MALAYSIAN INSTITUTE OF ACCOUNTANTS

2022
MAY-JUNE

THE MALAYSIAN INSTITUTE OF ACCOUNTANTS

accountants today

Treatment of Contingent Liabilities in a Solvency Test

June 28, 2022

By MIA PAIB and Valuation Department

In frequently asked questions regarding the treatment of contingent liabilities in a solvency test under the Companies Act 2016 (CA2016), the following issue often comes up:

Should contingent liabilities be included as part of the solvency test under Section 112 of the CA2016? A question arises pertaining to the measurement of contingent liabilities which are not separately recognised in the financial statements for the purpose of the solvency test.

There is a specific provision under Section 113(4) of the CA2016 which states that "in forming an opinion for the purpose of making a solvency statement, a director shall inquire into the company's state of affairs and prospects and take into account all the liabilities of the company including contingent liabilities". Hence, contingent liabilities are included as part of the template for solvency statements provided by Suruhanjaya Syarikat Malaysia in addition to assets and liabilities.

The question is how such contingent liabilities would be treated in the template for the solvency test. Under the accounting rules, for contingent liabilities which form part of an acquisition, there is a fair value attached to it for the purpose of recognition in the financial statements. However, there may be other contingent liabilities that are not recognised in the financial statements but only disclosed in the notes to the financial statements. A case in point would be a legal case that is being brought against the reporting entity for which the future outflow of resources is possible but not considered remote.

There could be a situation where even if the full value of the contingent liability is taken into account, a company would still be in a positive position. In such a case, there would be no apparent issue. However, if the amount of the contingent liability is significant, it may cause a negative position to arise.

By referring to Section 112(1)(b) of the CA2016 on the prescribed period of 12 months, the consideration is the ability of the company to pay its debts as the debts become due during the period of 12 months immediately following the date of a particular transaction.

Hence, the window period is actually 12 months, and the consideration is whether such a contingent liability is going to materialise within the 12 months' period.

The measurement and disclosure of contingent liabilities in the solvency statement is to safeguard the company from becoming insolvent within that prescribed timeframe as required under the CA2016.

It is at the company's discretion to decide whether a contingent liability is to be included or not to be included in the solvency statement. Ultimately, the directors will be responsible for the veracity of the solvency statement, and they are liable if it fails to meet the requirements of the CA2016.

Technology Adoption by the Accountancy Profession Survey 2022

at at-mia.my/2022/06/29/technology-adoption-by-the-accountancy-profession-survey-2022

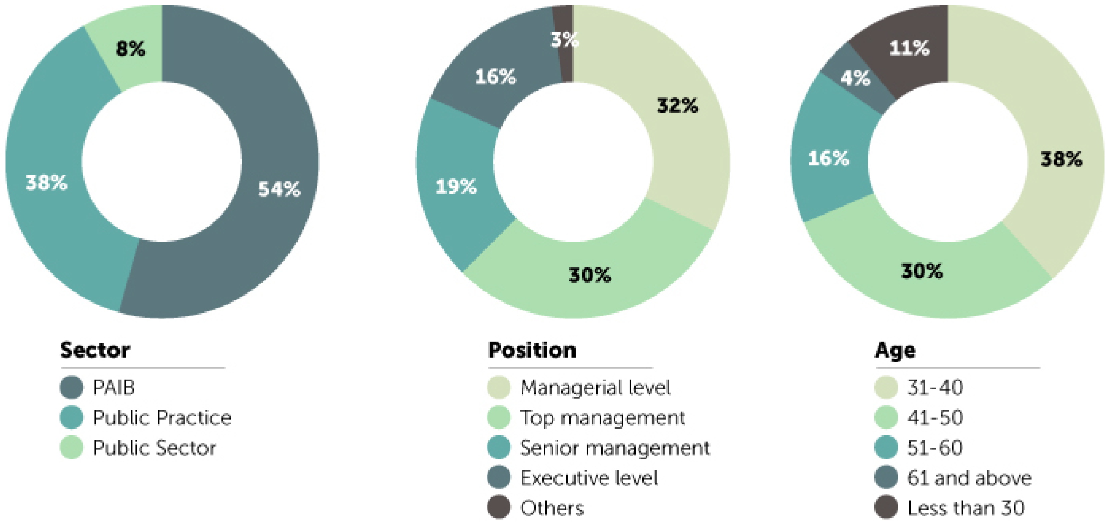
June 29, 2022

By MIA Digital Economy, Reporting and Risk (DERR) Team

The first Technology Adoption by the Accountancy Profession Survey (Survey) was conducted in 2017 which has served as input to the MIA Digital Technology Blueprint (Blueprint) that was issued in 2018. The second Survey was carried out in 2019 and its findings have been incorporated into the Blueprint's 3-year operational plan which has 39 initiatives with more than 200 activities or outputs.

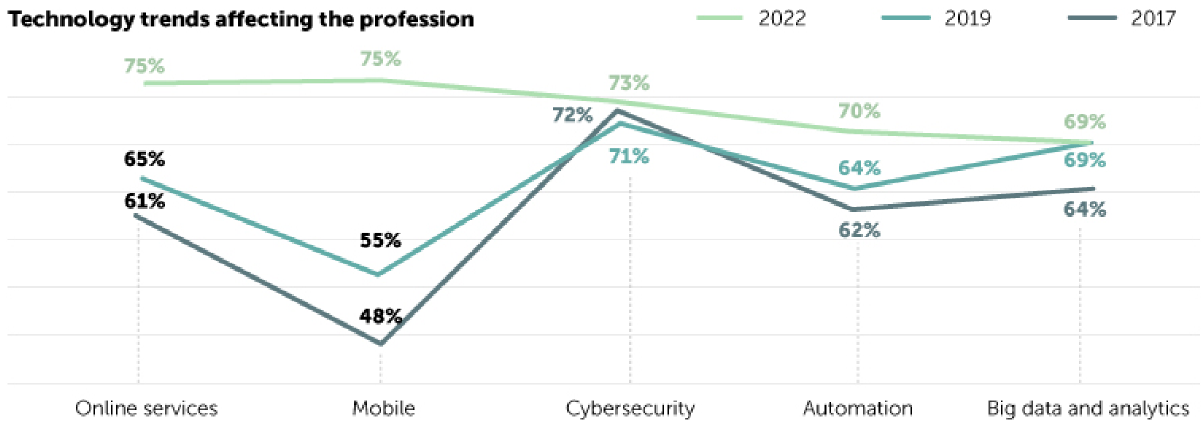
It is now timely for another survey to be conducted to ascertain the progress since 2019. As digital adoption has been accelerated by the pandemic, the findings of the third Survey will provide insights on the impact of the pandemic on digital adoption of the accounting profession. It will also help MIA in identifying further initiatives to move the profession forward.

The third Survey was conducted from 12 January to 25 February 2022. A total of 887 MIA members responded to the Survey and their profiles are indicated below in terms of sector, position and age.



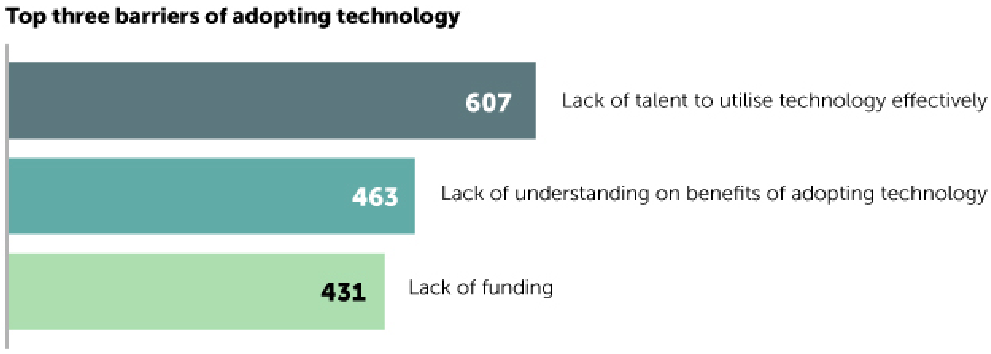
Technologies impacting the profession

Respondents ranked the following technologies as those with higher impact on the profession. There was also an increase in the number of respondents who cited these technologies are affecting the profession: online services, mobile, cybersecurity, automation and big data and data analytics.



Overall, respondents indicated that the top three reasons for adopting technology are to: (a) improve efficiency and facilitate workplace mobility; (b) accelerate digital transformation and (c) increase competitiveness.

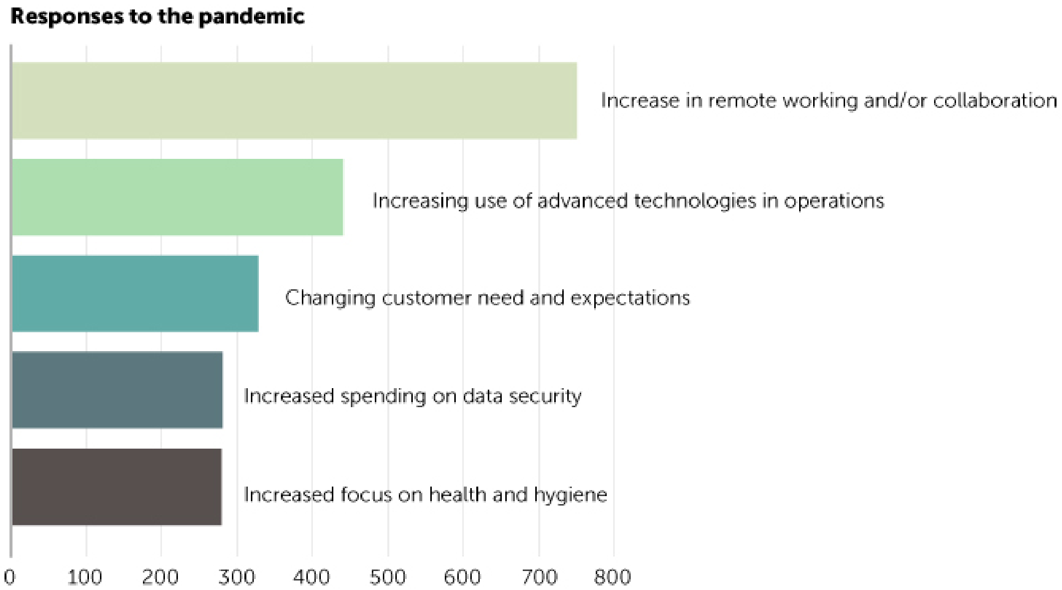
There was a change in the perception of barriers to technology adoption. Lack of talent to utilise technology effectively is ranked as the top barrier compared to 2019 and 2017. This is followed by lack of understanding on benefits of technology adoption and lack of funding.



Interestingly, respondents are now more exposed to fintech, as indicated by the number of respondents who have never or rarely used fintech and cloud applications having improved from 21% and 61% respectively in 2019 to 76% and 75% in 2022. The greater take-up of fintech and cloud applications to a certain extent may be due to the pandemic, as evidenced in the survey findings.

Accelerated digitalisation by the pandemic

When asked how accountants across all sectors (PAIB, public practice and public sector) responded to the pandemic, they ranked “increase in remote working and/or collaboration” and “increasing use of advanced technologies in operations” as the top two responses.

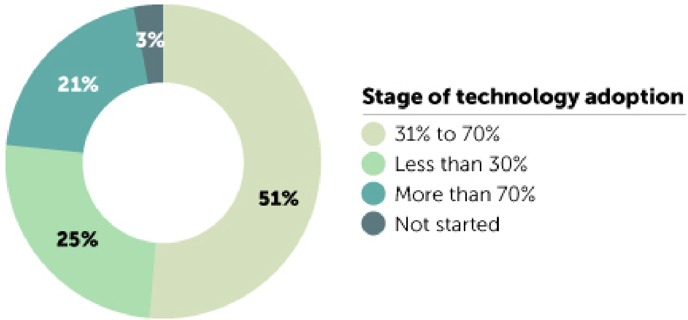


This is consistent with the findings where more than 80% of respondents indicated that the pandemic has accelerated their technology adoption.

Overall, the top five technologies being adopted due to the pandemic are video conferencing and group collaboration tools, Microsoft applications, cloud applications, accounting software and data analytics. The public practice sector shows that they have been using more audit software following the pandemic as audit software was ranked fifth by the public practice.

Digital transformation progress of the accounting profession

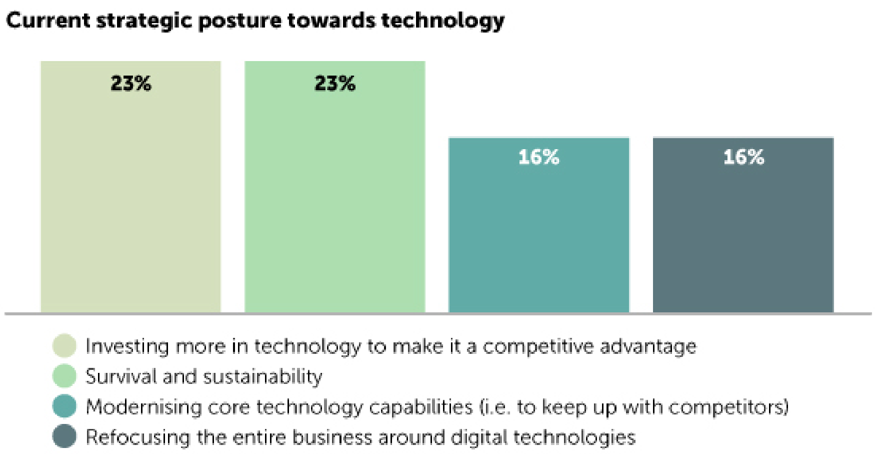
Regarding the status of technology adoption, 97% of respondents indicated that they are at various stages of adoption and only 3% has not started any adoption.



Developing a strategy for technology adoption is crucial so that it is aligned with the long-term strategy of the organisation as well as ensuring that the adoption is carried out with necessary care and planning. 45% of respondents have a documented technology adoption strategy while the remaining do not, although they are currently adopting technology. Only just over a third of public practice respondents have a documented technology adoption strategy.

In terms of technology investment, more than 50% of respondents allocated more than 10% of their annual budget allocation[1] on technology spending. Such technology investments have been funded internally as well as through loans and grants.

Finally, when it comes to the organisation's current strategic posture towards technology, 24% of respondents indicated that they will invest more in technology to make it a competitive advantage while 23% view that it is critical for their survival and sustainability.



The Way Forward

The findings of the survey have provided great insight on the status of technology adoption by the accountancy profession in Malaysia, how it is funded as well as the impact of COVID-19 on technology adoption. Based on the findings as well as detailed analysis that the Institute will be carrying out on the survey data, a plan on how to move the profession forward on digitalisation will be developed to ensure that the accountancy profession is future relevant.

[1] Annual budget allocation comprises capital expenditure (CAPEX) and operating expenditure (OPEX).

Sustainability Reporting in the Public Sector: The Way Forward

at at-mia.my/2022/06/28/sustainability-reporting-in-the-public-sector-the-way-forward

June 28, 2022

By MIA Digital Economy, Reporting and Risk (DERR) Team

As sustainability issues gain momentum, there is increasing interest in sustainability reporting. This article looks at the developments driving sustainability reporting in the public sector, the role being played by the International Public Sector Accounting Standards Board (IPSASB) and the role that Public Sector Accountants could take in spearheading the nation's vision for sustainability.

The Context: Glasgow Climate Pact

Like other nations, Malaysia has committed to climate action. In the recent UN Climate Change Conference in Glasgow, United Kingdom (COP26), 120 world leaders and countries including Malaysia, have agreed to the Glasgow Climate Pact and will deliver their commitments to combat climate change. Among those that are relevant to Malaysia's interest are:

- To revisit and strengthen their 2030 emission reduction targets next year, to bring them in line with the Paris Agreement goals by enhancing their Nationally Determined Contribution (NDC).
- To achieve carbon neutrality.
- To champion in halting and reversing deforestation.
- To set a collective goal to reduce global methane emissions by 30% before 2030.

Towards Sustainable Malaysia 2030

In Malaysia, the Ministry of Environment and Water (KASA) is leading the efforts towards Sustainable Malaysia 2030. KASA issued a roadmap in 2020 titled Environmental Sustainability in Malaysia 2020-2030, which outlines 30 initiatives. As mentioned by Tengku Datuk Seri Utama Zafrul Tengku Abdul Aziz, Minister of Finance Malaysia in his keynote address at the recent MIA International Accountants Conference 2022, among the key eco-friendly priorities laid out by the 12th Malaysia Plan include:

- reducing greenhouse gas emissions to 45% of GDP by 2030 (to be in line with the Paris Agreement),
- instituting a Comprehensive National Energy Policy – to provide long-term direction on achieving Malaysia's carbon neutrality aspiration,
- establishing a Voluntary Carbon Market before transitioning to the Domestic Emissions Trading Scheme, and
- establishing the National Greenhouse Gas (GHG) Centre – to improve transparency in climate change data and reporting to boost confidence in low carbon investment.

As the effects of climate change become more visible, organizations are experiencing pressure to recognise and mitigate their environmental impact. Therefore, there is also a growing focus on reporting and disclosing environmental information to investors and the public. As the public sector is the largest sector in the economy and public sector organisations such as KASA also influence the climate through regulation and the provision of public services, sustainability reporting is critical for public sector entities to demonstrate how they address social, economic, and environmental challenges as well as enables them to be held accountable for their actions.

In moderating a recent concurrent session on ***Public Sector – Catching Up on Environmental Reporting*** at the MIA Conference 2022, Rasmimi Ramli, Executive Director – Digital Economy, Reporting and Risk of MIA said, "In the private sector, the demand on sustainability reporting was pushed by the investor community. While for the public sector, taxpayers and citizens like us would want to know how public sector organisations are addressing sustainability challenges."

At the session, Rasmimi was joined by Bonnie Ann Sirois – Senior Governance Specialist, Financial Management, World Bank, Ian Carruthers – Chair of the International Public Sector Accounting Standards Board (IPSASB) and Nor Yati Ahmad – Director, Accrual Accounting Implementation Team, Accountant General's Department of Malaysia.

Sustainability Reporting Progress in the Private Sector

According to the panellists, sustainability reporting is becoming common practice in the private sector. There has been notable progress towards the development of a global baseline for sustainability reporting in the private sector . Many companies in the private sector have incorporated non-financial information in their reporting which includes the impacts to the environment. In November 2021, the IFRS Foundation Trustees announced the formation of the International Sustainability Standards Board (ISSB) to deliver a comprehensive global baseline of sustainability disclosure standards that will assist in providing information about company's sustainability-related risks and opportunities that can help with their decision making. The formation of the ISSB will deliver transformative change in sustainability disclosures for the private sector.

