different forms. As entire economies and societies digitalize, the traditionally data-heavy finance functions of the professional accountant are taking on a scale and level of complexity that in many cases exceed what professional accountants—or any one person—have been trained to handle. Expectations for the profession continue to grow. The profession and the core competencies of individual accountants will need to evolve to remain relevant.

To adapt well, the profession must pose the right questions and find solid answers. And wherever uncertainty makes finding answers difficult, the profession must continue this dialogue with urgency and focus.

These efforts are underway. Accountancy Education is a strategic priority for IFAC. It established a comprehensive, integrated approach to respond to accountancy education challenges and opportunities in 2019. A recent summary is included in 'Progressing IFAC's New Approach to Advancing Accountancy Education'. IFAC organized a virtual four-day global summit, "The Anticipatory Accountant: Global Trends Transforming Learning & Development," on November 16-19, 2020 which focused on three broad themes: technology, the environment and society.

The International Ethics Standards Board for Accountants (IESBA) is executing its Technology Initiative, which includes an objective to identify potential ethical implications of technology developments on the robustness and relevance of the fundamental principles and independence standards in the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code), as well as ways in which technologies could be used to support and enhance compliance. It delivered a report in December 2019, laying the ground for a substantive and timely response to ethical and public interest challenges posed by digital transformation. More recently, IESBA has established a new Working Group to accelerate the development of guidance to assist accountants and auditors navigate the more pressing ethics and independence challenges arising from evolving technologies. During its March 2021 meeting, the IESBA approved the Term of Reference for this new Working Group and determined a new timeline for its Technology Exposure Draft.

In October 2020, IFAC convened a group of over 30 people representing professional accountancy organizations, firms, accountants in business, academia, and international standard setters around the world. On the agenda were the ABCDE of the digital age (Artificial intelligence and robotic process automation, Blockchain, Cloud, Data, and Ethics) and compliance with the Code under these new conditions.

Their discussion featured three defining themes:

1. How much should the Code change in response to technological advances?
2. Who is accountable for ethical issues not clearly in the scope of the professional accountant's traditional ethical mandate?
3. How much should professional accountants know about new ICT considerations that exceed traditional core competencies?

The conversation was fruitful—and it is certain to continue. The following are key takeaways from the event.

### How much should the Code change and what support could be helpful?

Participants agreed that the Code provides high-level principles-based guidance for most technology-related ethics issues. Whether the Code's requirements should change—and how much they should change—was the subject of a longer discussion.

Some participants felt strongly that the Code should change very little or not at all. They argued that the more detailed and specific the Code becomes on issues of ethics and tech, the more quickly further advances in technology will render the Code outdated. They raised the concern that making the Code more specific could undermine global adoption and implementation by spurring jurisdictions to carve out exceptions for themselves.

Some argued that professional accountants do not face substantially different ethical issues, but rather, new circumstances under which they need to apply the current Code. Theft is still theft even when information, rather than physical goods, is stolen. Along the same lines, the profession needs to find new ways to do essentially the same things. A practitioner, for example, does not need to develop new services when new ways of delivering existing services will suffice.

Offering case studies emerged as a popular way forward. Rather than focusing on changes to the Code, the profession could meet the demand for guidance on new issues of ethics in tech by discussing the nuances and open questions around specific applications of the Code's principles to real-life situations. Presenting non-authoritative guidance through case studies and other materials could help practitioners interpret and apply the Code.

### Who is accountable?

As business becomes more complex with digitalization and technology developments advance, questions arise on over-reliance on technology.

Artificially intelligent systems raised exceptionally broad and profound concerns. A system's logic in producing a certain output might be clear only to its developer—or only to people with extremely sophisticated technical knowledge that match that of the developer. Some systems, especially those that feature machine learning, might give outputs that even its developer cannot explain. One participant asked, "How do you take responsibility for something over which you do not have control?" Extremely disruptive historical events, such as the COVID-19 pandemic, make relying on these systems even more challenging: because of irregularities in data, systems that learn through algorithms might be, according to one participant, "technically right but professionally wrong."

The group emphasized that greater reliance on technology in decision-making will pose dilemmas related to the Code's existing requirements on reliance on others, and that these dilemmas deserve further study. Maintaining professional judgement, according to some participants, requires the professional accountant to judge the reliability of a given system only with a complete understanding of the organization.

### How much should the professional accountant know?

The need for a foundation in skills and ideas that enable growth—such as a commitment to lifelong learning, professional skepticism, and collaboration within a multidisciplinary model—was among the group's most emphatic conclusions. Not least among these concepts is professional ethics. IFAC's January 2020 call on stakeholders to re-imagine the future accountant puts the individual at the heart of future-readiness and, as a result, highlights each professional accountant's responsibility for the lifelong learning and career development that will enable success in the digital age. A passive, compliance-based approach must give way to an active approach tailored to each individual.

ICT expertise is becoming more important for the professional accountant in the digital age. Per one participant: “How do professional accountants know what they do not know?” Education and training that help the professional accountant keep pace with technology developments will be crucial, and some in the group suggested professional accountancy organizations (PAOs) should play a big role in providing it.

The group agreed that how much a professional accountant should know will vary by role. In one role the professional accountant might need skills necessary to interrogate, synthesize, and analyze data, while another role might call for the skills necessary to collaborate with data scientists. For some participants, it was essential that professional accountants—irrespective of their roles—know enough to understand what is being said, ask the right questions of those providing data, and make sense of data to aid decision-making. One participant said, “The professional accountant cannot put his hands up and say, ‘the machine told me’ … [and] cannot accept data without understanding the underlying logic without applying enabling competencies such as critical thinking, professional skepticism, professional judgment.”

### Expanding a collaborative dialogue

All participants in the event urged that as the swift pace of change raises new questions about the fitness of the profession—including its international standards—for the digital age, collaboration between all stakeholders will be essential.

IFAC encourages its members to join this dialogue. A recording of the event is available here.

Do you have additional comments? Do you have examples of ethical issues or case studies you could share? Do you have guidance that might be useful to PAOs and their members? If your answer to any of these questions is “yes,” please contact us at communications@ifac.org. As we receive feedback, we will continue sharing thought leadership on the Knowledge Gateway.

Please also note that CPA Canada, ICAS and IFAC recently joined forces to deliver an exciting virtual workshop exploring how professional accountants continue to add value in the digital world. The event was based around an exploratory paper ‘Ethical Leadership in an Era of Complexity and Digital Change’ and a recording is also available here.

Please also continue to follow IESBA’s work in this area. Phase 2 of their Technology Initiative will cover technologies captured under the broad headings of blockchain, cybersecurity, Internet of Things, cloud-based services, and data governance.

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***Christopher Arnold*** *is the head of SME/SMP and Research at IFAC. He was previously an Audit Manager for Deloitte and qualified as an accountant in a mid-tier accountancy practice in London (now called PKF-Littlejohn). Christopher started his career as a Small Business Policy Adviser at the Association of Chartered Certified Accountants (ACCA)*

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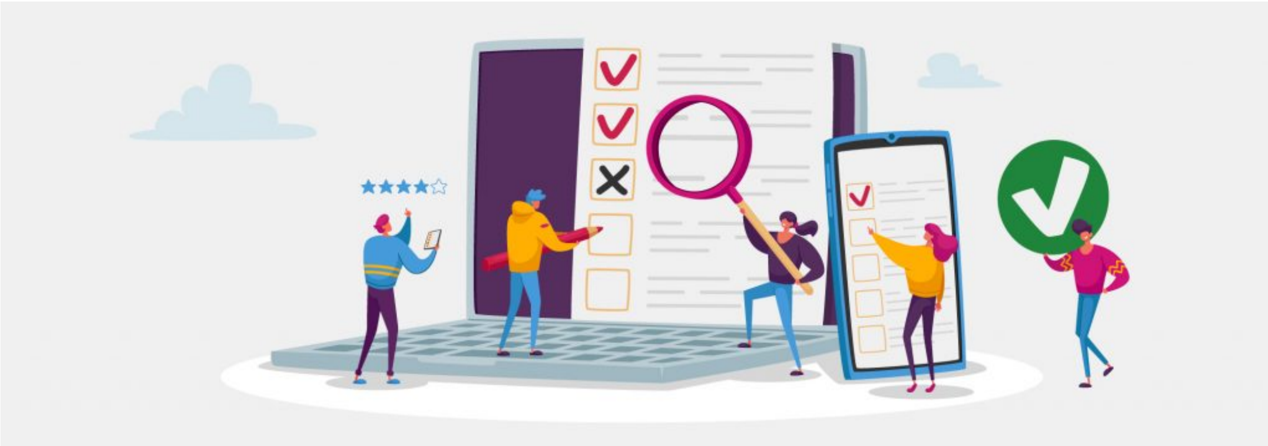
# Everything you need to know about the Quality Assessment Programme (QAP)

at-mia.my/2021/04/27/everything-you-need-to-know-about-the-quality-assessment-programme-qap

April 27, 2021



*By MIA Small and Medium Practices Department*

Read this article to find out more about QAP and the benefits it has for audit firms.

## Scope of QAP

Only applicable to audits of financial statements of limited liability companies registered under:


that prepare financial statements in accordance with:


## QAP Reviewers

- The entire assessment will be conducted by MICPA's appointed QAP reviewers.
- The QAP reviewer will be required to sign a reviewer agreement with MICPA, which shall consist of a confidentiality clause and conflict of interest clause.
- The QAP reviewer shall not currently be a member of the MIA's Practice Review Department/Committee, MIA Investigation Committee, MIA Disciplinary Committee and MIA Disciplinary Appeal Board.

## QAP will assess and evaluate

The evidence of the existence and effectiveness of the system of quality control and gaps in compliance with the ISQC1.

The gaps in compliance with ISAs, regulatory and legal requirements in respect of an audit engagement.

## Whole Firm Assessment

The reviewer will conduct a compliance review of the system of quality control of a member firm that includes policies and procedures that address each of the **six elements in ISQC1:**

| Leadership Responsibilities for Quality within the Firm | Relevant Ethical Requirements | Acceptance and Continuance of Client Relationship and Specific Engagements | Human Resources | Engagement Performance | Monitoring |
|---|---|---|---|---|---|

## Selection of Audit Engagement

- An audit engagement that has been previously reviewed or has been selected for practice review cannot be selected.
- MICPA has the absolute discretion to determine whether to accept or reject the selected file.
- MICPA can reject any audit engagement selected for QAP without giving any reasons.

## Duration & Service Charges

**PROPOSED DURATION FOR FIELD VISIT**
Up to **8 working days** from the commencement date of the assessment.

**THE FINAL REPORT**
Within **4 weeks** from the exit meeting

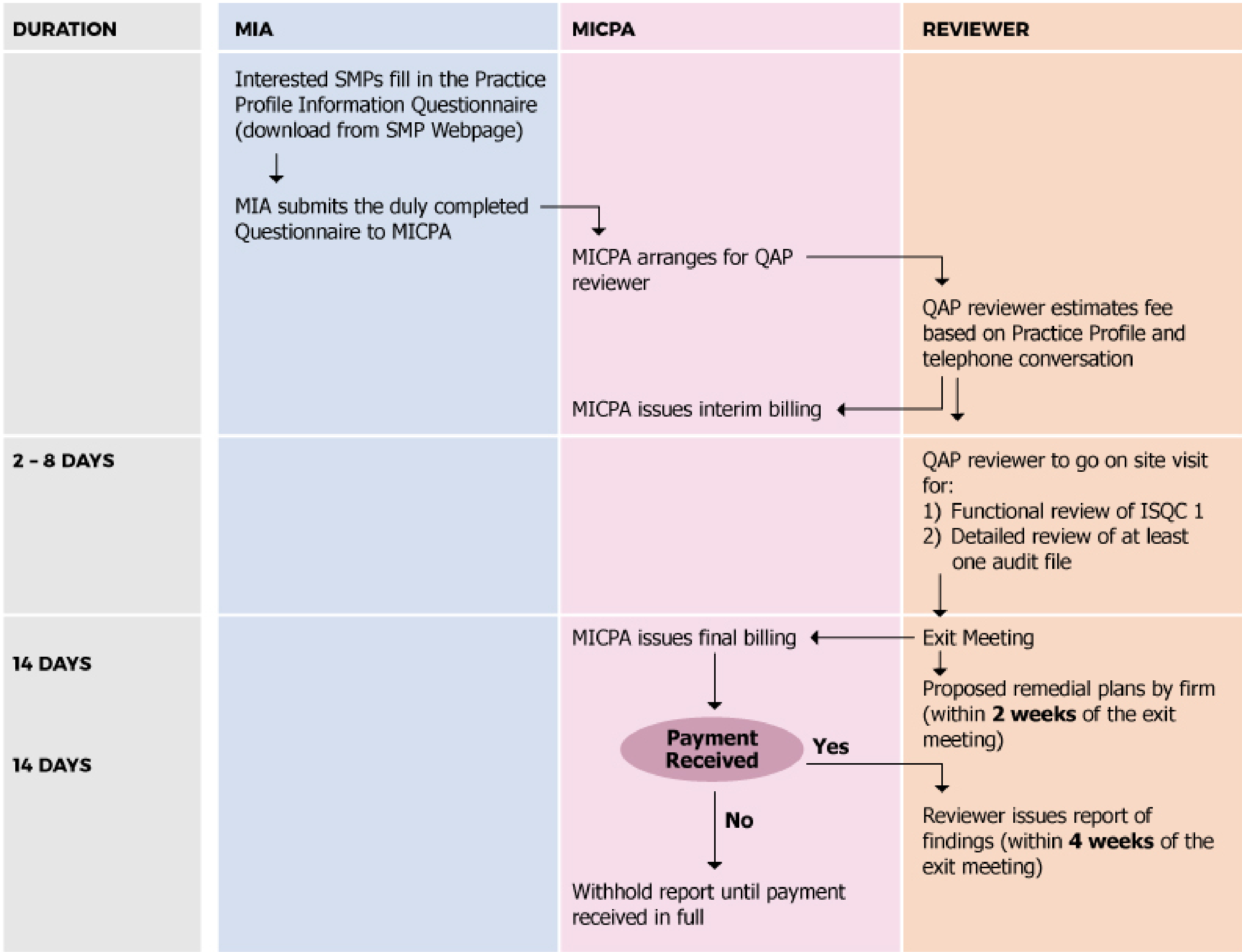
**SERVICE CHARGES**
**RM1,200** per man-day
The maximum charge is capped at **RM10,000** (excluding SST & disbursement)

## QAP Report

At the end of the QAP:

- A draft report containing the QAP Reviewer's findings will be prepared and discussed with the firm/practitioner at the exit meeting.
- The firm reviewed will propose the remedial action plans based on the findings provided by the QAP Reviewer(s).
- No rating given at the end of the QAP.
- Final report with findings and remedial action plans will be posted/sent to the firm after the exit meeting.
- A copy of the final report will be sent to MIA to monitor the effectiveness of the QAP.

