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Accountants – Enablers of Sustainability

at[at-mia.my/2023/08/24/accountants-enablers-of-sustainability](at-mia.my/2023/08/24/accountants-enablers-of-sustainability)
August 24, 2023

As the call for sustainability adoption gains momentum, the global profession too has stepped to the forefront in calling for action on environmental, social and governance (ESG) issues threatening fragile ecosystems and populations.

Recognised as the voice of the profession in Malaysia, the MIA vigorously advocates for ESG and sustainability adoption to ensure the future relevance of the profession and drive sustainable nation building, in the public interest. Indeed, the first hybrid MIA International Accountants Conference 2023 which drew its largest ever attendance of close to 3,500 delegates focused heavily on ESG and sustainability developments, with the theme of *Future-fit Profession: Charting a Better Tomorrow.*

Asmâa Resmouki, the first President of the International Federation of Accountants (IFAC) from the Africa-Middle East region and the third female President, delivered a special address at the Conference on the profession's role in driving ESG for sustainability.

At present, IFAC represents more than 3 million professional accountants through its 181 member organizations across 135 jurisdictions, including MIA. In her remarks, Asmâa discussed IFAC's agenda for sustainability, the role of Islamic finance in driving SDGs, as well as the pressing need to enhance the value proposition of an accounting career to attract the next generation of bright accountancy talents.

The following are some highlights of her address:

Professional Accountants are the Enablers of Sustainability

Everyone – spanning consumers, capital markets, governments, nonprofits and businesses, both large and small – needs high quality ESG information to make well informed decisions. As accountants stand at the centre of information flows and decision-making, they are ideally placed to oversee and manage

ESG information. "As professional accountants, we are the enablers of sustainability. We can integrate financial and non-financial information. Wherever we are in the value chain as preparers as senior management, as board and Audit Committee members or in firms, we have the skills to transform high quality standards into high quality information," stated Asmâa.

IFAC's Sustainability Agenda

IFAC's sustainability agenda for 2023 has four main themes, and IFAC believes that each organisation can play an active collaborative role to lead on sustainability.

One, sustainability starts in companies.

IFAC advises organisations to champion an integrated mindset to drive sustainable value creation. "Everything a company does, and how we think must fully incorporate ESG risks and opportunities. To get this right, companies need to break down silos within their structures, between the collection, assessment, and reporting of financial and sustainability information. This is what we call an integrated mindset. It is the best way to support decision making by senior management, oversight by boards, external reporting that meets the needs of all stakeholders, and ultimately provides information that can be subject to high-quality assurance."

To successfully adopt ESG, IFAC recommends that the CFO either needs to oversee this transformation, or at least be significantly engaged in the exercise. This is necessary for the company to tap into the finance team's experience with internal controls, processes, and data quality which are crucial to integrating ESG into systems and operations.

Two, global adoption of International Sustainability Standard Board (ISSB) standards.

Investors and global capital markets are demanding consistent and comparable sustainability related information. Asmâa explained that there are two complementary perspectives on sustainability information. One perspective looks at how sustainability issues like climate change for example, can impact the performance or value of a company, which is the primary focus of ISSB and investors. The other perspective looks at reporting requirements related to public policy goals that address societal needs, such as the potential impacts of a company on people and planet.

How should local jurisdictions proceed on adoption of the ISSB standards? "If the ISSB provides a global baseline of investor focus disclosures, then it is up to local authorities to determine what else they may require for companies to report locally."

"We at IFAC believe that it is crucial for Professional Accountancy Organizations (PAOs) to engage now with local policymakers on what mechanisms can be used for the transition from global ISSB standards into local standards on sustainability," said Asmâa.

Three, capacity building in the sustainability space.

There is a real need at the company level for the development of skills and competencies related to the reporting and assurance of sustainability information, which will require diligent education and upskilling. Many PAOS have already launched or are already developing curricular, training tools, certificates and accreditations to enhance the subject matter knowledge, facilitated by IFAC's knowledge sharing. IFAC is also providing input into the ISSB's development of an online curriculum designed to help companies prepare to adopt and report under IFRS S1 and IFRS S2.

IFRS S1 requires companies to communicate the sustainability-risks and opportunities they face over the short, medium, and long term. The requirements are designed to ensure that companies provide investors information relevant to decision-making. IFRS S2 sets out specific climate-related disclosures and is designed to be used with IFRS S1. Both Standards are based on recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Four, bringing trust and confidence to sustainability information through high quality assurance engagements.

Earlier in 2023, IFAC collaborated with AICPA & CIMA on its third State of Play report, which benchmarks ESG reporting and assurance practices across 22 jurisdictions and roughly 1,400 large stock exchange listed companies.

The good news? More companies are reporting on ESG factors.

However, there is continuing fragmentation in terms of the standards and frameworks being used e.g. GRI, SASB, SDGs, TCFD, etc. The report found that about 86% of companies sampled use multiple standards and frameworks. "This patchwork system obviously does not support consistent, comparable and reliable reporting. Not only that, it also does not provide the necessary information for globally consistent high quality sustainability assurance." The challenge going forward will be to overcome this fragmentation to enhance consistency and comparability. To address this, the International Auditing and Assurance Standards Board (IAASB) is working to develop a new ESG-specific assurance standard called ISSA 5000. This new standard will greatly benefit the assurance of sustainability disclosure and the profession must support its adoption around the world.

The Importance of Islamic Finance

IFAC has singled out Islamic finance as a key sector that can play a large role in supporting the goals of the United Nation SDGs. "The Islamic finance industry promotes socially responsible developments and links economic growth to social welfare, which makes the connection to sustainability very natural."

IFAC is now engaging and collaborating with PAOs to advance the links between Islamic finance and SDGs. For example, IFAC and the MIA have successfully managed a series of initiatives on Islamic finance, including holding joint focus group discussions and publishing a series of articles on facilitating SDGs with Islamic finance. Upcoming is a roundtable organized among IFAC, MIA and the World Bank to be held in Kuala Lumpur in October 2023 on the topic of utilising Islamic finance tools and concepts to achieve SDGs.

Talent for a Sustainable Profession

Attracting and retaining the next generation of accountants will be critical to achieving a stronger and more sustainable accountancy profession.

How can this be accomplished? There needs to be continuous adaptation in accountancy education, along with coordination with educational institutions. “We need to ensure not only that the curriculum matches the qualification exams, but also that an education in accounting remains engaging and attractive,” said Asmâa.

Conveying the versatility of an accountancy career will be key. “We want students to understand that accounting as the language of business can take them anywhere.” For example, students could combine training in data analytics and accountancy to know how to measure a company’s carbon footprint or carbon offsets, or leverage on an accountant’s professional scepticism to ensure that the data used to measure workplace diversity is appropriate.

“For our own sustainability as a profession, we need to be thoughtful and deliberate about attracting and retaining the next generation,” concluded Asmâa.

A Purpose Driven Profession with a Public Interest Mandate

“The public interest mandate is one of our greatest strengths in appealing to the next generation. We are a purpose driven profession that offers invaluable opportunities to make a difference in our world,” declared Asmâa.

Yet this message sometimes does not get across to youth. Asmâa shared that a 2021 study by IFAC and ACCA on Generation Z found that these young talents perceive an accounting career as providing long term job prospects, and mobility across sectors and around the world. However, there was low awareness of the broader contribution that accountants make to the public interest. In addition, only a minority of respondents thought that accountants working in business play a leading role in reporting on sustainability, or ensuring the ethical governance of business.

The challenge then is to effectively communicate the public interest role of the profession in sustainable development, which IFAC is already doing through initiatives from IFAC's International Panel on Accountancy Education, such as running articles on specific sustainability-related roles that accountants can take up. "The goal is to help aspiring accountants, as well as current accountants to really see themselves in these emerging roles, applying their traditional skills and expertise of a professional accountant to new work on the front lines of sustainable development."

Indeed, these new roles emerging for accountants in sustainable development are an extension of the work that accountants already do in protecting the public interest. "We are leaders in the fight against corruption and money laundering. We safeguard public funds through our exceptionally important role in public financial management. We are a natural fit in countless ways for people seeking purpose in their careers."

Audit Committees: Catalysts of Change

at-mia.my/2023/08/15/audit-committees-catalysts-of-change
August 15, 2023

The business landscape today is becoming vastly more uncertain, volatile and complex. As such, audit committee members face increased challenges in discharging their obligations of oversight and good governance, while ensuring that their organisations are good corporate citizens.

The Audit Committee Conference 2023 jointly organised by the MIA and the Institute of Internal Auditors Malaysia (IIA Malaysia) aims to ensure that audit committees are agile, adaptable and well prepared to manage organisational risks and strengthen business continuity and resilience.

The Conference which will be held on ***14 September 2023 (Thursday), from 9.00am – 5.00pm at the Connexion Conference & Event Centre @ Nexus Bangsar South, Kuala Lumpur*** will focus on the following highlights for the benefit of delegates:

Navigating Geopolitical Uncertainty: Mitigating Risks and Building Resilience in an Unpredictable Global Environment

Discusses the challenges and opportunities emerging from geopolitical uncertainty and shifts in foreign and domestic policies that should be on the radar of audit committees.

