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2022
NOV-DEC

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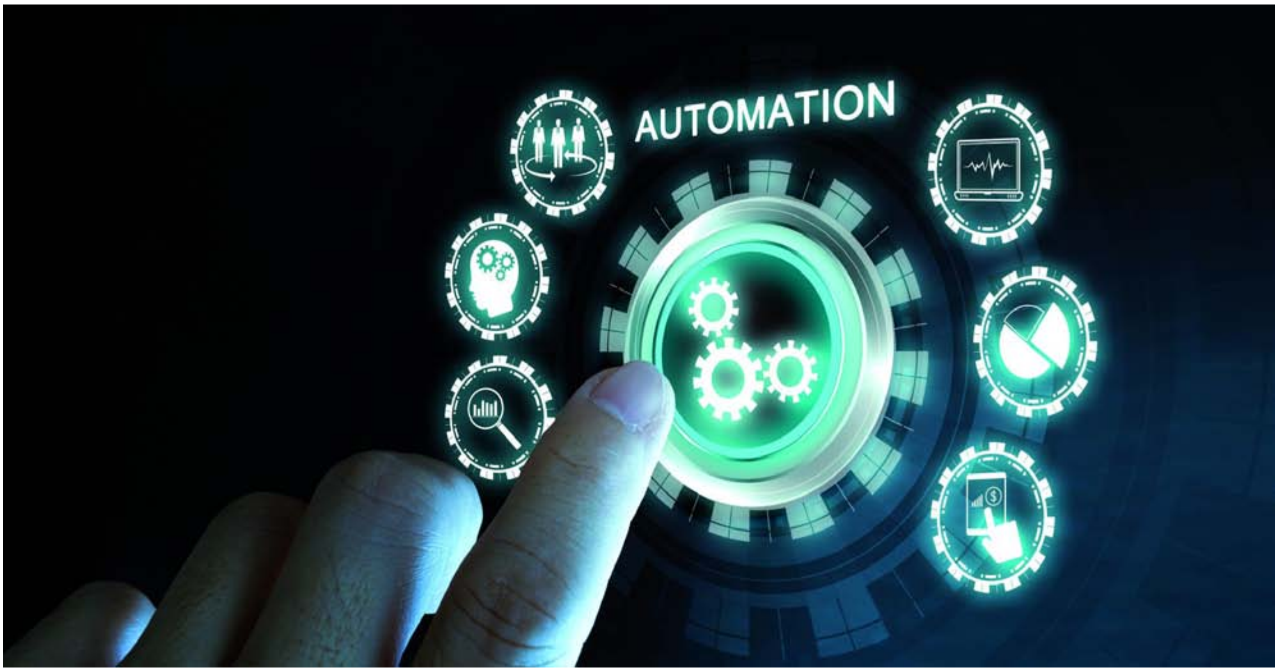
# A New Experience of Tax Work With Digitalisation and Automation

at at-mia.my/2022/12/29/a-new-experience-of-tax-work-with-digitalisation-and-automation

December 29, 2022




*By Ibizz Team*

Malaysia's government has been advocating the push towards digitalisation with many initiatives. This encompasses many sectors of businesses from F&B to professionals, including even the taxation industry.

## What is digitalisation?

In the past digitalisation referred to the conversion of things to a digital format, like how IRBM first introduced PDF submissions for tax instead of physical tax form submissions. Then it slowly included the change of processes to be digitised, for example, our e-Filing system which is still widely used today.

However, are you aware that IRBM has a function of "eDts C" (https://www.hasil.gov.my/en/quick-links/services/e-dts-c/) which was launched in 2019? eDts C is an API (Application Programming Interface) web service that enables submission of form C data by a tax agent firm from their taxation system to the IRBM e-Filing system. This means that your data from a tax software can now be transferred to IRBM without the need for manual entry.

## What is automation for tax practice?

The Malaysian government consistently updates tax laws and new rulings are often introduced now and then. Instead of the traditional way of updating the formulas on a spreadsheet to keep up with the latest compliance, now with automation, a tax software is able to make this a breeze. It is now even possible for a cloud tax software to update all these changes automatically without the need to install a new update for offline software.



### Digitalising your business

With the advancement of technology, your business can now cut down on time needed for manual work and even avoid human error which may arise from such tedious and repetitive work. When you make the change towards digitalisation, you will be able to use the time saved to focus on more valuable things such as expanding your business, engaging your clients more or providing consultation for them.

### Choosing the right tools for your business

Choosing the right tax software from what is available in the Malaysian market should be a priority. Cloud systems have become a popular choice among tax professionals these days due to their flexibility and accessibility anytime. Doing the research on your company's needs and requirements is advisable before signing up to any terms and conditions which could be a burden later. The majority of cloud services run a pay per use model which is favourable to tax firms as it is charged based on services rendered. Hence, you should find out the cost and compare it to the benefits gained. To help you get an idea of how a cloud tax software can bring wonders to your business, you can refer to iBiZZ at www.ibizztax.com.

# Capital Allowances – Avoiding Common Errors

at-mia.my/2022/12/23/capital-allowances-avoiding-common-errors

December 23, 2022


*By Dr Voon Yuen Hoong and Liaw Pey Shan*

The accounting treatments for income, expenses, assets and liabilities presented in the financial statements are often not aligned with tax treatments, both in terms of timing of recognition and characterisation of the transaction itself. Even experienced tax accountants may get caught in these contradictions. As such, tax accountants need to be extra vigilant to ensure that correct tax treatments are applied to all accounting transactions when preparing a company's tax computation.

One item that stands out is the treatment of costs incurred on plant and machinery acquired for business operations. For tax deduction purposes, depreciation is not recognised as a deductible expense; instead, businesses have to compute tax depreciation known as "capital allowances" in accordance with the provisions of Schedule 3 of the Income Tax Act 1967 (ITA).

## Tax Treatments of Assets

Pursuant to Section 42(1) of the ITA, capital allowances (commonly known as CA), are allowed as a deduction in computing the chargeable income and thus the tax liability of a company. The specific rules for CA relief are set out in Schedule 3 of the ITA. Not all capital assets recognised for accounting purposes are eligible for CA as they may not fall within the definition of "plant" in Paragraph 70A of Schedule 3 of the ITA which defines "plant" as follows:

> "an apparatus used by a person for carrying on his business *but does not include a building, an intangible asset, or any asset used and that functions as a place* within which a business is carried on."