Catching up on Sustainability Reporting

However, sustainability reporting in the public sector is still at the infancy stage. During the panel session, Sirois highlighted the reasons why public sector around the world should engage in sustainability reporting. This includes assisting the public sector to attract capital, to hold the public sector accountable and for domestic policy-making purposes. As mentioned in the Sovereign Climate and Nature Reporting: Proposal for a Risks and Opportunities Disclosure Framework published by the World Bank, reporting on climate and nature-related risks and opportunities will ensure that a clear, consistent level of financial and economic risk information is available on an ongoing basis to all types of users, including investors, policymakers, regulators, donors and development finance organisations. "Recently published World Bank research estimates that the collapse of selected ecosystem services provided by nature could result in a decline in the global GDP of US$2.7 trillion annually by 2030, which underscores the strong reliance of economies on nature. Thus, government needs to accelerate investments in adaptation and resilience to climate impacts," explained Sirois.

In the World Bank's proposal mentioned above, the World Bank invited the IPSASB to lead a consultative process to gain support for developing global public sector specific sustainability reporting guidance. "The IPSASB has strong standard-setting experience including in applying relevant guidance to the public sector context and is the best organization to lead the work," explained Sirois when asked about the rationale for the invitation.

Consultation Paper, *Advancing Public Sector Sustainability Reporting*

The IPSASB issued a Consultation Paper, Advancing Public Sector Sustainability Reporting in response to the growing demands from its stakeholders for global sustainability reporting guidance for the public sector to contribute to the delivery of sustainable development and to address climate change. The Consultation Paper proposed that the IPSASB:

- serves as the standard setter for global public sector specific sustainability guidance;
- develops initial guidance focused on general disclosure requirements for sustainability-related and climate-related disclosures; and
- develops the guidance at an accelerated pace.

"It's a comprehensive paper and we are certainly looking for as much feedback as possible from a broader group of stakeholders," said Carruthers.

According to the Consultation Paper, the breadth of the public sector and its broad range of accountability and obligations to its stakeholders will result in a different focus in the sustainability-related information that users demand, in comparison to the private sector.

Ian Carruthers further added, “Clearly, the nature of the public sector is different. Accordingly, there will be differences in terminology and activities.”

In relation to the proposed approach in developing the guidance, the IPSASB plans to address public sector specific issues and make use of international guidance such as the proposed IFRS Sustainability Disclosure Standards.

The IPSASB welcomes comments on the consultation paper until 9 September 2022.

Role of Public Sector Accountants in Sustainability Efforts

Undoubtedly, public sector accountants will play a leading role in anchoring sustainability efforts, concurred the panellists. “The roles of public sector accountants in sustainability efforts include providing information and advice on sustainability reporting, as well as understanding the entity’s sustainability efforts and issues, and the requirements of sustainability reporting,” emphasised Nor Yati Ahmad.

“Accountants will also need to collaborate with the experts from different fields to comprehend the extent of impacts or damages on the environment,” said Sirois in advocating for a multi-disciplinary approach.

Scalability: How Did the International Standards on Quality Management (ISQM) 1 Deal With This Issue?

at **at-mia.my**/2022/06/30/scalability-how-did-the-international-standards-on-quality-management-isqm-1-deal-with-this-issue

June 30, 2022

By Johnny Yong and Lee Tuck Heng

At the onset, the ISQM project team had identified two important elements that the new standard aimed to enhance, noting limitations of the extant International Standards on Quality Control (ISQC) 1: firstly, proactive management of quality that meets public expectation while keeping the standard fit for purpose; and secondly, the importance of scalability, i.e. how firms of different sizes and complexity could apply the standard with reasonable means and commitment.

Setting a New Standard

To address these issues, the International Auditing & Assurance Standards Board (IAASB) proposed that the new standard adopt a fresh approach to managing quality, termed Quality Management (QM), as opposed to quality control, which would focus on proactively identifying and responding to risks to quality. In essence, this entails an integrated approach to QM that reflects upon the System of Quality Management (SOQM) as a whole, focusing on risk and requiring a firm to customise the design, implementation and operation of its SOQM based on the nature and circumstances of the firm and the engagements it performs. Not being a one-size-fits-all approach, the envisaged QM concept has been proven to be more robust and effective, allowing firms to focus on continuous improvement of their SOQM.

Following the issuance of the Exposure Draft (ED) and the subsequent comments received, general acceptance of the QM approach was accompanied by pervasive concern about the scalability of the proposed standard. Even the IFAC SMP Advisory Group had questioned if the proposed standard could "really increase the audit quality from an SMP perspective", fearing instead of a drive towards a compliance mindset especially among smaller firms which would be subjected to a proportionately greater documentation burden to "explain/prove" their compliance".

The Malaysian Institute of Accountants (MIA) had also raised similar concerns on scalability and hopes that the IAASB will provide more illustrations and guidance materials on how the standard could be made scalable, especially for SMPs, upon the finalisation of the ED. You can read the submission here.

Refining the Standard: Key Areas of Focus

Given the extent of concerns on scalability, prescriptiveness, complexity, understandability (even the ICAEW commented the standard was very difficult to be read by a native English speaker) and length (double the number of pages compared to ISQC 1), the following key areas of focus were identified by the IAASB in further developing and finalising the standard:

- Scalability of the standard to take on more prominence. Firms are encouraged to tailor the SOQM appropriately based on their respective circumstances;
- Complexity and prescriptiveness of the requirements to be reduced (preferably, to be principles-based); and
- Developing a standard that can be applied in all circumstances, including where firms only perform related service engagements. Going forward, this could be an area of concern as more jurisdictions start applying the International Standards on Assurance Engagements (ISAEs) and International Standards on Related Services (ISRSs).

IAASB's Actions for Each Key Area

The IAASB has since taken steps to address the following key areas of focus:

(a) Reorganising the structure of ISQM 1 by distinguishing between actual components versus the two processes (the Firm's Risk Assessment Process [FRAP] and the monitoring and remediation process) while re-writing the standard in an easier to follow manner. The sequence of these components was presented more logically for easier navigation , even though the IAASB has acknowledged that the QM process is not expected to be a linear exercise in compliance.

(b) Refining the quality objectives and responses and in doing so, underscoring the principles-based approach through more outcome-based quality objectives and an increased focus on achieving them. Rather than telling firms what to do, the standard is now crafted to explain to firms of the outcome that they should strive towards. Firms are now expected to tailor most of their responses in the new standard with minimum prescribed responses – Paragraph 34 of the standard only lists some specified responses (further reducing the number of requirements from the ED).

(c) Simplifying and clarifying the FRAP. The process is now consistent with the approach under the revised ISA 315, Identifying & Assessing the Risks of Material Misstatement (the ED had earlier imposed a lower threshold in identifying all quality risks, an area of concern among many SMPs).

(d) Including, within the standard, conditions, events, circumstances, actions or inactions that the firm is required to comprehend when identifying and assessing quality risks which are dependent on the nature and circumstances of the firm and the engagements it performs. This increases the focus on scalability and tailoring the SOQM to the firm's unique circumstances.

(e) Drafting and presenting the requirements and application material in a manner that is easier to understand, and to reduce the overall length of the standard. This included: (i) redrafting the standard using shorter and simpler sentence structures, (ii) placing examples in the application material in separate boxes, and (iii) clearly signposting examples that demonstrate scalability. For the latter, paragraphs such as 34(e)(i) and (f)(i) on transparency communication with TCWG and the need for EQR are some of the examples that were included.

(f) Increasing the emphasis on the need for the firm to exercise professional judgment in paragraph 19 of ISQM 1, thereby allowing for firms to scale-up or scale-down (depending on their circumstances); and

(g) The monitoring and remediation process is very much being tailored to the firm's operating environment, well-embedding the concept of risk, for example: (i) The factors the firm considers in determining the nature, timing and extent of the monitoring activities have an element of risk integrated into them. (ii) Promoting a risk-based mindset by considering the severity and pervasiveness of identified deficiencies when responding to these deficiencies since the nature, timing and extent of the firm's remediation is affected by the severity and pervasiveness of the deficiencies. These are again, examples of how the ISQM standard can be scaled according to the circumstances of the firms and their complexities.

Many of these actions also address other important issues raised by various respondents to the ED. For a good understanding of the IAASB's rationale on the finalisation of the ISQM 1, please check out its basis of conclusion.

Finally, the IAASB also acknowledged the concern that smaller firms may find it challenging to undertake performance evaluation of leadership, such as within the environment of a sole proprietorship (this being one of the stated requirements of ISQM 1 that cuts across all practice sizes). In the case of a smaller firm, the performance evaluation of leadership may be interconnected with and dependent upon the outcome of an objective SOQM evaluation. A lack of operational formality and possibly documentation should not be an impediment for a small practice.

Documentation Matters

While the IAASB did not specifically seek respondents' views on documentation at the ED stage, respondents (including the MIA) invariably provided various comments about documentation. Among others, the IAASB was urged to clarify documentation for certain aspects of the standard such as the firm's risk assessment process and to provide additional guidance to demonstrate how a firm should document its SOQM, specifically, the evaluation process.

In response to this, the IAASB was of the view that a principles-based approach to documentation was more appropriate and consistent with other ISAs, such as ISA 230. The Board was concerned that adding further material in the standard to specify documentation requirements would be contrary to its efforts to improve the scalability of the standard and address prescriptiveness.

Along these lines, the MIA has requested the IAASB to consider issuing staff publications and other non-authoritative materials for jurisdictions such as Malaysia. Since room for scalability has been accorded in ISQM 1, firms will have to spend an adequate amount of time documenting their decisions (including policies and procedures) so that the regulators and practice reviewers from the MIA (and possibly, AOB) will not second-guess the firms' decisions, especially with the benefit of hindsight.

Documentation of a firm's SOQM has to be robust as well as timely and complete as the external environment and rules and regulations constantly evolve. This is surely an opportunity for a firm's leadership to openly demonstrate their commitment to quality – starting with a credible set of documentation that serves as a blueprint for the firm's quality practices, with the contents being expected to be well-communicated throughout the firm – as the new QM regime is expected to come into force by 15 December, 2022.

The Way Forward

The process towards compliance of ISQM 1 should have already started with the deadline being slightly less than 6 months away. The firm's risk assessment process has to be the first of the various critical components to be completed and duly documented. It is understandable that many smaller SMPs do have challenges in this area. Risk based assessment is a fairly new approach to many. Materials provided by the IAASB and IFAC such as Youtube videos and first-time implementation guides should be a good starting point for the SMPs. While ISQM is predicated on a new platform, many of the good practices under ISQC can still continue to be implemented with some necessary tweaks.

On the part of MIA, a dedicated site housing all the 3 QM standards had been created since November 2021 – a one stop center on the quality management standards. The Youtube videos and first-time implementation guides as mentioned earlier have been included in this dedicated site, that can be accessed here: Quality Management Standards (mia.org.my)

Commencing 2022, MIA will also be organising various programs and workshops in the form of paid CPD events (including Masterclass) and free webinars to guide, especially the SMPs as they progress towards adopting the QM standard and uplifting the general quality management standards of the auditing practice in Malaysia over time. The first event had been conducted on 18 May (almost 500 participants registered) with the next one scheduled for afternoon of 14 July. Please check your inbox for all these announcements from time to time.

To get ready for ISQM 1 in December 2022, firms will need to intensify their efforts to ensure that their overall system of quality management (SOQM) will be up and running by the effective date. Thus, in order to gauge the readiness level of firms, the Institute would like to invite audit firms to participate in a survey on the status of firms' adoption and implementation of ISQM 1 and also to identify other forms of support (if any) that are needed by firms in order to facilitate the implementation of ISQM 1. Please click this ***LINK*** *to participate in a simple survey by* ***18 July 2022 (Monday****) at* ***5.00 p.m.***

Johnny Yong is Head, Capital Market and Assurance, MIA and Lee Tuck Heng is the immediate past Chairman of the Auditing and Assurance Standards Board, MIA.

Quality Improvement Through QAP Amidst the Pandemic: Sharing of Insights from CWC & ENG PLT

at-mia.my/2022/06/27/quality-improvement-through-qap-amidst-the-pandemic-sharing-of-insights-from-cwc-eng-plt

June 27, 2022

By the MIA SMP Department

Despite facing challenges to sustain operations during the pandemic, the quest for continuous quality improvement was not forgotten by CWC & ENG PLT. What was it like to participate in the MIA-MICPA Quality Assessment Programme (QAP) during the COVID-19 pandemic? Eng Guo Miao and Kuan Ying Tung, partners of CWC & ENG PLT, share their insights.

CWC & ENG PLT, a 2-partner firm with more than 30 staff, has been around since 2018, wholly focusing on the provision of audit services. Eng and Kuan have 14 and 16 years' experience in public practice respectively.

CWC & ENG PLT commenced the QAP from October 2020 and received its final report in June 2021. Eng and Kuan tell us about their experience below:

How did you know about the QAP Programme? What made you decide to sign up for the QAP?

I got to know about this programme through a circular from the MIA and thought that this would be good for the firm because we are committed to improving audit quality to serve our clients better.

Furthermore, as the firm is still relatively new, we thought it is importance for us to assess, remediate and thus set the right tone from the beginning with the guidance from the reviewers.

At the same time, this is a good opportunity for us to get an independent review of our firm's policies and procedures.

The firm underwent the QAP during the COVID-19 pandemic, when the various MCO and SOPs were still in place. Could you please briefly describe the QAP Process during the MCO?

There were some communication hiccups initially and disruption to the normal review process flow due to the restrictions imposed during the Movement Control Order (MCO) or Conditional MCO. The timeline was delayed as expected and it took us more than 7 months to complete the whole process of QAP. Nevertheless, the overall experience is still good despite the delay in timeline and disruption to the normal QAP process.

Briefly, the process was as follows:

- First, there was a need to submit a duly completed Practice Profile Information Questionnaire, which was downloaded from the MIA SMP website. After initial checking, MIA then submitted the questionnaire to MICPA for further action.
- Prior to the entry meeting, the reviewer from MICPA would send a questionnaire with a list of documents required for QAP. Our firm was required to complete the questionnaire and prepare the documents for the QAP.
- Next, an entry meeting was conducted to obtain a better understanding of the firm's policies and procedures and attended by partners, senior staff and the reviewer. This entry meeting was conducted virtually during the MCO.
- The reviewer conducted the review offsite for 4 days followed by a virtual exit meeting to discuss the findings. There was totally no physical meetings conducted during the review due to the pandemic.
- Our firm then prepared the remediation plan with the assistance of the reviewer. The final QAP report was then issued, highlighting the findings of the reviewer and the remediation plans to be undertaken by our firm.

What were your expectations when you signed up for the QAP?

With the QAP, we hope to get independent feedback on the audit quality of our firm and to obtain recommendations for improving our firm's policies and procedures on ISQC1 and audit documentation quality.

What was your main take-away from the programme?

The main take-aways of the QAP are the findings on key shortfall areas by the reviewer and the discussion session with our QAP reviewer that helped us to get a better understanding of our weaknesses. The QAP reviewer also gave practical tips and resolutions to help us to devise improvement plans.

During the QAP, we managed to obtain guidance in interpreting some of the key requirements under auditing and quality control standards that we found quite challenging for us to interpret before. This is very useful for us as it could help us in performing the audit in a much more efficient manner while complying with the auditing standards.

In what way do you think the QAP will help you in your future audit?

The QAP helps our firm to better understand our current shortfall in audit quality and process. The QAP provides recommendations to improve audit quality for our future audit engagements.

For instance, when determining the sample size, it is important to document the justification and the linkage between risk assessment and sampling size.

In your opinion, is there any area that the QAP could be further improved?

Overall, the QAP process is well managed and coordinated. Some areas that we thought that could be further improved are as follows:

- The timeline should always be revisited and discussed together as the QAP is progressing so that the firm would be well informed on the status of the review.
- The discussion during the exit meeting could have been more thorough and extensive.
- Reviewers could consider scaling down requirements or guidance when reviewing firms with small-sized clients.

In your experience, do you consider the programme value for money?

Yes, it was value for money. We could see that the fee is already subsidised when we considered the actual time cost that the reviewer spent for our firm's review. We gained a lot from the review. The reviewers were all from practice and they were superb. They could relate to the practical problems faced by SMPs.

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

Yes, we recommend that other SMPs participate in QAP to seek continuous improvement in audit quality. Sole proprietors especially would benefit from the independent review on the firm's ISQC1 policies and procedures.

Do you expect to enrol in the follow-up review in the near future?

Yes, we are looking to enrol in a follow-up review in the near future to assess the implementation of our remedial action plan.

Considering the imminent effective date of ISQM1, ISQM2 and ISA 220 (Revised), do you foresee the firm will be enrolling into this QAP again?

We will definitely consider enrolling for QAP maybe in the next one or two years to review the post implementation of our firms' policies and procedures on ISQM1, ISQM2 and ISA 220.

In your opinion, do you think that the QAP is a good way to assess audit quality of an audit firm before the Practice Review? If yes, why?

Yes, the QAP is a good way to assess our audit quality and prepare us for the Practice Review by identifying our deficiencies/shortfalls and recommendations for audit quality improvement.

About the QAP

The Quality Assessment Programme (QAP) is a new initiative to enhance audit quality among SMPs. A joint collaboration between MIA and MICPA since the QAP agreement was first signed on 25 October 2016, the QAP signals MIA and MICPA's commitment towards continuous improvement in the audit quality of SMPs in Malaysia.

How the QAP Works

The QAP is a structured review of a MIA Member firm by reviewer(s) appointed by 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.

Participation in the QAP by SMPs is on a voluntary basis and designed to be educational in nature. The review will be conducted at the firms' premises. At the end of the review period, the QAP reviewer(s) will provide a report on the findings and the reviewed firm will provide the proposed remedial action plans for implementation.

Objectives of the QAP

The QAP is designed to promote continuous improvement in audit quality in Malaysia.