## Process Flow of QAP




## What are the main differences between QAP and Practice Review Programme (PRP)?

| | Quality Assessment Programme (QAP) | Practice Review Programme (PRP) |
|---|---|---|
| **Nature of Participation/ Selection** | It is educational in nature. Participation by MIA members is on a **voluntary** basis. Review will be conducted at the firm's premises. | It is a surveillance function of the Institute. The PRP will be conducted with reasonable frequency in respect of audit firms which are primarily **selected in accordance with a risk-based approach**. Review will be conducted at the firm's premises. |
| **Scope of Assessment** | A QAP assessment will be conducted to evaluate:<br>a) The evidence of existence and effectiveness of the system of QC and the gaps in compliance with ISQC 1; and<br>b) The gaps in compliance with the ISAs, regulatory and legal requirements in respect of an audit engagement.<br>Only applicable to audits of financial statements of limited liability companies registered under the Companies Act 1965 or the Companies Act 2016 that prepare financial statements in accordance with MPERS / MFRS. | PRP is a process where the standards and procedures of members' audit practice are assessed to ensure that they are in compliance with professional standards, legal and regulatory requirements.<br><br>Firm level inspections – compliance with the requirements of ISQC 1.<br><br>Engagement inspections – detailed engagement inspections of audit firms to assess whether the audit work is conducted in compliance with relevant professional standards. |
| **Report** | Final report with findings and remedial action plans (proposed by the reviewed firm) will be posted/sent to the firm after the exit meeting. | Practice Review Department (PRD) will deliberate a review report to the Practice Review Committee (PRC) and PRC shall determine a rating for the report (Type 1, 2, 3 or 4), taking into consideration the practice review report and the audit firm's comments. |
| **Sanctions/ fines** | None. It is educational in nature.<br><br>The findings from the QAP are private and confidential and will not be shared with the PRD or PRC of MIA. | For a Type 4 rating, a complaint will be lodged with the registrar against all audit license holders of the firm reviewed.<br><br>For those that fail the monitoring review, a complaint will be referred to the registrar against all the audit license holders of the firm reviewed. |
| **Reviewers** | The entire assessment will be conducted by MICPA's appointed QAP reviewers (from larger firms).<br><br>The QAP reviewer will be required to sign a reviewer agreement with MICPA, which shall consist of a confidentiality clause and conflict of interest clause.<br><br>The QAP reviewer should not currently be a member of the MIA's Practice Review Department/ Committee, MIA Investigation Committee, MIA Disciplinary Committee and MIA Disciplinary Appeal Board. | Section B250.7 of the MIA By-Laws provides that inspections shall be conducted by the Institute through its Practice Review Committee. |
| **File to be reviewed** | The firm that will be reviewed will choose the audit file for QAP.<br><br>An audit engagement that has been previously reviewed or has been selected for practice review cannot be selected. | The selection of audit engagement files is made by the reviewer from the most current audit clients listing as provided by the audit firm. For the purposes of practice review, current audit engagement files refer to engagements which have been signed off in the past eighteen (18) months up to the date of the practice review or any other dates that can be reasonably accepted by the reviewer as a practical alternative.<br><br>The sample of files selected by PR Reviewer for PR should be reflective of the firms' overall operations and size. |
| **Service Charges** | RM1,200 per man-day. The maximum charge is capped at RM10,000 (excluding SST & disbursement).<br><br>The proposed duration for a field visit is up to 8 working days from the commencement date of | No fees shall be charged to the audit firms for practice review visits effective from July 2017. However, all incidental charges and expenses incurred in relation to the review shall be charged to the firm reviewed. |

| | | |
|---|---|---|
| | the assessment. The final report from the review will be issued within 4 weeks from the exit meeting. | |

# Financial Reporting Disclosures: Driving Compliance Towards Better Communication in Financial Reporting

at at-mia.my/2021/03/04/financial-reporting-disclosures-driving-compliance-towards-better-communication-in-financial-reporting

March 4, 2021

In providing guidance to members on good financial reporting, the Financial Statements Review Committee (FSRC or the Committee) wishes to highlight common deficiencies arising from the review of financial statements of public listed entities for the review period from July 2019 to June 2020. The financial statements under review are those with financial years ended ranging from December 2018 to December 2019.

During the review period, there were new standards that came into effect, as follows:

| STANDARD | TITLE | APPLICABLE FOR ANNUAL PERIODS BEGINNING ON OR AFTER |
|---|---|---|
| MFRS 9 | Financial Instruments | 1 Jan 2018 |
| MFRS 15 | Revenue from Contracts with Customers | 1 Jan 2018 |
| MFRS 16 | Leases | 1 Jan 2019 |

The issues below have been identified from our reviews so far:

### i. Application of new standards – MFRS 9 Financial Instruments (Disclosures)

The impairment model required by MFRS 9 is an expected loss model as compared to the incurred loss model under MFRS 139. Common issues identified during our reviews include the following:

- No disclosure of recognition and measurement of expected credit losses, including the methods, assumptions and information used to measure expected credit losses [Paragraph 35B(a) of MFRS 7 *Financial Instruments: Disclosures*];
- No disclosure of how an entity determines whether the credit risk of financial instruments has increased significantly since initial recognition [Paragraph 35F(a) of MFRS 7];

- No disclosure of the Group's definitions of default, including the reasons for selecting those definitions [Paragraph 35F(b) of MFRS 7];
- No disclosure of the inputs, assumptions and estimation techniques used to apply the requirements in Section 5.5 of MFRS 9 [Paragraph 35G of MFRS 7].

### ii. Application of new standards – MFRS 15 Revenue from Contracts with Customers (Disclosures)

Most of the financial statements reviewed stated that there are no material impacts resulting from the application of MFRS 15. However, common issues identified during our reviews include the following:

- No disclosure of information on the remaining performance obligations (i.e. amount of transaction price of the contract allocated to unsatisfied performance obligations) in accordance with Paragraph 120, unless applying practical expedient as in Paragraph 121 of MFRS 15;
- No disclosure of the judgements and the changes in the judgements made in applying MFRS 15 that significantly affect the determination of the amount and timing of revenue from contracts with customers in accordance with Paragraph 123 of MFRS 15;
- For performance obligations satisfied over time, no disclosure of both the methods used to recognise revenue (for example, a description of the output methods or input methods used and how those methods are applied) and an explanation of why the methods used provide a faithful depiction of the transfer of goods or services in accordance with Paragraph 124 of MFRS 15;
- For performance obligations satisfied at a point in time, no disclosure of the significant judgements made in evaluating when the customer obtains control of promised goods or services in accordance with Paragraph 125 of MFRS 15.

The FSRC will continue to monitor the application of MFRS 15 as well as the initial application of MFRS 16 in its next review cycle.

### iii. Impairment of non-financial assets

From our reviews, we raised several matters concerning the disclosure requirements relating to the impairment of non-financial assets in accordance with Paragraph 130 of MFRS 136 Impairment of Assets.

The following disclosures were often omitted:

- The events and circumstances that led to the recognition or reversal of the impairment loss [Paragraph 130(a) of MFRS 136].
- Whether the recoverable amount of the asset is its fair value less cost to sell or its value in use [Paragraph 130(e) of MFRS 136].
- If the recoverable amount is fair value less costs to sell, the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market for an identical asset) [Paragraph 130(f) of MFRS 136].

- If the recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use [Paragraph 130(g) of MFRS 136].

Upon reviewing the replies relating to the above disclosure requirements, another issue commonly identified relates to the discount rate applied on the cash flow projections (if recoverable amount is the value in use) for impairment assessments. For example, there was a case whereby the Group is financed by equity and borrowings. However, the discount rate used in its value in use (VIU) computation was much lower than the Group's average borrowings rate and clearly below the industry average.

Paragraph 55 of MFRS 136 Impairment of Assets states that the discount rate shall be a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the assets. Appendix A of MFRS 136 Impairment of Assets provides additional guidance on estimating the discount rate for VIU computation.

We also noted the adoption of key assumptions that were related to financing activities and therefore should not be incorporated in the VIU computation for impairment testing on property, plant and equipment. Paragraph 50(a) of MFRS 136 Impairment of Assets states that estimates of future cash flows shall not include cash inflows or outflows from financing activities.

### iv. Financial Guarantee Contracts (Disclosures)

A parent company may issue corporate guarantees to financial institutions to secure credit facilities extended to its subsidiary companies. These corporate guarantees are financial guarantee contracts (FGCs) that meet the definition of financial liabilities and shall be recognised and measured in accordance with MFRS 9 Financial Instruments.

Most of the reviewed financial statements have classified FGCs as financial liabilities, although there are still some that disclosed FGCs as contingent liabilities. Where it had been assessed that an outflow of cash is not probable, these FGCs were disclosed as contingent liabilities. MFRS 137 Provisions, Contingent Liabilities and Contingent Assets does not apply to financial instruments (including guarantees) that are within the scope of MFRS 9 Financial Instruments [Paragraph 2 of MFRS 137].

However, in cases where FGCs have been classified as financial liabilities, the following weaknesses were noted:

- No disclosures were noted in respect of FGCs that were not recognised in the Statement of Financial Position. As a good practice, in instances where FGCs have not been recognised due to the immateriality of their fair values, a disclosure reflecting this should be made in the financial statements.

- Weak or non-existent disclosures on the nature and extent of risks arising from FGCs. Typical risks arising from FGSs include liquidity risk and credit risk [MFRS 7.31-42]. Entities fail to provide the necessary disclosures citing that the risk of default is low. The Committee wishes to highlight that the entity is exposed to these risks, notwithstanding the low risk of default. Specifically, in addressing liquidity risk disclosures, the maximum amount of the guarantee is allocated to the earliest period in which it could be called [MFRS7.B11(c)].

## COMMON FINDINGS

The following common findings on non–compliances with the applicable accounting standards were compiled from the reviews of the financial statements conducted by the FSRC from July 2019 to June 2020.

| AREAS FOR IMPROVEMENT | FSRC FINDINGS |
|---|---|
| **Cash and cash equivalents** | Deposits with maturities exceeding three months classified as cash and cash equivalents [MFRS 107.7]. Although the three-month presumption is not a "bright line", it is pertinent and relevant to take into account this three-month presumption in considering whether the fixed deposit is held for the purpose of meeting short-term cash needs or for investment purposes. The longer the fixed deposits' original maturity period, the more likely the deposits are held for investment purposes. |
| **Diluted earnings per share (DEPS)** | Non-disclosure of DEPS on the face of Statement of Comprehensive Income [MFRS 133.66]. There is no exemption for presentation of DEPS on the grounds of anti-dilution. However, to simplify presentation, basic earnings per share (BEPS) and DEPS can be presented in the same line [MFRS 133.67]. |
| **Intercompany balances** | Intercompany balances (receivables) are classified as current although repayment does not appear to be feasible within the entity's normal operating cycle. Balances shall be classified as current only if management expects to realise the balances within 12 months after the reporting period [MFRS 101.66]. In making this assessment, management should consider the expected realisation date of the balances instead of the stipulated contractual terms. |
| **Investment in subsidiaries, associates and joint ventures** | Non-disclosure of the principal place of business (and country of incorporation, if different) of those investees [MFRS 127.17(b)(ii), MFRS 101.138(a)]. Typically, most entities disclosed the country of incorporation and not the principal place of business. |
| **Related party transactions** | Non-disclosure of, amongst others, the amount of outstanding balances and the amount of transactions between related parties [MFRS 124.18]. |
| **Share capital** | Non-disclosure of par value for each class of share capital. It is noted that the Companies Act 2016 abolished the concept of authorised share capital and par value of share capital. However, as per requirement of MFRS 101, if there is no par value, the Company shall state that the shares have no par value [MFRS 101.79(ii)]. |
| **Tax expense/(income) and/or deferred tax** | Non-disclosure of deductible temporary differences, unutilised tax losses and unutilised tax credits of which no deferred assets are being recognised [MFRS 112.81(e)].<br><br>One should also be wary of the need to disclose the expiry date (if any) of the aforementioned items. |

## CONCLUSION

These are challenging times for those involved in the financial reporting process considering the ever-changing economic conditions, particularly the impacts of the unprecedented COVID-19 pandemic either direct or indirect. From a financial reporting standpoint, there are expectations that the financial statements should state clearly whether and how the entity's operations are being affected by the COVID-19 pandemic. In line with their respective responsibilities, those involved in the financial reporting process should work hand in hand to improve the quality of financial reporting and to provide users with balanced and useful information on the financials of an entity.