To be eligible for CA, the company must be able to satisfy the IRB that it has fulfilled the following conditions:

(a) It is carrying on a business during the basis period;
(b) It has incurred qualifying expenditure (i.e. eligible capital expenditure) in the basis period;
(c) The qualifying expenditure incurred was used for the purposes of its business, and
(d) it is the owner of the asset at the end of the basis period.

An initial allowance, which is fixed at the rate of 10% or 20% on the qualifying cost of the asset, is allowed in the first year of acquisition. Annual allowances at varying rates, e.g. 3%, 10%, 14% or 20% are to be given yearly until the qualifying expenditure is exhausted or the asset is disposed of.

Other important rules to watch out for include those pertaining to disposal of assets and carry-forward of the excess capital allowances to future years due to insufficient current year income. On a disposal or write-off of an asset, a balancing allowance or balancing charge has to be computed by comparing the tax written down value (TWDV) of the asset with the disposal price. Where an asset is disposed of within 2 years from the date of acquisition, the CA claimed previously shall be withdrawn. CA that are unutilised during the year can be carried forward indefinitely for set off against future income but restricted for offset only against income from the same business source. The only circumstance where unutilised CA vanishes automatically and cannot be carried forward to future years is when there is a substantial change of shareholders (holding more than 50% of the company's equity), but operating companies are given a concession to dispense with the rule.

## What Are the Common Errors To Avoid?

As much as companies wish to maximise the claim of CA on the capital expenditure incurred, unwanted errors can be made in the tax computation process. Some of the notable common errors made by companies and the resulting tax implications are discussed below:

### Identifying Qualifying Expenditure

Capital expenditure which is not eligible for CA is often wrongly treated as qualifying expenditure due to the mismatch between the function of the assets and the industry that the company is operating in. An asset that is claimable when used in a certain industry may not qualify for claim in another industry. For instance, decorative assets such as lighting, paintings and sculptures incurred by a hotel operator may qualify for a CA claim. In contrast, the same assets used by a software developer will not qualify for CA. Why is this so? It is settled tax law that an important aspect of a hotel operator's business is to provide ambience for its patrons such as that created by installing special lighting and placing beautiful sculpture to enhance the atmosphere to attract more guests. However, the argument of using "ambience" cannot be applied to operators of grocery stores, pharmacies or software developers since their businesses are largely different from that of a hotel operator.

Another point is that assets that form an integral part of an office building structure (e.g. fixed partitions, flooring, wall tiles, window frames, etc.) which function as a "setting" within which a business is carried on, are not eligible for CA since the office building by itself is not a type of qualifying expenditure.

Therefore, one is required to conduct a careful assessment of the nature of the business and the assets acquired before making a claim in the tax computation that is technically defensible.

### New Asset Not in Use Yet

During the financial year, a company may have ordered a new asset and made payment to the vendor. For CA purposes, as long as the new asset is not deployed for operations in the current year, the company is not entitled to claim CA on the asset. It is compelled to defer the CA claim to a future year when the asset is put in use in its business under Paragraph 55, Schedule 3 of the ITA.

A typical example is when a manufacturing company embarks on building a new production line to expand its existing production capacity. The project may take more than one financial year from start (planning the production layout and sourcing for new machines) to completion (delivery and installation of machines). The vendors may have issued the invoices to the company and installed the machines in a year (say 2022), but the commercial production could only take place in say 2023 after the entire system has been set up. For accounting purposes, the costs are recognised in the financial statements in 2022 but for tax purposes, the qualifying expenditure is deemed to be incurred in 2023 when the machines are put into use by the company. If the company proceeds with the claim of CA in 2022, it would have over-claimed CA in that year.

### Transfer of Assets Between Related Companies in Malaysia

Sales of assets from a domestic company (Co-A) to another related company in Malaysia (Co-B) have unique tax treatments. These types of transactions have to comply with the specific tax rules in Paragraphs 38 to 40, Schedule 3 of the ITA ("Controlled Transfer Rules") for both the disposer (seller) and the acquirer (buyer), where:

The disposer (Co-A) is deemed to have transferred the asset to the acquirer based on the tax residual expenditure or at the tax written down value (TWDV) instead of the sales consideration. No balancing adjustment in the form of either a balancing allowance (loss on disposal for tax purposes) or balancing charge (gain on disposal for tax purposes) is imposed on the disposer.

The acquirer (Co-B) is deemed to have acquired the asset at the disposer's qualifying expenditure (instead of the purchase consideration) and has to claim the remaining CA based on the disposer's TWDV.

Effectively, the total capital allowances claimed by Co-A and Co-B shall not exceed the original qualifying expenditure of the asset incurred by the disposer.

The above Controlled Transfer Rules may come as a surprise for many companies during a tax audit if they have failed to identify transfers of assets between their related companies and prescribe the correct tax treatment. The outcome is that Co-A had wrongly computed the balancing adjustment and Co-B had claimed an incorrect CA amount on assets acquired from the seller.

Assets Used by Related Companies

There are instances where a company pays for the cost of a new asset on behalf of its related company without recovering such cost from the related company. This may happen if the related company is suffering from financial difficulties or is unable to obtain credit facilities to finance the acquisition. Technically, a person (i.e. paying company) who incurs the qualifying expenditure is not entitled to claim CA on an asset if the asset is used for the business of another person (i.e. operating company). In this instance, the paying company does not meet the criteria for a CA claim because the asset is not used in its business but used instead in the business of its related company. An error in the tax computation of the first company (which pays for the asset) can then occur if the asset is not separately identified and excluded from the CA computation.

On the flip side, the operating company is not entitled for the CA claim as it did not pay for the cost of the asset. This is a situation of double jeopardy where both companies are not entitled to the CA although costs have been incurred on the new asset.

Failure to Maximise CA Claim

Some companies may fail to maximise their CA claims for capital expenditure incurred due to lack of information in the supporting invoices. Examples of the expenditure that may have been omitted for CA claims are as follows:

**Demountable office partitions**

Demountable office partitions are claimable for CA purposes if they are movable and can be relocated easily. Arguably, the partition does not form an integral and fixed part of the building, and hence, does not qualify as ordinary plant for CA purposes.

**Installation work**

Expenditure incurred on the alteration of an existing building for the purposes of installing a machine or plant and other expenditure incurred incidentally to the installation thereof are eligible for CA. Applying this principle in practice, electrical and water systems which form an integral part of a plant and machine that qualify for CA would be considered as plant. Examples include wiring for computers, escalators, surge protectors, solar system, water cooling systems, security system, etc.