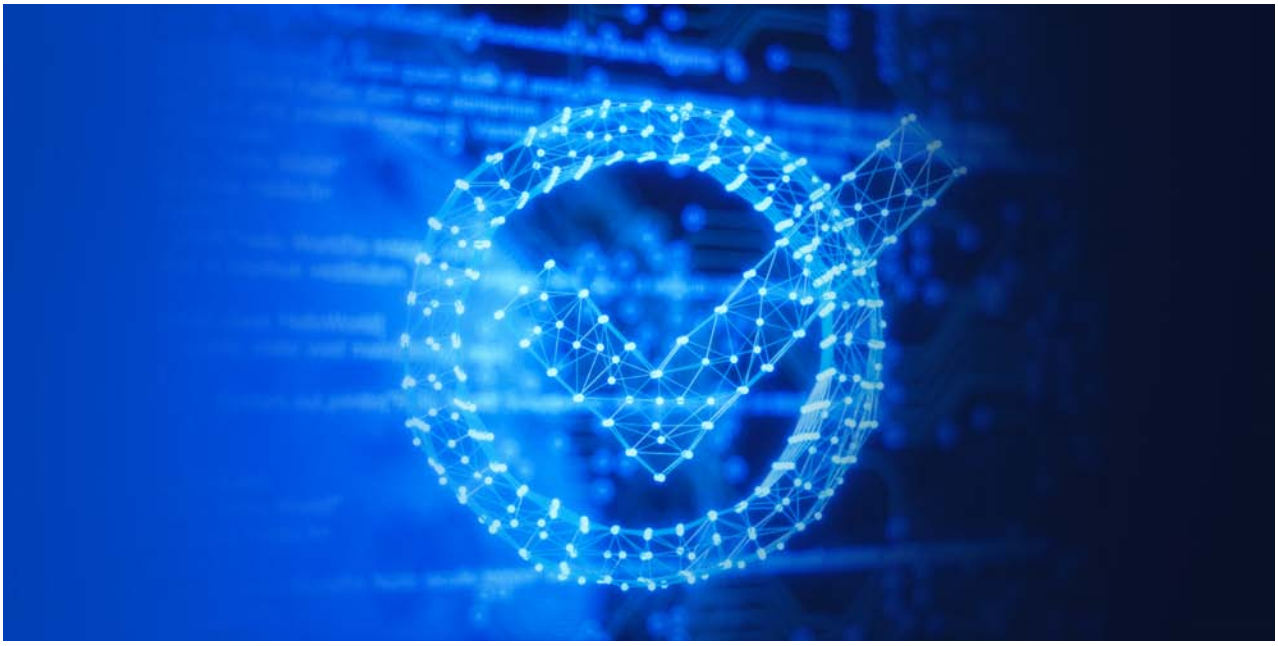
It aims to assist audit firms in assessing compliance with the applicable auditing standards and MIA By-Laws in relation to audit engagements on financial statements prepared in accordance with the applicable approved accounting standards and the Companies Act 1965 or the Companies Act 2016, as the case may be.

Interested to participate?

SMPs (not registered with the Audit Oversight Board) 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.

Quality Assessment Programme: Common Findings of the Firm-level and Engagement-level Review

June 27, 2022



By MIA SMP Department

The Quality Assessment Programme (QAP) is a structured voluntary review of audit firms, a collaborative effort by MIA and The Malaysian Institute of Certified Public Accountants (MICPA) with the aim of improving audit quality. It is limited to a review of the audit firm's system of quality control based on information provided by the audit firm and a review of the application of the audit firm's quality control procedures in a selected engagement file. The procedures include examination on a test basis of evidence supporting the audit firm's assertions as to compliance with the applicable professional standards.

Upon completion of the review, the audit firm and its reviewers discuss the review findings and then identify the remedial actions to be taken to address issues highlighted in the findings. Subsequently, the reviewers finalise the findings and remedial actions and issue a final report which comprise findings for the firm-level review and the engagement-level review.

Below is a high-level summary of the common findings garnered and observed from 8 completed reviews since the introduction of QAP in 2016:

Firm-level Review – A review of the firm's compliance with International Standard of Quality Control (ISQC) 1

ELEMENT 1

LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM

No formal communication channel for effective communication in relation to any new technical updates, changes to the firm's Quality Control (QC) policies and audit manual or templates, etc.

Inadequate documentation retained on leadership communication to the firm's staff on importance of audit quality, maintaining independence and ethical behaviour.

ELEMENT 2

RELEVANT ETHICAL REQUIREMENTS

Absence of declaration of independence by the engagement team at the planning, throughout the audit and to the completion of the engagement.

No written or formal policies and procedures on safeguards to reduce the familiarity threats to an acceptable level.

No policy for prohibited entity and no assessment of risk for client acceptance.

Enhancement required on the education and training, monitoring and process for dealing with non-compliance of relevant ethical requirement with appropriate actions to address such situation.

ELEMENT 3

ACCEPTANCE CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS

Lack of or no continuous evaluation as to whether to retain the client at the completion of each audit.

No documentation on whether adequate consideration is given to the long-term professional relationship prior to acceptance of the engagements.

Absence of partner review evidence and approval on the client acceptance and engagement evaluation documents.

Client acceptance/retention assessment procedures did not specifically address money laundering considerations.

ELEMENT 4

HUMAN RESOURCES

No formal policies or written criteria for the evaluation of professional staff's performance, compensation and promotion.

No formal development plan for each staff.

No formal procedures to maintain training records of all the professional staff.

Absence of post training evaluation.

ELEMENT 5

ENGAGEMENT PERFORMANCE

No policies on Engagement Quality Control Review (EQCR)

No clear policies on final assembly of engagement files within a reasonable timeframe.

Absence of file maintenance system on safe custody, accessibility, retrievability and safeguard of confidentiality of audit engagement documentation.

ELEMENT 6

MONITORING

No monitoring process to ensure policies and procedures are relevant, adequate and operating effectively.

No formal channel for firm staff or clients to raise concerns.

Overall, the findings for the firm-level review indicated that there are apparent deficiencies relating to the existence of policies for the 6 elements of ISQC 1.

Engagement-level review – A review of the documentation of at least one completed audit engagement, for 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.

PLANNING STAGE

- Engagement information in permanent audit file has not been updated on a timely basis
- Inadequate planning documentation in relation to the understanding of the system of internal control and environment of the client
- Inadequate analytics documentation in relation to the identifying and assessing the risks of material misstatement
- Inadequate documentation on consideration of fraud risk
- The partner's close involvement at the planning stage was not clearly evident, other than the sign off
- No documentation of planning discussions among the engagement team
- No computation to support the determination of performance materiality and clearly trivial threshold
- Inadequate analytics documentation.

FIELDWORK STAGE

Missing audit procedures:

- Testing of journal entries
- Testing of IT general controls
- Review of opening balances
- Review of unrecorded liabilities
- Testing of material classes of transactions, account balances and disclosures
- Testing of information produced by the entity
- Discrepancies between recorded amounts and supporting documents / schedules were not investigated / reconciled
- Testing on ageing list
- Identification of related party transactions
- Identification of non-compliance with laws and regulations
- Verification of the existence of property, plant and equipment.
- Assessment on impairment

Missing/inadequate documentation:

- Materiality, performance materiality and clearly trivial threshold
- Assessment of risks of material misstatement
- Justification of a number of samples selected for testing throughout the audit (no link between risk assessment and sample size)
- Client's system of internal controls
- Discussions among engagement team.

COMPLETION STAGE

- No follow up requests for bank confirmation
- Insufficient work done in relation to subsequent events
- No sign off on the identified misstatements discussed with the client and conclusion reached
- Misstatement identified was not posted in the summary of misstatement or letter of representation
- No final analytical procedures performed to ascertain the overall reasonableness and presentation of the financial statements
- No follow up on management responses or action plans on the deficiencies reported.

Audit firms that have yet to undergo MIA Practice Review Programme are encouraged to enrol in the QAP for self-improvement purposes. Firms that have participated in the QAP will be given time for quality improvement and will not be selected for MIA Practice Review at least within the 6 months after the completion of their QAP. Participating firms may also request for follow-up review post-QAP in assessing their progress in executing the remediation action plans as agreed with the reviewers.

Interested to find out more information about QAP?

Please click here to find out more information about QAP.

Testimonials from participating firms, detailed processes, charges and the comparison between practice review and QAP can be found in the following 2 articles published at e-AT in 2021:

- Thumbs up for QAP
- Everything you need to know about QAP

Obligations by Reporting Institutions Under AMLA

at-mia.my/2022/05/20/obligations-by-reporting-institutions-under-amla

May 20, 2022

By MIA Professional Practices and Technical

This article recaps some of the salient learning points from an AMLA Awareness Workshop hosted by MIA in July 2021 which featured Ms Phoon Ru Yi, an analyst at the Designated Non-Financial Businesses & Professions (DNFBP) Division, Financial Intelligence and Enforcement Department (FIED) of Bank Negara Malaysia. The topics encompassed the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLA), the Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) Policy Document, best practices in AML/CFT compliance programme for reporting institutions (RIs) in the accountancy sector and case studies on red flags involving accountants. The workshop was attended by 96 MIA members who are also the appointed AML/CFT compliance officers of their firms.

Members who hold valid practising certificates issued pursuant to Rule 9 of the Malaysian Institute of Accountants (Membership and Council) Rules 2001 are RIs under the AMLA and are subject to Part IV Reporting Obligations of the Act, when they carry out any of the gazetted activities (GAs) as follows:

- buying and selling of immovable property;
- managing of client's money, securities or other property;
- managing of accounts including savings and securities accounts;
- organising of contributions for the creation, operation or management of companies; or
- creating, operating or managing of legal entities or arrangements and buying and selling of business entities

Some examples of services included in GAs are shown in Table 1 below:

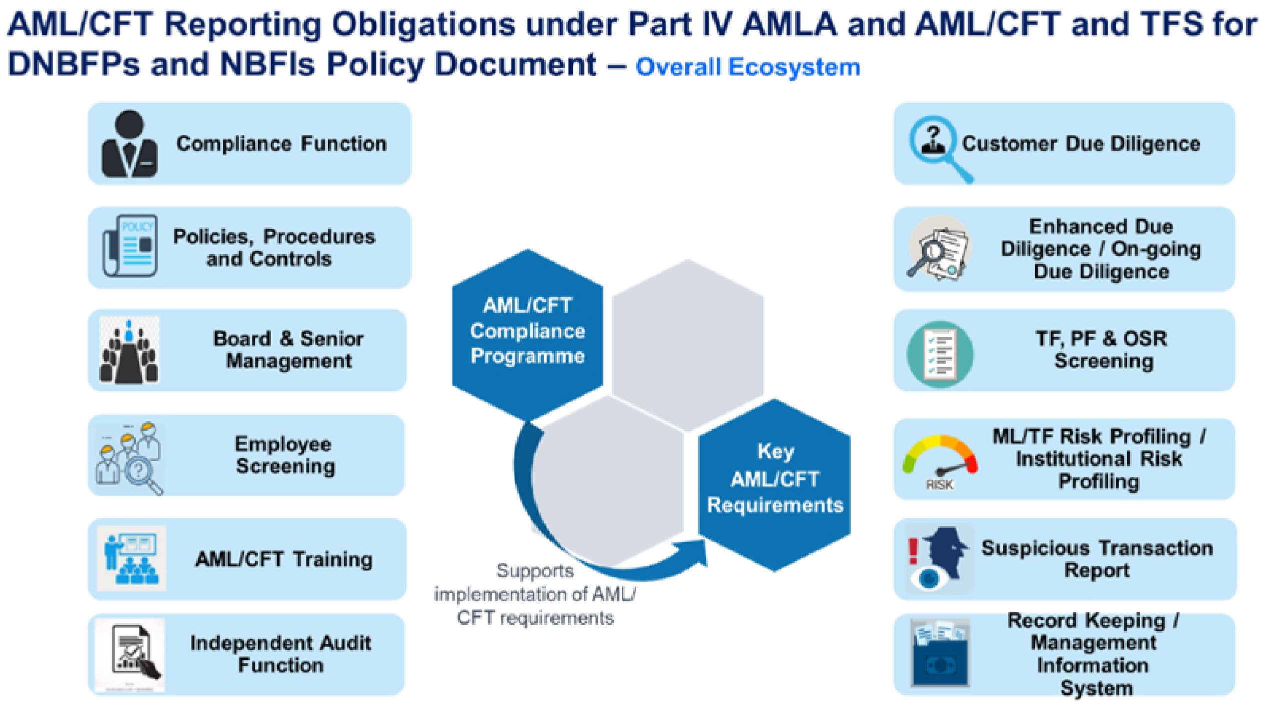
Table 1 Gazetted Activities and Examples (Non-Exhaustive)

GAZETTED ACTIVITIES	EXAMPLES OF SERVICES
buying and selling of immovable property;	• advisory services for buying and selling of properties
managing of client's money, securities or other property;	• administering and managing a client's account in a separate account, i.e., in client's account / Escrow account • payroll payment services through client's account including related ancillary services
managing of accounts including savings and securities accounts;	• acting as authorised signatory to manage funds transfer to third parties • liquidation for the purpose of liquidation – realising clients' assets and onwards distribution of funds to creditors and shareholders
organising of contributions for the creation, operation or management of companies; or	• advisory services - preparation of agreements related to capital contribution or financing contribution of companies (IPO, issuance of bonds) • advisory services related to tax / tax planning, investment and securities
creating, operating or managing of legal entities or arrangements and buying and selling of business entities	• provision of nominee director or shareholder services • formation of entities / companies of trust arrangements including their related advisory services and trust deeds • takeover / mergers and acquisition arrangements including the advisory services for their share sale agreement • insolvency / bankruptcy and their related advisory services.

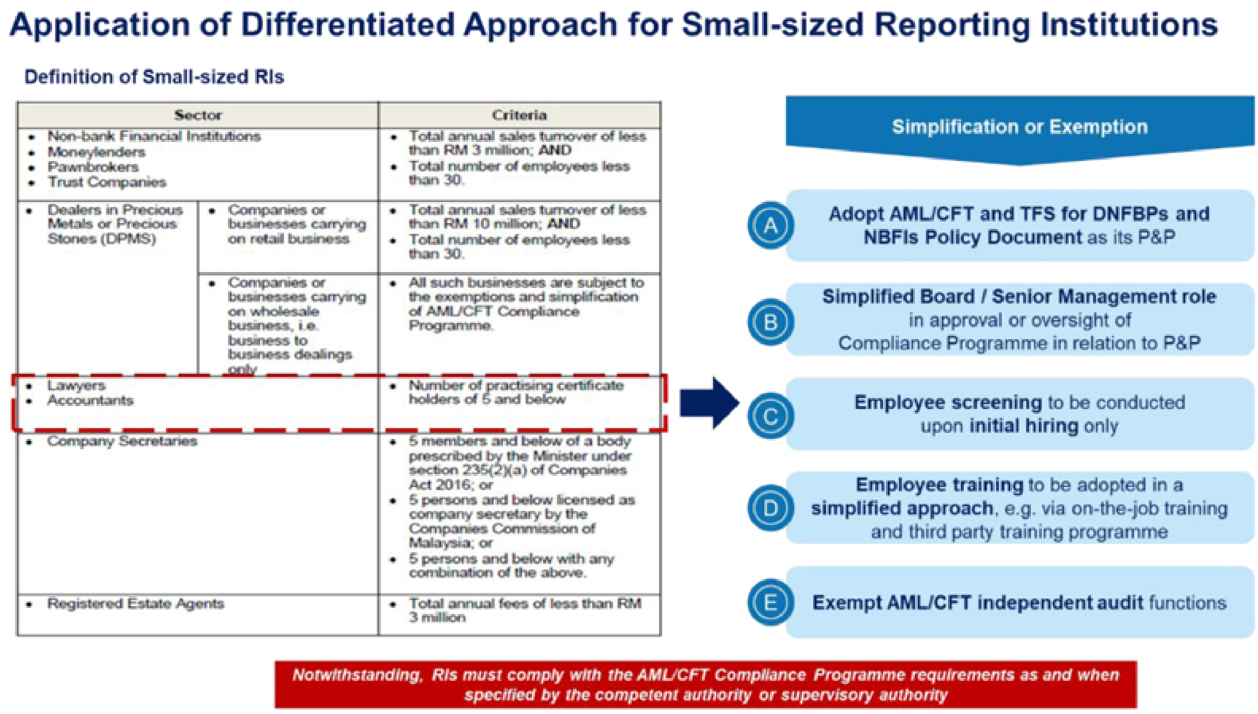
Accountants who only provide audit services which do not fall within any of the five GAs are not RIs under the AMLA. Notwithstanding, BNM and MIA are currently in the midst of conducting a review to map out the services provided by accountants with the GAs and will communicate the outcome to the accountancy sector accordingly.

AML/CFT Reporting Obligations

The AML/CFT Reporting Obligations under Part IV of the AMLA and AML/CFT are divided into two parts, namely (i) the key requirements, which are the fundamental requirements that all RIs must apply when they undertake GAs for their clients, and (ii) the AML/CFT Compliance Programme which forms a basis for successful AML/CFT infrastructure within the firm, as below:



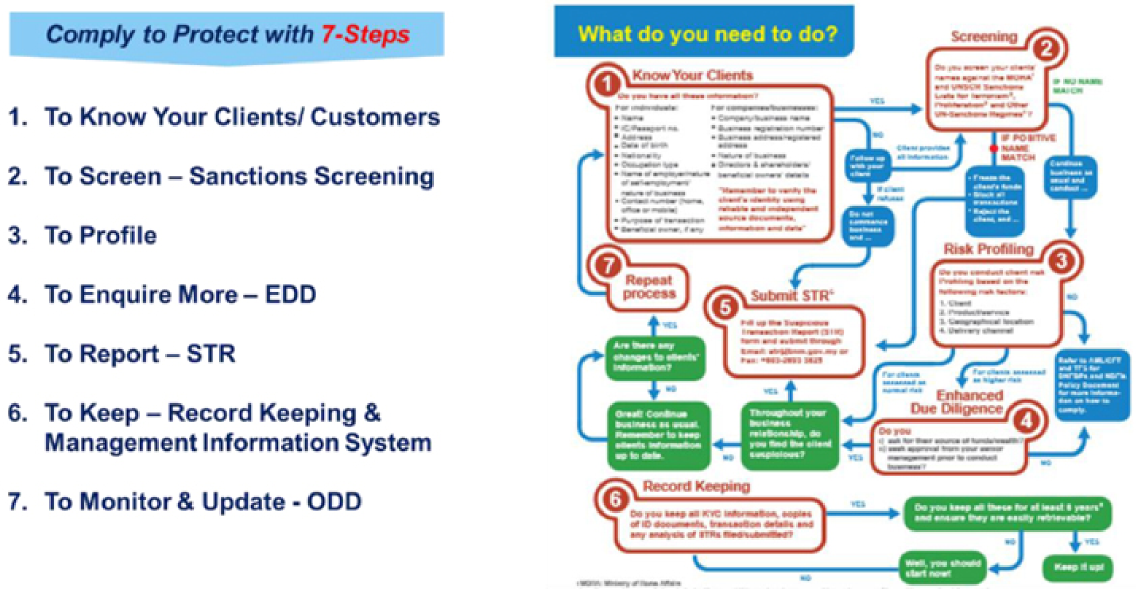
The compliance programme portion of the revised Policy Document also introduced the application of differentiated approach for small-sized RIs, which is applicable for accounting firms with less than five practicing certificates, which include, among others, the application of policy and procedures, role of board/senior management, employee screening and training. Please see below the graphic:



Implementing AML/CFT Requirements

The following infographic summarises the AML/CFT requirements with simplified explanations for understanding and implementation by RIs:

Simplified Guide on key AML/CFT requirements to elevate reporting institutions' understanding and compliance



The Guide explains the main requirements which all RIs must put in place in a step-by-step manner. Steps 1, 2 and 3 are the first steps used for all new and onboarding clients. Step 4 is to enquire for more information as part of Enhanced Due Diligence (EDD) for high-risk customers, either automatically or through risk assessment. Step 5 involves the reporting of Suspicious Transaction Reports (STR) depending on the review of the information obtained in the earlier steps. Step 6 requires proper record keeping to be maintained and kept manually or digitally, depending on the size and complexity of the RI. Last but not least, Step 7 On-going due diligence (ODD) involves periodically updating and monitoring transactions and information of customers.