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

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

In responding to the FSRC's enquiries, parties concerned are encouraged to consider the following:

| | | |
|---|---|---|
| **Order** | ◂ | **Address all questions in the sequence provided.** |
| **Time** | ◂ | **Provide responses within the given deadlines.** |
| **Consistent** | ◂ | **Provide consistent facts and explanations.** |
| **Clear** | ◂ | **Be clear in explaining the entity's circumstances and the substance of transactions.** |
| **Transparent** | ◂ | **Be transparent in sharing the basis for management's judgements.** |
| **Tone** | ◂ | **Be willing to consider different viewpoints** |

Whilst the FSRC continues to inform and educate members on good presentation and disclosure practices, its actions will be guided by its penalty tariff that depends on the severity of non-compliances. This comes back to its primary objective to monitor compliance in financial reporting, in supporting the Institute to regulate the practice and strengthen the credibility of the accountancy profession in Malaysia. This in turn protects the public interest and supports the Institute's overarching purpose of nation building.

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

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

# Malaysian Tax Conference: Rebuilding the Economy Together

at-mia.my/2021/03/17/malaysian-tax-conference-rebuilding-the-economy-together

March 17, 2021

The COVID-19 pandemic in the year 2020 cut a swathe through the Malaysian economy, resulting in a health, socioeconomic and humanitarian crisis. Yet, it also helped accelerate global digital adoption and buoyant growth in e-commerce. To ensure Malaysia's relevance and competitiveness in the global digital economy, the government recently announced the MyDigital and the Malaysia Digital Economy Blueprint. While these initiatives are highly welcome to help boost the country's economy, they also require funding from tax revenues. This will place a heavier burden of tax compliance, tax risks, and tax governance on businesses, particularly in a still fragile economic environment.

MIA President, Dr Veerinderjeet Singh, has stressed on the importance of enhancing tax governance and compliance to better manage tax risks amidst strengthening enforcement of the tax legislation, as the tax authority strives to meet collection goals to support heavier government stimulus and welfare spending. In light of global tax regulation reforms through multilateral frameworks such as the OECD/G20 Inclusive Framework on base erosion and profit shifting (BEPS) and 'blueprints' on Pillar One and Pillar Two, he has also advised organisations to rethink their tax policies strategically to reduce risks, strengthen business continuity and gain trust as model taxpayers and good corporate citizens which act in the public interest.

The upcoming Malaysian Tax Conference 2021 will feature Dr. Veerinderjeet Singh in an in-depth session on tax governance. The Conference will also focus on the salient risks as well as the key global and local developments in taxation affecting businesses, where an expert panel of speakers will share best practices to aid businesses in understanding and implementing tax transparency and tax governance policies and strategies.

Delegates can expect to hear from Malaysian tax experts and representatives from the Ministry of Finance, Inland Revenue Board of Malaysia and the Royal Malaysians Customs Department on the following:

- The latest taxation landscape and the Malaysian economic outlook for 2021 and 2022
- Current tax reforms and how these will benefit organisations in the long run
- Emerging drivers and tax audit risks and the sound knowledge and rules to help navigate them
- Value-added opportunities, as well as the crucial and fundamental need for tax transparency and tax compliance among corporations
- New developments geared towards preparing businesses to embracing a fully-digitalised economy in the near future

*The Malaysian Tax Conference organised virtually will take place from 6 to 7 April 2021 and is the collaborative effort of the Malaysian Institute of Accountants (MIA) and the Malaysian Association of Tax Accountants (M.A.T.A). The conference carries 14 CPE hours and is HRDF claimable. Also, 20 CPE points is awarded whereby the points qualify for the purposes of application or renewal of tax agents under Subsection 153(3), Income Tax Act 1967. Click HERE for more information.*

# MFRS 3: Purchase Price Allocation in a Business Combination

at-mia.my/2021/03/10/purchase-price-allocation-in-a-business-combination-under-mfrs-3

March 10, 2021

*By Sukh Deve Singh Riar*

***Summary***: *The article provides an overview on the practical aspects of purchase price allocation (PPA) including how fair values of intangible assets and goodwill are ascertained on a business combination event under MFRS 3. It also discusses the reasonable test of PPA by examining the Weighted Average Return on Assets (WARA), Weighted Average Cost of Capital (WACC) & Internal Rate of Return (IRR) relationship and concludes by describing the critical informational value of PPA exercise.*

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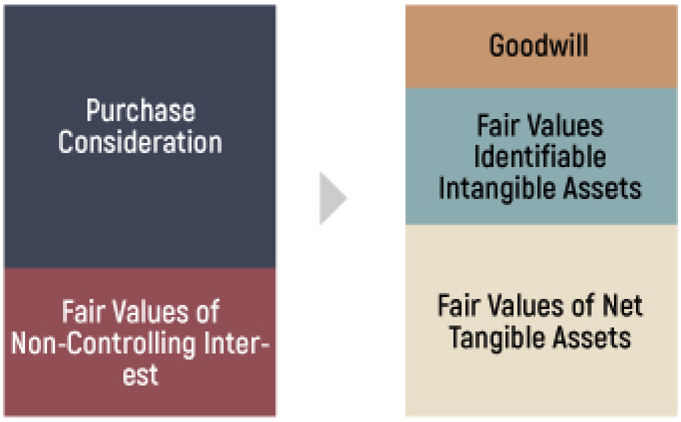
Corporate mergers and acquisitions are often justified to give rise to operating and financial synergies and usually results in premium purchase price, while, in a forced sale, it is likely to result in discounts. Whatsoever may be the purchase price outcome of the acquisition that results in controlling stake in the target company, the acquirer is bound to recognise identifiable asset, assumed liabilities and any non-controlling interest in the acquiree at their fair values on the acquisition date, except if the transaction is outside the scope of MFRS 3.

It is common for the acquiree to have unrecognised inherent intangible assets embedded within its business DNA, however, on a business combination event, the combining entity shall ascertain these intangible assets at their fair values and determine goodwill or bargain purchase of the acquisition.

MFRS 138 states that intangible asset is an identifiable non-monetary asset without physical substance, while goodwill is non-identifiable as its non-separable nor that it is obtained from any contractual or legal rights though it represents future economic benefits from other assets of the acquiree.  Fair value,  is the price that one would receive to sell an asset and paid to transfer a liability in an orderly transaction between market participants at the measurement date and in the case of non-financial assets it shall be measured at its highest and best use (HABU) basis.

The fair values of identifiable intangible assets (IIAs) of the target company has to be ascertained and recognised on a business combination event to distinguish it from goodwill. This is done through the Purchase Price Allocation (PPA) process, that results in goodwill as the residual value after price allocation (see **Figure 1**). The valuation techniques that are applied to unfold the fair values of IIAs can be broadly categorised into market, cost and income approach.

**Figure 1:** Purchase Price Allocation




### Market Approach

The market approach valuation applies the price of recent similar market transactions at the arm's length for the IIA.  This can be the case for generic software developed by the acquiree for its internal use.  This method is suitable to value IIAs if there is readily available recent market data for similar assets to determine fair value with adjustments for any difference between the comparable asset and IIA.  The fair values obtained through market approach are not adjusted for tax amortisation benefit factor (TAB) as it assumed the underlying market data reflect income tax effects.

### Cost Approach

The cost approach is based on the cost of reproducing or replacing the IIA whilst factoring in its deterioration or obsolesces.  It is less robust in comparison to the market and income approach as it ignores the future benefits to be derived from the asset that may influence the price a buyer is willing to pay.

TAB may be applicable for assets under cost approach and the following must be considered when applying TAB factor, i.e.: –

- whether the tax jurisdiction permits for the asset tax amortisation;
- the method of tax amortisation – straight line or reducing balance method;
- the use of end-year or mid-year discounting;
- the income tax rate;

- the useful tax life of the asset; and
- whether the cost to reproduce or replace the asset were obtained from observed market data as it would be safe to assume that tax effects are reflected in market estimates.

### Income Approach

Under this method, the IIA fair value is determined by converting the future free cash flows over the remaining useful life of the asset to a single present value at a risk-adjusted discount rate (DCF method). Some of the common variants of DCF techniques applied for intangible asset valuation are relief from royalty method (RFRM) and multiperiod excess earnings method (MPEEM).

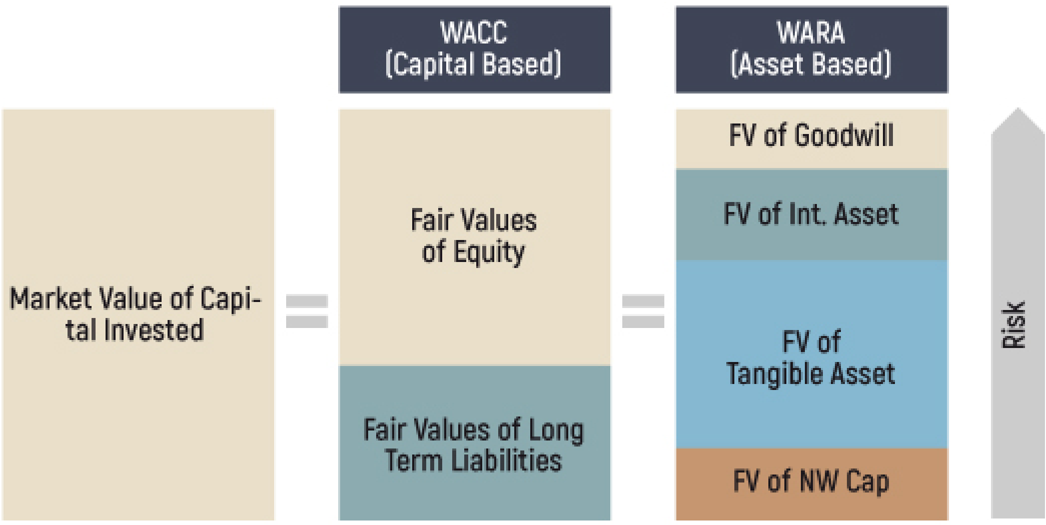
The RFRM derives the value of the intangible asset the from present value of royalties saved after tax for owning the assets, for example controlling brands, patents or trademarks of the target company. While the MPEEM estimates the value of an intangible asset from the residual cash flow of several periods of cash flows after excluding for contributory asset charge (CAC) and taxes.

It's often the case for intangible assets not to produce income on its own without teaming up with other assets and CAC represent that economic charge for the use of other assets (contributory assets) to generate cash flow or income for the subject intangible asset, for e.g. net working capital, fixed assets including other intangible assets such as assembled workforce. Nevertheless, accounting standards are explicit to exclude the recognition of assembled workforce as an IIA due to its inability to meet the exit notion under the definition of identifiable and fair value and sum it into goodwill.

### WACC, WARA & IRR

It is essential in the PPA exercise that the risk profile of the target company's fair valued assets is estimated diligently irrespective of the valuation method adopted. The stratification of the target company's assets rate of return should show goodwill as the riskiest and net working capital as the lowest one following the liquidity of the asset:

**Figure 2:** WACC -WARA Commonality *(Source: Rath (2012)*



The reasonableness of the target company's assets return is tested by comparing its Weighted Average Cost of Capital (WACC) against its Weighted Average Return of Assets (WARA), where both should typically be the same. This is because WARA being the rate of return for individual assets must equal the rate of return expected by capital providers. Thus, any significant discrepancies between the two reflect fundamental errors in the underlying assumptions of the assets risk profile in deriving their fair values.

Another test that can add reasonableness to the outcome of PPA is the comparison of the acquisitions implied Internal Rate of Return (IRR) with the target company's WACC. The IRR shall equal the WACC where purchase consideration equals to the fair value of the target company's net assets while IRR will be less than the WACC in the event of purchase goodwill and the reverse for a bargain purchase.

## Intangible Asset & Goodwill

As a general rule, all intangible assets with finite life shall be amortised over its useful economic life to the income statement or absorbed into the cost of producing other assets, whilst intangible asset with indefinite life including goodwill is not amortised but their fair values are to be tested regularly. Amortisation method and period of finite useful life intangible assets must be reviewed at each financial year end, whilst intangible assets with indefinite useful life must be reviewed annually to determine its properties to remain indefinite. In any event, an intangible asset is disposed or has lost its ability to generate future economic benefits it shall be derecognised immediately.

Intangible assets with indefinite useful life and goodwill are subjected to annual impairment testing while one with finite life shall be assessed at the end of each reporting period whether there is any indication that it may be impaired and if there is, then to test it for impairment.. Remember, goodwill does not generate income on its own but in combination with other assets and are not separately identifiable, thus any goodwill impairment testing must be done with the respective cash generating unit or group of assets annually at the same time.

On the other hand, the current COVID-19 pandemic appeared to have triggered indications that assets may have impaired for many businesses, but of course, there are exception to this, say businesses involved in toilet tissue or rubber glove production.