**Apparatus in a building**

Plant that is eligible for CA includes “apparatus” which is interpreted by dictionaries as “a group or combination of instruments, machinery, tools, materials, etc., having a particular function or intended for a specific use”. Hence, assets that do not form an integral and fixed part of the permanent structure of the building such as fire alarms and fire protection systems, sprinkler systems, security and building management systems, carpets, signage, built-in cabinets, etc. can potentially qualify for the claim of capital allowances.

Documentation

Last but not least, all CA claims must be evidenced by proper documentation. A set of proper documentation serves as a good defence for the company during a tax audit or investigation. The documents to retain include suppliers’ invoices, proof of payment, brochures, catalogues, warranty cards, accounting ledgers, asset registers, pictures of the asset, evidence on location of the asset, etc. It is almost certain that the tax audit officer will call for such documents for their examination during their tax review exercise. Under the law, these records should be kept for at least 7 years to facilitate tax review by the IRB.

There had been instances where companies were not able to produce sufficient records required by the IRB as they may have been misplaced. Without satisfying the IRB with the relevant records, the IRB has the right to deny the CA benefits previously claimed by the company, resulting in additional tax and penalties. It is therefore imperative to put in place a good house-keeping system as a safeguard against untoward outcomes.

## Conclusion

It is every company's wish to maximise their claim for CA. Every Ringgit spent will then be translated into lesser taxable income. To this end, businesses are encouraged to undertake a CA maximisation study on their large-scale asset acquisitions such as the construction of office premises. The cost elements qualifying for CA would then be segregated and CA claimed for those costs with supporting documentation. This set of documents serves to mitigate the risk of non-compliance with tax legislation and maximises the CA claim, thus resulting in tax savings. An error-free tax computation will facilitate a smooth audit by the Inland Revenue Board ("IRB") and mitigates any tax risks. Otherwise, additional taxes and penalties may await the unprepared taxpayer.

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# CFO Conference 2022 – CFOs as Drivers for Business Resilience and Sustainability

at-mia.my/2022/12/07/cfo-conference-2022-cfos-as-drivers-for-business-resilience-and-sustainability

December 7, 2022

The pandemic that hit the world in 2019, as well as the worsening of the climate crisis, aptly demonstrated that risks to businesses due to circumstances beyond our control are often unavoidable. A company's resilience in the face of such events is primarily determined by the sustainability built into its business processes, community relationships, and tangible and intangible assets.

As co-pilots and strategic partners for business, the finance function must play a central role in shaping their organisations to build a more sustainable future. As such, chief financial officers (CFOs) must take the lead in addressing the sustainability challenge, the benefits of transitioning to a sustainable business model, and how the finance function can support this critical change.

By increasing resilience to sustainability risks, capitalising on opportunities, and communicating transparently with stakeholders on progress against key performance indicators, CFOs can become future-proof and reinvent themselves as the custodians of long-term value for their organisations.

To help CFOs transform the finance function and their organisations for increased agility, resilience, and sustainability, the Malaysian Institute of Accountants will hold the CFO Conference 2022 **on 15 December 2022 at the Kuala Lumpur Convention Centre,** with the theme "CFOs as Drivers for Business Resilience and Sustainability".

Participants will benefit from expert panel discussions on topics such as unpacking the sustainability reporting landscape and developments to comply with the new requirements by Bursa and building international tax compliance via good practices and good morale.

Following are the key session highlights scheduled for the Conference:

## SHAPING THE CFOs' PRIORITIES IN 2023

The pandemic accelerated the finance function's efforts at digitalisation to ensure business continuity and resilience. This panel examines the outlook for 2023 and how CFOs are setting their priorities to manage anticipated challenges and opportunities.

## DRIVING VALUE IN A SUSTAINABILITY-DRIVEN BUSINESS ENVIRONMENT

This session explains why CFOs should be the driving force behind ESG, reveals the best ESG framework, and explains how CFOs can stay ahead of the ESG agenda.

## EMBRACING THE DEVELOPMENT OF THE SUSTAINABILITY REPORTING LANDSCAPE: COMPLYING WITH THE NEW REQUIREMENTS

Covers the development of sustainability reporting landscape requirements by Bursa as well as new disclosures to be included in corporate reports.

## BUILDING EFFECTIVE TAX COMPLIANCE VIA BEST PRACTICES

Join in to understand the co-operative compliance framework and its best practices as it is now being introduced in Malaysia plus the Stock Exchange is also encouraging large businesses to champion tax governance in Malaysia.

## CFO CONVERSATION: UNDERSTANDING OPPORTUNITIES & CHALLENGES NOW AND BEYOND AND HOW TO MAXIMISE POSITIVE OUTCOMES

Join a panel of exemplary CFOs and gain insights from their experiences in leading the finance function.

*For more information on the Conference, please click here.*

# CPE Compliance Audit – Are You Prepared?

at-mia.my/2022/11/21/cpe-compliance-audit-are-you-prepared

November 21, 2022

*By MIA CPE Compliance Department*

The year end is fast approaching. As such, this is the time of the year for professional accountants to tie up the loose ends of their compliance with Continuing Professional Education (CPE) requirements and be ready for the CPE compliance audit. As part of the Institute's regulatory functions, the CPE compliance audit is conducted annually as a monitoring process to ensure members fulfil the CPE hours requirements as stipulated in the Institute's By-Laws (On Professional Ethics, Conduct and Practice) (the By-Laws). This article will help members to understand what is required and how to meet the audit requirements if they are selected for CPE compliance audit. Even if members are not selected to take part in the audit, this will serve as guidance to fulfil the CPE obligations.

## CPE Compliance Audit: Requirements and Regulation

CPE is pertinent in ensuring the competency level of professional accountants via lifelong learning. Through CPE, professional accountants are able to exercise the right technical skills in safeguarding the public interest and therein uphold the credibility of the profession.

The CPE compliance audit is an annual exercise performed by the Institute in monitoring members' CPE compliance in line with the prescribed standards. As a member of the International Federation of Accountants (IFAC), the Institute need to ensure that members fulfil the CPE requirements as stipulated in the International Education Standards (IES) 7, *Continuing Professional Development (Revised)* issued by the IFAC which has been incorporated under Section B110 of the By-Laws.

Under this section, members of the Institute are required to undertake and record relevant continuing professional education that develops and maintains professional competence to perform their professional role. To demonstrate compliance with the CPE, all members must participate in CPE learning related to members' professional work and undertake a minimum of 20 structured CPE credit hours per annum. For Audit License (AL) renewal purposes, auditors must comply with a minimum of 10 out of 20 structured CPE hours to be completed by the members each year, which must be related to International Standards on Quality Control (ISQC1)[1], approved auditing standards, approved accounting standards and/or professional ethics.