Supervisory Observation

Examples of good practices and common lapses that were found by BNM when they examined accountants on their compliance to AML/CFT requirements are summarised in the following infographic:

On-site Examination on Accountants thus far – Supervisory Observations

Good Practices

Know your Client
- Request for basic CDD information, guided by proper KYC form

Management Information System
- Maintenance and centralisation of customers database at firm's level
- Adequate MIS using both manual records and simple system to capture CDD and transaction records

On-going Due Diligence
- Maintain up-to-date client information – due to nature of services provided

Record Keeping
- Retention of basic CDD and transaction records for at least 6 years

Lapses

Customer Due Diligence (CDD)/ Enhanced Due Diligence (EDD)
- CDD: Lapses in CDD conducted on beneficial ownership (BO) of legal persons
- EDD: Lapses in EDD on higher risk customers due to absence/ lapses in CRP

Suspicious Transaction Report (STR)
- Absence or lapses in establishing internal criteria (red-flags) to detect suspicious transactions
- Absence or lapses in establishing reporting mechanism for suspicious transactions

Targeted Financial Sanction (TFS)
- Lapses in maintaining a database of names and particulars of sanctioned individuals and entities
- Lapses in conducting checks on the names of new and existing clients, and shareholders and BO, against list of sanctioned entities

ML/TF Risk Assessment and Customer Risk Profiling (CRP)
- Absence or lapses in ML/TF risk assessment in relation to the firm's customers, products and services, transactions or delivery channels and geographical presence
- Absence or inadequate risk profiling of clients

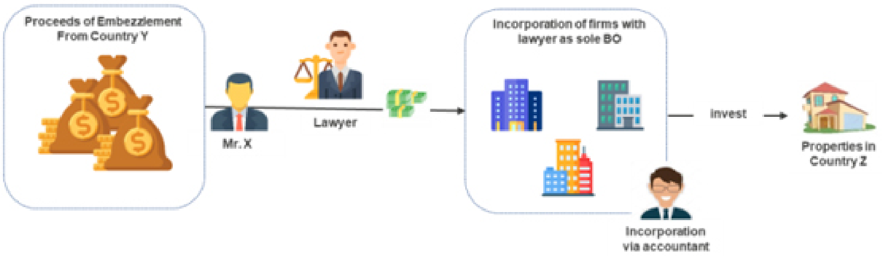
AML/CFT Compliance Programme
- Absence of written AML/CFT policies and procedures on key areas of AML/CFT requirements
- Absence of senior management oversight on AML/CFT matters
- Lapses in appointment of compliance officer to undertake compliance function for AML/CFT matters
- Lapses in conducting AML/CFT awareness and training programmes for employees

Case study and Red Flags

Accountants may face possible money laundering abuse scenarios as shown in the following case study involving the use of a third party and shell companies to conceal the involvement of Politically Exposed Persons (PEP):

Case Study

Use of Third Party and Shell Companies to Conceal Involvement of PEP



Red Flag Indicators:

- Use of nominees and third parties
- Use of shell companies
- Investment of properties not commensurate with lawyer's primary profession

Brief Facts of Case:

1. Mr. X is a PEP from Country Y and has a criminal history and sentences by Country Y courts for embezzlement, money laundering, and being involved in a criminal organisation.
2. Mr. X used a lawyer to approach an accounting firm in Country Z requesting the incorporation of 6 companies with $1 issued share capital for each company with the principal activities to invest, on behalf of prominent investors, in the real estate property.
3. Upon incorporation of the firms, large funds were immediately deposited into the bank accounts of the companies. Each funds is shown as loans payable, for 1% interest, to a common investor Mr. X.
4. Funds were then immediately invested in commercial properties of Country Z.

REMEMBER !!!

- ✓ Obtain **sufficient information**
- ✓ **Ask the right questions**
- ✓ **If suspicious, submit STR**

1. **Protect yourself** from being **abused to facilitate criminal** activities
2. **Help LEAs to disrupt crimes** from happening

ICPAC Case Study on AML/CFT (Cyprus)

In helping RI to identify suspicious transactions, possible red flags were also shared for RIs to reflect upon their own transactions that may give rise to suspicion as provided in the infographic below:

For accountants in particular, the following are the possible red flags that could be incorporated in the monitoring of transactions by accountants:

Establish red flags or triggers relevant to your business for effective identification or detection of suspicion

Examples of Sector Specific Red Flags

Accountants

Supervisory Observation:

- Absence or lapses in internal criteria (red flags) to detect suspicious transactions
- Absence or lapses in reporting mechanism for suspicious transactions

- Clients having history or tendency in changing accountants frequently without logical explanation
- Creation of fictitious employees under payroll list
- Deposit payment into firm client account from various location without logical explanation
- Repeat transaction between parties over a contracted period of time without economic purpose
- Company instructs to transfer sum of money to offshore companies via the clients' account without logical explanation
- Funds deposited into client account is inconsistent with client's profile, whereby the surplus fund is remitted to a third party instead of returned to the client
- Large or repeat transaction, and the executing customer is a signatory to the account, but is not identified as having a controlling interest in the company or asset

Moving forward

As part of a continuous effort to increase the AML/CFT awareness and understanding of RIs, RIs can look forward to more initiatives from MIA in collaboration with BNM in the near future. BNM is encouraging more industry-led efforts in AML/CFT compliance through joint initiatives with MIA such as the AML/CFT Train the Trainer programmes which aim to produce industry experts who are qualified to be AML/CFT trainers for the accounting sector. For further information on AML/CFT matters, you may visit BNM's AML/CFT microsite at http://amlcft.bnm.gov.my.

Note : The workshop did not cover company secretarial services, which are also GAs that may be performed by MIA members.

MPERS: Common Issues on Consolidation

at-mia.my/2022/06/29/mpers-common-issues-on-consolidation

June 29, 2022

By MIA Digital Economy, Reporting and Risk (DERR) Team

Since the Malaysian Private Entities Reporting Standard (MPERS) became effective in Malaysia in 2015, we have received various accounting queries on consolidation through our technical queries facility. In this article, we will be sharing a few common questions received on consolidation and the suggested guidance for reference.

When to present consolidated financial statements?

ILLUSTRATIVE EXAMPLE 01

Company A, a company incorporated in Malaysia, acquired 80% shares of Company B, a foreign company that is based in Singapore. Should Company A present consolidated financial statements?

Paragraph 9.2 of MPERS Section 9 *Consolidated and Separate Financial Statements* requires a parent entity to present consolidated financial statements in which it consolidates its investments in subsidiaries. A subsidiary is an entity, including an unincorporated entity such as partnership, that is controlled by another entity[1]. Control is the power to govern the financial and operating policies of an entity to obtain benefits from its activities[2].

Therefore, Company A needs to firstly assess whether control exists to establish a parent-subsidiary relationship. In carrying out such assessment, it is necessary to analyse all relevant facts and circumstances as provided in paragraphs 9.4 to 9.12 of MPERS. Once control has been established, the parent will need to present consolidated financial statements.

What is an acquisition date?

ILLUSTRATIVE EXAMPLE 02

Similar facts as in Illustrative Example 1 above.
At what date should Company A consolidate Company B?

Company A should consolidate Company B at an acquisition date. Paragraph 9.3A of MPERS provides that an acquisition date is the date on which the acquirer obtains control of the acquiree.

When is consolidation not required?

ILLUSTRATIVE EXAMPLE 03

Company A acquired Company C with an intention of selling it within six months of the acquisition date. Company A has no other subsidiaries.

A subsidiary is not required to be consolidated if it is acquired and is held with the intention of selling or disposing of it within one year from its acquisition date. Such a subsidiary is accounted for in accordance with the requirements in Section 11 *Basic Financial Instruments*[3].

In addition to the above, consolidated financial statements are not required when an entity ceases to be a subsidiary of the parent. If the former parent investor continues to hold an investment in the former subsidiary, such investment is accounted for as a financial asset in accordance with Section 11 or Section 12 *Other Financial Instrument Issues* from the date the entity ceases to be a subsidiary. However, if it becomes an associate or a jointly controlled entity, it is accounted for under Section 14 *Investments in Associates or* Section 15 *Investments in Joint Ventures* respectively[4].

Please refer to Illustrative Example 5 for better understanding on the paragraph above.

Could parent and subsidiaries use different accounting policies for the purpose of consolidation?

ILLUSTRATIVE EXAMPLE 04

Company A is a private company incorporated under the Companies Act 2016 and satisfies the definition of a private entity as determined by the Malaysian Accounting Standards Board (MASB). Company A has a subsidiary, Company D which is based in the Netherlands.

Which accounting standards should Company A apply in its consolidated financial statements?

As a private entity, Company A should comply with either:

- Malaysian Private Entities Reporting Standard (MPERS) in their entirety for financial statements with annual periods beginning on or after 1 January 2016; or
- Malaysian Financial Reporting Standards (MFRS) in their entirety.

If Company A applies MPERS, paragraph 9.17 of MPERS states that "consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events and conditions in similar circumstances. If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements".

However, where a subsidiary applies MFRS or the International Financial Reporting Standards (IFRS), Company A may wish to consider applying MFRS in order to facilitate the preparation of the consolidated financial statements, provided Company A applies MFRS in its entirety. Please refer to MASB Frequently-Asked Questions.

ILLUSTRATIVE EXAMPLE 05

Company A acquired Company E and presented consolidated financial statements in that financial year following the acquisition. In the following year, company A has partially disposed its interest in Company B. As a result, Company B now becomes an associate. Is Company A required to present consolidated financial statements in the following year?

Paragraph 9.18 of MPERS Section 9 *Consolidated and Separate Financial statements* states that "the income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date until the date on which the parent ceases to control the subsidiary. When a parent ceases to control a subsidiary, the difference between the proceeds from the disposal of the subsidiary and its carrying amount at the date that control is lost is recognised in profit or loss in the consolidated statement of comprehensive income (or the income statement, if presented) as the gain or loss on the disposal of the subsidiary".

As Company A ceases to control Company E and Company E becomes an associate, paragraph 9.19 requires Company E to be accounted for under Section 14. Section 14 applies to accounting for associates in consolidated financial statements and in the financial statements of an investor that is not a parent but that has an investment in one or more associates.

---

[1] MPERS, Appendix B, Glossary of terms
[2] Paragraph 9.4 of MPERS
[3] Paragraph 9.3A of MPERS
[4] Paragraph 9.19 of MPERS

MPERS and SMEs Financial Reporting Conference 2022: Elevating SME Financial Reporting to Global Standards

June 17, 2022

Small & Medium Enterprises (SMEs) comprise a major segment of the Malaysian economy. Therefore, enhancing financial reporting compliance among SMEs is critical in order to attract investors and business, and to heighten regulation and good governance in the public interest.

To elevate financial reporting compliance, we must first upgrade technical competencies by improving the application of Malaysian Private Entities Reporting Standards (MPERS) among SMEs.

This 1-day virtual Conference is specially designed to upskill SMEs on MPERS and bridge existing gaps. The Conference will provide a comprehensive overview of key MPERS sections and an in-depth understanding and interpretation of their principles. Participants will also benefit from practical guidance on the application of MPERS for SMEs' financial reporting, especially the accounting concepts and treatments that may be unfamiliar to preparers and auditors.

The following are the sessions scheduled for the Conference which will be held on 28 June 2022:

MAJOR DIFFERENCES AND POSSIBLE ALIGNMENT BETWEEN MPERS AND MFRS – Conveys the big picture on MPERS by discussing the likely changes to the MPERS framework and identifying the major differences and possible alignment between MPERS and MFRS.

RECOGNITION AND MEASUREMENT OF FINANCIAL INSTRUMENTS: MPERS SECTION 11 AND SECTION 12 – Get insights into Section 11 for basic financial instruments and Section 12 for other financial instrument issues, with an option for private entities to apply the recognition and measurement requirements of MFRS 9.

MPERS SECTION 14 AND SECTION 15: INVESTMENT IN ASSOCIATES AND JOINT VENTURES – Covers MPERS Section 14 and Section 15 with a focus on financial statements presentation.

CASE STUDY: ACCOUNTING FOR LEASES – SECTION 20 MPERS AND MFRS 16 LEASES – Provides a comprehensive review and discussion on MFRS 16, as well as the accounting for leases for private companies based on Section 20 MPERS.

MPERS SECTION 23 AND MFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS – Focuses on MFRS 15 revenue recognition issues in practice and discusses the key principles of recognition and measurement of revenue prescribed in MPERS under Section 23.

MPERS SECTION 27: IMPAIRMENT OF ASSETS – Discusses the implementation challenges of Section 27, which relates to impairment or a drastic reduction in the recoverable value of a fixed asset when the carrying amount of an asset exceeds its recoverable amount.

TRANSITION TO MPERS – SECTION 35 – This session discusses key transitional provisions provided under Section 35 of MPERS, as transition challenges are a primary concern for those adopting MPERS for SMEs' financial reporting.

For more information on the Conference, please click here.

MIA Member Satisfaction Survey 2022

at-mia.my/2022/06/30/mia-member-satisfaction-survey-2022

June 30, 2022

The Institute is continually seeking ways to enhance the value proposition of the profession. Therefore, the Institute would like to invite you to take part in the MIA Member Satisfaction Survey 2022 whereby you can share your experience and expectations of the Institute with us.

We would appreciate it if you could spare 10 minutes to provide us with your feedback. Rest assured that your responses and feedback will remain confidential. We will use the information gathered to continue to add value and tailor data-driven and enhanced services for members in order to further develop the accountancy profession in Malaysia.

By completing the survey, you stand a chance to win an Apple iPad worth RM1,499. Mystery gift(s) will be given to every 500th respondent who completes the survey.

Scan the QR code

or visit the link
https://www.surveymonkey.com/r/MIAMemberSatisfactionSurvey2022

MIA Digital Economy and Reporting Insights (Jan – Mar 2022)

at-mia.my/2022/05/06/mia-digital-economy-and-reporting-insights-jan-mar-2022

May 6, 2022

The MIA Digital Economy and Reporting Insights provide quarterly updates in the areas of digital economy, tax and reporting. The Insight highlights contents and initiatives that are of high value to members.

MIA Digital Month 2022

MIA Digital Month 2022 (MDM 2022) is a virtual, month-long convention of digitalisation of the accountancy profession in Malaysia. MDM 2022 aims to drive MIA's aspirations in supporting digital technology adoption by the accountancy profession in Malaysia. MDM 2022 consisted of four complimentary webinars and ended with MIA's Annual AccTech Conference.

Among the exciting highlights of MDM 2022 were updates by MIA on its digital initiatives as well as sharing of success stories of digital technology adoption by companies and organisations. Members were equipped with the information on relevant technology trends in the profession and updated with funding options available for their digital transformation journey. The complimentary webinars were as follows:

2 MARCH 2022

COMPLIMENTARY WEBINAR – Week 1

Leading the Digital Transformation of the Accounting Profession in Malaysia

9 MARCH 2022

COMPLIMENTARY WEBINAR – Week 2

Sharing on Digitalisation Grants

17 MARCH 2022

COMPLIMENTARY WEBINAR – Week 3

~ Entering the 5G Era
~ The Future Relevance of CFOs: ESGs and Sustainability Reporting

23 MARCH 2022

COMPLIMENTARY WEBINAR – Week 4

~ Developing a Technology Adoption Strategy is Crucial for Small and Medium Practices (SMPs) and Small and Medium Enterprises (SMEs)
~ Case Study: Technology Adoption by SMPs

Week 1: Leading the Digital Transformation of the Accountancy Profession in Malaysia

MDM 2022 kicked off with a webinar on Leading the Digital Transformation of the Accountancy Profession in Malaysia. Featuring the Chair, Lim Fen Nee and members of the MIA Digital Technology Implementation Committee (DTIC), Prof Dr David Asirvatham and Steven Chong Hou Nian, the webinar covered the Institute's various digital initiatives to facilitate the accountancy profession in its digital transformation journey. This includes digital competency development and engaging policymakers and stakeholders on digital technology matters.

The panellists also deliberated the latest technological trends affecting the profession, how accountants can be ahead of it, how small and medium practices (SMPs) and small and medium enterprises (SMEs) should approach digitalisation as well as the areas of focus in the future. The panellists also discussed the technology talent in the accountancy profession highlighting the findings of the "Report on a Study of Emerging Technology Adoption within the Accounting Programmes by the Higher Learning Institutions in Malaysia". The Report can be accessed here.

Week 2: Sharing on Digitalisation Grants

Participants were enlightened on the application process of both Smart Automation Grant and SME Digitalisation Grant and how the grants have assisted them on their digital transformation journey.

The session was followed by a panel discussion moderated by a DTIC member, Bryan Chung, where the panellists discussed on the needs to submit complete documentation during application, having the right mindset and patience in completing the application, the importance of selecting the appropriate software in digitalisation and the ability to measure the quantitative and qualitative benefits of such selection. The panellists further emphasised on the importance of getting the buy-in of top management on digitalisation, how digitalisation should be funded internally with the opportunity to obtain funding assistance from the government, as well as continuing upskilling efforts. For details of the digitalisation grants, please check out Circular No. 40/2021 by accessing your account on www.mia.org.my.

Week 3: TedTalks

The first TedTalk session covered how 5G can accelerate business operations and the strategies to exploit 5G capabilities. The audience were enlightened with real case studies on 5G applications and how 5G contributes towards the economy. The presenter, Chaari Thandalam Veeravali, a DTIC member, emphasised that building the digital talent pool should become a national priority and 5G is a critical infrastructure for digital growth.

The second TedTalk session was on “Future Relevance of CFOs – ESG and Sustainability Reporting”. The session stressed that sustainability should be embedded in an organisation and is a critical component in business operations. The risk of not addressing ESG reporting and compliance and the challenges to produce an ESG report were also highlighted. In addressing the challenges, organisations need to have good technological support and solutions to respond towards the changing reporting landscape.

Week 4: Technology Adoption by SMPs and SMEs

The first session of the webinar covered the technology adoption strategy that can be deployed by SMPs and SMEs. The presenter highlighted the type of capabilities that are crucial for technology adoption strategy and the significant factors that will motivate workers to learn digital skills. The presenter also shared the digital strategy adopted by his organisation and emphasised on having the right mindset to embark on the digital adoption journey and address the upskilling challenges.