The Silent "T" in ESG: Role of Tax in ESG-Driven, Digitalised, and Agile Supply Chains

Focuses on the vital role of tax policies and procedures in building agile, resilient and responsible supply chains. Gain practical insights into the evolving role of the Audit Committee in general and the Chief Financial Officer (CFO) in particular, in managing tax technicalities and reputational risks affecting supply chain matters, amid enhanced public filing and disclosure requirements.

Implications of Malaysia's Updated Sustainable Investment Guidelines for the Audit Committee

Malaysia recently updated its Guidelines on Sustainable and Responsible Investment Funds, which have important implications for the audit committee. Explore ongoing challenges in responsible investment, including the needs for common standards on disclosure and measurement which the audit committee can use to enhance oversight and governance of sustainable investment funds.

Readying Audit Committees for Sustainability Assurance

Given their expertise and experience, audit committees will play a key role in the adoption of sustainability assurance, which is becoming a priority as investors seek credible ESG information and reports amidst increased greenwashing risks. This session will focus on key areas that audit committees will find useful in improving sustainability assurance outcomes, namely, strategies to enhance oversight and governance, emerging sustainability risks, and effective engagement with auditors in this dynamic new space.

For more information on the Audit Committee Conference 2023, please visit here.

Data Intelligence and Analytics Conference for Public Sector 2023: Data Innovation for Service Excellence

at-mia.my/2023/07/14/data-intelligence-and-analytics-conference-for-public-sector-2023-data-innovation-for-service-excellence
July 14, 2023

By Zaiman Hisham

The Government is a large organisation and among its many purposes are to provide public goods and services and represent the interests of the people. Amidst the ever-changing digital landscape, the government too has embarked on digitalisation in order to serve the people better.

Digitalisation offers the Government new ways of creating, delivering and capturing value while facilitating effective relationships between the government and the people. Today, the Government uses digital technologies to redesign and improve public services, ranging from adopting technologies to streamline government processes to using data analytics to improve decision-making.

As of 2023, the Government has introduced several digitalisation initiatives that can bring about many benefits to its agencies and the people, with increased communication, efficiency, transparency, and public engagement. Public servants can benefit from public sector digitalisation by having easier access to information and tools they need to do their jobs, thus making processes more efficient. In turn, the Government's digitalisation initiatives benefit the public by enabling better online services, easier access to information and increased transparency that help build trust between the public and the Government.

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) strongly advocates the use of digital technologies in public services to keep up with the evolving and challenging demands in serving the public interest.

> As part of our advocacy, MIA will be organising the Data Intelligence and Analytics Conference for Public Sector 2023 on 26 September 2023 at Connexion Conference & Events Centre @ Nexus, Bangsar South, Kuala Lumpur from 9.00 a.m. – 5.00 p.m.

The Data Intelligence and Analytics Conference for Public Sector 2023 with the theme *"Data Innovation for Service Excellence"* will feature experts from the public sector, financial and information technology (IT) industries who will discuss the latest Government digitalisation initiatives and new emerging technologies. Delegates can expect the following takeaways from the conference:

- Gain useful insights and guidance on the digitalisation initiatives in the public sector
- Better understand data analytics and intelligence applications in the public sector
- Highlight new aspects to systemic integration of data analytics
- Understand the importance of enhancing digital connectivity
- Explore the challenges and best practices for implementing digitalisation and AI in Government.

The Conference will feature Panel Discussions and Knowledge Sharing by reputable speakers as follows:

DIGITALISATION OF PUBLIC SERVICES DELIVERY

The Government's emphasis on enhancing internet penetration, data affordability, technological innovations and digital infrastructure are geared to ensuring faster delivery of targeted, efficient and effective services to the people. Find out more in this session about the Government's digital transformation strategy and its impacts on the quality of life and economic prospects in the post-pandemic environment.

PUBLIC SECTOR OPEN DATA PLATFORM

Open Data seeks to make Government data accessible to all, thus improving the transparency, accountability and value creation efforts of public institutions. Explore the role of Open Data in improving the efficiency and productivity of Government services delivery towards achieving the Sustainable Development Goals (SDG) 2030, in particular SDG 16 – Peace, Justice and Strong Institutions.

GREENING THE DIGITAL ECONOMY

Under the Malaysia Digital Economy (MyDIGITAL) initiative, Malaysia seeks to expedite its digital transformation towards achieving a green economy and catalysing its regional leadership in the digital economy. This session explores the application and integration of big data in both public and private economic sectors as a driver for Malaysia's equitable, responsible and sustainable growth.

PUBLIC SECTOR BIG DATA ANALYTICS (DRSA)

Get updated on the Government's Data Raya Sektor Awam (DRSA), or Public Sector Big Data implementation in public service, a Big Data Analytics (BDA) initiative that seeks to ensure the effectiveness of government agencies and enhance public sector delivery in accordance with global standards and best practices.

JALINAN DIGITAL NEGARA (JENDELA)

JENDELA seeks to steer Malaysia towards achieving better digital connectivity by boosting the efficiency of national infrastructure, focussing on delivering increased connectivity and high-quality communication services for all users. This session looks at JENDELA's prospects and impacts in enhancing the quality of life for Malaysians whilst driving Malaysia's aspirations of becoming a competitive digital economy.

CHATGPT & AI IN THE PUBLIC SECTOR: RATIONALISING COMMUNICATION AND DECISION-MAKING

Artificial Intelligence (AI) and ChatGPT (Chatbots powered by GPT) have emerged as promising technologies that can transform public sector operations by improving efficiency, services, fraud detection, and public safety. This session will explore the benefits of AI for the public sector and discuss the challenges and best practices for implementing AI in Government.

To learn more about the Conference and to register, please click here.

Doubling Your Tax Benefits with Double Deductions in Malaysia

at-mia.my/2023/07/28/doubling-your-tax-benefits-with-double-deductions-in-malaysia
July 28, 2023

Dr. Voon Yuen Hoong and Kathrina Lim Ching Wei

As a measure to encourage companies engaged in targeted business activities, the Malaysian government has introduced various tax incentives, including tax incentives in the form of double deduction for qualifying expenditures. Under this incentive, companies are eligible for a tax deduction of twice the amount incurred (i.e. 200% tax deduction of the qualifying expenditure).

This article highlights several categories of expenses that qualify for double deduction and sets out the conditions for claiming such an incentive. However, this is not meant to be an exhaustive list.

i. Sponsorship of scholarships to students

As part of corporate social responsibility (CSR) initiatives, companies may reach out to deserving students by sponsoring their university studies. Under this incentive, companies which are incorporated in Malaysia and providing scholarships to Malaysian students pursuing the following courses in an education institution in Malaysia on a full-time basis will be eligible for double deduction on the qualifying expenses incurred:

- Certificate in technical and vocational training;
- Bachelor's degree;
- Master's degree; or
- Doctor of Philosophy.

This incentive is open to companies from any industry or economic sectors and the scholarship agreement between the company and the student must be executed between 1 January 2022 and 31 December 2025[1]. The other conditions include that the student does not have the means to support himself/herself, and that the household income of the student should not exceed RM10,000 per month.

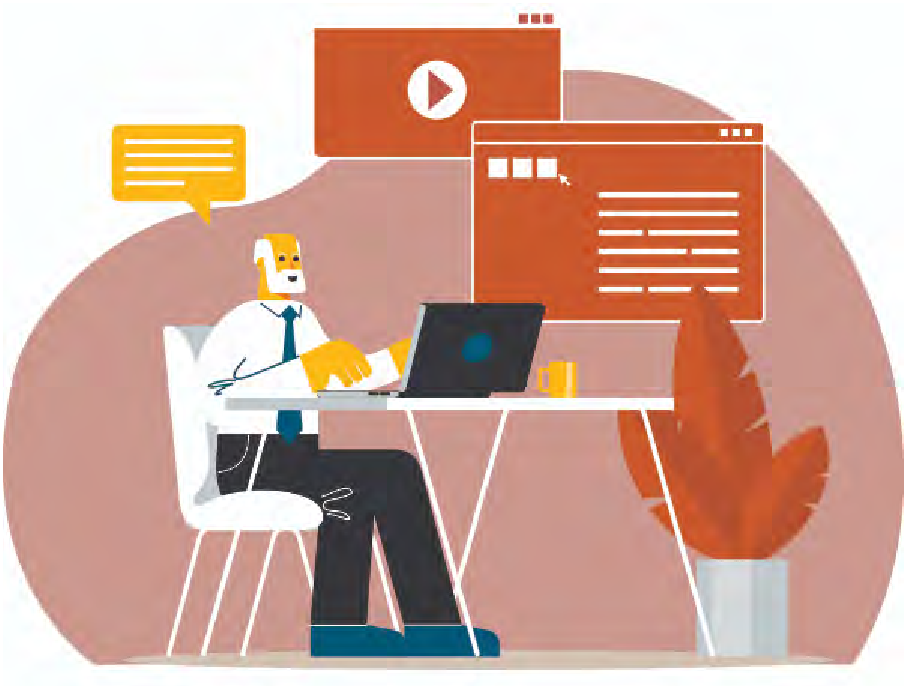
Apart from tuition fees, the sponsor is also eligible to claim expenses on the student's educational aids and reasonable living expenses incurred by the sponsor for the student throughout the period of study.

ii. Employment of Disabled Employees

In promoting another CSR initiative and to address the shortage of labour in the market, the Malaysian government encourages the employment of physically or mentally disabled individuals. Remuneration paid to certified disabled employees with a Disabled Person's Card (or Kad OKU) qualifies for double deduction. This incentive started way back in YA 1982[2]. The disabled employee must be certified in writing by the Department of Social Welfare as a disabled person. Starting from YA 2019[3], the double deduction for employing disabled individuals has been expanded to include employees affected by accident or critical illness. To claim this deduction, the employer is required to obtain a certification from the Social Security Organisation (SOCSO) to certify that the employee is capable of working within his abilities.