### CPE Compliance Audit Process

To carry out the Institute's regulatory function, the CPE Compliance Department (CCD) under the Surveillance and Enforcement Division has been tasked to monitor and review members' CPE compliance. The CPE compliance audit process is set out below.

## PRELIMINARIES

The CPE compliance audit will commence in Oct/ Nov of the year under audit.

All correspondence will be conducted through e-mail unless otherwise required by the Institute.

The e-mail address specified in the Institute's Membership Informaiton System will be used for correspondence.

## SELECTION

Active members will be randomly selected from the membership database.

The audit pool comprise of: (i) Practising Certificate (PC) Holders; and (ii) Non- PC Holders.

Members who were granted with CPE Exemption will not be selected for audit but subject to monitoring review of their CPE Exemption status.

Members selected for audit will receive an e-mail notification that they have been selected for CPE compliance audit.

Members selected for audit must follow the instructions in such e-mail and revert by the stipulated deadlines.

## RECORD

Members selected for audit will receive e-mail notification indicating that they have been selected for audit and instructing them to update and submit their CPE record by the stipulated deadlines.

Members are required to update their CPE record in the Institute's Members Portal:

(i) Update the external 20 structured CPE credit hours for the year being audited.
(ii) Upload the supporting documents for CPE credit hours earned (e.g. certificate of attendance).
(iii) Submit CPE Declaration.

Upon submission, CCD will conduct the review and verification of the CPE record submitted.

## EVIDENCE

The CPE records in the Institute's Members Portal remains a live record-keeping tool during the audit process. Members may continue to update their training records for CPE year under review.

Members may be required to furnish further information/ evidence in support of their record of CPE activities.

Members will be contacted through e-mail for such further information.

## CONCLUSION

Members will be notified via e-mail reminders if they have not responded/ not complied with the CPE Audit.

Members are deemed not complied with the CPE Audit if they failed to update their CPE record within the stipulated timeline.

Members who failed the audit are subject to monitoring review and will be re-audit in the next CPE audit cycle.

Failure to comply with the audit process for 3 consecutive years may subject to disciplinary action or result in a reprimand or a complaint of misconduct.

## Tips for Members: CPE Compliance Audit Process is Simple

Members may take some simple steps now to make sure that they are prepared for the CPE compliance audit. If members are prepared, the whole audit process can be simple and straightforward. The following also serves as a guidance to fulfil the CPE obligation for those who are not involved in audit.

| | | | | |
|---|---|---|---|---|
| **Understanding the Institute CPE requirements** | 20 structured CPE credit hours per annum. | To ensure that the external training meets the structured learning requirements as stipulated under the By-Laws. | Emphasis for PC holders and audit license holders on fulfilling the additional requirements as per By-Laws Section B110.4. | Participate in external CPE learning related to members' professional work. |
| **Choosing the right topics** | Access/ evaluate the professional work requirements and the corresponding training needs. | | | |
| **Utilising the wide range of CPE learning platforms** | MIA Professional Development – a variety of trainings is provided by the Institute which are acceptable as structured CPE credit hours and to support members' CPE compliance. | External training providers, professional bodies, e-learning, webinars, in-house/internal training. | | |
| **Undertake regular CPE** | Plan your CPE learning ahead and comply early to avoid the last minute stress at the year end. | | | |
| **Take charge, record it as you go along** | Update the CPE hours upon completion of each training. | For external training, members are required to update the CPE hours and upload supporting documents at the Institute's Member Services Portal. | For trainings conducted by the Institute, the records will be automatically updated in the members portal. | Members are reminded to keep track of their CPE learning and update the records diligently, as well as submit their annual declaration by 31 December. |

## Findings: CPE Compliance Audit

The following are some of the common observations contributing towards non-compliance based on the past CPE compliance audit conducted by CCD:

- Members did not update the CPE hours' records on a timely basis and submitted the CPE Declaration after 31 December of the calendar year.
- Courses/trainings which do not meet the criteria as structured learning to qualify as CPE credit hours.
- For AL holders: Non-compliance with the 10 CPE hours specifically for ISQC 1[1], approved auditing standards, approved accounting standards and/or professional ethics.
- Members did not choose the right training and attended training that is not acceptable as audit renewal CPE hours.

As an additional effort to support members, CCD sent regular e-mail reminders to remind members to comply with the CPE requirements and update the CPE records with the Institute by 31 December annually.

Members may reach out to CCD which is entrusted to spearhead, monitor and support members with the annual CPE compliance audit and other CPE compliance related matters. Members may send their enquiries via the CPE Enquiries (MIA Member Services Portal) or email to cpeaudit@mia.org.my.

**Get Ready – Be Prepared**

It is essential for members to understand the purpose of CPE and it is members' obligation to comply with the CPE requirements annually. Members are encouraged to plan ahead and take charge, as part of the responsibilities of being professional accountants. In the ever-changing landscape of the accountancy profession, it is vital for members to stay relevant, resilient and take proactive measures to be prepared for the challenges ahead.

## STEP-BY-STEP GUIDE ON CPE SUBMISSION

**Login to MIA website at www.mia.org.my – Member Login to update the external CPE hours records and upload the supporting documents.**

1. Member Login – My CPE Hours
2. Go to "External CPE Hours Summary"
3. Go to "Add External CPE Hours"
4. Click on "choose file" to upload supporting documentation
5. Go to "CPE Hours Summary" and click "Refresh"
6. Refer to "Total External CPE Hours"

### CPE Declaration

1. Under the 'CPE Hours Summary', select submission year
2. Click on 'Annual CPE Declaration'

### MIA CPE Hours

1. MIA CPE Hours will be automatically updated in Member Login
2. Go to "My Training History"

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*[1] To be replaced by International Standard on Quality Management (ISQM) 1 and 2, effective from 15 December 2022.*

# Facilitating SDGs with Islamic Finance (Part 2) Value-Based Intermediation: Championing the Social Finance Agenda in Malaysia

at at-mia.my/2022/11/04/facilitating-sdgs-with-islamic-finance-part-2-value-based-intermediation-championing-the-social-finance-agenda-in-malaysia

November 4, 2022

*By Muazzam Mohamed*

In its "call to action" published in August 2022, IFAC asked professional accountancy organisations (PAOs) and stakeholders to identify how Islamic financial instruments have been used to advance Sustainable Development Goals (SDGs). Malaysia, an Islamic finance pioneer, is the first case study in this series reporting on government, regulatory and industry efforts to support the SDGs with Islamic finance principles.