## Conclusion

Care must be exercised in taking the meaning of fair values in PPA and financial reporting as it differs significantly from the strategic investment and financial views considered in an acquisition itself. It is an accounting perspective, wherein the case of non-financial assets it's done on HABU basis and is not an intrinsic value of assets.

The entire exercise of PPA and fair valuation in a business combination is a laborious one. There are many accounting and corporate finance challenges posed by the exercise as many assets and liabilities do not have active market prices. The accounting standards does lend flexibility and discretion to businesses in the initial recognition and subsequent treatment of intangible asset and goodwill.  The flip side of this i.e. it may leave room for managers abuse depending on how they are incentivised.

Yet it emits useful information to assess the amount, timing and risk of future earnings including the perception of the acquisition quality, for e.g. evidence of excessive goodwill may indicate overpayment and subsequent higher future impairment loss.  Overall PPA serves the aim to reduce the symmetry of information between managers and capital providers and contributes towards better governance, transparency and protection of capital providers' interest.

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***Sukh Deve Singh Riar*** *has a Master of Applied Finance (Macquarie University, Australia) and Master of Business Administration (University of Nottingham, UK) and is a corporate finance professional involved in real estate and infrastructure financing.*

# MIA Member Satisfaction Survey 2020: Nearly 80% of MIA Members are Satisfied with MIA's Value and Services

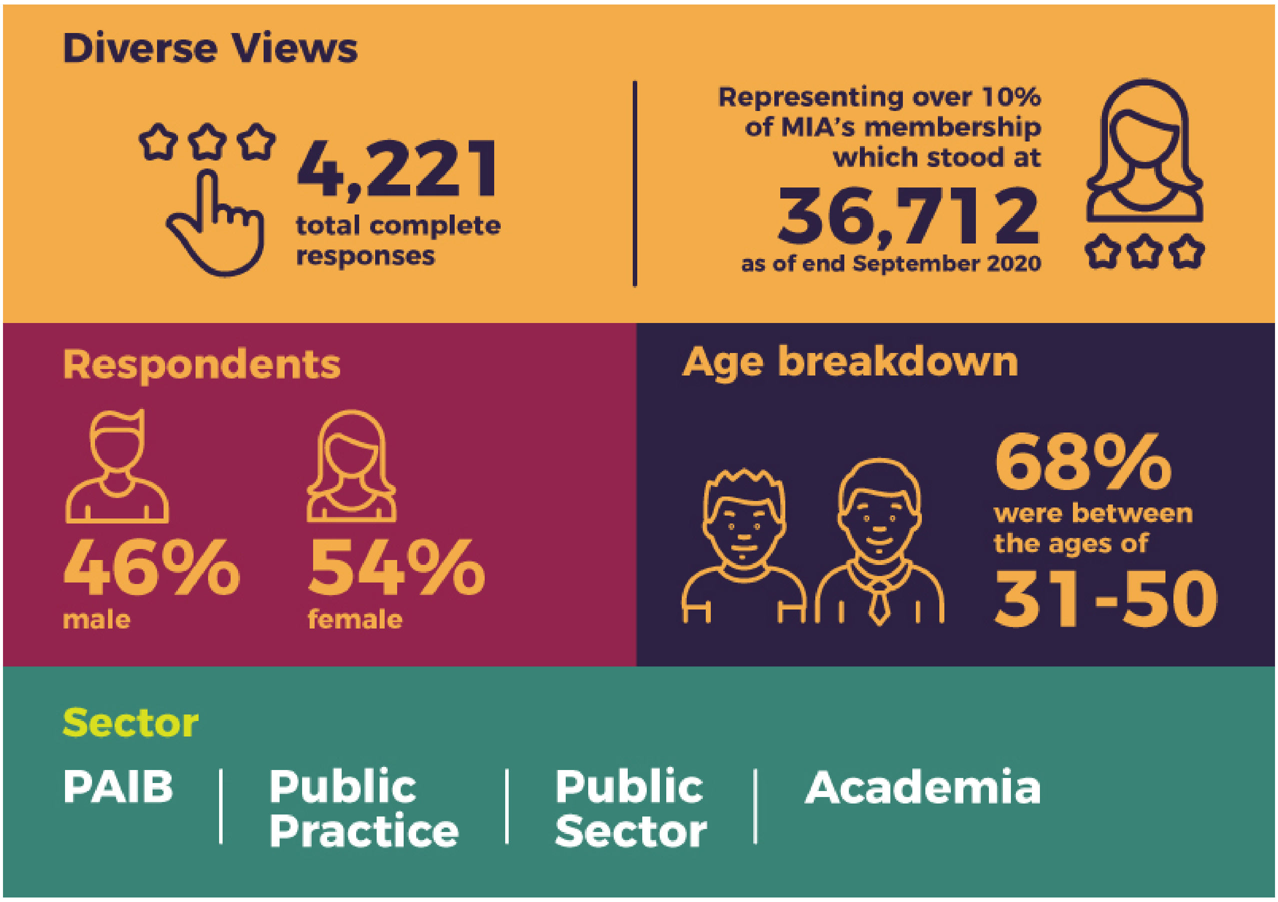
at-mia.my/2021/04/12/mia-member-satisfaction-survey-2020-nearly-80-of-mia-members-are-satisfied-with-mias-value-and-services

April 12, 2021

*By Nazatul Izma*

Backed by a data-driven mindset, MIA engages actively with all its stakeholders to collect and analyse relevant data that will shape its strategies and actions.

One of MIA's most important member engagement platforms is the Member Satisfaction Survey, which aims to hear from members on how MIA can best support their professional aspirations. Importantly, the survey findings gauge the adequacy of MIA's value propositions for the members and profession's development, and help MIA tweak its strategies and services.




Overall, the findings indicated that members are on the whole satisfied with MIA's value propositions and advocacy. The following are some highlights of the 2020 survey results, compared where relevant with the 2018 survey findings:

**High satisfaction and Pride of Association with MIA**

- 79% of the overall respondents are satisfied with the Institute, the same as in 2018.
- 82% of the respondents are proud to be a member of MIA, slightly above the 81% recorded in 2018.
- High retention: More than 64% of the respondents said that they would still maintain their MIA membership if it is not mandatory, compared to 63% in 2018.

**High satisfaction with the Institute's efforts to transform the profession**

More than 74% of the respondents are satisfied that the Institute's efforts will support the profession's future relevance, slightly up from 73% in 2018.

**High satisfaction with COVID-19 content and communications**

87% of respondents are satisfied with the resources and updates provided by the Institute on the recent COVID-19 crisis.

**To enhance upskilling through webinars**

According to the survey, only 44% of respondents have participated in MIA online webinars, even though MIA provided financial support and pricing concessions for CPE programmes, especially for members affected by the COVID-19 economic crisis. MIA will continue to improve member awareness of e-learning and support access to online webinars to deliver enhanced upskilling that complies with COVID-19 SOPs. “We aim to attract more members to attend online webinars that will also support their digital adoption and comfort with digital culture. This is especially important as the government has announced its MyDigital and the Malaysia Digital Economy Blueprint to drive the nation’s digital transformation and connectivity,” affirmed Dr. Nurmazilah.

**High MMS Adoption**

More than 85% of the respondents have activated their login at the MIA Member Services (MMS) portal. Further, 26% of the respondents find the MMS portal user friendly and 60% of the respondents find it manageable. “MIA is working to improve the user experience and user-friendliness of the MMS portal for the benefit of members,” said Dr. Nurmazilah.

**Sustained Brand Recognition**

62% of the respondents are satisfied with the Institute’s media publicity and branding efforts to create awareness of its membership and activities, down from 64% in 2018. MIA will continue to strengthen its branding and visibility to improve its value proposition and communicate the value of the membership and the profession.

**Increased Awareness of ASEAN CPA Mutual Recognition**

More than 61% of the respondents know that qualified MIA members may register as ASEAN CPAs, a significant improvement over 39% of 2018 respondents. MIA will work to increase awareness as this will support the mutual recognition of accountancy services and the growth of the ASEAN economic community.

## MIA to Create More Value

“MIA is committed to delivering increased value to members and will take the survey findings and members’ suggestions into consideration in crafting its initiatives and advocacy,” stated Dr. Nurmazilah.

One key feedback from members is to increase the perceived value of MIA membership and the profession among the global, regional and local business communities, employers, accountancy talents, and the public.

MIA is continuously working to heighten and articulate its value proposition, emphasised Dr. Nurmazilah. One strategy is to further strengthen enforcement to protect members’ interests and improve the profession’s reputation. This includes cracking down further on bogus accountants and auditors.

MIA is also focusing on creating value by advocating for transformation, in order to ensure the profession's future relevance. Going forward, members can expect MIA to announce and roll out more initiatives for transformation under MIA's advocacy for the Future Relevance of the Accountancy Profession (FRAP).

Transformation encompasses digital adoption as well, which is steered by the MIA Digital Technology Blueprint and facilitated by initiatives such as the recent Illustrative MPERS e-Book and the eConfirm.my platform for online bank confirmations. "MIA has provided many services through digital channels and platforms such as the MMS portal. As the nation accelerates its own transition to a digital economy, I strongly advise members that have not yet used MMS portal to activate their log-in and start on their journey of digital transformation," stressed Dr. Nurmazilah.

Dr. Nurmazilah also emphasised the importance of supporting continuing professional development for members, especially those affected by the COVID-19 crisis. "Members must be equipped with the right competencies in order to fulfil their roles as business advisors to companies that are increasingly going digital in a complex and uncertain environment," she said. Adding that MIA is committed to uplifting members' wellbeing, Dr. Nurmazilah said that MIA will continue to organise complimentary webinars and provide financial support and pricing concessions for CPE programmes to qualified members, in addition to other COVID-19 related support and guidance.

In concluding, she thanked all MIA members who participated in the MIA Member Satisfaction Survey 2020. "MIA strongly believes that our initiatives and actions must be based on data. Our members' feedback will inform our initiatives to improve their efficiency and effectiveness, for the wellbeing of members and the sustainability and relevance of the profession in Malaysia."

# MIA Women Leadership Conference 2021

at-mia.my/2021/04/16/mia-women-leadership-conference-2021

April 16, 2021

The COVID-19 pandemic did not just change the world and how we work and live, but it forced women to become even more agile, adept and resilient in balancing work and family.

With the shift to remote work from home, women found that they were not only spouse, parent and daughter, but employees supporting business operations, home-school teachers and online learning tutors while workplaces and schools were temporarily shut. Even as the economy recovers, many employers indicate that they will be retaining many aspects of work from home, and this will have an outsized impact on women as the pillars of family and the home.

The MIA Women's Leadership Conference 2021 examines the unique issues and concerns facing women leaders today, and asks what technologies, skills and support systems can be deployed to help women adapt to the new norms – and excel as leaders – post-COVID-19. Featuring a stellar line-up of exceptional women who will share their insights and stories, this one-day Conference will cover:

- **Digital Transformation** – how can women leverage on digital technologies and tools to become more effective professionals and leaders? What are the opportunities and challenges facing women in the digital space? And importantly, how can women support the digital transformation agenda to facilitate the development of their families, their organisations and the society and economy as a whole?

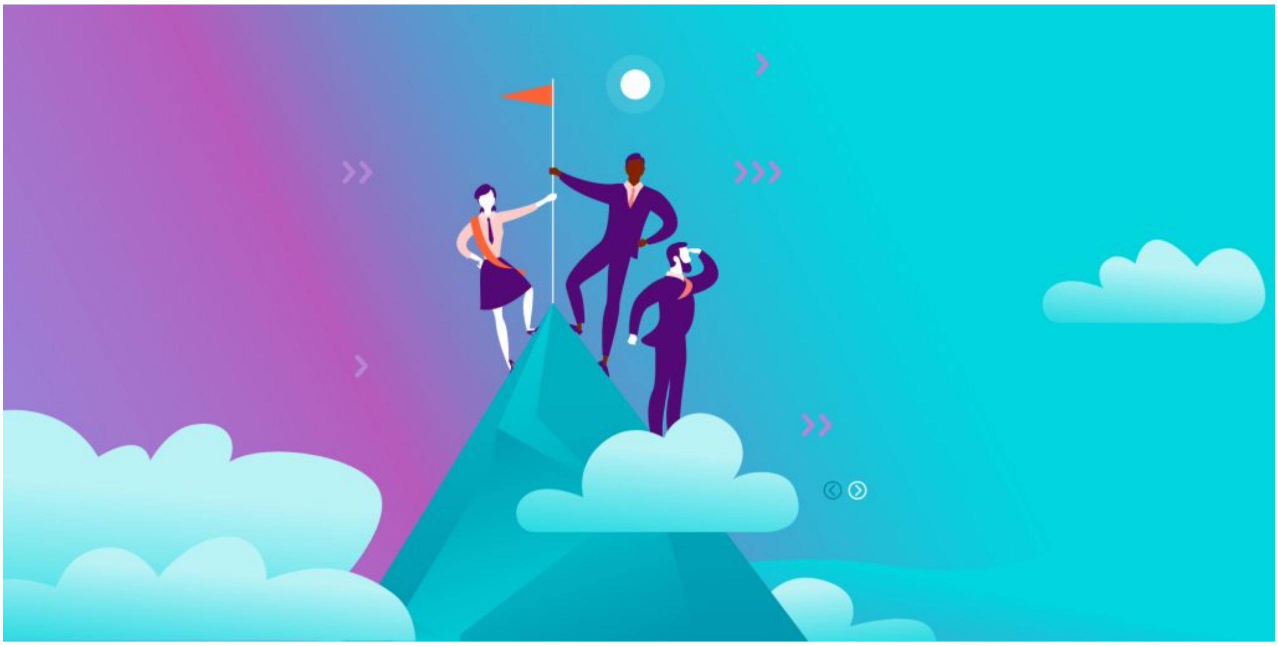
- **ESG Diversity Strategies** – Gender diversity is a key element of ESG (environmental, social and governance) and companies should be actively and authentically working to enhance women's participation and contribution under their ESG agenda. This session discusses how companies should frame gender diversity and ESG principles and strategies at Board level, along with the inclusion of more women at Board and senior management level for better representation of women's interests and stronger tone at the top.
- **The Rise of Women in Finance** – Increasingly complex finance functions and roles requires competent and able leadership. This session features prominent and rising women leaders in finance who will share on their roles and responsibilities, and the opportunities and challenges available for women to shine and grow in this dynamic segment.
- **Success Roadmaps** – This special interview features a mystery guest who will talk about their journey to success and share tips for becoming high-achieving women leaders.
- **Creating An Inclusive Workspace for Sustainable Business –**Retaining talent at the workplace, especially women, has become even more daunting due to the effects of the global pandemic. However, companies can remedy this by offering a more inclusive workplace environment for their women talents. This topic highlights key elements in creating an inclusive workspace, covering areas of recruitment, retaining and promoting women leaders for sustainable business and continuous economic recovery
- **Striving for Leadership, Writing Your Own Future** – End the Conference on a high note as you listen to high performers from sports, science and technology, who will help motivate you to find your own path that is rewarding, balanced and authentic.