It is noted that the remuneration given to the disabled employees only covers cash remuneration such as wages, salary, bonus, overtime payment, commission or monthly allowances. Therefore, any costs incurred by the company relating to non-cash benefits known as "benefits-in-kind" stipulated under Sections 13(1)(b) and (c) of the Income Tax Act, 1967 ("the Act") do not qualify for double deduction[4]. Examples of common benefits-in-kind include provision of a company car, living accommodation, mobile phone, medical benefits, etc.

iii. Employment of Senior Citizens, Ex-Convicts, Parolees, Supervised Persons and Ex-Drug Dependents



Companies are incentivised to hire individuals from the following groups as their full-time employees:

- Senior citizens who are 60 years and above,
- Ex-convicts,
- Parolees,
- Supervised persons, and
- Ex-drug dependents.

A double deduction shall be given on the remuneration paid to the employees belonging to the above specific groups. The types of remuneration that qualify for double tax include wages, salary, remuneration, leave pay, fee, commission, bonus, gratuity, perquisite, or allowance (whether in money form or otherwise). The double deduction incentive which is subject to a cap of RM48,000 per employee (applies to employees with a monthly remuneration not exceeding RM4,000), is available to employers from YAs 2019 to 2025[5].

It is noted that employers should maintain the required documents from the relevant authorities in proving that the employees belong to the specific groups that are eligible for the tax incentive. For example, a written confirmation from the Malaysian Prison Department should be obtained for employment of ex-convicts. As for ex-drug dependents, a letter from the National Anti-Drugs Agency is advisable. These documents are required to be produced by the employer if required during a tax audit to be conducted by the Inland Revenue Board (IRB).

Additionally, as announced in the Revised Budget 2023 (which has yet to be gazetted), the scope of the double deduction is expanded to include remuneration paid to inmates and ex-inmates of the Henry Gurney School under the Malaysian Prison Department, as well as protection and rehabilitation institutions and non-government care centres registered with the Department of Social Welfare. This expanded scope will be applicable from YAs 2023 to 2025.

iv. Provision of Child Care Centres

To support working parents especially women in the workforce, the Government encourages employers to provide childcare centres. The incentive comes in the form of double deduction on expenditures incurred by the employer related to the provision and maintenance of a childcare centre for the benefit of its employees, effective from YA 2013[6]. A condition imposed to qualify for such incentive is that the childcare centre must be registered with the Department of Social Welfare under the Child Care Centre Act 1984. The maintenance costs that are eligible for double deduction exclude those relating to capital expenditure, such as renovation cost for the childcare centre, furniture and equipment used in the childcare centre, etc. In addition, if the capital expenditure meets the requirements of a qualifying capital expenditure under Schedule 3 of the Income Tax Act 1967, such costs may be eligible for capital allowances.

If the company does not provide childcare facilities but instead provides childcare allowances to employees, the childcare allowances given will also qualify for double deduction.

v. Halal Certification, Quality Systems and Standards Certification

There are many benefits for companies to obtain quality certification for their products or services. Obtaining quality certification offers numerous benefits, including improved credibility, increased market opportunities, operational excellence, and enhanced customer satisfaction. It is a strategic investment that can drive long-term success and help organizations maintain a competitive advantage in their industry. These quality certifications include ISO certifications, Halal certifications, etc.

The costs associated with obtaining quality certifications can vary depending on several factors, including the size and complexity of the organization, the scope of certification, the chosen certification body, and the level of existing quality management system maturity. Examples of the associated costs include certification body fees, consulting fees, training fees and external audit fees. As such, companies need to ensure they provide sufficient budget for the expenses before embarking on such an exercise.

As an initiative to support Malaysian companies in obtaining quality certifications recognised internationally, the Malaysian government allows companies to claim double deduction on the costs incurred in obtaining quality certifications certified by accredited bodies. The claim can be made by the company in the year of assessment when the certificate is issued pursuant to Section 34(6)(ma) of the Act.

The certification must be obtained from an approved certification body recognized by the Malaysian government such as SIRIM QAS International Sdn Bhd, Moody International Certification, SGS (Malaysia), Jabatan Kemajuan Islam Malaysia (JAKIM), etc. The list of certification bodies may be revised from time to time and can be found from the IRB's website.

vi. Provision of Structured Internship Programme (SIP)

Companies often participate in internship programs to train and prepare the future workforce in their industry as part of their corporate social responsibility (CSR) initiative. Training may be in the form of a structured internship program (SIP) that aims to provide a meaningful and valuable learning experience for interns, enabling them to bridge the gap between theory and practice, gain industry-specific skills, and make informed career decisions. According to TalentCorp Malaysia, "*a Structured Internship Programme (SIP) is designed to equip undergraduates and Technical and Vocational Education and Training (TVET) youths with real working experience through quality internships.*"

To incentivise more companies to offer SIP and enhance the employability of local graduates, a double deduction is granted for qualifying expenses. SIP refers to a program which is an organised and planned arrangement where students gain practical work experience in a specific field of their study. It is a formal program designed to provide participants with hands-on training, exposure to real-world work environments, and the opportunity to apply their theoretical knowledge in a practical setting.

There are several conditions for claiming this tax incentive. One of the requirements is that a SIP must receive approval from TalentCorp Malaysia. Secondly, the incentive is only available for employing Malaysian citizens pursuing a full-time diploma, Bachelor's degree or Master's degree; or a professional certificate program in higher educational institutions or full-time technical and vocational education and training programs (with a minimum Malaysian Skills Certificate Level 1)[7] from YAs 2022 to 2025.

A company that offers SIP is eligible to claim double deduction on the following expenses:

- Monthly internship allowance paid to a student of Malaysian Skills Certificate Level 1 to 4 or diploma level or its equivalent, of not less than RM500 per student;
- Monthly internship allowance paid to a student of Malaysian Skills Certificate Level 5 or Bachelor's Degree or Master's Degree or its equivalent, or professional certificate level, of not less than RM600 per student;
- Expenditures incurred for providing training to the students, digital and communication costs, meals, travel and accommodation for the students during the internship program, subject to a maximum of RM5,000 per YA.

Conclusion

Tax incentives, in the form of double deductions, provided to companies aim to encourage corporate spending in areas that benefit both the companies and the nation. This creates a win-win situation for businesses and the government. Notably, expenditures on initiatives such as creating employment opportunities for the disabled, ex-convicts, senior citizens, and establishing childcare centres can address workforce shortages for employers while improving the social welfare system. Additionally, sponsoring scholarships for students and offering structured internship programs contribute to developing future talents for both industries and the nation. Furthermore, investments in quality certification aim to strengthen and enhance the competitiveness of Malaysian businesses. However, it is important to note that strict conditions must be met in order to qualify for double deduction benefits. It is advisable to seek guidance from a tax consultant to ensure compliance with all relevant prerequisites when claiming this tax incentive.

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[1] *Income Tax (Deduction for the Sponsorship of Scholarship to Malaysian Student Pursuing Studies at Technical and Vocational Certificate, Diploma, Bachelor's Degree, Master's Degree or Doctor of Philosophy Levels) Rules 2022 [P.U.(A) 49/2022]*

[2] *Income Tax (Deductions for the Employment of Disabled Persons) Rules 1982 [P.U.(A) 73/1982]*

[3] *Income Tax (Deductions for The Employment of Disabled Persons) (Amendment) Rules 2019 [P.U.(A) 204/2019]*

[4] *Public Ruling No. 3/2019, Business Expenses in respect of Disabled Person*

[5] *Income Tax (Deduction for Employment of Senior Citizen, Ex-Convict, Parolee, Supervised Person and Ex-Drug Dependant) Rules 2019 [P.U. (A) 164/2019] and Income Tax (Deduction for Employment of Senior Citizen, Ex-Convict, Parolee, Supervised Person and Ex-Drug Dependant) (Amendment) Rules 2021 [P.U.(A) 47/2021]*

[6] *Income Tax (Deduction for the Provision of Child Care Centre) Rules 2013 [P.U. (A) 15/2013]*

[7] *Income Tax (Deduction for Expenditure Incurred for Provision of Approved Internship Programme) Rules 2019 [P.U.(A) 398/2019] and Income Tax (Deduction for Expenditure Incurred for Provision of Approved Internship Programme)(Amendment)*
Rules 2023 [P.U.(A) 188/2023]

This article was written by Dr. Voon Yuen Hoong, Tax Executive Director, Crowe Malaysia and Kathrina Lim Ching Wei, Tax Director, Crowe Malaysia.

Financial Reporting Disclosures: Statement of Cash Flows

at-mia.my/2023/07/17/financial-reporting-disclosures-statement-of-cash-flows
July 17, 2023

By MIA Financial Statements Review Department

In the current uncertain and volatile economic environment, some entities face a downturn in their business, and this hence impacts their profit and liquidity position. The increasing attention on entities' liquidity position and the ability of the entities to turnaround has led to greater focus on the Statement of Cash Flows by investors, regulators, and other users of financial statements.