The first part of the Malaysia case study published on 7 September 2022 focused on *sukuk*, which provides the means to deliver more infrastructure investment to emerging economies.

This second part of the Malaysia case study looks at the concept and purpose of Value-Based Intermediation (VBI) and how VBI advances towards the attainment of the SDGs.

## Innovating Financial Intermediation with VBI

The VBI concept introduced by Bank Negara Malaysia in 2017 for the Islamic finance industry aims to deliver intermediation functions that embody the *maqāṣid al-Sharīʿah* (i.e., the intended outcome of Shari'ah) through 'practices, conducts and offerings that generate positive and sustainable impact to the economy, community and environment, consistent with shareholders' expectations of sustainable returns and long-term interests.

Drawing on holistic Islamic values, the VBI concept transcends wealth protection to encompass other essentials, particularly protection of religion, life, intellect, and progeny.

The intended outcomes of VBI—which are reflected in the triple bottom line framework of people, planet and profit/prosperity—are compatible with the sustainability agenda propagated by the SDGs and the Principles for Responsible Banking (PRB) promulgated in the United Nations Environment Programme Finance Initiative.

The first five SDGs, which are related to people, are consistent with the *maqāṣid* of protecting life, intellect, and wealth. Meanwhile, the six SDGs (6, 7, 12, 13, 14 and 15) that are related to planet and environment are pertinent to realizing the *maqāṣid* of protecting life, lineage, and wealth. The other four SDGs (8, 9, 10 and 11) are concerned with the protection of wealth.

VBI promotes a more holistic observation of Shariah by ensuring the offerings and practices of Islamic Financial Institutions (IFIs) not only comply with Shariah requirements but also achieve the intended outcomes of Shariah.

### How VBI drives the SDGs

To drive the implementation of VBI, 15 Islamic banks along with BNM have formed the VBI Community of Practitioners (COP) to pool their resources and expertise to codify VBI.

One of the key achievements of the VBI COP is the development of the **VBI Financing and Investment Impact Assessment Framework Sectoral Guides (VBIAF SG).** It guides the incorporation of ESG risk considerations in the financing and investing decision-making process of Islamic banks and provides transparency to customers and investors in relation to their environmental, social, and governance (ESG) assessment considerations.

The VBIAF SG were developed jointly by the VBI COP and relevant stakeholders: among others, the Energy Commission (EC), Sustainable Energy Development Authority (SEDA), Malaysian Green Technology and Climate Change Centre (MGTC), Malaysian Palm Oil Council (MPOC), Malaysian Palm Oil Certification Council, World Bank Group, World Wide Fund for Nature (WWF) and Sime Darby Plantations Berhad.

The first cohort of the VBIAF SG on Palm Oil, Renewable Energy, and Energy Efficiency was issued on March 31, 2021 while the second cohort, covering Oil & Gas (O&G), Manufacturing, and Construction & Infrastructure was issued on March 22, 2022. The third cohort is currently being developed for four economic activities, namely, Mining & Quarrying, Agriculture, Transportation & Storage, and Waste Management.

Based on the latest data collected by AIBIM as of September 2021, the IFIs have contributed significantly to pursuing ESG and sustainability efforts domestically by intermediating RM146.6 billion of funds for VBI-aligned initiatives. These encompass green projects, affordable housing, education, public infrastructure, entrepreneurship supports for micro, small and medium enterprises (MSMEs), and distribution of financial support and aid through *zakat*, *sadaqah* and *waqf*. (To learn more, please refer to the Value-Based Intermediation Full Report 2021 produced by The Association of Islamic Banking and Financial Institutions Malaysia (AIBIM).)

**Transcending Finance for Social Benefit**

VBI adoption has successfully pushed IFIs to reform their mindsets and rethink their role as an intermediary. IFIs are now going beyond their traditional function as financial intermediary to fuel the economy, to also intermediate the creation of social benefits for the stability and well-being of the community and society.

This is reflected in various Islamic social finance activities undertaken by Islamic banks in collaboration with State Islamic Religious Councils (SIRCs) and strategic implementation partners. As of September 2021, the IFIs had distributed over RM65.2 million by leveraging on the three core Islamic social finance tools;
namely, *zakat*, *sadaqah* and *waqf*.

Notable examples of industry-led initiatives that innovate through VBI are:

- The myWakaf initiative, which is a collective effort of six Islamic banks to empower the community through *waqf*. myWakaf enables SIRCs to tap into a larger pool of potential contributors and improve implementation efficiency and effectiveness for *waqf* projects. All *waqf* projects can be viewed here while the impact reporting can be accessed here;
- MyZakat initiative, which pools *zakat* from participating financial institutions to support *asnaf* (groups eligible to receive zakat) microentrepreneurs in partnership with Amanah Ikhtiar Malaysia (a micro-credit organization) and Agensi Kaunseling dan Pengurusan Kredit (a credit counselling and debt management agency set up by BNM) by providing up to RM3,000 seed capital to start a business; and

- iTekad microfinance, which is a blended social finance programme by Islamic banks offering seed capital, microfinancing, and structured training to micro-entrepreneurs in collaboration with implementation partners. Read more on the impact of iTekad here.

## VBI Prospects for Islamic Finance

The initiatives above demonstrate that Islamic finance can leverage on VBI to champion the social finance aspects of the SDGs.

However, not all is smooth sailing. The key challenge that IFIs face in implementing VBI towards achieving SDGs is the reluctance to embrace ESG and sustainability among some clients, particularly the non-listed commercial entities and MSMEs. Their smaller sizes and resources can hinder the additional reporting, efforts and costs required to transition to sustainable strategies and outcomes. This understandably limits the VBI-aligned assets that can be considered by IFIs.

Having to manage the exposure and concentration limit to a given green project or sector further caps how much IFIs can do.

## Social Finance will be a Game Changer

The VBI COP believes that the strength and future potential of VBI are differentiated by its championship of the social finance agenda. VBI, as advocated by the IFIs, complements the other parallel sustainability initiatives being driven by the wider financial sector, such as the Joint Committee on Climate Change (JC3) and the Task Force on Climate-Related Financial Disclosures (TCFD). VBI pushes the Islamic Finance industry to go beyond green, Corporate Social Responsibility (CSR) and philanthropic activities by focusing on creating wider sustainable positive impacts from commercial activities.