The second session is a case study of technology adoption by a SMP where the presenter shared about the benefits of cloud accounting and how the accounting processes have evolved over the years with cloud accounting. The presenter highlighted that change management is a crucial step in adopting digitalisation and automation. To gain a competitive advantage, organisations need to be fast in embracing change.

The Institute wishes to thank all speakers of MDM 2022!

Technology Adoption by the Accountancy Profession Survey 2022

The survey was opened for member participation from 12 January to 25 February 2022. During the survey period, lucky draws were held where 2 members won the grand prizes of complimentary seats to attend MDM 2022 while 200 members won Grab food vouchers. At the end of the survey period, 944 members responded. The Institute is currently analysing the survey results and a survey report will be issued soon. The Institute thanks all members who have participated in the survey.

Extension Granted for Online Tax Training

The Institute submitted a joint request to the Ministry of Finance (MoF) in February 2022 for the extension of recognition of the CPD/CPE points from online tax training for application and renewal of tax agent licences from 1 July 2021 to 31 March 2022. Members have been informed via Circular No 24/2022 dated 11 April 2022 on the approval granted by the MoF for perpetual recognition of CPD/CPE points from online tax seminars/training for application and renewal of tax agent licences.

Tax Governance

The Institute submitted a joint feedback and comments on the Inland Revenue Board (IRB)'s Tax Corporate Governance Framework (TCGF) and Tax Corporate Governance Guidelines (TCGG) in February 2022. The joint feedback and comments cover the uniform adoption of the tax corporate governance agenda, need for clarity on TCGF and TCGG, Tax Corporate Governance Framework Programme (TCGFP) and its benefits & compliance costs, and tax corporate governance on indirect taxes.

On 15 April 2022, the IRB issued a media release on TCGF and TCGG.

Malaysian Tax Conference 2022 – From Web3 to Carbon Taxes: a New Tax Era

at-mia.my/2022/06/15/malaysian-tax-conference-2022-from-web3-to-carbon-taxes-a-new-tax-era

June 15, 2022

Tax practitioners and boards of directors today face numerous tax challenges as the tax environment evolves at a breath-taking speed. The Malaysian Tax Conference 2022 jointly organised by MIA and Malaysia Association of Tax Accountants (MATA) virtually from 21 – 22 June will explore the key global developments that are projected to materially affect tax policy, and hence affect how organisations respond.

A key development on the local front relates to improving tax transparency and tax governance to support fiscal health and sustainable nation-building. In his keynote address at the Tax Conference, the CEO of the Inland Revenue Board Malaysia (IRBM) will be speaking on the direction of tax regulations and the government's expectations of taxpayers in the COVID-19 endemic environment.

To improve compliance under the new Framework, practitioners are advised to refer to MIA and MICPA's joint **Tax Governance Guide** which advocates for tax transparency and good reporting practices amongst listed issuers. This Tax Governance Guide is available on Bursa Malaysia's Sustain Platform and is intended to provide guidance to the directors of listed issuers in reporting the management of tax matters affecting corporations in their annual reports, in line with international developments related to the Environmental, Sustainability and Governance (ESG) agenda. Such improvements in tax transparency will promote trust and credibility in the tax practices of listed issuers and enable investors and stakeholders to make informed decisions.

Being proactive on tax governance and tax compliance is also aligned with the government's stance on fiscal reforms and fiscal responsibility. At the recent MIA International Accountants Conference 2022, guest of honour YANG BERHORMAT SENATOR TENGKU DATUK SERI UTAMA ZAFRUL TENGKU ABDUL AZIZ, MINISTER OF FINANCE MALAYSIA in his keynote address announced that the Ministry of Finance is looking to table the Fiscal Responsibility Act in the upcoming Parliament session. The Fiscal Responsibility Act will be a key driver for tax governance and compliance as the Act will include efforts to broaden the Malaysian tax base – including taxing the shadow economy – and improve tax compliance and administration towards helping boost tax collection. This is a key regulatory development that will affect tax practitioners and organisations, and greater discussion on this is expected at the Tax Conference.

In addition, the following are among the key session highlights of the Conference that will support delegates in optimising their organisations' tax functions to support strategy and growth creation, while strengthening trust and tax governance for fiscal health and national development.

BUILDING TRUST, RAISING TAX REVENUE – focuses on fighting tax avoidance and evasion to create public trust which is vital to the effectiveness and sustainability of any tax system. This session looks at how to design and operate systems that earn public trust by understanding public perceptions and expectations.

IMPROVING TAX GOVERNANCE FOR HIGHER PERFORMANCE – looks at governance from the regulatory perspective by discussing the implementation of tax governance initiatives by the authorities and good tax governance practices recommended for enhanced compliance to minimise tax risks.

TAX FUNCTION OF THE FUTURE – discusses the pivotal role of tax functions in the strategy of organisations to help them bounce back and create new opportunities. Explore the factors that will drive tax function change, how new international tax policies will add to the challenges, and how deploying technological tools can enhance tax compliance efficiency.

TAX AUDIT AND DISPUTES – Guides practitioners and organisations on the key areas of tax risk, the information expected by the tax authorities and the appropriate responses in the event of a client review or audit.

TAX CASES ROUND-UP – Lessons and tips from the latest key tax cases relevant to taxpayers, outlining the facts of cases, contentions, and judgments.

Other highlights include sessions on:

- Economic Outlook: Impact on Tax Policy
- Global Minimum Tax: Are the MNCs Ready?
- Carbon Tax Policy: Making Malaysia a Carbon Neutral Country
- Taxation of the Gig Economy
- Developments in Indirect Tax: Issues and Prospects

For more information on the Malaysian Tax Conference 2022, please click here.

IMA’s Count Me In Podcast Series Covers Accounting and Finance Trends

at-mia.my/2022/05/23/imas-count-me-in-podcast-series-covers-accounting-and-finance-trends

May 23, 2022

Count Me In, a podcast series created and produced by IMA® (Institute of Management Accountants), provides insights on the latest accounting and finance trends. Launched in 2019, the series offers perspectives on key business topics from industry experts, covering subject areas such as emerging technologies, business innovation, leadership development, the future of the profession, and more. The central aim of the series is to deliver actionable information to accounting, finance, and business professionals.

Each podcast is typically 15-30 minutes long, with hosts interviewing respected leaders and innovators across a wide range of subject matter. Podcast guests have included CEOs, CFOs, business owners, professional coaches and consultants, academics, researchers, and regulatory officials from around the world. To date, there are more than 200 episodes of Count Me In, with new episodes added on a weekly basis.

Recent speakers and topics have included:

- **Jennifer Wolfenbarger**, vice-president of finance at Owens Corning, speaking on “A Complete Look at Business Transformation.” In her talk, Wolfenbarger, a success driven, high impact executive, shares her passion for driving continuous improvement. She discusses her view of transformation, the finance function’s role, various benchmarks to consider, and the value of change management.

- **Alissa Vickery**, chief accounting officer and senior vice-president of accounting and controls for FLEETCOR, covering “Purpose Driven Leaders.” Vickery discusses her leadership experience in the areas of external reporting, technical accounting, and internal audit, and her role in helping FLEETCOR join the Fortune 1000 list and the S&P 500 Index. In this episode, she defines purpose driven leadership, the benefits and outcomes of developing purpose driven leaders, and why purpose is so valuable to the accounting and finance team.
- **Keith Terreri**, chief financial officer and SVP of corporate operations & IT at NECAM, discussing “The Intersection of a CFO & CIO.” Terreri talks about what the convergence of the CFO and CIO roles looks like on a daily basis and how the functions blend together. He explains how regardless of the size of the business, finance and technology can serve as the foundation for control, risk mitigation, and cybersecurity for any organisation.

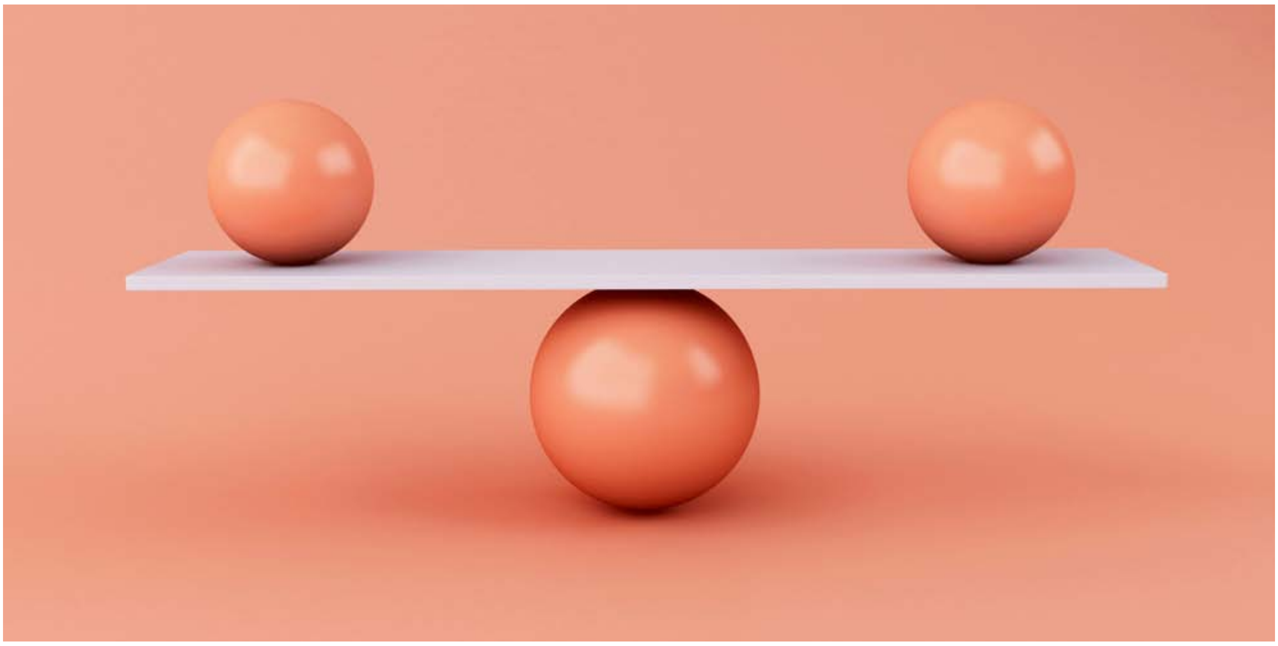
Some podcasts focus on research topics featured in Strategic Finance magazine, IMA’s monthly publication. For example, Dr. Sean Stein Smith, CMA, CPA, CGMA, CFE, assistant professor at Lehman College, joined the podcast to discuss blockchain technology and cryptoassets, which he has written about extensively. In this episode, aired in December 2021, he discussed the ups and downs of NFTs, the goal of decentralised finance, and the implications for emerging technologies. Other “hot topics” covered, supported by IMA and industry research, include sustainability, leading remote teams, and data analytics.

All 200+ episodes are available on demand 24/7, free to anyone who wants to listen and across a variety of platforms, including Apple Podcasts, Google Podcasts, Spotify, Stitcher, or Amazon Music. Subscribe today to receive updates about the latest podcasts as they are released.

Fair and Equitable Restructuring

at-mia.my/2022/05/17/fair-and-equitable-restructuring

May 17, 2022



By Ravindran Navaratnam

Fair and equitable is a requirement of schemes of arrangement and an essential part of the code of conduct in large complex voluntary restructurings. The focus in recognising priority at the time of restructuring is mostly in respect of the alternative, which is liquidation. In reality, it is more nuanced. This is because the very essence of restructuring is that it is based on a going concern basis and the business is returning to profitability and growth. Historically, any reference to a post-restructuring scenario is limited to the sharing of upsides and priority of new monies to the post-restructuring cash flow. Post-restructuring events such as business failure or sale of the business (for a significant profit after the debts were compromised) shows the weaknesses of traditional approaches and could leave parties feeling shortchanged when these events occur.

This paper, through examples, provides scenarios which could play out and lead to a situation where a stakeholder in a restructuring could feel that he has been treated unfairly. Further, it presents an alternative approach based on examining the Enterprise Value of the borrower where the outcome results in fairness even when post-restructuring scenarios are considered.

Business falls into distress and liquidation scenario

The table below shows the three balance sheets as a business moves from a going concern towards liquidation.

ITEMS (RM)	(A)	(B)	(C)
Asset	100	70	20
Total assets	**100**	**70**	**20**
Borrowings	80	80	80
Retained profits/ (loss)	10	(20)	(70)
Shareholding	10	10	10
Total liabilities & equity	**100**	**70**	**20**

A. Balance sheet prior to distress where the borrowings are secured by the business' fixed and floating assets.

B. Balance sheet at the point of distress following impairment of assets and accounts produced on a going concern basis. Here, the impairment of assets is assumed to be RM30. This is the stage businesses should consider restructuring as it is operating under an insolvent balance sheet. Though, it is noteworthy that restructuring is typically driven by liquidity (cash flow) issues as opposed to balance sheet insolvency.

C. Breakup value accounts are produced given that the company is unable to continue as a going concern. If liquidation ensues in this scenario and assets are realised in accordance with the breakup value as per the above balance sheet, the shareholders will receive nothing, and the lenders will receive a recovery on the basis of RM0.25 on every RM1.00 of debt. In this case, the entire RM20 recovered benefits the lender.

Traditional approaches for restructuring

There are three traditional approaches to a restructuring, the main difference usually being the amount of haircut taken by the creditors and shareholders in each approach.

Approach 1 – Liquidation Plus Offer

1. Under this approach, the lender is offered a total recovery of RM35 to not wind-up the company, where RM10 from it is to be paid upfront, thus the debt waiver is now RM45 or 56%. This additional recovery of RM15 is a 75% uplift from the lender's initial expected recovery of RM20 under liquidation.
2. Existing shareholders take an 80% haircut (i.e. RM8), and their shareholding is substantially diluted by the new money of RM10. The new money is injected vide preferred capital and has the option to enjoy equity returns such as redeemable convertible preference shares.
3. The shareholder (new money) injects an additional RM10 to fund the upfront payment to the borrower.
4. The creditor is paid RM10 upfront as per the offer, with the remaining RM25 debt being termed out.

The restructured balance sheet under Approach 1 is as follows:

	PRE-RESTRUCTURING	(1)	(2)	(3)	(4)	POST-RESTRUCTURING
Asset	70			10	(10)	70
Total assets	**70**	**70**	**70**	**80**	**70**	**70**
Borrowings	80	(45)			(10)	25
Retained profits/ (loss)	(20)	45	8			33
Shareholding	10		(8)	10		12
Total liabilities & equity	**70**	**70**	**70**	**80**	**70**	**70**

Approach 2 – Concessionary waiver of unsecured portion

1. Approach 2 assumes that a 33% debt waiver is offered by the lender on the portion which is not backed by assets in a breakup scenario, i.e. a waiver of RM20 on the RM60 under-secured portion which is not recoverable in a liquidation.
2. Existing shareholders take an 80% haircut which equals to RM8, and new money of RM10 is injected similar to Approach 1 in this respect.
3. The shareholder (new money) injects an additional RM10 to fund the upfront payment to the borrower.
4. The creditor is paid RM10 upfront as per the offer with the remaining RM50 being termed out.

The restructured balance sheet under Approach 2 is as follows:

	PRE-RESTRUCTURING	(1)	(2)	(3)	(4)	POST-RESTRUCTURING
Asset	70			10	(10)	70
Total assets	**70**	**70**	**70**	**80**	**70**	**70**
Borrowings	80	(20)			(10)	50
Retained profits/ (loss)	(20)	20	8			8
Shareholding	10		(8)	10		12
Total liabilities & equity	**70**	**70**	**70**	**80**	**70**	**70**

Approach 3 – Debt sustained in full

1. This approach assumes that there is no debt waiver by the borrower, and no haircut taken by the existing shareholders. In this case, neither creditor nor shareholder suffers from a write-down of the debt or shares.
2. No debt waiver, thus all of the debt survives.
3. The shareholder (new money) injects an additional RM10 in preferred capital to fund the upfront payment to the borrower.
4. The creditor is paid RM10 upfront as per the offer with the remaining RM70 being termed out.

The restructured balance sheet under Approach 3 is as follows:

	PRE-RESTRUCTURING	(1)	(2)	(3)	(4)	POST-RESTRUCTURING
Asset	70			10	(10)	70
Total assets	**70**	**70**	**70**	**80**	**70**	**70**
Borrowings	80				(10)	70
Retained profits/ (loss)	(20)					(20)
Shareholding	10			10		20
Total liabilities & equity	**70**	**70**	**70**	**80**	**70**	**70**

Impact on the 3 Approaches after the business is sold, post-restructuring

Now, let's say there is a buyer who performed a fair valuation of the business to identify the enterprise value and the value outturned is RM60, and the buyer proceeds to make an offer for that amount.

Assuming the RM60 is then distributed to creditors and shareholders of the business in order of priority:

	APPROACH 1	APPROACH 2	APPROACH 3
Distribution			
Creditors (Borrowings)	25	50	60
Shareholders	35	10	nil
Gain or Loss			
Creditors	(45)[a]	(20)[b]	(10)[c]
Shareholders	23	(2)	(20)
Effect on New Money			
On RM10	9[d]	nil[e]	(10)[f]
Share capital			
On post restructuring shareholding	2[g]	(2)[h]	(10)[i]
Recovery to creditors			
On the original RM80[j]	44%	75%	88%

a. This is calculated via RM80 (original debt) -25 (distribution from the sale) -10 (upfront payment)

b. This is calculated via RM80 (original debt) -50 (distribution from the sale) -10 (upfront payment)

c. This is calculated via RM80 (original debt) -60 (distribution from the sale) -10 (upfront payment)

*d. This is calculated based on new money that converts preferred capital to equity to enjoy the upside therefore the distribution of RM23 will be 23*10/12, i.e. RM19 to new money and remaining RM4 to existing shareholders. Therefore, the profit would be RM19 less the RM10 invested.*

e. This would be the RM10 to be distributed in preference to new money so recovering the original RM10.

f. The RM10, even if it is preferred capital, is written off as there was no recovery to shareholders

g. Profit is RM4 (see note d) against the RM2 that was preserved post-restructuring, outturning a profit of RM2

h. This is the RM2 loss allocated if the legacy creditor receives nothing for the RM2 preserved post-restructuring

i. This is computed on the nil recovery against the RM10 preserved post-restructuring

j. Recovery is computed as the amount received in respect of the creditor's distribution from the sale plus the RM10 upfront payment as part of the debt settlement.