Entities that prepare financial statements in conformity with the Malaysian Financial Reporting Standards (MFRS) are required to present a Statement of Cash Flows in accordance with the requirements of MFRS 107 *Statement of Cash Flows* (MFRS 107). The objective of a Statement of Cash Flows is to enable users of financial statements to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows.

The Statement of Cash Flows analyses changes in cash and cash equivalents during a reporting period. Cash flows must be analysed between operating, investing and financing activities.

SCOPE

This article intends to share the review findings of the Financial Statements Review Committee (FSRC) relating to disclosures made in the Statement of Cash Flows and related notes to the financial statements. The comments discussed herein are intended to be applied to the specific facts and circumstances surrounding the identified observations. Hence, it is not intended to be exhaustive and does not address all issues that may be raised relating to the Statement of Cash Flows.

Additionally, careful consideration and judgment should be applied accordingly for individual facts and circumstances as MFRSs is principles-based. Circumstances may appear similar but be different in substance.

OBSERVATIONS

Below are the observations noted by the FSRC relating to the Statement of Cash Flows based on the review of financial statements of public listed companies/entities (PLCs).

The review findings are related to PLCs whose business activities typically involve the supply of goods and services to customers.

Cash flow movements arising from the amount due from/ to subsidiary companies, the amount due from an associate and the amount due to directors, which are non-trade in nature, were classified as cash flows from operating activities as part of changes in working capital.

The Committee further noted that there are no related party transactions disclosed in respect of purchases or sales of goods and services from/ to associates, subsidiaries or directors during the

financial period.

Response from PLC

The PLC explained that the cash flow movements for the amount due from/to subsidiaries and the amount due from an associate are related to revenue producing activities and other activities that are not investing or financing activities of the PLC.

The PLC further explained that the amount due to directors is because the directors were indirectly contributing their efforts that are related to revenue-producing activities of the PLC.

However, the above explanation provided by PLC is inconsistent with the disclosures in the financial statements as there were no related party transactions disclosed.

FSRC's comments

Paragraph 6 of MFRS 107 defined the following:

- *Operating activities* are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.
- *Investing activities* are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
- *Financing activities* are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Paragraph 14 of MFRS 107 states thatcash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity and generally result from the transactions and other events that enter into the determination of profit or loss.

As such, in Observation 1, the cash flow movements arising from the amount due from/ to subsidiary companies, the amount due from an associate and the amount due to directors, which are non-trade in nature and not directly related to revenue-generating activities, should not be classified as cash flows from operating activities.

Entities will need to assess the nature of transactions to determine the classification of cash flows. MFRS 107 defines cash flows from operating activities as the principal revenue producing activities and other activities that are not investing or financing.

Hence, for other activities which are not revenue producing activities, the entity will need to assess whether these cash flows are financing or investing activities in nature, to determine the correct classification in the statement of cash flows based on the definition in Paragraph 6 of MFRS 107. For example, for the observation above, the entity should assess whether the cash advanced to associates that is non-trade in nature, meets the definition of investing activities or financing activities. If it meets the definition, the entity should classify the related cash flows under investing activities or financing activities accordingly rather than operating activities.

Observation 2

The PLC has presented interest paid under both the operating and financing activities.

Response from PLC

The PLC explained that the interest paid relates to banking facilities and stated that the said interest paid should have been presented as financing activities.

FSRC's comments

Paragraph 33 of MFRS 107 states that interest paid, and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. Alternatively, interest paid, and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

Paragraph 11 of MFRS 107 requires an entity to present its cash flows from operating, investing and financing activities which is most appropriate to its business.

MFRS 107 does not specify the classification of cash flows from interest paid and interest and dividends received, hence an entity may choose to present these cash flows in the most appropriate manner to its business.

In Observation 2, based on the PLC's response, the policy adopted is for interest paid relating to banking facilities to be classified as financing activities. Hence, in accordance with Paragraph 31 of MFRS 107, all interest paid relating to banking facilities shall be classified in a consistent manner from period to period, based on the policy adopted, as cash flows from financing activities.

Observation 3

Government grants received have been classified as cash flows from financing activities.

It was noted that the PLC is involved in the businesses of providing express bus and city bus services, sale of express and used buses as well as repair and maintenance services.

Response from PLC

The PLC clarified that the government grant was granted to a subsidiary company for the maintenance of city buses, managing the bus hub and payroll support.

FSRC's comments

There is no specific guidance in MFRS 107 on how to present cash flows from the receipt of a government grant.

Paragraph 11 of MFRS 107 states that an entity presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its business.

Paragraph 6 of MFRS 107 has defined the following:

- *Operating activities* are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.
- *Investing activities* are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
- *Financing activities* are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Accordingly, in determining the appropriate classification of cash flows, an entity would need to consider the nature of its business and the nature of the government grant received. This would require judgement and classification to be made based on the entity's circumstances and transaction's substance. In addition, there should be consistency of treatment between the cash flow statement and the other primary statements, and consistency of classification from period to period.

In this case, the receipt of a government grant should be classified according to its substance. Grants given as a contribution towards expenditures used to generate period revenues should be classified as cash flows from operating activities, to match their treatment in the statement of comprehensive income.

As such, in Observation 3, the grant received represents compensation for operating expenses incurred. Therefore, the cash inflows from the grant received shall be classified as cash flows from operating activities, to match the treatment in the PLC's income statement.

Observation 4

In January 2016, MFRS 107 was amended by *Disclosure Initiative* (Amendments to MFRS 107). These amendments require entities to provide disclosures about changes in liabilities arising from financing activities.

It was noted that there are entities which did not disclose the above required disclosure on the changes in liabilities arising from financing activities as required by MFRS 107.

Response from PLCs

Upon request, PLC 1 has furnished the required disclosure of the changes in liabilities arising from financing activities to the Committee. The items disclosed include the following:

- Payment of lease liabilities
- Drawdown of hire purchase payables
- Repayment of hire purchase payables
- Drawdown of term loans

- Repayment of term loans

PLC 2 has lease liabilities through an acquisition of a new subsidiary. PLC 2 replied that the required disclosure has been made in the note of "cash flows arising from the acquisition of a subsidiary". PLC 2 further explained that the required disclosure was disclosed as a note in the Cash Flow Statement of the Company's subsidiary's financial statements. Further, PLC 2 provides the reconciliation for which movement during the year relating to lease payables balance from acquisition of the subsidiary was wrongly described as the opening balance of the Group.

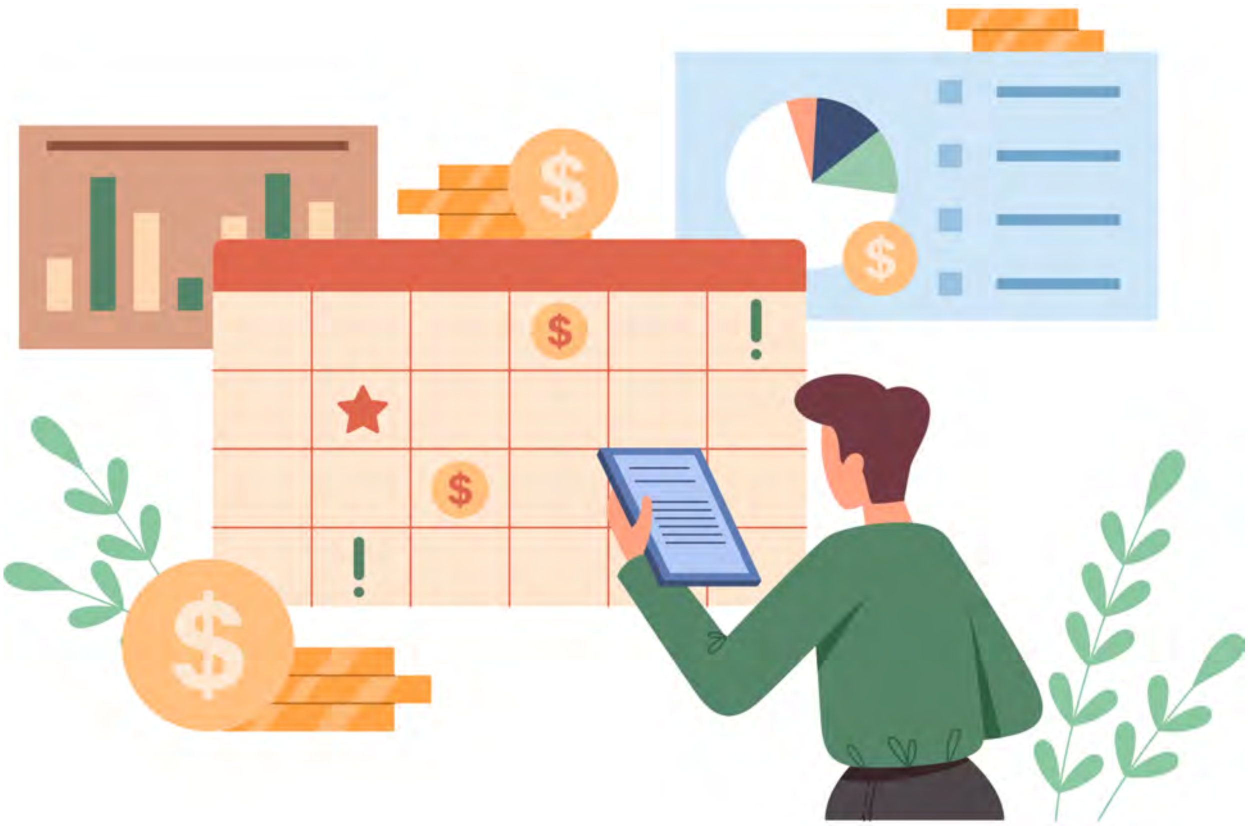
FSRC's comments

Paragraph 44A of MFRS 107 states that an entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Paragraph 44B further states that to satisfy the requirement in paragraph 44A, an entity shall disclose the following changes in liabilities arising from financing activities:

- changes from financing cash flows;
- changes arising from obtaining or losing control of subsidiaries or other businesses;
- the effect of changes in foreign exchange rates;
- changes in fair values; and
- other changes.