***The MIA Women's Leadership Conference 2021 will be held on 28 April 2021 from 9.00 a.m. – 5.00 p.m. Click here for more information.***

# Practice Review: Key Findings on “Leadership Responsibilities for Quality within the Audit Firm”

at-mia.my/2021/04/01/practice-review-key-findings-on-leadership-responsibilities-for-quality-within-the-audit-firm

April 1, 2021



“*Leadership Responsibilities for Quality within the Audit Firm*” represents the first element for system of quality control as prescribed in the International Standard on Quality Control 1 (ISQC 1). Indeed, the leadership of an audit firm constitutes one of the key factors affecting the audit quality of the firm; a leadership with strong commitment to improving and maintaining quality control results in the firm achieving quality in the audit engagements conducted.  It is the responsibility of the leaders of the audit firm to promote a quality-oriented work culture where commercial considerations do not override the quality of work performed and to assume ultimate responsibility for the firm’s quality control system, as the auditor’s integrity will be compromised if commercialisation is prioritised over professionalism in the audit work.

This article intends to provide additional awareness to our members specifically for this element of ISQC 1 – Leadership Responsibility for Quality, via the findings of practice review observed from 1 July 2020 to 31 December 2020. The findings shared from the Practice Review Department (PRD) have significant educational content and are beneficial to practitioners. They serve to guide practitioners in training their staff and alerting them to many pitfalls that may derail them in the course of carrying out their work according to the policies and procedures of the firm.

## KEY FINDING 1

The audit firm had no formal system of quality control in place and there was no indication that the firm had established policies and procedures designed to promote a culture emphasising that quality is essential in performing audit engagements, at the firm's head office as well as the branch offices.

Furthermore, there was no documentation evidencing the operation of each of the six elements of the system of quality control pursuant to the International Standard on Quality Control 1 (ISQC 1) as follows:

- Leadership responsibilities for quality within the firm
- Relevant ethical requirements
- Acceptance and continuance of client relationships and specific engagements
- Human resources
- Engagement performance
- Monitoring

## KEY FINDING 2

The engagement partner's involvement in and review of each engagement to ensure that the firm's quality standards were met were not evident, including the partner's supervision of critical audit areas and contentious matters identified.

## KEY FINDING 3

The audit firm had established a Quality Control Manual in relation to the quality control policies and procedures of the firm. However, the following findings were identified based on our review:

- The importance of audit quality was not consistently emphasised to the audit staff as evidenced from the lack of discussion on this area in the minutes of meetings from the head office;
- The deed of adherence was signed upon admission of a new partner, but it was not officially stamped;
- Evaluation criteria set out in the partner evaluation form may not reflect the key performance indicators of the partners laid out in the group partnership agreement; and
- All audit staff are expected to confirm that they have read, understood and complied with the firm's policy. However, exceptions were noted based on samples that were selected for practice review.

**KEY FINDING 4**

The firm had established its quality control policy and procedures as evidenced in the Audit Practice Manual (Manual). However, the following deficiencies were identified:

- No indication of review or update to the Manual since its issuance. Several annexures (i.e. templates, checklists or forms) were enclosed in the Manual but were not cross-referenced to the corresponding policy and procedures to ensure that audit staff are aware of the expected documentation required for each element of the ISQC 1;
- Confirmations from staff to indicate that they have read and understood the firm's policies and procedures were not obtained;
- No documentary evidence on management meetings or internal communication to staff in communicating the importance of audit quality within the firm;
- Partnership agreement and partner evaluation forms were not put into practice; and
- Inadequate documentation to evidence the operation of certain elements of the quality control system as stated in the ISQC 1.

## Recommendations from PRD

According to the ISA 220, the engagement partner shall take responsibility for the overall quality of each audit engagement. It is also required by the ISQC 1 that the firm's leadership should assume ultimate responsibility for the firm's system of quality control. The 'tone at the top' is a significant influence on the creation of a firm's desired culture. Therefore, the importance of quality control should be consistently emphasised, communicated and demonstrated by those in a leadership position to the personnel to promote quality in engagement performance.

Policies and procedures in respect of various elements in the system of quality control should be developed, documented and maintained by means of a standard quality control manual. This manual should be made available to all staff so as to ensure that audit quality is consistently maintained for all the firm's audit engagements conducted. Compliance with these policies and procedures should provide the firm with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and to enable the issuance of auditors' reports that are appropriate. The compliance with the firm's policies and procedures should also be documented to facilitate the monitoring of the system of quality control.

Pursuant to the ISQC 1 (18), the firm shall establish policies and procedures designed to promote a culture recognising that quality is essential in performing engagements. Such policies and procedures shall require the firm's chief executive officer (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent) to assume ultimate responsibility for the firm's system of quality control.

As further explained in the ISQC 1 (A4), the firm's leadership and the examples it sets significantly influence the internal culture of the firm. The promotion of a quality-oriented internal culture depends on clear, consistent and frequent actions and messages from all levels of the firm's management that emphasise the firm's quality control policies and procedures, and the requirement to:

(a) perform work that complies with professional standards and applicable legal and regulatory requirements; and

(b) issue reports that are appropriate in the circumstances.

Such actions and messages encourage a culture that recognises and rewards high quality work. These actions and messages may be communicated by, but are not limited to, training seminars, meetings, formal or informal dialogue, mission statements, newsletters, or briefing memoranda. They may be incorporated in the firm's internal documentation and training materials, and in partner and staff appraisal procedures such that they will support and reinforce the firm's view on the importance of quality and how, practically, it is to be achieved.

Conclusion: The MIA through its surveillance arm, the PRD, wishes to emphasise that the findings above are non-exhaustive. These findings merely serve as guidance for auditors to understand the key leadership responsibilities for quality to be implemented in the journey to achieving audit quality in their firms. Audit firms are encouraged to comply strictly with procedures and all the relevant professional standards and regulations on auditing, as these will act as a firewall against risks and hazards when they are applied in a holistic manner.

***Reminder to audit firms:** Firms are advised to study the requirements of the International Standard on Quality Management 1 (ISQM 1) as audit firms will be required to design and implement a system of quality management in compliance with the ISQM 1 by 15 December 2022.*

# Risk Management Conference 2021: Navigating Challenges in Unprecedented Times



March 30, 2021

As the world's economies continue to grapple with the economic aftereffects of COVID-19, organisations too face unprecedented tumult and uncertainty. This accelerates challenges in risk management which threaten business continuity and enterprise sustainability.

In a time when most organisations are beginning to rebuild and recover, they are also at a higher risk of disruption which includes the growing risk of cyberattacks. This necessitates that they reappraise how they address their risks and customise their risk management strategy in order to mitigate these complexities and sustain their operations.

In response, organisations must equip themselves with a 360-degree approach in risk management while reassessing and reforming their governance system and structures to strengthen risk controls, ethical business practices and organisational sustainability.

The upcoming virtual MIA Risk Management Conference 2021 will provide a platform for discussion on the latest developments and best practices in risk management, and what will be needed to forge an agile and resilient enterprise in navigating this new normal.

Conference delegates can look forward to:

- Identifying and structuring a formula for enterprise resilience.
- Mapping out strategies essential to business operations and continuity.
- Understanding the various categories of risks that threaten organisations in the challenging business environment of the new normal.

- Learning about best practices and solutions for enhancing risk management and organisational sustainability in an uncertain and highly disruptive digital environment.
- Developing an effective risk strategy for the climate crisis which poses an existential threat to people and businesses.

### Conference Highlights

The Risk Management Conference 2021 will focus on the following areas.

*Enterprise resilience and agility while navigating key emerging risks and areas of threat* – Understand the risks, formulas and tools available to enhance business continuity and enterprise sustainability such as:

- Why risk managers should reassess their business models for enterprise resilience that also integrates digital transformation.
- The role of top management in advocating for ethical behaviour and zero tolerance of misconduct, and what tools should be enhanced to support compliance and good governance.
- How businesses can mitigate risks in different recovery scenarios and manage financial impacts.
- Best practices and solutions for enhancing risk management in an increasingly digitalised environment.
- Devising solutions for supply chain challenges.
- The risks of rightsizing, including the need to manage the impact on brand and reputation as well as to optimise productivity and business continuity with limited resources.
- How businesses can transfer their risk exposure to insurance companies, along with tips on reducing insurance cost and innovative solutions to address uninsurable risks.
- Enhancing risk management with data analytics and predictive analysis to better understand potential risks and returns and enable more agile and robust decision-making.

***Don't miss the virtual Risk Management Conference 2021, happening on 21 & 22 April 2021 (Wednesday & Thursday) from 9.00am – 1.15pm. Click HERE for more information.***

# Road to Recovery: Government Introduces New Economic Recovery Programme Worth RM20 Billion

at-mia.my/2021/03/18/road-to-recovery-government-introduces-new-economic-recovery-programme-worth-rm20-billion

March 18, 2021

On 17 March 2021, Prime Minister Tan Sri Muhyiddin Yassin announced a new economic recovery programme worth RM20 Billion to curtail the spread of COVID-19, drive economic recovery, strengthen national competitiveness, ensure a regional and community inclusion agenda and transform the economy.

The Program Strategik Memperkasa Rakyat dan Ekonomi (Strategic Programmes to Empower the People and Economy) or Pemerkasa, includes an additional RM11 billion fiscal injection from the government with five main thrusts and 20 strategic initiatives.

The Government has announced six assistance packages to date – Prihatin worth RM250 billion, Prihatin SMEs (RM10 billion), Penjana (RM35 billion), Kita Prihatin (RM10 billion), Permai (RM15 billion) and now Pemerkasa (RM20 billion). The total value of the aid packages amounts to RM340 billion.

Below are highlights of the key initiatives on supporting business continuity, digital inclusivity and wellbeing of vulnerable segments that are especially relevant for MIA members:

FOCUS AREA 01

# CURTAILING THE SPREAD OF COVID-19

INITIATIVE

03

## Strict and Transparent Law Enforcement Initiative


The government introduced an additional tax deduction of up to RM50,000 on rental expenses to be incurred for premises and hostels for workers. This incentive will be given to manufacturing companies and manufacturing-related service companies. These companies need to be registered with MITI and must have passed Safe@Work audit compliance. The voluntary registration date commences on 1 April 2021. Other than supporting businesses, this deduction is to incentivise the said companies to participate in the Safe@Work initiative aimed at protecting workers and upholding labour rights.

Employers will also be given an additional tax deduction on the COVID-19 screening test expenses incurred for their employees until 31 December 2021.

| | |
|---|---|
| ADDITIONAL TAX DEDUCTION<br>**RM50,000**<br>for premises and hostels for workers | Additional tax deduction for employers on the<br>**COVID-19 SCREENING**<br>TEST EXPENSES |

FOCUS AREA 02

# DRIVING ECONOMIC RECOVERY

INITIATIVE
05

## Special Prihatin Grant 3.0

Under the Geran Khas Prihatin (GKP) 3.0 initiative, eligible micro and SME enterprises left out of the previous package will receive a one-off payment of RM1,000 to help them revive business operations following the economic impact of the COVID-19 pandemic. Registrations for GKP 3.0 will open from April 1 and will benefit one million entrepreneurs.

Micro and SME enterprises left out of the previous package will receive
**RM1,000**
**ONE-OFF PAYMENT**

INITIATIVE
06

## Micro Credit Financing

Under the PEMERKASA stimulus package, an additional RM500 million will be allocated for micro and small and medium enterprises (SME) financing facilities under Bank Simpanan Nasional (BSN), TEKUN Nasional, MARA and SME Corp. RM300 million will be channelled via BSN with a funding limit of RM50,000 at a reduced interest rate of 3% from 3.5% previously.


**ADDITIONAL**
**RM500**
**MILLION**
will be allocated for micro and SME financing facilities

Reduced interest rate of
**3%**
**FROM 3.5% PREVIOUSLY**

For entrepreneurs in the informal sector, TEKUN will provide additional funding of RM60 million, primarily through the Informal Funding Scheme with a financing limit of RM5,000 for small-scale businesses operating from home and night markets.