Observations

The following are the key takeaways from the table above:

- All approaches provide a higher recovery to creditors compared with the creditors' recovery under liquidation of 25%;

- Approach 1 is undesirable because legacy shareholders recovered their original capital partially whilst creditors who were in priority suffered losses; in fact, the legacy shareholders recovered almost as much of their original capital which is RM4 on the original RM10, i.e. 40% compared with creditors' 44%;
- Approach 2 is undesirable because new money investors are unlikely to invest had they known the exit value as per the scenario described; and
- Approach 3 is wholly unacceptable because new money suffers immediate losses and it is unlikely the transaction will even be completed which is negative to facilitating corporate transactions as new money will want to avoid a complete write down of their investment immediately.

Understanding the value prior to the restructuring

Let's consider a scenario where the going concern value of the business before injection of new money is RM52 (pre-money value).

The business should equate the capital structure to the value of the business and thus in this case, the shareholders, even as a going concern, have no residual interest as the level of debt is RM60 and the business value is only RM52.

New capital invests RM8 in the business on the basis that the business has a value of RM52 pre-money and a post-money value of RM60. However, to entice new money, we allocate RM10 of the post-restructuring equity to the new money. Therefore, if the equity of RM10 is issued at a discounted value to the new money i.e. RM8, then there is a potential immediate upside of RM2. To equate the post balance sheet value and the capital where new monies is allocated RM10 in equity, the shareholders have to be fully written off and creditors accept a waiver of RM30.

Assuming the objective for the restructured balance sheet is a gearing ratio of debt to equity of approximately 0.7x, then RM60 should be allocated as RM25 in debt and RM35 in equity.

Therefore, the post restructuring balance sheet is as follows:

	RM
Asset	60
Total assets	**60**
Borrowings	25
Shareholding*	35
Total liabilities & equity	**60**

** Debt to equity of RM25 and new money investor allocated RM10 of value.*

The enterprise is then sold for RM60 and the distribution of capital in order of priority is as follows:

	EQUITABLE APPROACH
Distribution	
Creditors (Borrowings)	30
Shareholders[1]	30
Effect on New Money	
On RM10	2[2]
Legacy share capital	
On the original RM10	Fully written off
Recovery to creditors	
On the original RM80	62.5%[3]

[1] *Shareholders include the debt-to-equity portion.*

[2] *Invested RM8 and received RM10, therefore the profit is RM2.*

[3] *Being recovery of RM30 from debt and RM20 from conversion of equity, totaling to RM50 against the original debt of RM80.*

In this case, there is fairness achieved in terms of the debt restructuring exercise as the following are achieved:

- New Money enjoys a return of 25% commensurate with expectation of the upper-end returns in distress investment, i.e. RM8 invested and RM10 returned; and
- Creditors accept a waiver of 37.5% but existing shareholders are fully written down.

Conclusion

In a consensus-based restructuring under a debtor-in-possession approach, there are many facets that need to be considered. For example, the amount of upfront cash, the return that the New Money seeks, the applicable discount, some compromise return for legacy shareholders i.e. ensuring the recovery to legacy shareholders is not nil, creditors' assessment of non-financial issues such as borrower's conduct, likelihood of the restructuring succeeding, and whether the New Money is truly genuine, in essence not a backdoor entry of the legacy shareholder whose conduct was poor.

Nonetheless, the paper demonstrates that the critical point to restructuring is understanding the enterprise value as a going concern and restructuring the balance sheet to match the enterprise value. Additionally, it also presents how capital of the restructured company is then allocated between debt and equity based on a sustainable debt level, i.e. reasonable gearing ratio and adequate debt service cover ratio. Therefore, this paper contributes towards understanding restructurings based on the enterprise value of the borrower. This approach is gaining traction in large complex debtor-in-possession consensus-based restructurings globally.

Fair restructuring terms are critical for businesses to return to growth and at the same time, respect the rights of creditors with regards to priority in recovering capital. On the other hand, avoid restructuring businesses with unsustainable debt which can lead to the formation of zombie companies as they prevent M&A activity when there is a desire for consolidation in many industries for businesses to regain a competitive edge.

Ravindran Navaratnam is an executive director at Sage 3, a boutique corporate finance advisory firm advising for major corporations in Malaysia and Singapore. He is a licensed corporate finance advisor under the Securities Commission of Malaysia and is currently undertaking a DBA program with the HKUST Business School.

The views expressed in this article are those of the author's and do not necessarily reflect the view of Sage 3 and the HKUST Business School.

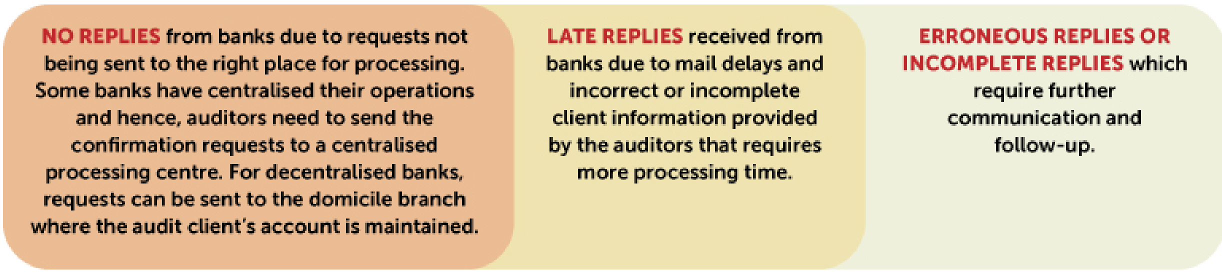
The author would like to express his thanks to Philip Lau, Andrew Hoh, Jean Chong, and Ong Ying Chuan for their contributions to this article.

Embracing eConfirm.my: Feedback from Banks

May 11, 2022

By MIA Professional Practices and Technical

Numerous confirmation letters are sent to banks at least on an annual basis by auditors to request for information on their clients' bank balances and arrangements. Historically, these confirmation requests have been mostly a manual process. This conventional method of obtaining confirmation is not only time-consuming but also susceptible to the following:



To facilitate the sending of manual confirmations, MIA has been working closely with The Association of Banks in Malaysia (ABM) since 2013 to maintain a list of updated contact details for commercial banks in Malaysia. Nevertheless, this arrangement could not fully address the delays in obtaining bank confirmation replies.

As a proactive measure to handle this problem, MIA championed the development of an Industry-wide Electronic Bank Confirmation Platform (i.e. eConfirm.my) and launched it in June 2020. After nearly 2 years since its inception, eConfirm.my is being used by over

900 audit firms and 26 financial institutions in Malaysia, including major banks such as Maybank, CIMB Bank, RHB Bank, Hong Leong Bank, OCBC Bank and Alliance Bank.

Previously, an article entitled Embracing eConfirm.my: The Experience Thus Far published in April 2021 showcased the feedback by audit firms on their use of eConfirm.my. As a follow on to that article, this article now highlights the experiences of participating banks pertaining to the eConfirm.my as follows:

Greater Efficiency and Effectiveness

The turnaround time for replying confirmations has significantly improved. Presently, the fastest turnaround time is 2 days (shortest) and the average turnaround time is 11 days.

In order to participate in eConfirm.my, almost all participating banks have taken the opportunity to rationalise, restructure and centralise their bank confirmation processes. Previously, several bank officers of various units/departments in a bank had to attend to all confirmation requests sent to the respective bank branches and facilities centres, aside from performing their daily routine tasks. Now, with this secure online platform, many participating banks have centralised the bank confirmation process across the bank. With these changes, a few designated bank staff have been assigned to handle all confirmation requests within a bank. This has improved the overall workflow for most participating banks.

Bank Islam and AmBank have been using eConfirm.my since 1 April 2021 and 1 December 2020 respectively. With the greater efficiency experienced, these banks decided to migrate fully to eConfirm.my for all their bank confirmation requests commencing 1 February 2022 and 1 May 2022 respectively. CIMB Bank has gone fully online for their bank confirmations effective 1 March 2022. With these developments, manual bank confirmation requests will eventually be a thing of the past.

Better Security and Lower Risk of Fraud

Each confirmation request sent to a bank must be associated with an engagement partner in eConfirm.my. During the registration process, the audit partner’s details must match with the audit firm’s details as recorded in MIA’s member firm database. This requirement ensures the authenticity of the audit partner’s identity, and that the private and confidential information of bank customers are sent only to the intended user through the platform.

eConfirm.my also features an end-to-end encryption technology, a key factor that ensures top level security and protection for the bank customers’ sensitive information and data. In addition, the platform has also undergone System and Organisation Controls (SOC) 2 and SOC 3 assurance work that covers data integrity, platform security, privacy and confidentiality.

To view the latest SOC reports, please log on to https://econfirm.my/soc-report/

While having these commendable experiences, the participating banks also faced some challenges during the implementation phase of eConfirm.my. One of the most common issues was the duplicate requests received from auditors as many auditors submitted multiple requests for the same confirmation through the platform. In addition, some audit firms sent manual and online confirmation requests concurrently. These duplications resulted in additional work for the respondent banks as they needed to identify those duplications in order not to double charge the bank customers. These duplications have reduced significantly after several notices were issued by the platform to the auditors and continuous training was rendered to the participating audit firms.

With the remarkable feedback and aforementioned developments, MIA is optimistic that other financial institutions would expedite their onboarding to the platform. The platform has certainly gained the momentum needed in moving towards attaining its aspiration of becoming an ‘industry-wide’ electronic bank confirmation platform.

Dialogue With the Chairman of the Ethics Standards Board

at-mia.my/2022/06/24/dialogue-with-the-chairman-of-the-ethics-standards-board

June 24, 2022

Dr Mohd Nizam Mohd Ali, the Chairman of the Ethics Standards Board (ESB), has 30 years of career experience – 9 in an MNC, 5 in two National Master Franchises, 16 in a GLC alongside some personal attachments to 4 universities (as a BOD member, resource person and fellow) and 2 NGOs (Veteran VAT69 police commandos and alumni of MRSMs). He graduated with a Bachelor's in Accountancy (Hons) and MSc. in Management from University Utara Malaysia and a PhD in (Ethical) Leadership from University Technology Malaysia.

Having found a lasting interest in the accountancy profession due to the trust placed by the public on the profession, he feels that it is indeed a meaningful position to be in because of this trust. In his free time, he enjoys reading and spending time in the wilderness.

What do you consider to be the highlights of your career and experience that would augur well in carrying out your role as the Chair of the Ethics Standards Board?

I once served in an MNC where the dos and don'ts are clear. Anybody who crosses the line is sanctioned without fear or favour, even those who are C-suite executives or JV partners.

I have also been in the entrepreneurial field where cheating, false promises and political patronage are commonplace. Nobody says anything if they want something only for themselves. Shut one eye and look the other way. Otherwise, your position and privileges are zilch at the blink of an eye.

I sought optional retirement from a GLC after spending half of my professional life in such organisations when governance was compromised, and integrity became mere lip service. I stood up to one politically exposed person's whimsical dream to work the system instead of blowing the whistle even after the global sanction was initiated.

Perhaps these chequered lines shape my conviction that an accountant must be accountable lest no one will take him or her as credible. My teachers taught me that ethical integrity by definition is 'being true and honest to oneself'. Should one cross the drawn lines, be duly compromised, or prefer dumb cowardice over virtuous courage, then one loses the trust of others even if nobody knows.

Dr. Mohd Nizam Bin Mohd Ali

One of MIA's strategic objectives is to nurture professional values and ethics of members to uphold a strong accountancy profession. What is the vision and the direction of the Ethics Standards Board in realising this strategic objective?

The ESB has been around for quite some time but may still be unknown to MIA members. The ESB must engage members more often and speak up louder on issues of ethical challenges to the public at large. We cannot just rest on our past laurels but rather continue to play our role better. Ethics is an applied philosophy. Thus, the ESB would do well to advocate the profession's ethical values and demonstrate their application. Not everything boils down to dollars and cents but almost everything has to be said and done with good old common sense.

We have reviewed our ESB Terms of Reference and are hoping to welcome a larger, more varied participation from other fellow professionals and institutions. This will allow greater input from a wider group of stakeholders and exchange of viewpoints. While striving to be higher and better, accountancy as a profession should not grow insular but embrace mutual recognition and due acknowledgment by other professions.

The rotational nature of the Chair of ESB is a good practice. I joined the ESB during Eugene Wong's (of Securities Commission Malaysia) tenure and learnt the ropes from Ravindran Navaratnam (of Minconsult Sdn. Bhd.). Our institutional friends that fill the roles of observers are also valuable contributors to our deliberations.

Please briefly share with us some recent salient developments in the ethics code included in the MIA By-laws of which members should take note.

In recent times, it has become more apparent that professional accountants play a vital role in businesses and for this they are scrutinised heavily by the wider public. The IESBA recognised this growth in significance and released the "Role and Mindset" revisions to the ethics code which in turn the MIA has also adopted. These revisions aim to help reinforce the responsibility that professional accountants have to always act in the public interest. The Code and by extension the By-Laws, now highlight that professional accountants are expected to comply with the spirit and not just the letter of the Code. All these changes are greatly welcomed by the ESB.

How can ethics be inculcated and nurtured in accountancy professionals not only at work but also in every aspect of life?

Start believing that ethics cannot be codified forever. At one point in life, one will have to be ethical in real terms, not simply on paper. This is especially so in our profession, as our calling card is accountability i.e. being able to put oneself to account. To be respected, trust must be earned and to do so one must be trustworthy first. Learn and read tomes of religious texts, philosophy, and statecraft, both ancient and contemporary, since therein are contained many nuggets of gold. Treat our belief systems and religions as one would one's beating heart; once we forsake them, we die.

The student body in universities and interns at the workplace should be nurtured properly. Spend some time with them and share our experiences. Listen to their ideals and guide them on ethical precepts or practices that we observed during our professional duties. Junior PAIBs or PAPPs must be encouraged to take on different assignments to allow them to grow unto maturity in our profession. Network we must; never walk alone. Together we can arrive better.

How should ethical dilemmas be addressed at work? Do you have any practical experience and tips to share or pitfalls to avoid?

Any dilemmas should be dealt with in the strictest confidence and with due process diligently observed. Differentiate issues accordingly. At times they may be procedural, legal, or financial concerns, not necessarily ethical. The prevalent rules should be allowed to function. Trust the systemic checks and balances. Record every interaction or deliberation and protect its privacy. Manage the grapevine or office gossips by adhering to legal and formal ground rules.

I was once a GM of Operations and Finance tasked to set up a national master franchise business. Once, when my accountant came to me with her quarterly report and financial records, highlighting some discrepancies in paid-up capital subscription amongst the shareholders, I stood by her professional recommendations and immediately brought the case to the attention of the Board of Directors (BOD). The BOD Chairman decided to call for an investigative audit and hence, the case was referred to a CPA and substantiated by independent opinions, upon which the outcome was valid. No short cuts nor cutting corners. Always trust and stand by our fellow professionals, either PAIBs or PAPPs, as we know the high ethical standards that we live up to in our professional conduct. Keep our superiors in the loop at the onset, not in the end, of any suspicious transaction reports (STRs). Update our shareholders in material time. Never sweep anything under the carpet. If our professional judgments or fellow professionals are not respected, walk away from such an organisation or position. Our sanity and conscience must be held sound and clear.

What would you consider to be the hallmarks of a good ethical corporate culture in an organisation?

The ethical tone from the top must be clearly communicated across the board within the organisation. What the leaders say must be internalised by all and acted upon willingly. Mutual respect is key to ensure a healthy and open conversation takes place at all levels of engagement by all stakeholders. Any organisation of high repute maintains a certain degree of professional standards by which accountability is an expected duty that binds everyone regardless of their respective roles. A good culture of ethical conduct will emerge over time once these factors – clear communication, responsible leadership and high professional standards – are manifested.

Datuk Bazlan Osman Elected as MIA President, Mohamad Faisal Abdul Malik as MIA Vice President

at-mia.my/2022/06/21/datuk-bazlan-osman-elected-as-mia-president-mohamad-faisal-abdul-malik-as-mia-vice-president

June 21, 2022

The Malaysian Institute of Accountants (MIA) is pleased to announce the election of Datuk Bazlan Osman as the new MIA President and Mohamad Faisal Abdul Malik as the new MIA Vice President respectively at its recent Council Meeting. Their appointments took effect on 17 June 2022.

Datuk Bazlan succeeds Dr Veerinderjeet Singh, whose tenure ended on 28 May 2022. Previously, Datuk Bazlan Osman was elected by the Council as the Vice President on 30 July 2021 and commenced his term as a MIA Council member on 1 December 2019.

Datuk Bazlan Osman

Datuk Bazlan brings extensive corporate and business experience to the MIA leadership role. Currently, he sits on the board of several public listed companies, namely as an Independent Non-Executive Chairman of FIMA Corporation Berhad, Senior Independent Non-Executive Director of Bursa Malaysia

Berhad, Independent Non-Executive Director (INED) of Syarikat Takaful Malaysia Keluarga Berhad, INED of Glomac Berhad and INED of Bank Islam Malaysia Berhad. He is also a director of Malaysia Professional Accountancy Centre (MyPAC).

He was formerly an Executive Director of Telekom Malaysia Berhad (TM). His last position in TM was Acting Group Chief Executive Officer (GCEO) and he also served as the Deputy GCEO. Prior to that he was the Group Chief Financial Officer of TM.

Datuk Bazlan is also currently the Chair of the ACCA Malaysia Advisory Committee.

Mohamad Faisal was initially elected as a MIA Council member on 29 September 2019.

Mohamad Faisal

Altogether, Mohamad Faisal has accumulated 23 years of diverse experience in both accounting and multinational commercial firms in addition to being a certified syariah auditor and a certified financial planner. Currently, he is the Managing Partner of Faisal Malik & Co, a member of the Discipline Committee Panel to the Malaysian Bar, Director of Institute Syariah Audit Malaysia (ISAM), member of Nexus Governing Committee (NGC) for Professional Services Productivity Nexus (PSPN) to Malaysia Productivity Corporation (MPC), and Treasurer of the Association of Malay Chartered Accountants Firm (AMCAF). He also serves as an industry advisor and related subject matter expert at several local universities.

Upon their election, Datuk Bazlan and Mohamad Faisal thanked MIA and its members for the opportunity to contribute to future-proofing the accountancy profession to support sustainable nation building. “We are honoured to lead the Institute and the profession as we navigate through the complex post-COVID-19 economy where ESG risks, especially climate change risks, are paramount. Collaborating with our stakeholders (the public practice, public sector, academia, and commercial sectors), MIA will strive to strengthen regulation and professional development to enhance good governance and protect the public interest,” they stated.

Data Intelligence & Analytics Conference for SMEs 2022

at-mia.my/2022/06/17/data-intelligence-analytics-conference-for-smes-2022

June 17, 2022

Small and medium enterprises (SMEs) today need to harness innovative yet cost-efficient solutions to grow in a highly challenging environment.