As Malaysia's financial landscape matures, social finance is envisioned to play a greater role with VBI and Islamic finance lighting the torch for positive change. Social finance is expected to complement public sector finance and commercially driven financial solutions to promote greater social resilience and well-being.

Importantly, social finance has three unique qualities that can advance financial inclusion in a transformative manner and address constraints typically associated with traditional finance.

One, social finance instruments can be designed for **greater flexibility**, thereby increasing the level of risk absorbency (in contrast with traditional debt-based finance). These range from allowing more flexible repayment terms that accommodate irregular income streams and do not impose repayment obligations on beneficiaries (e.g., financing funded by zakat funds).

Two, in **donation-sourced financing**, there is usually **minimal or no financing cost** attached (e.g., beneficiaries are only required to repay the benevolent financing provided). Social finance can thus improve access to funding for segments that face challenges in accessing commercially driven finance. The use of more flexible and innovative financial structures can also avoid deepening existing financial vulnerabilities (e.g., indebtedness) faced by such individuals or businesses. This is in line with Islamic values of minimizing indebtedness and supporting the disadvantaged in society.

Three, social finance initiatives can be coupled **with impact monitoring** and **“pay-it-forward”** mechanisms. Effective implementation of these mechanisms can build trust among the fund providers and target groups, as well as foster a virtuous cycle that encourages past beneficiaries to be part of efforts to support future ones. This in turn can potentially create a robust and valuable network of support, thereby strengthening the upsides of social finance solutions. (See BNM Financial Sector Blueprint 2022-2026 on Social Finance)

By integrating VBI and social finance into the larger Malaysian financial ecosystem, IFIs are anticipated to play a larger and more innovative role in the long-term sustainable development of economy and society.

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*Muazzam Mohamed is the Group CEO of Bank Islam Malaysia Berhad, President of the Association of Islamic Banking and Financial Institutions Malaysia (AIBIM), Chairman of the Islamic Finance Committee of the Malaysian Institute of Accountants (MIA) and Chairman of VBI Community of Practitioners.*

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*Announcement: The Malaysian Institute of Accountants, together with IFAC, is planning a virtual Global Roundtable event in 2023 with representative stakeholders from various regions to discuss how Islamic Finance tools and concepts can be utilized to achieve SDGs. Stay tuned! Please contact membership@ifac.org to be added to the invitation list.*

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# Infuse Intelligence into Your Accounting

at at-mia.my/2022/12/27/infuse-intelligence-into-your-accounting

December 27, 2022

*By Cerebro Accounting Team*

As your company continues to grow, your financial data is bound to become more complex. What used to be a simple spreadsheet turns into a multi-layered procedure that can be oftentimes confusing, time-consuming and susceptible to errors. In order to scale effectively and efficiently, business owners need to move away from traditional spreadsheets to a comprehensive digital accounting solution.

Here's a quick look at 4 key factors on how a professional accounting suite can help your business grow multifold.

### All in one, not only one

Get an end-to-end solution rather than a barebones software to gain an overview of your business in one place. With a comprehensive set of features available from the start, such a solution enables you to analyze sales trends, understand cost structure, manage cash flow, customize professional invoices, simplify inventory management, run financial reports and an informative dashboard for decision making. This makes calculation accurate, removes redundancies and optimizes workflow by streamlining operational processes.

### Derive invaluable insights

Financial data is only useful when you can analyse and glean insights to enhance your business and enable the pivot towards growth. The complete accounting suite is integrated with big data analytics to help you track metrics like sales and collections or profits and expenses to identify and compare trends, and hone in on the right insights via financial analysis. Powered by intelligence, you can make smarter inferences and develop business plans for the future.

### Quick report generation

The power of artificial intelligence allows for the automatic generation of ledgers, trial balance, profit and loss statement, balance sheet, cash flow statement and dashboards anytime, anywhere with relative ease and in shorter time spans. Instantly create reports using popular templates or customize one to include details that suit your needs. With your books balanced and financial documents in order, you will be all set and worry-free come audit and tax submission.

## Better security, reduced risks

As financial data is confidential, assign different levels of access to your workforce to control what they view and edit. This prevents third parties or unauthorized personnel from accessing your company's accounts. In addition, safeguard customer and financial details with the latest security updates and schedule automated backups to ensure nothing ever gets lost.

## The bottom line

Accounting is a vital building block of your business. It allows you to keep track of crucial processes such as billing, payment, multi-currency transactions, bank reconciliation and reporting. However, as a business owner, you have to account for everything else. With the right solution, you can focus on running your business instead of spending hours upon hours looking at numbers.

Cerebro Accounting connects accounting and operational data via our unified intelligent platform. Its powerful analytics capabilities empower finance to go beyond traditional spreadsheets. Cerebro Accounting helps organisations of all shapes and sizes boost sales, clinch customer loyalty, reduce costs and optimize efficiency, enabling you to grow your business.

# MIA Digital Economy and Reporting Insights (July – September 2022)

at-mia.my/2022/11/01/mia-digital-economy-and-reporting-insights-july-september-2022

November 1, 2022


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

## Future-Proofing Finance Functions

Watch Video At: https://youtu.be/uBeNkppwnWk

Finance functions today are rapidly transforming to meet the complex needs of business in a high-risk landscape. MIA published this video which focuses on how accountants are evolving from their bedrock of financial reporting and compliance to embrace enterprise value creation for long-term organisational sustainability.

Technology trends have a tremendous impact on the role of accountants as they evolve into enablers and leaders of enterprise value creation and long-term organisational sustainability. Another video has been published which highlights the far-reaching impact of 3 technology trends – cybersecurity, big data & analytics and robotic process automation – on the accounting profession, based on the findings of the Technology Adoption in Accountancy Profession in Malaysia Survey 2022.

Watch Video At: https://youtu.be/wCQG-hFHjZ4

### Proposed Regulatory Framework on Technology Risk Management

MIA submitted comments on the proposed regulatory framework on technology risk management published by the Securities Commission Malaysia (SC) in September 2022.

The proposal sets out the key highlights of the proposed regulatory framework and seeks feedback on areas such as governance and compliance process, management of technology risks, cybersecurity, data and third-party service provider, as well as the principles relating to the adoption of artificial intelligence (AI) and machine learning (ML). The proposed regulatory framework aims to further improve capital market entities' ability and effectiveness in detecting and addressing an increasing range of technology risks due to the prevalent use of technology, emergence of new technologies and the growing sophistication of cyber threats.