Paragraph 44D of MFRS 107 states that one way to fulfil the disclosure requirement in Paragraph 44A is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including the changes identified in Paragraph 44B. Where an entity discloses such a reconciliation, it shall provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the statement of financial position and the statement of cash flows.



The requirements mentioned above clearly state how the disclosure relating to changes in liabilities arising from financing activities shall be made.

For PLC 2, it was noted that PLC 2 has lease liabilities as one of the items in its statement of financial position. As such, the reconciliation should consist of a reconciliation between the opening and closing balances in the statement of financial position (for the Group and the Company) for liabilities arising from financing activities. In addition, apart from the Company's subsidiary's financial statements, the reconciliation should also be disclosed in the Consolidated Financial Statements.

Further, as the interest expense and interest payments are part of changes of the liabilities arising from financing activities, the interest expense and interest payments respectively (if any) should be disclosed separately in the reconciliation [Paragraph 44B(e) of MFRS 107] and the amount should be able to be linked to the statement of cash flows.

CONCLUSION

A Statement of Cash Flows provides information about the changes in cash and cash equivalents of an entity by classifying cash flows into operating, investing and financing activities. Hence, it is important that cash flows are appropriately categorised into the said categories (i.e. operating, investing or financing) based on the nature and substance of the underlying transactions to ensure that usefulness of the Statement of Cash Flows can be achieved accordingly. When used in conjunction with the rest of the financial statements, it provides information that enables users of financial statements to evaluate the changes in net assets of an entity, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities.

Analysing changes in cash flow from one reporting period to the next also gives users a better idea of how an entity is managing its cash and cash equivalents. Some may use it to assess liquidity and going concern, whilst management may make informed decisions for regulating business operations.

A Statement of Cash Flows is an important tool used to manage finances by tracking the cash flow of an entity. In addition, the usefulness of cash flow information is greatly enhanced if it can be related to information reported elsewhere in the financial statements.

ISA 600 (Revised) – Special Considerations: Audits of Group Financial Statements [Including the Work of Component Auditors] (Republished)

at **at-mia.my**/2023/07/03/isa-600-revised-special-considerations-audits-of-group-financial-statements-including-the-work-of-component-auditorsrepublished
July 3, 2023

By Edwin Tan Aik Win and Johnny Yong

The International Auditing and Assurance Standards Board (IAASB) had, through the issuance of the Invitation to Comment (ITC) Paper, Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits in December 2015, identified a series of enhancements to the current standard ISA 600 in light of the stakeholders' feedback. A project proposal was then launched a year later which culminated with the release of the Exposure Draft (ED) back in April 2020.

The objectives of the ED were aimed to:

- Keep the revised ISA 600 fit-for-purpose including explaining whether the revised standard applies to shared service centres, entities operating with branches or divisions and non-controlled entities;
- Clarify and reinforce in the revised standard that all ISAs need to be applied in a group audit engagement through establishing stronger linkages to the other ISAs – particularly ISA 220 (Revised), ISA 315 (Revised 2019) and ISA 330;
- Introduce a principles-based approach to group audits that is adaptable to a wide variety of circumstances, and scalable for audits of groups of different complexity. For example, the revised standard will focus on identifying, assessing and responding to the risks of material misstatement in group audits and highlights the requirements and application material when component auditors are involved;
- Clarify how to address restrictions in access to people and information in group audits; and
- Foster an appropriately independent and professionally skeptical mindset of the auditor throughout the engagement.

In total, 83 comment letters were received on ED-600, including from the Auditing and Assurance Standards Board (AASB) of Malaysia. The ED was recently finalised and approved by the Public Interest Oversight Board (PIOB) in April 2022 and will be effective for audits of group financial statements for periods beginning on or after 15 December 2023. Malaysia is adopting the same effective date as that of the international standard with earlier application being permissible.

What are the Key Changes as Compared to the Current Standard?

Scope and Applicability

The revised ISA 600 is applicable when an auditor has been engaged to audit group financial statements. The revised standard provides further clarity in the following areas:

- **Consolidation** – A consolidation process in the revised standard is not intended to have the same meaning as "consolidation" or "consolidated financial statements" as commonly understood in a typical financial reporting framework. Thus, the process here may include:
  - Consolidation, proportionate consolidation, or an equity method of accounting;
  - The presentation in combined financial statements of the financial information of entities or business units that have no parent but are under common control or common management; or
  - The aggregation of the financial information of entities or business units such as branches or divisions.
- **Flexibility** – A group auditor shall look beyond the group's legal structure to plan and perform the group audit in a way that takes into account different and increasingly complex group structures and information systems, including the use of shared service centers. Therefore, the concepts of components are now wider than previously defined in the current standards.

In addition, auditors may find it useful to adapt the principles in the revised standard to audits of financial statements other than a group audit when the engagement team includes individuals from another firm, such as those performing an inventory count at a remote location. Auditors are expected to adapt the requirements in the revised standard as necessary to specific engagement circumstances that may arise.

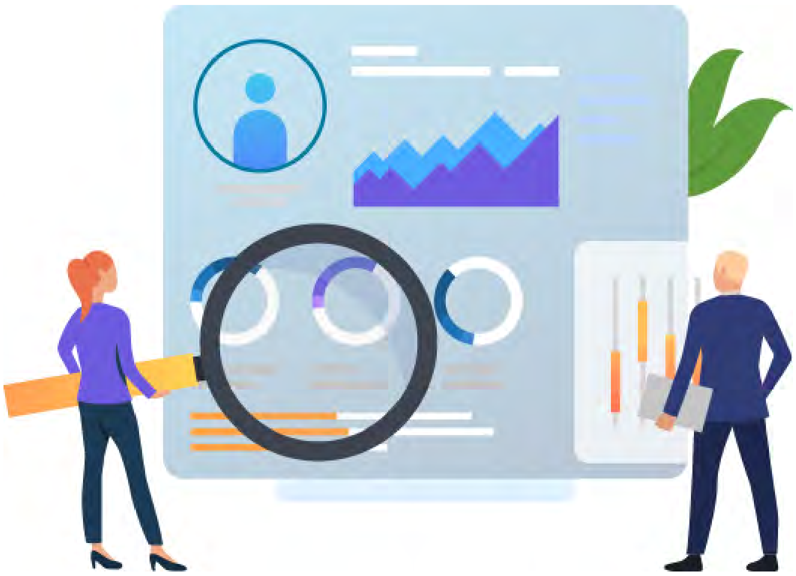
Encouraging Pro-active Management of Quality

This standard now clarifies how the requirements in ISA 220 (Revised) apply to manage and achieve audit quality in a group audit, including the allocation of sufficient and appropriate resources to perform the engagement, filtering down to the component level. The group engagement partner is required to take ultimate responsibility for the nature, timing and extent of direction and supervision of component auditors and the review of their work to support the group audit.

Further, the risk-based approach of the revised standard is expected to promote greater alignment with the requirements in ISA 315 (Revised 2019) and ISA 330 (e.g., on the identification of significant risks and the corresponding audit procedures). This can drive the group engagement team to focus on planning the most appropriate approach to obtaining sufficient appropriate audit evidence with adequate documentation for areas involving significant auditors' judgement.

Under this risk-based approach, with appropriate oversight, component auditors continue to be and are often involved in all phases of the group audit.

Risk-Based Approach for Planning and Performing the Group Audit



The revised standard approaches the group audit using the risk-based approach as enshrined in the revised risk assessment standards of ISA 315 (Revised 2019) Identifying & Assessing the Risks of Material Misstatement and ISA 330 The Auditor's Responses to Assessed Risks to plan and perform the group audit engagement. It drives auditors to identify and assess the risks of material misstatement at the group financial statements level and line-item assertion level covering account balances, classes of transactions or disclosures and subsequently, for designing and performing the appropriate audit procedures to respond to the assessed risks. It also stipulates the responsibilities of the group auditors in determining the nature, timing and extent of the involvement of component auditors, especially at the audit planning stage. This is critical in cases where the legacy knowledge of the component auditors greatly aids the identification and assessment of risks of material misstatement.