The MIA Data Intelligence & Analytics Conference for SMEs will cover the A-Z of data intelligence and analytics for SMEs and the opportunities that will unfold by harnessing smart technologies. Expert speakers will share how economical and efficient cloud-based outsourcing models can be deployed by SMEs to acquire the needed Data Intelligence and Analytics competencies for improved decision-making and business outcomes.

By the end of the Conference, SMEs will have a better idea of the solutions available to take them from low-value data collection and monitoring to real-time data analytics whereby they can extract high-value information and insights to be used by key decision-makers as quickly as possible.

Highlights of this Conference which will be held from 20 – 21 July 2022 include:

TOP TRENDS INFLUENCING SMEs IN DATA ANALYTICS FOR 2022 – 2023 – Stay on top of trends shaping the data analytics market for SMEs in 2022-2023, plus learn how to overcome the last mile challenges to adopt technologies like Internet of Things (IoT), machine learning, and automation.

DRIVING BUSINESS COST REDUCTION & PROFITABILITY THROUGH DATA ANALYTICS – Learn how to leverage on large business datasets to mine actionable insights that can help SMEs to improve ROI, cost reduction, and profitability outcomes. The panel will discuss the benefits of:

HOW SMEs CAN OPTIMISE RESOURCES BY BUILDING AI & DATA-DRIVEN CULTURE THROUGH A COST-EFFICIENT MODEL – Technology transformation will fail without a shared purpose and business culture that can adapt to new methods. Get practical tips and insights on transforming business culture and adopting a low-cost outsourcing model for data analytics to generate improved outcomes.

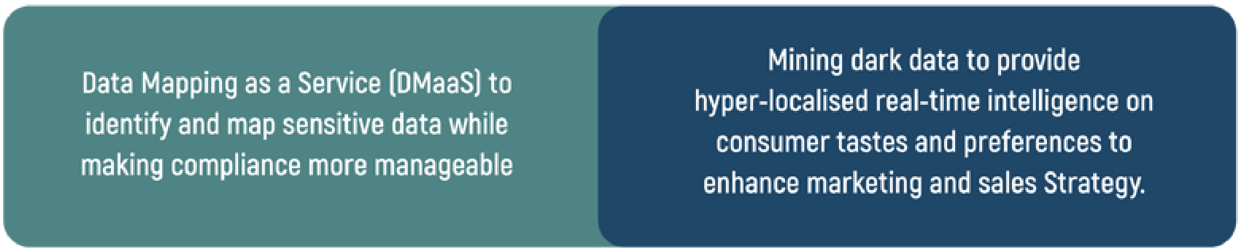
ENHANCING SMEs' BRAND EQUITY THROUGH DIGITAL CONSUMER EXPERIENCE (DCX) – Find out how to adopt a low-cost external model to effectively analyse DCX data that can be used to optimise your digital customer experience. Enhancing DCX can help SMEs drive customer acquisition, securely share data with future customers, and enhance SME brand equity value.

BUILDING AN EFFECTIVE DATA AND ANALYTICS CLOUD OPERATING MODEL – See how SMEs can evolve towards adopting a cloud-based and cost-efficient analytics services operating model based on flexible consumption. Outsourcing to cloud services vendors can enable SMEs to:

SAFEGUARDING SMEs' REPUTATION & BUSINESS SUSTAINABILITY— EVERYTHING ABOUT CYBERSECURITY – Cybersecurity breaches are highly damaging and costly, and becoming more rampant. This session shares the latest cybersecurity strategies and tips for SMEs. Outsourcing through a managed service provider based on business needs and operating model is typically the best route for SMEs to access best-in-class yet economical cybersecurity services.

SMEs AND THE FUTURE OF WORK – Looks into how SMEs can effectively and efficiently upskill existing employees with the right knowledge, tools and technology to enhance productivity. Bonus: get a glimpse into remote talent outsourcing to improve operating expenses, productivity and the performance of the SME finance function.

INTRODUCTION TO DARK DATA & AVENUES FOR SME PROFIT GROWTH – Dark data is unstructured data that is acquired through various computer network operations but not used for deriving insights or decision-making. This session looks into how SMEs can identify and unlock the value of dark data through the use of the right data analytics tools and methodology for dark data management, such as:

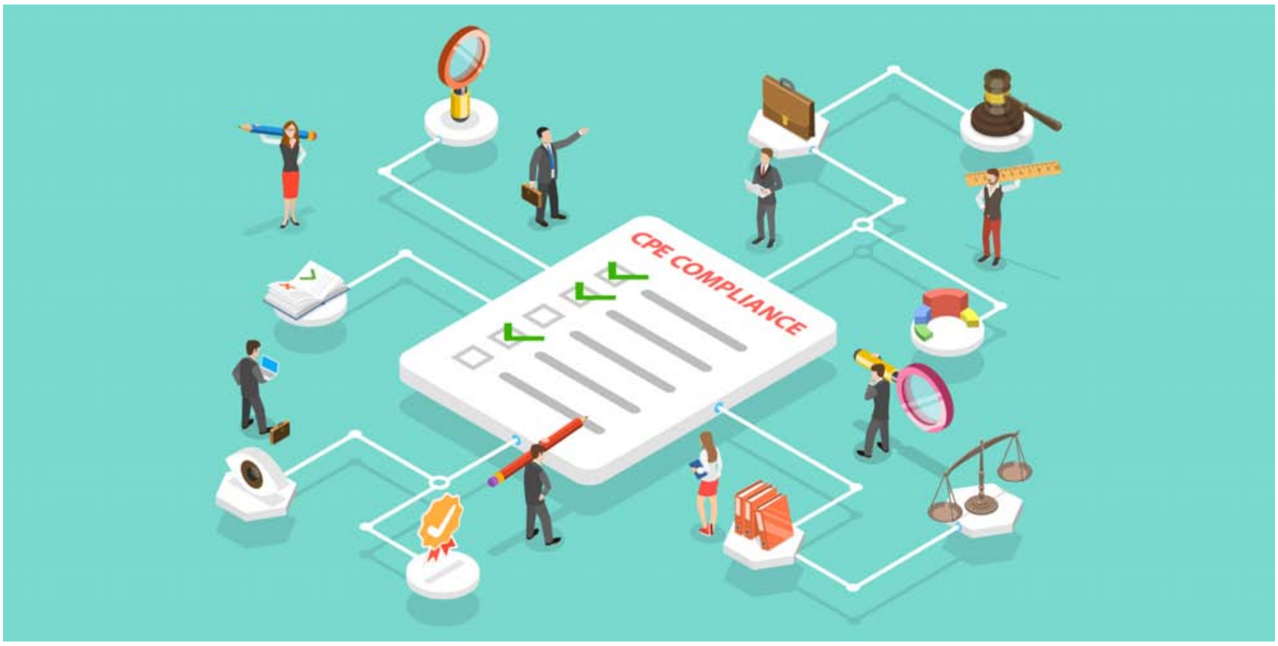


Click here for more information on the Data Intelligence & Analytics Conference for SMEs 2022.

CPE Compliance – Observations & Common Pitfalls

at-mia.my/2022/06/24/cpe-compliance-observations-common-pitfalls

June 24, 2022



By the MIA CPE Compliance Department

Evolutionary changes are taking place throughout the accounting profession, with far-reaching impacts. Inevitable digital transformation, changes in financial ecosystems with continued globalisation of reporting and disclosure standards, new/ tightened regulations and the recent global pandemic pose major challenges for the accounting profession. Moreover, businesses are also seeking rapid transformation to evolve along with the changes.

As such, the important role of professional accountants in business positions the profession favourably to take the lead as the front-runner in this transformation. To gain and sustain the competitive advantage, professional accountants should uphold the responsibility for upskilling to future-proof their career and stay relevant. Hence, continuing professional education (CPE) fits into the picture and plays a major role in ensuring professional accountants stay abreast of the latest developments and continue to be at the forefront of evolution.

Importance of CPE & the Regulations

CPE is crucial to promote lifelong learning for the professional accountants in order to ensure they are able to meet stakeholder expectations, thereby safeguarding the public interest and upholding the credibility of the profession as not just the gatekeeper, but the leader in the numerous developments mentioned above.

As a member of the International Federation of Accountants (IFAC), the Institute needs to ensure that members fulfil the CPE requirements as stipulated in the International Education Standard (IES) 7, Continuing Professional Development (Revised) issued by the IFAC. This is specifically stated in Section B110 of the Institute's By-Laws, which lay out the CPE requirements aligned with IES 7. Members of the Institute are required to undertake and record the relevant CPE that develops and maintains the necessary professional competence required to perform in their professional roles. Such a requirement contributes to the profession's objective of providing high-quality services to meet the needs of the public (including both clients and employers) and thereby serves to strengthen public trust in the profession.

The Institute undertakes strict implementation and monitoring of the CPE requirements, which is spearheaded by the Institute's CPE Compliance Department (CCD), to ensure professional accountants are compliant with the requirements of the Institute's By-Laws. Professional accountants are required to participate in CPE learning related to their professional work and fulfil the CPE requirements annually. Any failure to maintain and improve professional competence is seen to be a violation of one of the fundamental principles of the profession and can lead to disciplinary action being taken against the member.

CPE as a Mandatory Requirement for Practising Certificate Holders and Audit License Holders

All members must undertake a minimum of 20 structured CPE credit hours each calendar year. For renewal as an approved company auditor, a minimum of 10 out of 20 structured CPE hours to be completed by the member each year must be related to International Standard on Quality Control (ISQC1) (to be replaced by International Standard on Quality Management (ISQM) 1 & 2 effective from 15 December 2022), approved auditing standards, approved accounting standards and/or professional ethics (*By-Laws Section B110.4*).

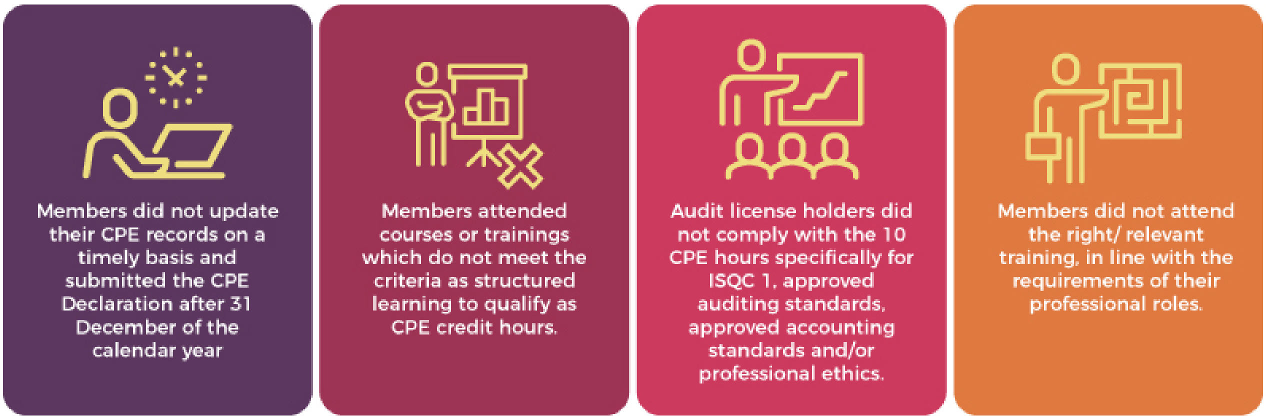
Audit License holders must demonstrate compliance with the CPE requirements in the two (2) preceding years of renewal while Practising Certificate (PC) holders must demonstrate compliance with CPE requirements for the year prior to PC renewal. For example, in regard to 2022 renewal, audit license holders will need to meet the CPE requirements for the years 2020 and 2021, while the CPE requirements for year 2021 will be reviewed for PC holders.

Observations from CPE Compliance Audit and Review

To ensure that members comply with the CPE requirements, CPE audit is conducted annually as a monitoring process in line with the prescribed standards. The audit serves to determine that members comply with the minimum hours required. In addition, CCD also performs an annual review on the CPE status of PC holders and audit license holders, as part of the assessment prior to the renewal of PC and/or audit license. The assessment includes determining that the member meets the minimum CPE hours required as well as verifying that the courses or trainings attended are relevant to their professional responsibility and supported with the relevant evidence.

Where there is no reasonable basis, audit license holders who flout the requirements will not obtain the Institute's support in their applications for audit license renewal to the Accountant General (AG). As for PC holders, their PC will not be renewed and/or cancelled by the Institute.

Based on the observation from the CPE Compliance Audits and CPE Compliance Reviews conducted by the CCD, common factors which contributed to the non-compliance are:



As a step-up effort, CCD sent regular email blast reminders to PC holders and audit license holders to remind members to comply with the CPE requirements and to update the CPE records with the Institute by the stipulated deadline of 31 December annually. To facilitate and ease the CPE hours submission, members can submit their CPE hours and related documents online through the MIA Members Portal at any time throughout the year. Members are required to upload the related certificates for verification and submit an annual declaration of complying with the CPE requirements.

In the recent 2020/2021 review, the Institute had cancelled twenty one (21) PCs as a result of failing to comply with the 2020 CPE requirements. In year 2019, twenty (20) PCs were cancelled by the Institute due to non-compliance with CPE requirements. Further, three (3) audit license holders did not obtain the Institute's support in the application for renewal of audit license with the AG.

CPE Compliance efforts to create awareness and enhance compliance

CCD continues to monitor members' compliance with the CPE obligation annually. Professional accountants are reminded that complying with the CPE requirements is crucial to be resilient and competent in the accountancy fraternity. It is the responsibility of every member, especially those in public practice, to ensure compliance with the CPE requirements in order to be knowledgeable and to remain relevant in the industry. In a world where change is the new constant, CPE is the guiding roadmap in ensuring the profession is able to rise to the challenges and be a game changer, thus future-proofing the accountancy profession and establishing its future relevance.

Corporate Board Leadership Symposium 2022: Mastering Governance in the Era of ESG

at-mia.my/2022/05/05/corporate-board-leadership-symposium-2022-mastering-governance-in-the-era-of-esg

May 5, 2022

When analysing environmental, social, and governance (ESG) factors, the "Governance" aspect is often overlooked as climate risk, societal implications, and other "Environmental" and "Social" matters take priority.

However, it is critical for boards to understand the Governance risks and opportunities in decision-making as poor corporate governance practices are often at the root of mismanagement and reputational risk.

In addition, the business case for "Governance" shows that values-driven good behaviour ultimately yields better corporate returns and attracts high quality investors.

To better support boards, the virtual Corporate Board Leadership Symposium 2022 will focus on relevant regulatory developments and the best practices that boards should consider in integrating sustainability into governance mechanisms, within the specific context of the companies that they oversee.

The following are some highlights of the Symposium, geared to helping boards master governance as the ESG agenda evolves and gains prominence:

Corporate Governance Strategic Priorities 2021-2023

This session lays the foundation for the five thrusts of Corporate Governance, facilitating listed companies in responding to rising stakeholder activism and exercising conscious consideration for a wider spectrum of stakeholders, towards better sustainability.

Lessons From the Pandemic: Mastering Governance in the Era of ESG

Gain an overview of the ‘G’ in ESG and its linkages to value creation. The panellists will also focus on how companies can communicate the ‘G’ in ESG to stakeholders and the value of linking executive remuneration to climate-related KPIs.

ESG: Risks and Opportunities for Businesses

Evaluate the risks and opportunities of climate change for your organisation and the mitigation steps available for long-term sustainability. Areas of emphasis will include risk-based decision-making on climate issues in business, investment, and financing decisions (strategy & practical tips), guidance on conducting risk-based corporate due diligence on climatological risks and understanding the regulatory framework, namely BNM’s Climate Change and Principle-based Taxonomy’s Guiding Principles.

The Evolution of Shareholder Activism

Review aggressive activist techniques and best practices for effective corporate defence, including how boards can pre-empt activist campaigns and strengthen stakeholder relations to protect the company’s reputation.

Board’s Oversight in ESG and Human Capital Governance

Discusses the “S” or social element in ESG pertaining to human capital issues such as inclusion and diversity (I&D), pay equitability and culture, and inclusion of ESG metrics in executive incentive plans.

Bringing Digitalisation to the Boardroom

Looks at how boards can become more digitally conversant and provide informed oversight as companies accelerate technology adoption.

Board’s Role in Managing Cyber Risk

Builds on the earlier topic of boardroom digital transformation and asserts that boards should view each major new digital transformation initiative through the lens of cyber risk oversight, where cybersecurity issues are treated as critical elements of strategy and enterprise risk.

Sustainability & ESG Reporting: Why Is It Important?

As ESG reporting has become a key priority for many businesses due to increased regulatory and public scrutiny, this session will address boardroom-level issues relating to application of frameworks and standards, implementation of data and metrics, the embedding of new ESG-integrated strategic models and understanding the multi-standard reporting landscape.

For more information, please click here

Considering ESG in Business Valuation

at-mia.my/2022/06/24/considering-esg-in-business-valuation

June 24, 2022

By Leonard Woo & Daniel Tan

With the proliferation of sustainable and responsible investing (SRI) in recent years, Environmental, Social and Governance (ESG) considerations and factors have become one of the central tenets of investment and capital allocation, corporate finance and the stewardship and management of corporations.

There is a trending influx of funds and capital to support sustainable practices globally. According to the 2020 Global Sustainable Investment Review (GSIR), sustainable investing assets reached USD35.3 trillion in five major markets – Europe, US, Japan, Canada and New Zealand, a 15% increase from 2018 to 2020[1].

Individual companies which incorporate ESG into their business models are rewarded – a multinational power generation company which repositioned its portfolio from coal to renewable resources, appeared to be able to attract talent and increase workforce productivity[2]. By investing in less carbon intensive operations, it commanded a valuation premium, with its price-to-earnings multiple increasing from 9 times in January 2018 to 14 times by March 2019, outpacing industry indexes.

The opposite is also true – a lack of ESG consideration could potentially jeopardise the long-term sustainability of companies. An example of this is a Japanese conglomerate whose competitive position has eroded materially over the past decade, with its price-to-book lagging the Tokyo Stock Price Index Universe resulting from its weak corporate governance practices[3]. In addition to being negatively affected by the Asian financial crisis in 1997 and exacerbated by negative cyclical earning factors, it faced a major defect cover-up scandal in Japan in 2016, resulting in a necessity for recapitalisation by its parent company. Since then, it has taken steps to remain competitive by changing its production footprint and model range. This underscores the importance of ESG considerations in decision making.