### Tax advocacy

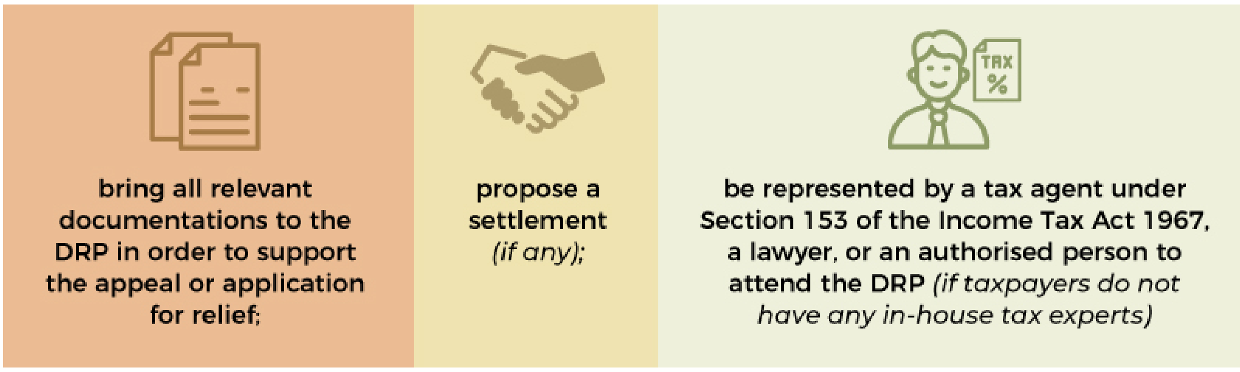
**Proposals on tax incentives for export of professional services**

In July 2022, the Institute jointly submitted proposals pertaining to the export of professional services to the Ministry of International Trade and Industry for 2023 Budget. The proposed tax incentives include establishment of a regional export services hub and incorporation of global business services into the Qualifying Services List.

**Issues Arising from Dispute Resolution Proceeding**

Following the joint submission by the Institute on issues arising from dispute resolution proceeding (DRP), the Institute has engaged the Dispute Resolution Department (DRD) of the Inland Revenue Board (IRB) in July 2022.

The DRD has provided suggestions to ensure that appeals are navigated more effectively during the DRP and taxpayers are advised to:




**Retirement Benefit Plans in the Public Sector**

The International Public Sector Accounting Standards Board (IPSASB) issued a proposal on the accounting, presentation, and disclosure requirements for retirement benefit plans through its Exposure Draft 82 *Retirement Benefit Plans*. The proposal will increase transparency and accountability of public sector entities regarding obligations owed to employees and other eligible participants who are members of the retirement benefit plan. Our comments on the proposal are available here.

**Public Sector Sustainability Reporting**

In September 2022, MIA submitted a comment letter to the IPSASB on its Consultation Paper *Advancing Public Sector Sustainability Reporting*. The Consultation Paper sought to evaluate the demand from stakeholders for sustainability reporting guidance, as well as the degree of support for the IPSASB's involvement in the process, the priority areas for guidance, and how this might be approached. Our comments can be accessed here. You can also read an article titled 'Sustainability Reporting in the Public Sector: The Way Forward' here.

# NACRA 2022 Announces Winners, Emphasises Sustainability

at-mia.my/2022/12/15/nacra-2022-announces-winners-emphasises-sustainability

December 15, 2022

CIMB Group, Sunway Berhad, Malaysian Resources Corporation Berhad and Petroliam Nasional Berhad were the top winners of the Platinum Awards in their respective categories at the recent National Annual Corporate Report Awards (NACRA 2022).

A total of 27 winners in different categories were announced out of a field of 52 participating organisations at the NACRA 2022 jointly organised by Bursa Malaysia Berhad (Bursa), Malaysian Institute of Accountants (MIA) and The Malaysian Institute of Certified Public Accountants (MICPA).

Now in its 32nd year, NACRA 2022 continues to enable further excellence and improvement in corporate reporting in Malaysia. Reflecting the key developments in the global reporting landscape, the NACRA assessment criteria is evolving to emphasise on both financial and non-financial information disclosures. This encompasses:

- the compliance aspect of statements such as the financial statements
- the relevant corporate reporting under Bursa Malaysia listing requirements, and
- the quality of non-financial information such as sustainability in the annual report.

In his congratulatory message delivered at the virtual awards ceremony, Tan Sri Abdul Wahid Omar, Chairman, Bursa Malaysia stated that “Corporate reporting can help companies be both excellent and accountable by pushing you to reflect on the purpose that drives you, the strategies that you frame, the decisions that you make and the value creation or dilution outcomes that ensue.”

He expects the focus on sustainability to accelerate “as the ESG agenda is both viable and highly relevant in a landscape rife with unprecedented risks” and as “ESG funds remained a top choice for investors and ESG investments continue to outperform globally.” Fraser & Neave Holdings Bhd won Platinum in the category for Sustainability Reporting.

Tan Sri Abdul Wahid also touched on Bursa’s initiative to elevate and future-proof public-listed companies (PLCs) via the Bursa Malaysia PLC Transformation Programme which was launched in March this year and targets the participation of 300 PLCs by the end of 2025. “The programme will certainly enhance the PLCs’ investability and serve as a catalyst to elevate the Malaysian market’s competitiveness vis-a-vis other exchanges in the region, particularly as ESG themes are prioritised among global investors,” he explained.

In his welcome remarks earlier, Mr Ong Chee Wai, Chairman of the NACRA 2022 Organising Committee noted that it has been demanding for organisations to adapt to reporting standards that are continually evolving to match investors’ growing expectations amidst an unprecedentedly risky and challenging global landscape.

“Organisations that stood out clearly narrated how they stayed resilient to navigate through challenges of COVID-19 and business continuity to create long-term value for their stakeholders. They were also able to deliver a comprehensive value creation story, one that is transparent on strategy and the organisation’s future orientation; concise; with reliable, complete and balance information; consistent and comparable,” explained Ong.

In his long experience serving as a NACRA Committee member, En Ahmad Zahirudin Abdul Rahim, Chairman, NACRA 2022 Adjudication Committee commended the tremendous improvements in the quality of Malaysian annual reports. “The NACRA entrants have demonstrated excellent adaptability, agility and resilience in keeping up with the evolution of global reporting and in complying with the new NACRA framework which was introduced in NACRA 2020 and is now in the third year of implementation.”

The current NACRA framework features elements that are aligned with local and global developments, reporting frameworks and best practices, including the latest Malaysian Code on Corporate Governance (MCCG), emphasis on sustainability elements and ESG considerations, and focus on COVID-19 pandemic impacts.