Materiality and Aggregation Risk

ISA 600 (Revised) also clarifies how the concept of materiality and aggregation risk apply in a group audit (in contrast to how materiality is used in performing a standalone audit of the financial information of the component for other reporting purposes). While the current standard contains both concepts of component materiality and component performance materiality, it does not explain the consideration of aggregation risk in the group audit in a meaningful way. As a consequential amendment to the revised ISA 600, a new definition of aggregation risk has been added to ISA 320 Materiality in Planning and Performing an Audit along with a corresponding alignment to the definition of performance materiality for added clarity.

When applied to the revised standard, component performance materiality has been defined as "an amount set by the group auditor to reduce aggregation risk to an appropriately low level for purposes of planning and performing audit procedures in relation to a component" thereby reminding group auditors that their determination of component performance materiality is key to ensuring the group audit opinion is sufficiently robust to meet the objectives of a financial statement audit and to reduce aggregation risk to an appropriately low level for the group audit.

Reinforcing the Need for Robust Communication and Interactions with Component Auditors

ISA 600 (Revised) strengthens and clarifies:

The importance of two-way communications between the group auditor and component auditors; and	Various aspects of the group auditor's interaction with component auditors, including communicating relevant ethical requirements, determining competence and capabilities of the component auditor and determining the appropriate nature, timing and extent of involvement by the group auditor in the work of the component auditor.

There are also requirements outlining matters to be communicated by component auditors to the group auditor that may be relevant to the group auditor's conclusion about the group audit.

Restrictions on Access to Information or People

The revised ISA clarifies the various type of restrictions a group auditor may face in applying the revised standard (e.g., access to component management, those charged with governance of the component, component auditors or information at the component level and component auditor's audit documentation). Guidance is provided on how to overcome such restrictions especially at the engagement acceptance and continuance phase of the audit by requiring the group auditor to obtain agreement from group management at the onset.

Interestingly, the revised ISA highlights that the existence of such restrictions of access in a group where non-controlling interest in an entity accounted by the equity method may require the group auditor to consider the appropriateness of group management's use of the equity method of accounting.

Professional Skepticism

Consistent with other more recent standards being issued by IAASB, ISA 600 (Revised) similarly emphasizes the importance of exercising professional scepticism, including as part of the group auditor's:

Direction, supervision and review of the work of engagement team members, including component auditors; and	Evaluation of whether sufficient and appropriate audit evidence has been obtained (including by the component auditors) to provide a basis for forming an opinion on the group financial statement. Under the current and revised standards, there is no concept of shared responsibility for group audits.

The standard also includes some examples of the impediments to the exercise of professional scepticism at the engagement level and possible actions that the engagement team may take to mitigate such impediments.

Documentation

ISA 600 (Revised) includes enhanced documentation requirements and application materials to emphasize the requirements in ISA 230 Audit Documentation and the documentation requirements in other relevant ISAs. The revised standard also clarifies what the group auditor may need to document in different situations including where there are restrictions on access to component auditors or their audit documentation. Some of the examples are:

Documentation on how significant matters related to restrictions on access to people and information within the group were resolved;	The basis for the group auditor's determination of components for purpose of planning and performing the group audit;	The basis for the determination of component performance materiality and the threshold for communicating misstatements in the component(s) financial information to the group auditor in a timely manner; and	The nature, timing and extent of the group auditor's direction and supervision of component auditors and the review of their work.

What has not changed is the fundamentals encapsulated in ISA 230 which is for audit documentation for a group audit engagement to be sufficiently robust to enable an experienced auditor, having no previous connection with the audit, to understand the audit procedures performed, the evidence obtained and the conclusion reached with respect to significant matters arising from the group audit.

Conclusion

The revised ISA 600 offers consistency, clarity and reiterates the important role group auditors have in managing and performing audits of group financial statements. The standard engenders flexibility and scalability as concepts of 'groups' and 'ways of working' continue to evolve in today's ever-changing environment. What is constant, however, is the focus on exercising professional judgement in identifying and evaluating risks of material misstatements in group audits, ensuring close involvement of the group auditor with the component auditor(s) and their work with a skeptical mindset and sufficient and robust documentation of the group auditor's significant judgements.

Members are urged to read AAPG 1 and AAPG 2 that were issued in June 2021 for the latest format of the auditors' report (as Malaysia is adopting a dual compliance regime), as the illustration under Appendix 1 of the ISA 600 (Revised) is intended for the international audience.

The following additional resources are available for members to download:

Basis for Conclusion (issued by IAASB in April 2022); and	IAASB's Fact Sheet - Audits of Group Financial Statements: Introduction to International Standard on Auditing 600 (Revised), Audit of Group Financial Statements (Including the Work of Component Auditors). This was also issued in April 2022.

The IAASB will also be issuing the first-time implementation guide and some other implementation tools in early 2023. The AASB of Malaysia will be sharing all these future resources with members as and when these resources are made available at a later date. Please do stay tuned with all these developments coming your way. Meanwhile, the standard is accessible at: https://mia.org.my/regulatory-public-interest/standards/international-standards-on-auditing/

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Malaysia far from 2030 target of 60,000 accounting professionals

at **at-mia.my**/2023/07/12/malaysia-far-from-2030-target-of-60000-accounting-professionals
July 12, 2023

TALK of a shortage of accountants in the country is rife, with practitioners citing mounting regulatory pressures as a major pain point for accounting professionals, in addition to recruitment issues and talent importation exacerbating the dilemma. After all this time, accounting and auditing jobs continue to be perceived as underpaying, undervalued and less dynamic than positions in tech, investment banking and private equity.

Although Putrajaya in its Economic Transformation Programme in 2010 said it targeted to produce 60,000 accountants in the country by 2020, this was not achieved, with subsequent data from the Malaysian Institute of Accountants (MIA) showing that there were "more than 38,500 members in its registry as of June 2023".

And while the MIA, a regulator and developer of the profession in Malaysia, says its total membership growth for the last six years, averaging 2.5% per annum, has been steady, Malaysia's accountant-population ratio is inferior compared with other countries.

According to a 2015 report by the Ministry of Finance's multi-agency panel Committee to Strengthen the Accountancy Profession (CSAP) referencing 2014 data, Australia has an accountant-per-population ratio of 1:119, Singapore 1:184, New Zealand 1:136 and Hong Kong, 1:195.

"With 38,500 members [as per the MIA's registry] serving Malaysia's population of about 33.2 million, that means each accountant is serving approximately 874 people, giving us an accountant-population ratio of 1:871. [Malaysia is still behind, but nevertheless, that's a] significant improvement from 1:1,342 in 2003," MIA president Datuk Bazlan Osman tells The Edge.

"[I believe] the government's target of 60,000 accountancy professionals can be achieved in 2030 upon the repeal of the Accountants Act 1967 and full enforcement of the three membership levels (accounting technician, accountant and chartered accountant) based on the MIA competency framework. [Removing the focus from only one professional title] will increase the number of accountancy professionals in the country," Bazlan says.

Challenging regulatory landscape

In response to high-profile corporate accounting scandals, regulatory bodies around the world have enhanced their financial reporting standards.

"For example, the International Financial Reporting Standards (IFRS), which are adopted in Malaysia, require accountants to comply with more rigorous reporting requirements. Adapting to these complex standards and ensuring compliance may be challenging and time-consuming for accountants, but they provide better reporting alignment and governance," Bazlan explains.

In addition, there are also increased regulatory oversight and penalties, where regulatory bodies such as the Securities Commission Malaysia (SC), Bursa Malaysia and the Companies Commission of Malaysia (SSM) have intensified their scrutiny of corporate reporting practices.

Take, for example, the SC's introduction of updated corporate governance practices (through the Malaysian Code on Corporate Governance [MCCG] 2021) to improve accountability and transparency within organisations in line with global expectations; and evolving taxation regulations within Malaysia and globally to address emerging issues such as transfer pricing changes, global minimum tax rules and sealing loopholes.

"Over-regulation has been driving talents away from the profession. This perception of riskiness and unattractiveness hinders the influx of new talent, further dampening the talent pipeline," says an auditor who declines to be named. "People used to gain experience at accounting firms for at least three to four years before leaving for the commerce or finance industry. But these days, talents leave within a year."

In addition, the frequency of tax regulation changes, Bazlan notes, can make it challenging for accountants to navigate such changes effectively.

Needless to say, accountants' need to stay informed about the changing regulatory landscape, invest in continuous professional development, and dedicate significant time and effort to ensure compliance pile on the responsibilities.

Then, there are also the severe consequences of non-compliance, including reputational damage, legal penalties and professional sanctions, remarks Bazlan.

"With Malaysia's accountancy talents being sought by neighbouring countries such as Singapore and Australia, and even in Europe, the talent crunch has been exacerbating the situation as a talent exodus can weaken compliance," he adds.

Both Bazlan and the Institute of Chartered Accountants in England and Wales (ICAEW) Malaysia emphasise that regulations should not be viewed as problems, but as constantly evolving guidelines and opportunities to protect public interest, shareholders and stakeholders.

ICAEW Malaysia says that digital adoption in accounting processes, which have been said to push accountants to adapt to even more changes, actually allows accountants more time to analyse data and create decision-support capabilities.

Delay in student recruitment pipelines, employee attrition and talent importation

ICAEW Malaysia explains that during the pandemic, lockdowns, remote working arrangements and economic uncertainty slowed down the recruitment of new accounting professionals, which has in turn disrupted the supply chain of both qualified and trainee accountants. And while student intakes for both accounting degrees and diplomas have been strong, to the point that demand outstrips the number of seats available at tertiary level institutions, many graduates have ventured into different fields of work including online entrepreneurship.