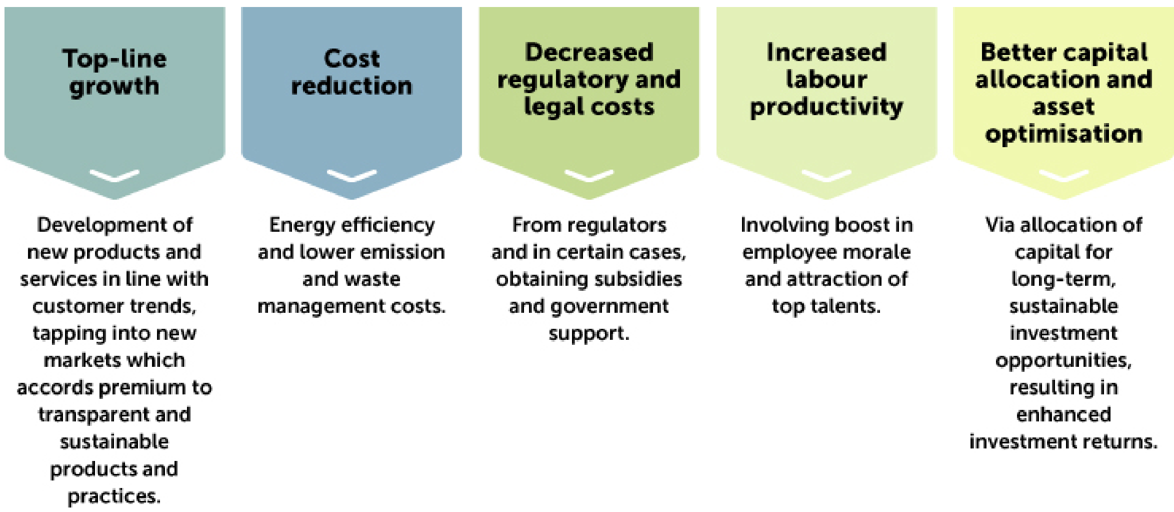
ESG as drivers of business value

In view of its increased importance, it is imperative to explore the fundamental question – how does ESG drive and create business performance and value?

Briefly, the individual components of ESG are defined as follows[4,5]:

ESG can therefore be viewed as a set of intertwined, qualitative, and non-financial factors which are used by the markets to understand the impact and sustainability of a company's actions.

Based on various publicly available sources, there are five (5) principal ways in which good ESG practices, in aggregate, affect economic performance and valuation:



Incorporating ESG Framework into Business Valuation

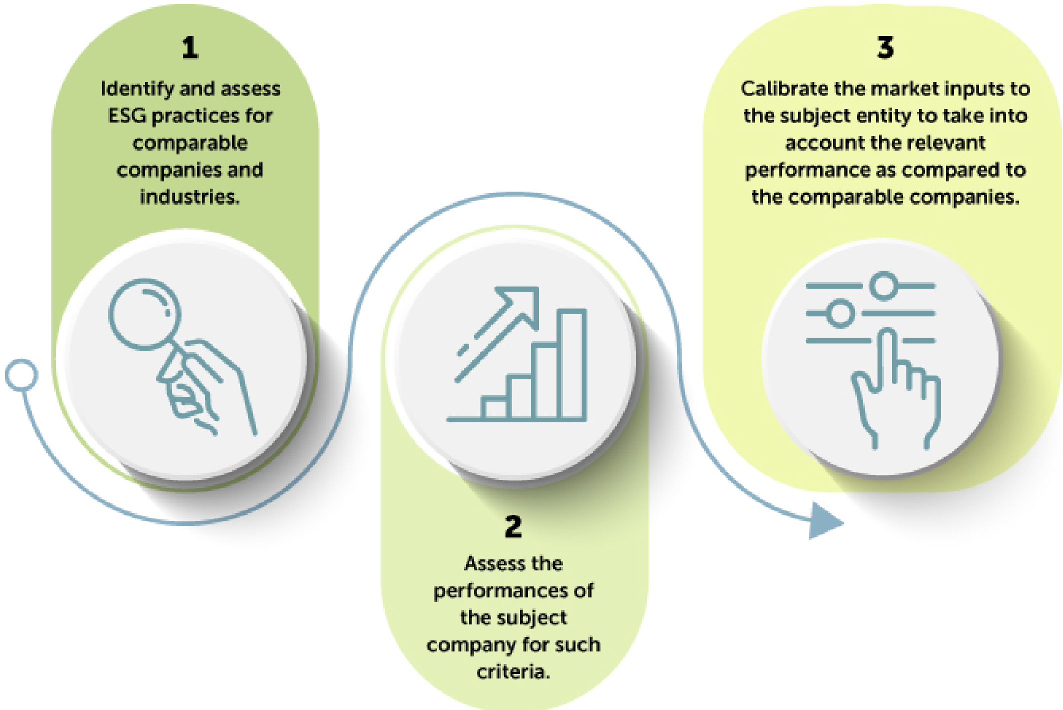
Despite the growing essentiality of ESG, the progress of reaching a globally accepted set of standards to incorporate ESG considerations into the valuation of a business is still in its infancy stage. There are varying opinions and publications surrounding this topic. Notably, the International Valuation Standards Council (IVSC) released a Perspective

Paper "ESG and Business Valuation"[6], as part of its effort to initiate and foster debate, as well as address challenges pertaining to the incorporation of ESG factors into valuation analysis.

According to the IVSC, there is a common misconception that ESG disclosures are typically non-financial by nature and hence, do not have a financial impact. It added that this ignores the fact that ESG represents a myriad of factors which evaluates the long-term financial viability and sustainability of an enterprise. When assessing such factors, analysis will therefore need to shift away from the traditional detailed "price x quantity" into an examination of how it allows enterprises to create value in the medium to long-term.

In recognising ESG factors into valuation, the IVSC laid out that it should be a matter of embedding them into the current valuation methods and procedures. We explore the considerations put forth by the IVSC while offering our views of key benefits and challenges on each of them.

The Market Approach – To account for ESG considerations, valuation under the market approach should:

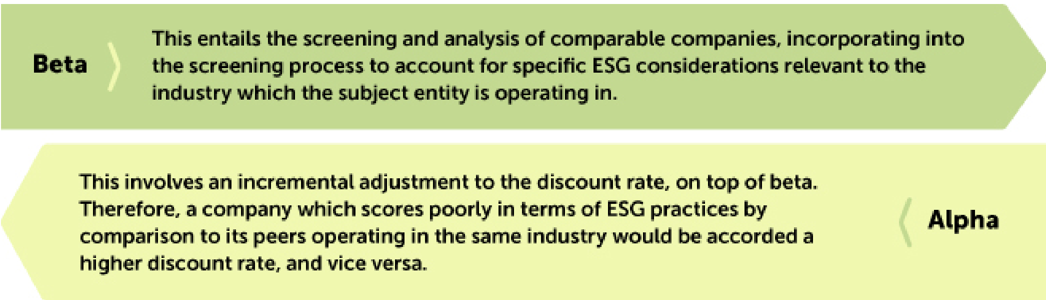


A main drawback of this approach would be that ESG data, disclosures and rating systems are still in their infancy stages, and subject entities are typically private companies. Scoring would therefore be judgemental, with different practitioners potentially assigning different weightings/scorings to different ESG factors and practices by companies.

The income approach – To account for ESG considerations, valuation under the income approach should consider its impact on the discount rate or cash flows itself. These are explored further below.

The IVSC highlighted that care should be exercised not to double count certain ESG factors which have already been implicitly incorporated into the valuation. For example, criteria cited as rationale for incorporation of size premium in discount rate derivation overlaps with what many would consider ESG factors (namely, smaller, private companies are typically associated with relatively weaker governance, concentrated shareholding, non-existence of independent oversight from board of directors etc. which can be viewed as ESG factors).

1) Incorporation into the discount rate:



A main challenge would be the determination of the magnitude of adjustment to be applied, in view of the limited research and data points available in this context. When determining alpha in this context, attention must also be given not to double-count the risk of poor ESG practices which has already been incorporated by the market.

Despite the inherent subjectivity present, there is encouraging evidence that high-ESG-rated companies have lower cost of capital. A research done by Morgan Stanley Capital International Inc. (MSCI), cataloguing companies in their indices by their ESG scores showed that the average cost of capital of companies from 2015 – 2019 in the highest-ESG-scored quintile is lower than the lowest-ESG-scored quintile. Similarly, they found that the average cost-of-debt of high-ESG-rated companies is lower than those of low-ESG-rated companies through decreased default risk due to good corporate governance practices. This is prevalent across all sectors in both developed and emerging markets, and not just those which are traditionally viewed as more exposed to environmental risks (energy and utilities) or governance risks (financials).

The difference in cost of capital between high and low scoring ESG companies by Global Industry Classification Standard (GICS) sector is outlined below:

GICS Sectors	MSCI World Index (%)	MSCI Emerging Markets Index (%)
Energy	0.38	0.59
Materials	0.23	0.90
Industrials	0.39	1.03
Consumer discretionary	0.43	1.00
Consumer staples	0.39	0.69
Health care	0.35	0.61
Financials	0.39	1.06
Information technology	0.46	1.14
Telecommunication services	0.41	0.75
Utilities	0.55	0.73
Real estate	0.43	0.46

Source: *Reproduced from MSCI's research, outlined in the MSCI article on ESG and Cost of Capital on February 25, 2020*

2) Direct adjustment to cash flows:

Cash flow projections – this involves an explicit consideration of value created by specific ESG practices of an entity in the cash flows of a company, including the entity's long-term growth rate.

This encourages practitioners to attempt to quantify ESG factors into future cash flows. This offers a clearer starting point for discussion as assumptions made are clearer and less arbitrary than those made to the discount rate. Given the strong correlation of ESG criteria to long-term survivorship likelihoods, the IVSC in their discussion paper acknowledged that a blanket reliance on standard long-term growth rates is likely to be insufficient. As valuation is sensitive to long-term growth rate assumptions, an attempt must be made to consider ESG when deciding the growth rates.

Notwithstanding, there are contrary views on the impact of ESG on cash flows. Bardford and Damodaran, in their article[7] concluded that while there is weak empirical evidence of good ESG practices enhancing a company's cashflows, there is more substantial support for the premise that having poor ESG practices can make funding more expensive (higher cost of equity and debt). They also stated that actions taken to improve ESG can potentially result in lower value for some firms through higher costs.

Another challenge concerns the multitude of ESG factors which needs to be considered, and certain high-impact and low-probability events may be difficult to incorporate into cash flow projections. Robust sensitivity analyses should hence be conducted, considering sensitivities of each ESG factor to the value of the companies, under different scenarios.

Conclusion

ESG is likely to have increasing significance in the years to come. Continuous efforts are required to achieve consensus on a standardised approach to incorporate ESG into valuation. Effort is already underway – regulations are rapidly evolving towards a more homogenous ESG measurement and reporting framework which would aid practitioners to better capture and quantify ESG considerations into the valuation process. The benefits are multifaceted: alignment of financial incentives through higher business valuation would result in capital allocation towards companies pioneering sustainability initiatives. Correspondingly, it would also induce companies to behave in a socially responsible manner as it is in their best financial interest to do so. Given the implications of ESG factors on the long-term sustainability and financial viability of a company, there should be a paradigm shift among practitioners to take into account the long-term benefits of having businesses operate in a sustainable manner, while simultaneously balancing the need to achieve short-term financial goals. Valuation has a pivotal role to play in quantifying and realising the benefits of sustainable practices.

---

[1] GSIR-20201.pdf (gsi-alliance.org)
[2] The Business Case for ESG (harvard.edu)
[3] Guidance-case-studies-esg-integration.pdf (cfainstitute.org)
[4] https://www2.deloitte.com/hu/en/pages/energy-and-resources/articles/esg-explained-1-what-is-esg.html
[5] Introduction to ESG (harvard.edu)
[6] Perspectivespaper-ESGinBusinessValuation.pdf (ivsc.org)
[7] https://www.researchgate.net/publication/346519376_Valuing_ESG_Doing_Good_or_Sounding_Good

---

Leonard Woo is a member of the Valuation Committee of Malaysian Institute of Accountants. He is a partner with Financial Advisory, Deloitte Southeast Asia.

Daniel Tan is a manager with Financial Advisory, Deloitte Southeast Asia.

Addressing the Perceived Quality Control Issues of the Financial Reporting Function of Reporting Entities

at at-mia.my/2022/06/27/addressing-the-perceived-quality-control-issues-of-the-financial-reporting-function-of-reporting-entities

June 27, 2022

By MIA Professional Practices and Technical

Concerned by the perceived high level of stress among audit professionals in Malaysia, MIA took the initiative to conduct two surveys to provide insights into the quality control environment of the accounting and financial reporting function of reporting entities in Malaysia.

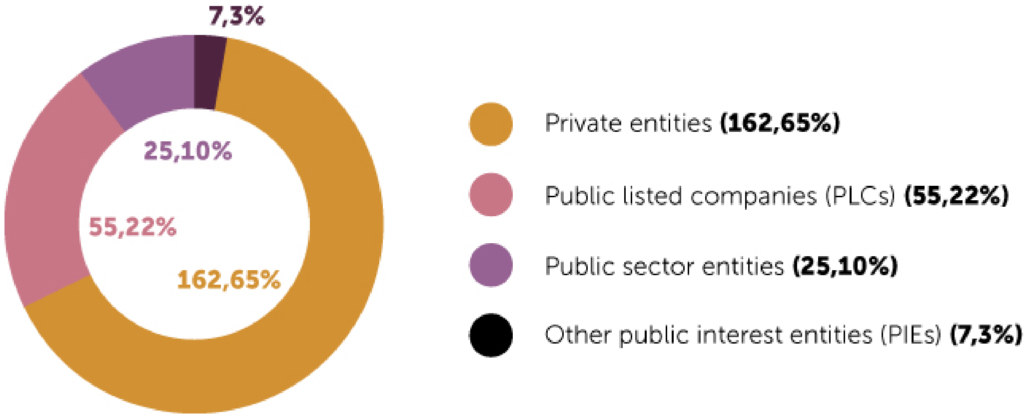
The management of a company is responsible for the preparation of its financial statements. The auditor is responsible for expressing a reasonable assurance opinion that the financial statements are free from material misstatement, whether due to fraud or error, and that they are fairly presented in accordance with the relevant accounting standards.

Nevertheless, according to a work stress survey conducted by MIA among audit staff in 2017, many audit clients in Malaysia fail to appreciate the different roles played by an external auditor and a financial statement preparer. Auditors frequently have to deal with delayed management accounts, poorly maintained accounting records and are expected to assist auditees in resolving their accounting issues. Consequently, auditors end up working in a stressful working environment with tight deadlines and this leads to staff burn-out and in the longer term, discourages talent from entering the auditing profession.

As an initial effort, the Public Practice Committee (PPC) and the Professional Accountants in Business Committee (PAIBC) collaborated in conducting two sets of surveys in 2020 in order to obtain data to assess the quality control over financial reporting by preparers of financial statements. The two surveys are “Survey for Preparers of Financial Statements” and “Survey for Auditors on Quality Control over Financial Reporting of Reporting Entities”.

Survey for Preparers of Financial Statements

249 participants responded to the survey and the breakdown of the companies are as follows:



Below are some of the key findings and the interpretation of the data:

- **Insufficient number of accounting and finance staff**: Companies generally do not employ sufficient accounting and finance staff and these staff are not exclusively reserved for their accounting and finance role.
- **Insufficient budget is allocated to accounting and finance staff’s training and development:** As a consequence, accounting and finance staff are not updated with the latest developments and requirements.
- **Quality control is an issue**: There have been instances where prolonged weaknesses in internal control were not resolved for more than a year.
- **Reasons for the audit adjustments**: Lack of understanding of practical application of accounting standards, lack of experienced accounting staff, additional information surfaced during the audit and error in judgement by the accounting and finance staff.
- **Accounting system issues**: Apart from the human factor, accounting system issues contribute to the quality of the financial statements.

Survey for Auditors on Quality Control over Financial Reporting of Reporting Entities (on audit adjustments)

In total, 123 Audit Firms (AFs) (8% of total population) responded to the survey. However, only 6 out of 123 AFs audit PIEs.

Below are some of the key findings and the possible interpretations of the data:

- **Audit adjustments indicate weaknesses in management's financial reporting process**: A significant number of audit firms either strongly agree or agree that the factual or misclassification adjustments indicate the need for management to improve their financial reporting processes and their internal quality control procedures.
- **Auditors play a key role in ensuring higher financial reporting quality**.
- **Significant room for improvements**: The quality of financial statements, as prepared by management, varies, and for some, there is significant room for improvements.
- **Expectation gap exists between auditors and financial statement preparers in Malaysia**, on the expected standard of quality of true and fair financial statements. The lack of competent finance staff is the main reason for the expectation gap.
- **The imposition of certain quality control standards on the reporting entities will be useful in reducing work stress of audit staff**: For example, by increasing the responsibility of directors and management of reporting entities to institute proper quality control mechanisms for financial reporting.

Next Steps

MIA believes that the findings of such surveys can highlight issues and challenges in the financial reporting value chain and identify the actions needed to improve the financial reporting ecosystem in Malaysia. However, the results of the two surveys should be taken with caution considering the overall low number of survey respondents and, in particular, the lack of participation from larger audit firms and public interest entities.

The PPC and PAIBC will discuss the need for conducting a second survey to obtain more responses from PIEs and auditors of PIEs to enable the analysis of more industry-representative data. We look forward to your active participation in such surveys in the future.

2022 Will Be The ‘Year of The Management Accountant’

at-mia.my/2022/05/09/2022-will-be-the-year-of-the-management-accountant

May 9, 2022

By Jeff Thomson, CMA, CSCA, CAE

Though many hoped 2021 would be a year of full recovery from COVID-19, the reality has been more complex. Progress is being made, as vaccination rates slowly tick upwards and public sentiment improves, but we are still far from the complete economic recovery and return to normality many suggested would happen. In a sign of the cautious mood, this month, Goldman Sachs revised down its growth outlook for 2022 from 4.2% to 3.8%, due to the Omicron variant of COVID-19. Competent management accounting teams are critical for responding to this changing environment in a way that instills confidence and helps organisations build strategies for the new paradigm.

In fact there is room for optimism given the new emphasis business leaders are placing on agility for the short-term and anticipatory thinking for the long-term. This represents a pivot in thought and action, perhaps one that was long overdue. At IMA, we have been championing the need for finance and accounting professionals to move beyond the compliance mindset to engage as full business partners and as future-focused strategic planners who use data to anticipate the future. It is this future-focused orientation that makes management accountants so valuable to their organisations, and I believe 2022 is the year when their skills will be best utilised and recognised.

If I had one prediction to make for 2022, it is that there will be more uncertainty and risk. Automation will continue to be deployed in the hope of mitigating some of the risk. A recent Bloomberg article cited a Federal Reserve survey in which one-third of CFOs indicated they are exploring or implementing automation as a way of mitigating exposure to COVID-19 related issues among workers. The war for the best talent will continue unabated, as organisations experience labour shortages and ripple effects from the Great

Resignation of 2021. PwC reported in an August 2021 survey for CFO Dive that “65% of employees were looking for a new job, and 88% of executives said their company was experiencing higher-than-normal turnover.” Investing in employees and making their organisation “the destination of choice” will fall on the CFO’s shoulders.