TEKUN will also launch the TEKUN POS-preneur programme, whereby applicants will be able to generate income through delivery contracts. Financing assistance of up to RM20,000 will be provided for the purpose of vehicle repairs, and up to RM50,000 for purchases of vans or lorries.

TEKUN will provide additional funding of **RM60 MILLION**

**FINANCING ASSISTANCE UP TO RM20,000** for the purpose of vehicle repairs

**FINANCING ASSISTANCE UP TO RM50,000** for purchases of vans or lorries.

RM50 million will be channelled via MARA's Micro Prihatin Business Financing Scheme, targeted to assist 1,000 Bumiputera micro-SMEs to ensure business continuity, with a financing limit of RM50,000 at an interest rate of 3%.

SME Corp will provide RM50 million to assist local SMEs in obtaining funding of up to RM250,000 at an interest rate of 3%.

**RM50 MILLION** to assist 1,000 Bumiputera micro-SMEs

**RM50 MILLION** to assist local SMEs in obtaining funding

Bank Negara Malaysia has increased the Targeted Assistance and Rehabilitation Facility by RM2 billion to assist SMEs in obtaining loans for business continuity, and the Automation and Digitisation Facility by RM700 million to support SME digital transformation.

**RM2**
**BILLION**
to assist SMEs in obtaining loans for business continuity

**RM700**
**MILLION**
to support SME digital transformation

An additional RM50 million in funding will be provided under the Malaysian Investment Development Authority (MIDA)'s Smart Automation Grant, to encourage more SMEs and mid-tier companies to leverage technology to improve their operational efficiency.

**RM50**
**MILLION**
for SMEs and mid-tier companies to leverage technology to improve their operational efficiency


RM50 million will also be allocated to the Industry4WRD programme under the Ministry of International Trade and Industry.

**RM50**
**MILLION**
allocated to the Industry4WRD programme

INITIATIVE

# 07 Job Retention and Wage Incentives

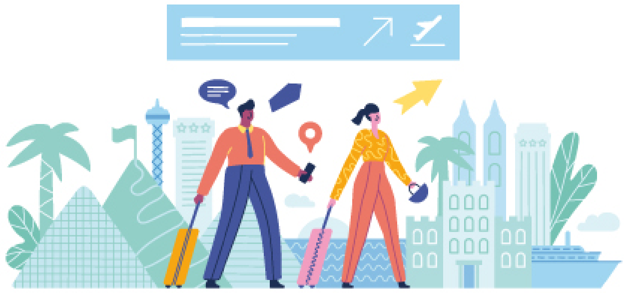
Under this initiative, the Government will introduce subsidies for gig economy employers through PERKESO, with an allocation of RM300 million for 60,000 workers, where each worker will receive RM600 a month for a maximum of 6 months. Employers that offer short term jobs or provide platforms for gig services registered under PERKESO will receive RM200 for every worker placed.

Gig economy employers will receive
**RM600**
**A MONTH**

Employers that offer short term jobs or provide platforms for gig services
**RM200**
**FOR EVERY WORKER PLACED**

INITIATIVE

# 08 Revitalising the Tourism and Retail Sector



Tax exemptions will be offered to the tourism industry, including hotels and travel agencies. This includes cinemas, theme parks, and all affected businesses under the travel industry. A one-off special grant of RM3,000 will be given to more than 5,000 travel agencies registered under MOTAC and a one-off grant of RM600 to homestay owners registered with MOTAC.

**A ONE-OFF GRANT**
**RM3,000**
will be given to more than 5,000 travel agencies registered under MOTAC

**A ONE-OFF GRANT**
**RM600**
to homestay owners registered under MOTAC

Extension of exemption of tourism tax and service tax on accommodations provided by hotel operators until 31 December 2021. Extension of tax incentive to tourism operator companies until year of assessment 2022.

EXTENSION

**EXEMPTION OF TOURISM TAX**

and service tax on accommodations provided by hotel operators

Deferment of tax instalment payments from 1 April to 31 December 2021 to tourism companies and other selected industries such as cinema and spa.

Exemption of entertainment duty on entrance fees to amusement parks, stage performances, sport events and games and cinema film screenings organised in the Federal Territory.

Expansion of scope of special relief on personal tax of up to RM1,000 on expenses incurred for the purchase of tour packages through tourism agents registered with MOTAC.

Exemption of HRDF levy for the affected companies in the tourism sector and retail for the period up to June 2021.

INITIATIVE
09
# Reducing the Burden of Companies and Empowering Cooperatives

Listing-related fees will be exempted for 12 months for companies that are applying to list on the Main, LEAP and ACE Markets of Bursa Malaysia.

The Securities Commission (SC) will improve its regulations based on current developments, including raising the fundraising limit to RM20 million from RM10 million, and expanding equity crowdfunding to include unlisted Berhad companies, to ensure that alternative financing continues to grow.

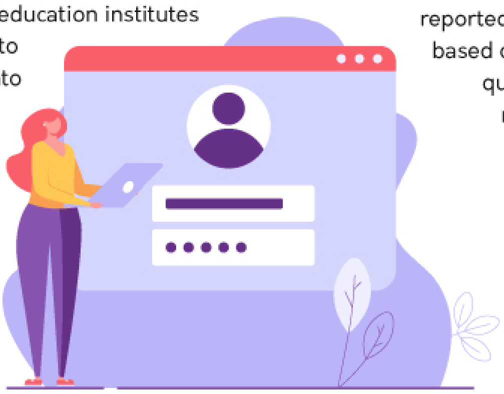
The Securities Commission will improve its regulations, including raising the fundraising limit to
**RM20**
**MILLION**

The Companies Commission of Malaysia (SSM) to increase the threshold of indebtedness from RM10,000 to RM50,000 to reduce the burden of companies facing financial difficulties and the risk of winding up.

The Companies Commission of Malaysia (SSM) to increase the threshold of indebtedness to
**RM50,000**

Free business registration facilities from SSM to the B40 group and full-time students of higher education institutes who wish to venture into entrepreneurship.

Rebates for annual listing fees for 2021 will be given to listed companies that have reported losses based on their quarterly reports.



The Malaysia Co-operative Societies Commission of Malaysia (SKM) will provide financing incentives of up to RM100,000 without the need for collateral to help the affected cooperatives. A total of RM50 million from the SKM's Revolving Capital Fund would be allocated to help more than 14,000 cooperatives.

The Malaysia Co-operative Societies Commission of Malaysia will provide financing incentives of up to
**RM100,000**

The Digitalisation Matching Grant under Bank Simpanan Nasional (BSN) which was previously utilised by companies has also been extended to cooperatives to expand their business activities through digital platforms.

RM50 million allocation for matching grants aimed at developing the aerospace and medical devices industries.

The Government will issue a Sustainability Sukuk valued at no less than US$1 billion (RM4.12 billion), the proceeds of which will go towards funding programmes and projects with elements of sustainability as well as projects that address the socio-economic impact of the COVID-19 pandemic.

**RM50 MILLION**
allocation for grants aimed at developing the aerospace and medical devices industries

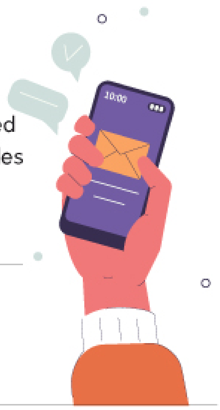
Sustainability Sukuk valued at no less than
**US$1 BILLION**
**(RM4.12 BILLION)**

INITIATIVE

**12**

## Reducing The Digital Gap

The allocation for the Prihatin Network Programme to be launched in May has been increased to RM2 billion. The programme includes a RM300 subsidy for the purchase of smart phones for B40 households with school going children.



**RM2**
**BILLION**
allocation for the Prihatin Network Programme to be launched in May

**RM300**
**SUBSIDY**
for the purchase of smart phones for B40 households

INITIATIVE

**15**

## Income Loss Assistance

An allocation of RM1.2 billion to help those suffering from loss of income, comprising RM500 one-off payments to B40 and Bantuan Prihatin Rakyat recipients earning RM1,000 and below.

**RM1.2**
**BILLION**
to help those suffering from loss of income

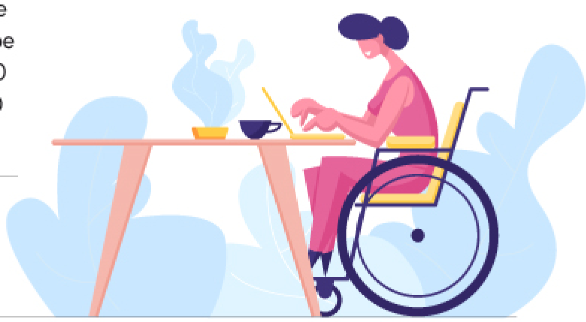
**RM500**
**ONE-OFF PAYMENTS**
to B40 and Bantuan Prihatin Rakyat recipients earning RM1,000 and below

INITIATIVE

**18**

## Prihatin OKU

The maximum eligibility limit on the allowance of disabled workers will be increased from RM1,200 to RM1,500 per month, benefiting around 5,000 persons with disabilities.



Allowance of disabled workers will be increased to
**RM1,500**
**PER MONTH**

An additional RM20 million allocated to strengthen entrepreneurship programmes which come under the purview of the Women, Family and Community Development Ministry, including marketing baked goods and products produced by the disabled and elderly.

Persons with disabilities can register and renew their businesses free of charge with the Companies Commission of Malaysia to encourage them to venture into entrepreneurship.

RM30 million for Small and Medium Enterprises (SME), the Micro SME e-Commerce Campaign and Shop Malaysia Online programme aimed at providing greater opportunities for women entrepreneurs to access online markets and expand their businesses.

RM25 million worth of financing from BSN for persons with disabilities to set up businesses under the ISTIMEWA Microcredit Scheme, with a financing limit of up to RM50,000 at an interest rate of three percent.

**RM20 MILLION**
allocated to strengthen entrepreneurship programmes

**RM30 MILLION**
for SME, the Micro SME e-Commerce Campaign & Shop Malaysia Online programme

**RM25 MILLION**
worth of financing from BSN for persons with disabilities to set up businesses

For more information, please click HERE for the Prime Minister’s speech.

MIA appreciates the Government’s continued efforts to support people and businesses during these challenging times and hopes that our members and member firms will benefit from these initiatives.

The Institute will continue to closely monitor the situation, maintain close communication with the relevant authorities and our stakeholders, and notify members of any future developments.

#STAYSAFE #ACCOUNTABILITY #INTEGRITY

**DR. NURMAZILAH DATO’ MAHZAN**
*Chief Executive Officer*

# Simplifying the Principles of Attribution of Profits to PE

at-mia.my/2021/04/21/simplifying-the-principles-of-attribution-of-profits-to-pe

April 21, 2021


*By Gagan Deep Nagpal and Kushal Agarwala*

## Introduction

Most of the tax treaties are developed and concluded between countries based on a treaty framework published by international organisations such as the Organisation for Economic Co-operation and Development ("OECD") and United Nations ("UN"), among others.

Economic globalisation has led to a significant increase in cross-border trade, and countries are so economically inter-dependent now, that operating without a defined framework on the sharing of taxing rights is an uphill task. Sharing of taxing rights between jurisdictions is essentially determined either based on the concept of residence or source of income, and this discussion is relevant in case the residence status of the taxpayer and his source of income are in two different jurisdictions. For example, Mr. X is a tax resident in Country X and travels to Malaysia to render consultancy services. In this case, the consultancy service income of Mr. X may be subject to taxes in both jurisdictions: in Country X (residence-based taxation) and Malaysia (source-based taxation), unless there are defined rules governing the taxing rights. The taxing rights of the resident country and the source country are defined under a tax treaty for each nature of income separately, such as dividend, interest, capital gain, royalty, technical services, and business income, among others. In this article, we are focusing on the allocation of taxing rights between two countries relating to business income (which is on a net basis of taxation, unlike other types of income that are taxed on the gross basis in the source country). It is a subjective and heavily disputed area in international tax. In case of any disagreement between the treaty countries, any double taxation issues arising out of the attribution of profits to a permanent establishment (“PE”) are usually resolved through the mutual agreement procedures provided in the relevant double taxation agreement (“DTA”).

### How taxing rights work in case of business profits?

For taxation of business income in the source country, there is a need to establish nexus, as the source country does not get the taxing rights merely because a taxpayer resident in another country makes sales in the source country. This nexus gets established through the concept of PE. The preliminary assessment is performed based on defined economic activities thresholds for a PE mentioned in the tax treaty between the resident country and the source country, or the domestic tax provisions of the source country (if no tax treaty exists). There are various types of PE under tax treaties or domestic provisions, such as Fixed Place PE, Agency PE, Service PE, Construction PE, Supervision PE, etc.

Where the business activities of the non-resident taxpayer satisfy the PE thresholds in the source country, the next question comes as to how much of the business profits of the non-resident taxpayer should be subject to tax in the source country, as that is the ultimate objective of a PE analysis.

For example, MFG Co. incorporated in Country X sells its goods in Country Y. Merely by selling goods in Country Y, the profits of MFG Co. is not subject to tax in Country Y, unless MFG Co. carries out certain business activities in Country Y which trigger the PE thresholds as per the tax treaty or domestic provisions (if no tax treaty exists). So, in a situation wherein MFG Co. appoints an agent in Country Y to carry out marketing activities and gives ostensible authority to negotiate and conclude sales on its behalf, then part of such agent’s activities could create a PE of MFG Co. in Country Y.