"[That there have been leakages] where accountancy graduates pursue different career pathways, such as online entrepreneurship instead of continuing within the profession, has had MIA looking to strengthen talent retention. But this requires a concerted effort from all parties concerned — academia, corporates, public practice and the public sector," Bazlan stresses.

ICAEW Malaysia adds that promotional initiatives that support the development and growth of future accountants, such as online learning programmes, virtual internships and flexible training arrangements, can help mitigate the impact of the recruitment pipeline delay.

Where talent importation between countries is concerned, ICAEW Malaysia has observed increased mobility of Malaysian ICAEW members to Singapore and returning members to Malaysia, with proximity and economic ties between both countries facilitating the movement. Globally, the importation of accountancy talents is also seen in the US, Canada, Australia and the UK.

"Focusing purely on the accounting factors, typically, more developed economies have increased demand for accounting services due to growth, changing regulatory requirements and evolving business practices, and are thus forced to seek [skilled] talents internationally [at expected cost and quality].

"Moreover, the evolving business landscape has given rise to new job opportunities; for example, in the field of sustainability. As demand continues to grow, accountants can readily adapt to these emerging roles and leverage their existing skill sets to drive sustainable practices and outcomes. Their ability to navigate financial data, assess risk and provide strategic insights position them well to contribute to the sustainability agenda and play a vital role in shaping a more sustainable business environment," says ICAEW Malaysia.

(Re)courting talents

Bazlan explains that the accounting profession has seen many changes over the years with various initiatives implemented by industry players to court talents.

These efforts include flexible working arrangements adopted by firms and corporates, as well as increased starting salaries and better perks at corporates and public practice firms.

Efforts by the MIA include recognition awards and sponsorship programmes for deserving students (recognised via MIA's National Accounting Student Excellence Award scheme under which students can pursue professional qualifications within accountancy upon graduation).

"This is in addition to the continuous support by public practice firms by providing tuition and examination fees, tuition classes and study and exam leaves to articled students pursuing professional qualifications," Bazlan says.

This article first appeared in The Edge Malaysia Weekly on July 3, 2023 – July 9, 2023 and subsequently on The Edge online on 11 June 2023. Article published with permission from The Edge Malaysia.

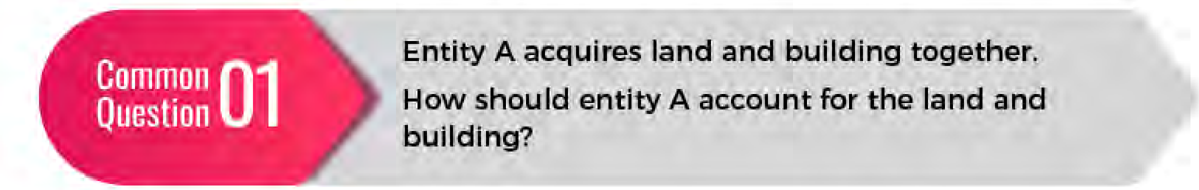
MFRS and MPERS Common Issues on Investment Property and Property Plant and Equipment

at-mia.my/2023/08/17/mfrs-and-mpers-common-issues-on-investment-property-and-property-plant-and-equipment
August 17, 2023

By the MIA Sustainability, Digital Economy, and Reporting Team

MIA has received various accounting queries on investment property and property, plant and equipment (PPE) through our technical queries facility. In this article, we will be sharing a few common questions received and the suggested guidance for reference. In June 2022, we issued an article on common issues on consolidation. You may view the article here.

Land and building



MFRS

Paragraph 58 of MFRS 116 *Property, Plant and Equipment* requires land and buildings to be accounted as separable assets even when they are acquired together. The requirement facilitates in determining the depreciation amount and depreciation period of an asset. Land usually has an unlimited useful life and therefore is not depreciated, while buildings have a limited useful life and therefore are depreciable assets. Paragraph 59 of MFRS 116 further states that "if the cost of land includes the costs of site dismantlement, removal, and restoration, that portion of the land asset is depreciated over the period of benefits obtained by incurring those costs". If land is purchased together with buildings, it is necessary to allocate the purchase consideration between the value of the land and that of the buildings.[1]

As stated in paragraph 27 of MFRS 13 *Fair Value Measurement*, fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The highest and best use takes into account the use of the asset that is physically possible, legally permissible and financially feasible as stated in paragraph 28 of MFRS 13.[2]

Thus, in order to account for the land and building separately, entity A will need to value the land and building based on the requirements of MFRS 13.

MPERS

Similar to MFRS, paragraph 17.8 of MPERS Section 17 *Property, Plant and Equipment* also requires that land and buildings be accounted for separately (even when they are acquired together), as they are separable assets. This is intended to facilitate component depreciation and to ensure that when assessing residual value, an increase in land value does not mask the need to depreciate the building's element of the land and building.[3]

Frequency of revaluations

Common Question 02

Entity A has revalued the entire class of buildings under their property, plant and equipment (PPE) during the financial year in 2022.

In the subsequent year:

a) Shall entity A perform another revaluation?

b) If Entity A needs to revalue the assets, does Entity A revalue the entire class of buildings or only certain items in the class of buildings?

MFRS

- Paragraph 34 of MFRS 116 highlights that some items of PPE experience significant and volatile changes in fair value which necessitate annual revaluation. Such frequent revaluations are unnecessary for items of PPE with only insignificant changes in fair value and thus it may be necessary to revalue the item every three or five years.
- Paragraph 36 of MFRS 116 further requires that revaluation will need to be performed on the entire class of PPE to which that asset belongs (i.e., buildings). This is to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates.

MPERS

Paragraph 17.15B of MPERS Section 17 states that "revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period". It further states that "if an item of PPE is revalued, the entire class of PPE to which that asset belongs shall be revalued".

Net book value

Common Question 03

What is the accounting treatment for a fully depreciated asset that is continued to be used by an entity?

MFRS and MPERS

Paragraph 67 of MFRS 116 requires that the carrying amount of an item of PPE shall be derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Paragraph 17.27 of MPERS Section 17 has similar requirements.

Accordingly, fully depreciated items of PPE that continue to be in use shall be retained in the entity's accounting records.

Dual-Use Property

Common Question 04

There is a two-level building owned by Entity A. The first level is used for the business operations and the second level has been rented out to the public.

How should entity A recognise the first level and the second level of the building in its financial statements?

MFRS

Paragraph 10 of MFRS 140 *Investment Property* recognises that some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion is being held for use in the production or supply of goods or services or for administrative purposes.

It provides that if these portions could be sold separately (or leased out separately under a finance lease), an entity should account for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Since 'insignificant' is not defined in the standard, Entity A will need to determine the threshold that represents 'insignificant'.

Accordingly, Entity A will need to assess whether the building satisfies the definition of property, plant and equipment in paragraph 6 of MFRS 116 *Property, Plant and Equipment* or the definition of investment property in paragraph 5 of MFRS 140.

MPERS

Paragraph 16.4 of MPERS Section 16 *Investment Property* requires a mixed use of property to be separated between Investment Property and PPE. However, if the fair value of the investment property component cannot be measured reliably without undue cost or effort, the entire property shall be accounted for as PPE in accordance with MPERS Section 17.

For guidance on 'undue cost or effort', kindly refer to paragraphs 2.14A to 2.14D of MPERS Section 2 *Concepts and Pervasive Principles*.

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[1] *Deloitte, March 2022, Real Estate Accounting Guide 2022,* *https://www2.deloitte.com/content/dam/Deloitte/ce/Documents/real-estate-pdf/ce-real-estate-accounting-guide-2022.pdf*
[2] *PwC, November 2017, Applying IFRS for the Real Estate Industry,* *https://www.pwc.com/gx/en/audit-services/ifrs/publications/applying-ifrs-for-the-real-estate-industry.pdf*
[3] *International Accounting Standards Board (IASB), October 2015, Supporting Materials for the IFRS for SMEs Standard: Module 17 – Property, Plant and Equipment;* *https://www.ifrs.org/content/dam/ifrs/supporting-implementation/smes/module-17.pdf*

MIA Sustainability, Digital Economy & Reporting Insights (April – June 2023)

at-mia.my/2023/08/02/mia-digital-economy-and-reporting-insights-april-june-2023
August 2, 2023

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

MIA Sustainability Agenda

As a regulator and developer of the accounting profession in Malaysia, MIA strives to advocate sustainability for the profession to ensure it stays relevant and continue to add value to organisations. This resonates well with the International Federation of Accountants' notion to have accountants champion climate reporting and other material disclosures on environmental, social and governance (ESG) matters together with their assurance. In response, MIA sets out its sustainability agenda which is a two-pronged approach that advocates sustainability for the Institute and for the accountancy profession in order to be future relevant, by enhancing the profession's competency, protecting public interest and supporting sustainable nation building. Visit here to know more on MIA Sustainability Agenda.