Ahmad Zahirudin also highlighted the strong participation from companies listed on the ACE market for 2022, which heightens the inclusivity and diversity of the NACRA and signals a growing recognition of the value of high-quality corporate reporting to diverse organisations, investors and stakeholders.

NACRA is open to all companies incorporated or registered in Malaysia as well as the public sector and other organisations established in Malaysia.

Below is the list of winners:

## Congratulations to all NACRA 2022 Winners!

**Excellence Awards**

| | | | | | |
|---|---|---|---|---|---|
| Companies with more than RM10 Billion in Market Capitalisation | PLATINUM<br>**CIMB GROUP HOLDINGS BERHAD** | GOLD<br>AXIATA GROUP BERHAD | GOLD<br>PETRONAS CHEMICALS GROUP BERHAD | SILVER<br>AMMB HOLDINGS BERHAD | |
| Companies with RM2 Billion to RM10 Billion in Market Capitalisation | PLATINUM<br>**SUNWAY BERHAD** | GOLD<br>AXIS REAL ESTATE INVESTMENT TRUST | GOLD<br>SUNWAY CONSTRUCTION GROUP BERHAD | SILVER<br>CARLSBERG BREWERY MALAYSIA BERHAD | SILVER<br>SUNWAY REAL ESTATE INVESTMENT TRUST |
| Companies with Less than RM2 Billion in Market Capitalisation | PLATINUM<br>**MALAYSIAN RESOURCES CORPORATION BERHAD** | GOLD<br>OSK HOLDINGS BERHAD | SILVER<br>KUMPULAN PERANGSANG SELANGOR BERHAD | SILVER<br>MSM MALAYSIA HOLDINGS BERHAD | |
| Non-listed Organisations | PLATINUM<br>**PETROLIAM NASIONAL BERHAD** | GOLD<br>KULIM (MALAYSIA) BERHAD | SILVER<br>CREDIT GUARANTEE CORPORATION MALAYSIA BERHAD | | |

**Special Awards**

| | | | | |
|---|---|---|---|---|
| Best Sustainability Reporting | PLATINUM<br>**FRASER & NEAVE HOLDINGS BHD** | GOLD<br>PETRONAS CHEMICALS GROUP BERHAD | SILVER<br>SUNWAY BERHAD | SILVER<br>TELEKOM MALAYSIA BERHAD |
| Best Annual Report in Bahasa Malaysia | PLATINUM<br>**RHB BANK BERHAD** | GOLD<br>TELEKOM MALAYSIA BERHAD | SILVER<br>FGV HOLDINGS BERHAD | SILVER<br>MSM MALAYSIA HOLDINGS BERHAD |
| Best Designed Annual Report | PLATINUM<br>**PETRONAS CHEMICALS GROUP BERHAD** | GOLD<br>PETRONAS DAGANGAN BERHAD | SILVER<br>KPJ HEALTHCARE BERHAD | |

# Public Sector Financial Management Conference 2022 – Spearheading Reforms in the Public Sector for a More Sustainable Future

at-mia.my/2022/11/03/public-sector-financial-management-conference-2022-spearheading-reforms-in-the-public-sector-for-a-more-sustainable-future

November 3, 2022

*By Mohd Faiz Othman*

Strong public financial management processes and systems are essential for effective and efficient delivery of public services, transparent public finances, and trust between government and citizens.

Many developed and emerging nations, including Malaysia, are taking steps to reform public financial management and governance to manage key risks arising from the COVID-19 pandemic, climate change, and volatile global environment.

Due to their key role in upholding fiscal responsibility and accountability in the public interest, accountants and finance professionals in public sector organisations nowadays face a tremendous challenge in helping the government deliver its services as well as fulfil its commitments to the UN Sustainable Development Goals (SDGs).

As a regulatory body of the accountancy profession in Malaysia serving more than 38,000 members along with various partners and stakeholders, the Malaysian Institute of Accountants (MIA) is strongly advocating for improving public financial management systems in support of good governance and sustainability.

To drive its public sector advocacy, MIA will be organising a **Public Sector Financial Management Conference 2022 (Physical)**. This two-day conference will take place from **8 December until 9 December 2022 at Pullman Kuala Lumpur, Bangsar from 9.00 am to 5.00 pm (Day 1) and 9.00 am – 1.30 pm (Day 2).**

The Public Sector Financial Management Conference 2022 will feature panel discussions by leading speakers and industry experts on the latest developments affecting the public sector. Delegates can expect to:

- understand the challenges of public sector accounting reforms
- to keep abreast of the latest developments in the International Public Sector Accounting Standards (IPSAS) on leasing issues
- to understand the significance of public sector financial management's contributions toward achieving the Sustainable Development Goals (SDGs) and
- to reinforce the importance of combating corruption, specifically in procurement, to minimise leakages, enhance trust and support fiscal governance.

With the theme '**Spearheading Reforms in the Public Sector for a More Sustainable Future'**, the conference will focus on the relevant key developments and issues which public sector financial professionals must know to be agile, resilient, and future proof.

**Highlights of the Public Sector Financial Management Conference 2022 include:**

**Challenges of Public Sector Accounting (PSA) Reforms**

This panel session will discuss on the challenges in implementing these reforms and the way forward in PSA transformation.

**Building Long Term Resiliency in Public Sector Financial Management**

This session will discuss on how public sector finance can build better resilience to handle any future shocks.

**Harness Big Data's Influence in Public Sector**

This session focuses on upskilling public sector accountants and finance professionals to become data analysts and interpreters.

**Impacts and Challenges of the New Public Sector Leases Standard**

This session will discuss on the potential challenges and impacts arising from the issuance of the new International Public Sector Accounting Standard (IPSAS) 43, Leases based on International Financial Reporting Standard (IFRS) 16, Leases.

## Combating the Trust Deficit: Public Sector against Public Procurement Corruption

This session will discuss the ongoing journey to combat procurement corruption as well as the pivotal role played by ethical accountants in the public sector.

## What Does Sustainability Reporting Look like in the Public Sector?

This session assesses the status quo for sustainability reporting in the public sector, in Malaysia and globally, and projects the way forward.

## ESG in Public Sector Finance: From Risk Management and Internal Audit Perspectives

This session examines how integrating the ESG agenda in public sector finance could bring about major impacts and positive changes for risk management and auditing in the public sector.

## Public Sector Leadership for Sustainable Development

This session will focus on the roles of public sector finance in accomplishing the set goals for sustainable development.

*To register for the Public Sector Financial Management Conference 2022, please click here.*