Now, the next question is how much tax MFG Co. should pay in Country Y, as part of its business activities are performed in Country X (manufacturing activities) and the remaining in Country Y (marketing activities). Therein, a need arises for attribution of profits to MFG Co. and its PE, which again is defined in a tax treaty or domestic provisions (if no tax treaty exists). Mostly, attribution of profits exercise is performed based on the arm’s length principle, and special considerations are required in case of companies involved in banking, insurance, or global trading of financial instruments.

### Attribution of profits to PE

The attribution of profits is performed, usually, by applying the transfer pricing concept of arm’s length, to ensure that the PE gets an equitable tax treatment as would be received by any local company.

In any transfer pricing analysis, an intercompany agreement is considered to be the starting point to delineate transactions between related parties. However, in the course of applying the transfer pricing principles to the attribution of profit exercise, a similar approach cannot be adopted, as there would not be any transactions in existence. A PE is not a legally distinct entity from the rest of the enterprise of which it is a part in the way that an associated enterprise is a legally distinct entity from other enterprises within the same MNE group. In this regard, the OECD has introduced steps to hypothetically recognise the arrangements/transactions between a PE and its Head Office, and accordingly attribute the functions, risks, assets, and free capital required concerning those hypothetical dealings. The steps to perform this attribution exercise are briefly explained in the table below with further build-up on the example (as referred above):

| Step | ATTRIBUTION EXERCISE | EXAMPLE |
|---|---|---|
| STEP 1 **Functional and Factual Analysis** | Functional and factual analysis must be performed to hypothesise appropriately the PE and the remainder of the enterprise as if they were associate enterprises, each undertaking functions, owning and /or using assets, assuming risks, employing capital and entering into dealings with each other and transactions with other related and unrelated enterprises.<br><br>Economically significant activities and responsibilities undertaken by the PE must be identified. | The part of the activities performed by the agent (which triggers the PE for MFG Co. in Country Y) would relate primarily to the negotiation and sales conclusion on behalf of MFG Co. These activities are similar to the activities which any distributor would perform, and therefore, the business profile of a PE is similar to a distributor. Accordingly, hypothetical dealings between a PE (more akin to have a distributor kind of profile) and MFG Co. would be the purchase of goods from MFG Co. for distribution in Country Y.<br><br>Comprehensive functions, assets and risks analysis is required for activities carried out by a PE and other parts of the enterprise. Attribution of functions, assets and risks would be based on significant people functions performed by a PE, e.g. in case, a PE carries out credit assessment of customers before concluding sales, then underlying credit risk needs to be attributable to a PE. Similarly, if the PE performs significant marketing activities that result in the creation of marketing IP such as customer lists, then the economic ownership of that marketing IP would be attributed to the PE.<br><br>Further, attribution of desired capital would also be required to commensurate with the functionality of the PE, and part of interest borne by the overall enterprise may need to be attributed to the PE. An additional consideration in carrying out such analysis would be the inter-play with the part of the activities carried out by the agent which does not trigger a PE.<br><br>However, the example is kept simple for the sake of brevity as there could be additional complexities to it. |
| STEP 2 **Comparability Analysis** | Under the second step, the remuneration of the dealings between the hypothesised associated enterprises (PE and the remainder of the enterprise of which it is a part) is determined by applying Article 9 by analogy (as articulated in the transfer pricing guidelines for separate enterprises) by reference to the analysis performed in Step 1. | The price of the purchase of goods by the PE from MFG Co. will be determined based on the arm's length principle taking into consideration the functions, assets and risks attributed to the PE. The profit-split, percentage of sales, or cost-plus compensation would be appropriate depending upon the functional profile of the PE, and appropriate benchmarking analysis can be performed. |

The above is an illustration of dependent agent PE and a similar kind of analysis (to the extent relevant) would be required for other kinds of PE as well, viz. Fixed Place PE, Service PE, Warehousing PE, etc.

**Conclusion**

The attribution of profits to a PE is a complex subject in international tax. Whilst there is some judicial guidance on the international front, there is none in the Malaysian context as of date. A critical aspect of this exercise is proper documentation to support the functional and factual analyses.

In line with the BEPS Action 7, the PE definition has been expanded by Malaysia in the tax treaties (after signing of the MLI on 24 January 2018 and its ratification on 18 February 2021) and by revision in Section 12 of the Malaysian Income Tax Act (effective from 28 December 2018). In this regard, we might see an increased focus on PE assessment by the tax authority.

Accordingly, it is relevant to review the operations of the foreign enterprise in Malaysia to assess PE risk, and if a PE exists, then assessment of possible attribution scenarios. In case there is a PE exposure, then it would be prudent to undertake a transfer pricing analysis for the PE activities and prepare comprehensive transfer pricing documentation to avoid the stringent penalties introduced recently. In the absence of transactions, agreements, and cash flows, the only recourse for the taxpayer is transfer pricing documentation to argue its position in a PE dispute. In fact, it is more critical, since there are too much uncertainty and no domestic guidelines and limited judicial precedents in Malaysia on the attribution of profits to PE. We are expecting specific attribution guidelines in the future and hopefully, taxpayers will have more certainty.

*Gagan Deep Nagpal is a Transfer Pricing Director based in Kuala Lumpur and Kushal Agarwala is a Transfer Pricing Senior Manager based in Penang. Both are attached with Deloitte Tax Services Sdn. Bhd.*

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***Disclaimer:*** *The views expressed above are of the authors and do not reflect the opinion of any institution or organisation to which the authors might be affiliated, whether in the past, present or future.*

# Thumbs Up for Quality Assessment Programme (QAP)

at-mia.my/2021/04/27/thumbs-up-for-quality-assessment-programme-qap

April 27, 2021

*By MIA Small and Medium Practices Department*

Early participating firms recommend that their peer audit firms embark on QAP.

## What is QAP?

The Quality Assessment Programme (QAP) is an initiative of MIA's Small and Medium Practices (SMP) Committee, in collaboration with The Malaysian Institute of Certified Public Accountants (MICPA), to promote continuous improvement in audit quality in Malaysia. It assists audit firms in assessing compliance with the applicable auditing standards and MIA By-Laws, in relation to audit engagements on financial statements prepared in accordance with the applicable approved accounting standards and the Companies Act 2016.

It is a voluntary structured review of an MIA Member firm and designed to be educational in nature. To avoid conflict of interest as MIA performs practice review as a surveillance function and in view of MICPA's extensive background in the accountancy profession, MIA has outsourced the QAP to MICPA.

The review of the whole firm will comprise two parts:

- A review of the firm's compliance with the International Standard of Quality Control (ISQC) 1; and
- A review of the documentation of at least one completed audit engagement.

The review will be conducted at the firms' premises. The estimated duration for a site visit under the QAP Programme is 2-8 days.

The fee is RM1,200 per man day and will vary depending on the firm size and complexity of the audit engagement reviewed. The maximum charge is capped at RM10,000 (excluding SST & disbursement).

At the end of the review period, the QAP reviewers will provide a report on the findings and the reviewed firm will provide the proposed remedial action plans for implementation.

### Feedback from participating firms

To gauge the value of QAP to participating firms, MIA solicited feedback from six firms that have completed the QAP.

#### REPORTED BENEFITS OF QAP

- Able to have a professional third party to assess the level of compliance and quality of audit engagement.
- As the reviewers are from reputable firms, SMPs can learn from the best to improve on their firms' quality.
- Able to improve compliance with the auditing standards, thus improving the audit quality.
- Sets tone at the top on the importance of audit quality to the firm.
- Enhances awareness on the importance of audit documentation in an audit engagement.
- Able to identify areas of weaknesses and their remedial actions.
- More clarity on MIA's expectations of members.

All 6 participating firms have initiated actions to carry out the remedial action plans, such as conducting more in-house training and improving on the audit working files.

#### REPORTED LESSONS LEARNED FOR FUTURE AUDITS

- To put more emphasis on audit planning and risk assessment and link risk assessment to audit procedures performed.
- To perform test of controls where applicable.
- Changing the focus of audit methodology which previously put more weight on test of details with little emphasis on the risk assessment process.
- QAP is an important tool to ensure that SMPs are performing work at par with international standards.
- Will avoid making the same mistakes highlighted during the QAP.

#### REPORTED CHALLENGES

- Cost
  - The cost involved may be high for some SMPs but the benefits gained are for the long term.
- Implementing suggestions to enhance audit quality.
  - The real challenge is how the firms can continue to improve their quality by implementing the recommendations by the QAP reviewers.

### Say Yes to QAP

***Would you recommend that other SMPs participate in the QAP?***

All six firms responded positively, and they would highly recommend the QAP for firms which are serious about audit quality but have no independent partner to do a review of their audit works.

- *"Participation in the QAP sets the right tone from the top."*
- *"It is a great way to understand the firm's weaknesses. Partners in a firm would be able to understand and mitigate the practice risks through the QAP findings/review."*

When asked whether they have plans to enrol in the follow-up review in future, all six firms responded positively. They will definitely enrol for the follow-up visit after implementing remedial action plans in upcoming audit engagement, in order to gauge the effectiveness of the QAP.

***Is the QAP value for money?***

All six firms responded "Yes" with additional feedback as follows:

- *"The reviewers were all from practice and they could relate to the practical problems faced by an SMP."*
- *"With representatives from reputable firms conducting the QAP, the SMP can learn from the best to improve the firm's quality."*

## Suggestions for Future Improvement

To add further value to the QAP, participating firms also recommended the following:


## Interested to participate?

SMPs, i.e. audit firms that are not registered with the Audit Oversight Board, are encouraged to participate in the QAP.

SMPs that are interested to participate in the QAP are required to complete the **Practice Profile Information Questionnaire** by clicking HERE and forward the same to the SMP Department at *smp@mia.org.my*. The questionnaire will enable the QAP reviewer(s) to understand your practice better.

# Transfer Pricing Guidance on COVID-19 Impact – Part 2

at-mia.my/2021/03/02/transfer-pricing-guidance-on-covid-19-impact-part-2

March 2, 2021


*By Kunal Dutta and Yogesh Mangla*

This article is a continuation of Part 1 covering guidance on the transfer pricing implications of the COVID-19 pandemic (the Guidance Note) issued by the Organisation for Economic Cooperation and Development (OECD).

In Part 2, we will discuss the remaining two issues, i.e. (a) losses and allocation of COVID-19 specific cost and (b) government assistance programmes. The OECD's Guidance Note provides much needed clarity to taxpayers who want to take TP positions amidst tax uncertainty arising due to Covid-19.

### a) Allocation of losses

The economic downturn caused by the pandemic has severely affected many MNE Groups across the world. These MNE Groups have incurred huge losses primarily due to the decline in market demand, supply chain disruption, and extraordinary or exceptional costs, and these may have significant TP implications.

From the TP perspective, under a typical business situation, limited risk-bearing entities that perform some degree of functions and take insignificant economic risks, are generally entitled to fix routine returns from their Principal. On the contrary, full risk-bearing entities acting like entrepreneurs and that are exposed to all potential financial significant risks, are entitled to residual returns and could have super profits/losses. If we apply the principles mentioned above in the COVID-19 situation, we would need to answer a pertinent question – **Should limited risk entities bear losses, extraordinary or exceptional costs incurred during COVID-19?**

The Guidance Note has addressed the above questions by discussing the three specific issues, i.e. **allocation of losses; non-recurring operating costs arising due to COVID-19** and **invoking the force majeure**. All these revolve around the concept of accurate delineation of the transactions, third party behaviour, and appropriate documentation.

**Allocation of losses due to COVID -19** – As each business is unique, it is impossible to set a fixed rule that so-called limited risk-bearing entities cannot incur losses. The OECD TPG states, "simple or low-risk functions, in particular, are not expected to generate losses for a long period". Therefore, it holds open the possibility that simple or low-risk functions may incur losses in the short run. Accordingly, in assessing whether a limited risk-bearing entity should bear losses or not, it is imperative to first analyse the allocation of risks as per the contractual arrangement and actual conduct of the transacting related parties. Let us try to explain it through the following example:

E.g. Co. B is a distributor of an MNE Group in Malaysia. It purchases goods from its Group's manufacturing entity, i.e. Co. A, and sells the same to third parties in Malaysia. As per the contractual arrangement, Co. B is entitled to a fixed resale minus base compensation for recovery of its purchase and operational cost.

**FAR Profile**

| Functions | Co. A | Co. B |
|---|---|---|
| Strategic Planning | √ | × |
| R&D | √ | × |
| Manufacturing | √ | × |
| Inventory | × | √ |
| Sales and Marketing | √ | √ |
| **Risks** | | |
| Market Risk | √ | × |
| Capacity Utilisation Risk | √ | × |
| Inventory Risk | × | √ |
| Credit Risk | × | √ |

**During Covid-19**

| Scenario 1 - Loss due to Credit Risk | Amount |
|---|---|
| Market demand | 10 units |
| Raw material @20 per unit | 200 |
| Fixed prod & admin cost | 400 |
| Total cost of Co A | 600 |
| Sale to Co. B (@ 80/unit) | 800 |
| Profit of Co A | 200 |
| COGS for Co. B (@ 80/unit) | 800 |
| Fixed selling and admin cost | 150 |
| Bad debt | 60 |
| Total cost of Co B | 1010 |
| Sale (of 10 units) @ 100/unit | 1000 |
| Loss of Co. B | 10 |

| Scenario 2 - Loss due to Market Risk | Amount |
|---|---|
| Market demand (50%) | 5 units |
| Raw material @20 per unit | 100 |
| Fixed prod & admin cost | 400 |
| Total cost of Co A | 500 |
| Sale to Co. B (@ 120/unit) | 600 |
| Profit of Co A | 100 |
| COGS for Co. B (@ 120/unit) | 600 |
| Fixed selling and admin cost | 150 |
| Total cost of Co B | 750 |
| Sale (of 5 units) @ 100/unit | 500 |
| Loss of Co. B | 250 |

Based on the above functional analysis, Co. B is only exposed to credit risk. Accordingly, during the pandemic, if there is any default in payment by customers, then Co. B may incur losses due to the materialisation of credit risk (Scenario 1). However, it would not be appropriate for Co. B to bear a portion of the loss associated with the playing out of market risk (Scenario 2). The Inland Revenue Board of Malaysia (IRBM) may challenge the situation wherein before the outbreak of COVID-19, a taxpayer took a position of limited risk distributor to justify its low routine returns. After the outbreak, the same distributor argues to assume marketplace risk. The IRBM could also evaluate any such inconsistent position from the angle of business restructuring – change in risk profile.

Given the current economic environment, there may be changes in contractual arrangements between transacting related parties (such as allowing extended credit terms due to cash crunch). Such amendments are ideally expected to be substantiated with clear evidence that independent parties in comparable circumstances would also have revised their terms or commercial agreements. Herein, taxpayers need to look at various aspects, such as options realistically available to transacting parties, long-run effects on the profit potentials, business viability, if business terms are not revised and any indemnification desired from the arm's length perspective for any such changes. However, such amendments should be treated with caution (particularly if there is no clear evidence) and well supported by documentation outlining how those amendments are still in line with the arm's length principle.

**Treatment of exceptional costs:** Due to the pandemic, entities might have incurred additional costs for their employees' safety measures or IT infrastructure-related costs due to remote working facilities, etc. It is essential to evaluate whether these costs should be charged back or not; if yes, should there be any mark-up? While assessing how related parties should allocate these costs, an analysis of independent parties operating in comparable circumstances and contractual obligations to bear such costs is necessary.

E.g. Co. A is responsible for the manufacturing of goods and has performed the sanitisation of its plant and machinery. While determining the sales price of goods to Co. B, it is vital to observe the behavior of independent third parties. At the same time, market and geographical conditions do play an essential role. If the taxpayer is operating in a perfectly competitive market, it might not be possible to pass on the additional cost to its customers. However, if the taxpayer operates in a monopolistic or oligopolistic market, it may pass some of its cost on to customers.

Further, there might be a possibility that taxpayers have incurred certain exceptional or extraordinary costs during the pandemic, e.g. internet facility for employees, subsidy to buy furniture, etc., for their business operations. Meanwhile, there might have been a reduction in other costs, e.g. office rent, transportation charges for employees or entertainment expenses, etc. Accordingly, the expenses that substitute for the means of conducting business activities would likely be treated as operating costs.

Finally, while performing the comparative analysis, preference should be given to selecting the TP method, which is less sensitive to the accounting treatment differences. For example, the recognition of the purchase of PPE as an operating cost by the taxpayer and as a cost of goods sold by a comparable company may have a significant impact when computing a profit level indicator based on gross profit and may require a comparability adjustment. However, the application of the transactional net margin method (TNMM) will neutralise the effect of such differences in the accounting treatment and may provide a fair arm's length comparison.

From the Malaysian perspective, a lot will depend upon the level of disclosure in the comparable companies' audited financial statements once the data for FY 2020 is published. If all the extraordinary costs are aggregated, then it will not be easy to adjust them out.

**Application of force majeure:** This refers to the ceasing of contracting parties' rights and obligations and its legal effect when an extraordinary event beyond parties' control occurs. The force majeure events might arise in the context of COVID-19 due to lockdowns announced by governments, resulting in the closure of production or retail facilities or complete suspension of intercompany agreement without any obligation on contracting parties. As per the Guidance Note, the contractual agreement between related parties might be the starting point for analysing the TP implication. However, the mere presence or absence of a force majeure clause in the inter-company agreements should not a condition to re-negotiate it at arm's length basis. The Guidance Note states that it is critical to analyse the independent parties' behaviour while invoking the force majeure clause or incorporating it in the intercompany agreement.

### b) Government Assistance

The nature, duration, and quantum of the grant provided by governments might have an economically significant impact on the controlled transactions, and consequently, TP implications may arise.

Accordingly, the Guidance Note suggests that it is critical to evaluate how the government grant is economically relevant to the controlled transactions. A direct government grant in the form of a direct subsidy or financial support may be more economically relevant than an indirect government grant in the form of infrastructure or waiver of taxes for the short-term. While evaluating, taxpayers need to consider the following. How is the government's assistance advantageous to the business? What impact does it have on their revenue or cost? To what extent is the benefit passed on end-customers? If the benefit is not passed on to end-customers, how would independent parties allocate such benefits among themselves?

The example below explains the impact of a government grant on the controlled transaction:

Co. A is operating as a captive service provider on a cost-plus 10 per cent basis to its Group entities. During the lockdown, Co. A received a grant of RM 10 from the government.

| Scenario 1 (pre-COVID) | |
|---|---|
| Particulars | Amount (in RM) |
| Employees cost | 60 |
| Admin and other cost | 40 |
| Total operating cost | 100 |
| Profit mark-up @10% | 10 |
| Amount billed to Group entity | 110 |
| Fixed govt. grant | 10 |
| Profit margin (profit/total cost) | 10/100=10% |

| Scenario 2 (post-COVID) | |
|---|---|
| Particulars | Amount (in RM) |
| Employees cost | 60 |
| Admin and other cost | 40 |
| Total operating cost | 100 |
| Amount billed to Group entity | 100 |
| Fixed govt. grant | 10 |
| Operating profit | 10 |
| Profit margin (profit/total cost) | 10/100=10% |

In scenario 2, ideally Co A should charge a mark-up of 10 per cent. However, due to government grants and even without charging mark-up, Co. A's operating profit margin is 10 per cent; thus, the profit margin of Co. A apparently seems at arm's length and the entire benefit of government grants passes on to the group entity.

The Guidance Note suggests that the receipt of a government grant may minimise the impact of economically significant risks during this pandemic; however, it will not alter the allocation of risk under a controlled transaction for transfer pricing purposes. Co. A received the grant from the government; therefore, Co. A should charge its Group entity on an arm's length basis or follow the same behaviour as it might have followed while dealing with third parties.

Besides, in the Malaysian TP scenario, insufficient data of comparable companies in the public domain is another hurdle while performing comparative analysis. Even though the taxpayers and comparable companies might be engaged in similar business operations, the kind of government grant received by both of them, its quantum, and accounting treatment might result in material differences in the profit margins. Accordingly, caution should be exercised while applying TP methods, specifically in the case of a one-sided profit-based approach, i.e. TNMM which is quite prevalent in Malaysia. Appropriate accounting adjustments should be made to carve out the differences of government grant received by the taxpayer vis-à-vis comparable companies.

## Conclusion

The COVID-19 pandemic has stirred up the tax environment. By issuing its detailed Guidelines, the OCED has tried to address the key TP concerns caused by the current pandemic. However, it will be interesting to see how flexible the IRBM would be in adopting these guidelines during TP audit proceedings for the period impacted by the pandemic. Simultaneously, the taxpayers should prepare comprehensive TP documentation with proper documentation and evidence of COVID-19 impact on their business as prescribed under the Guidance Note, especially if they have low margins. Any change in pricing policy or business arrangement with related parties should be well documented with its rationale. The recent changes in the TP penalty provisions and shortening of duration to submit TPD (within 14 days) demonstrate the IRBM's expectations on TP compliance from the taxpayers. Accordingly, without waiting for an audit notice from the IRBM, taxpayers should maintain comprehensive TP documentation on a contemporaneous basis and proactively engage in discussion with their tax agents or with the IRBM. Further, the taxpayers may consider opting for a dispute avoidance mechanism, e.g. voluntary disclosure or APA based on their position. Lastly, the IRBM may issue its own guidance as a written position paper to provide certainty in Malaysia for Malaysian taxpayers.

***Kunal Dutta*** *and* ***Yogesh Mangla*** *are senior managers in Deloitte Tax Services Sdn Bhd who have been practicing transfer pricing for over ten years. The opinions expressed above are the authors' alone and do not reflect the opinion of any institution or organisation to which the authors might be affiliated, whether in the past, present or future.*

# Value-added Services for Members in Public Practice

at-mia.my/2021/03/22/value-added-services-for-members-in-public-practice

March 22, 2021

The professionalism and conduct of our members in public practice, grounded in our core values of integrity and accountability, are imperative in ensuring that accountancy firms are recognised, valued and sought after as trusted advisors and service providers. Members in public practice play a vital role in maintaining integrity and public trust in the profession through the delivery of quality services in accordance with high ethical and professional standards.

To realise the crucial role of members in public practice, the Institute provides a broad spectrum of value-added services in developing and regulating its members in public practice via various departments under the five divisions of MIA, throughout the various stages of a practice:

- **Before commencing a practice:** Strengthening existing domain knowledge in order to prepare for practice;
- **Commencing a practice:** Ensuring fulfilment of requirements and strengthening existing domain knowledge;
- **Managing a practice:** Continuing lifelong learning, monitoring of practising requirements, practice review and quality assessment, building digital capabilities and creating opportunities for growth;
- **Closing a practice:** Fulfilment of closing requirements.

Please refer to the diagrams below for value-added activities provided by MIA throughout the various stages of a practice.

# DEVELOPING SMPs

| | | |
|---|---|---|
| **BEFORE COMMENCEMENT OF PRACTICE: TO PREPARE FOR PUBLIC PRACTICE** | Public Practice Programme<br>• e-Learning<br>• Workshop | PPT, S&E, S&D |
| **REGISTRATION FOR PRACTICE** | • Practising Certificate<br>• Approval of firm name<br>• Exclusive members' services and privileges | MTO |
| **LICENSING INTERVIEW AND RENEWAL REQUIREMENTS (AUDITOR, LIQUIDATOR, TAX AGENT)** | Seminars to prepare for interviews (auditor, liquidator and tax agent) | S&D |
| | Coaching sessions for those who failed audit licence interview 2 times and above | PPT |
| **STARTING AND MANAGING PRACTICE** | • Technical updates and publications<br>• Technical enquiries<br>• Advocacy & representation to Government & regulators<br>  - Professional reforms<br>  - Capacity building, i.e. M&A<br>• AGP & IAWP<br>• Quality Assessment Programme<br>• Digital Technology Blueprint | PPT, DERR |
| | • Professional Indemnity Insurance<br>• Practice Continuation Arrangement<br>• E-Library | MTO |
| | Trainings<br>• MFRS & MPERS<br>• ISAs, ISQC1/M & Ethics<br>• Data Analytics<br>• SMP Forum<br>• Complimentary webinars<br>• Practical Auditing Methodology for SMPs<br>• AQEP<br>• Digital technology<br>• Collaboration with regulators | S&D, PPT, S&E, DERR |
| | • e-AT | S&D |

## MONITORING / REGULATING SMPs

| Stage | Activity | Division |
|---|---|---|
| **REGISTRATION FOR PRACTICE** | Annual renewal of PC (subject to fulfilment of certain criteria) | MTO, S&E |
| | • Firm Name approval according to the MIA guidelines<br>• Approval letter for audit firm name to SSM | MTO |
| **LICENSING INTERVIEW AND RENEWAL REQUIREMENTS (AUDITOR, LIQUIDATOR, TAX AGENT)** | Arranging for auditor and liquidator interviews | PPT |
| | • Checking for good standing status prior to renewal of audit & liquidator licences<br>• Support renewal of audit & liquidator licences via BLESS | MTO, S&E |
| **STARTING AND MANAGING PRACTICE** | • Practice Review<br>• CPE Audit | S&E |
| | Letter of good standing (upon request for various professional purposes) | S&E, MTO |
| | Annual Return to MIA | MTO |
| **CLOSING PRACTICE** | • Surrender of PC<br>• Closure of firms<br>• Updating MIA records | MTO |

## ABBREVIATIONS

- **AE** Audit Exemption
- **AGP** Audit Guide for Practitioners
- **AQEP** Audit Quality Enhancement Programme
- **BLESS** Business Licensing Electronic Support System
- **CPE** Continuing Professional Education
- **DERR** Digital Economy, Reporting & Risk Division
- **IAWP** Illustrative Audit Working Papers
- **ISAS** International Standards on Auditing
- **ISQC1** International Standards on Quality Control 1
- **ISQM** International Standards on Quality Management
- **M&A** Merger & Affiliation
- **MFRS** Malaysian Financial Reporting Standards
- **MTO** Membership, Technology & Operations Division
- **MPERS** Malaysian Private Entities Reporting Standard
- **PC** Practising Certificate
- **PPT** Professional Practices & Technical Division
- **S&D** Strategy & Development Division
- **S&E** Surveillance & Enforcement Division
- **SMP** Small and Medium Practitioners
- **SSM** Suruhanjaya Syarikat Malaysia

It is MIA's aspiration that these services would unlock and advance the true potential of members as public practitioners while shaping a more sustainable and brighter future for the profession.