Digital Advocacy, Trends and Guidance

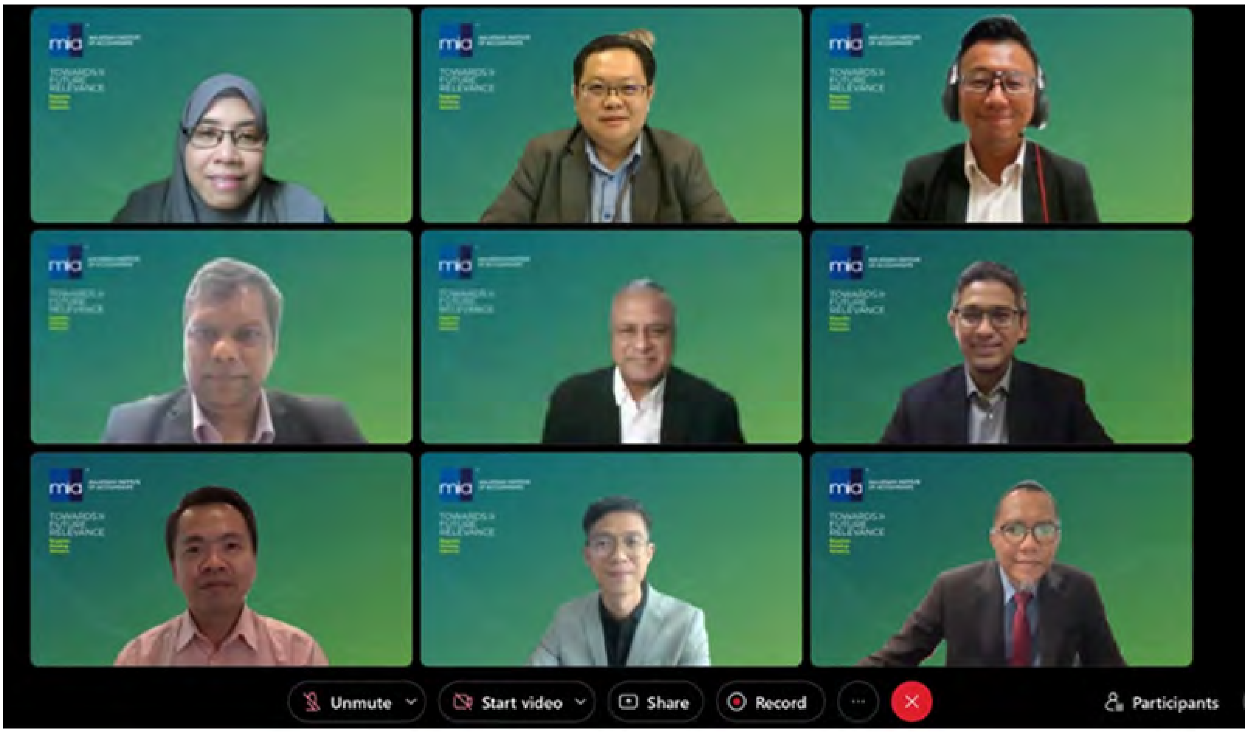
Digital Technology Adoptions Awards

Launched in March 2023, the Digital Technology Adoption Awards (DTAA) is accepting applications until 30 August 2023. The DTAA aims to recognise remarkable achievements of technology application by the accounting profession in commerce and industry, public practice, and public sector. Participating in the DTAA will provide an opportunity to showcase your remarkable digitalisation and gain market exposure. Join the growing list of notable names who are on their way to lead the digitalisation in the accounting profession by participating in the DTAA now.

Watch this video and visit here to learn more about DTAA and how you can participate.

AI in Accounting: Threat or Opportunity

A forum on 'AI and its impact on the accounting profession' which provided a comprehensive examination of the challenges and opportunities presented by artificial intelligence (AI) was held on 11 April 2023. Moderated by Rasmimi Ramli, Executive Director, Sustainability, Digital Economy and Reporting, MIA had the pleasure of hosting prominent minds from diverse backgrounds who shared their views during the forum attended by more than 300 accountants and accounting students.



The discussion focused on the potential job displacement of accountants and the need for re-skilling, as well as the benefits that AI can bring to the profession. Among the key highlights of the forum were:

AI presents exciting **opportunities for accountants and businesses** to optimise financial operations, streamlining processes, improve decision-making, and gain a competitive advantage in an increasingly data-driven world.

There are **challenges such as security and privacy concerns, ethical consideration, cost required to implement AI,** and others. However, addressing them can lead to transformative benefits in accounting such as increased efficiency and accuracy.

AI will unlikely replace accountants. While **AI is transforming the accounting profession and automating various tasks,** it will not replace the accountants' role. Instead, AI will be an enabler to accountants in performing their role and add value to their organisations.

It is essential for new accounting graduates and existing accountants to recognise that **AI is not meant to replace them but to complement their skills and amplify their capabilities.** Accounting professionals can position themselves for a successful and fulfilling career by embracing AI and continuously updating their knowledge on new technologies.

Ethical Leadership in a Digital Era

In the digital era, ethical leadership plays a critical role in guiding organisations and individuals to navigate the complexities and challenges of technology. The first complimentary webinar during the MIA Digital Month 2023 in February explored the importance of ethical leadership in the digital age, addressing its key challenges and opportunities.

Key takeaways from the panel session moderated by the Chair of MIA Digital Technology Implementation Committee (DTIC) Lim Fen Nee and joined by Justin Ong, Executive Director, Deloitte Malaysia Risk Advisory; Ravindran Navaratnam, Former chair and current member of MIA Ethics Standards Board (ESB); and Josephine Phan, member of the MIA DTIC can be found here.

Ethical Guidelines on Technology Usage for Public Practitioners

> Adoption of technology is inevitable. The pandemic has been a great teacher in showing us how technology usage has at least ensured that businesses do not stand still. But, for many, there is an **ethical dimension** which is rarely discussed or even considered.
>
> *Dr Veerinderjeet Singh, Chair of MIA Ethics Standard Board*

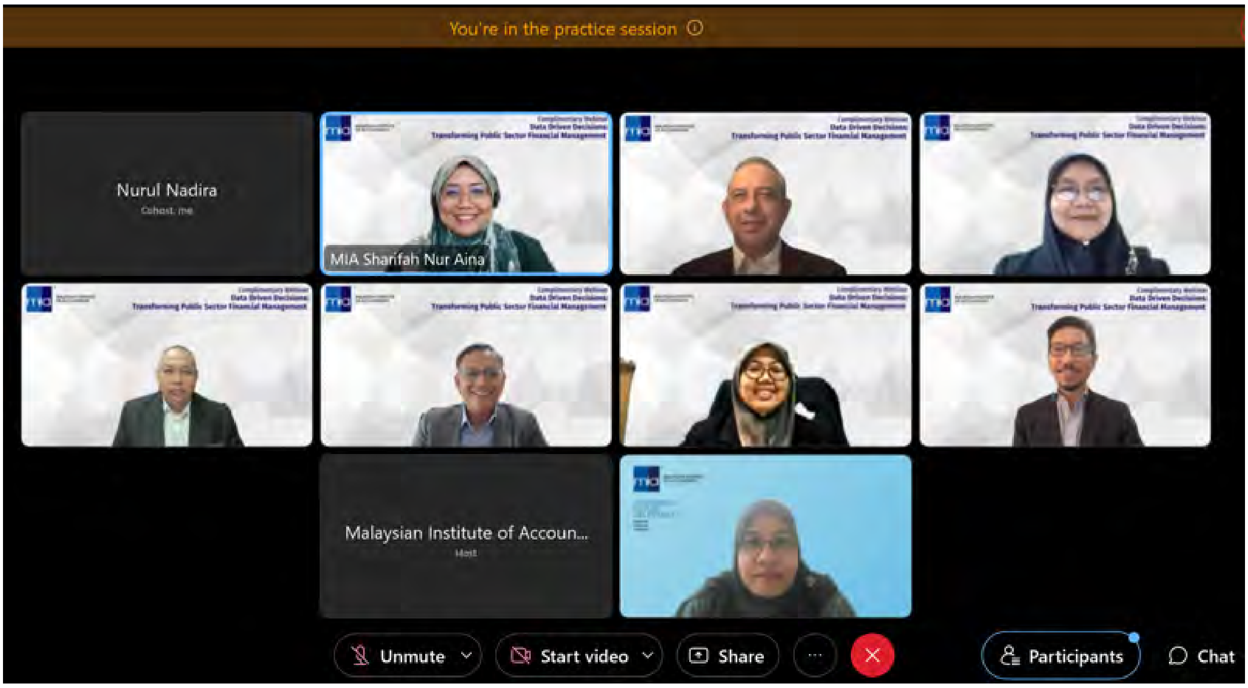
MIA published the Ethical Guidelines on Technology Usage for Public Practitioners on 30 June 2023 to assist practitioners in their preparation to comply with the final revisions to the International Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA). If adopted in the MIA By-Laws, the revisions will guide the ethical mindset and behaviour of professional accountants in both business and public practice as they take advantage of the opportunities created by technology and adapt to new technology. The guidelines, which are principles-based, focus on six potential risks of using technology and the ethical principles that should be applied when dealing with the associated risks. Public practitioners as well as non-practitioners would be able to benefit from this guideline to serve clients ethically in this digital era.

Visit here to read the full guideline.

Data Driven Decisions – Transforming Public Sector Financial Management

MIA recently organised a webinar titled Data Driven Decisions – Transforming Public Sector Financial Management, attended by 77 participants from the public sector.

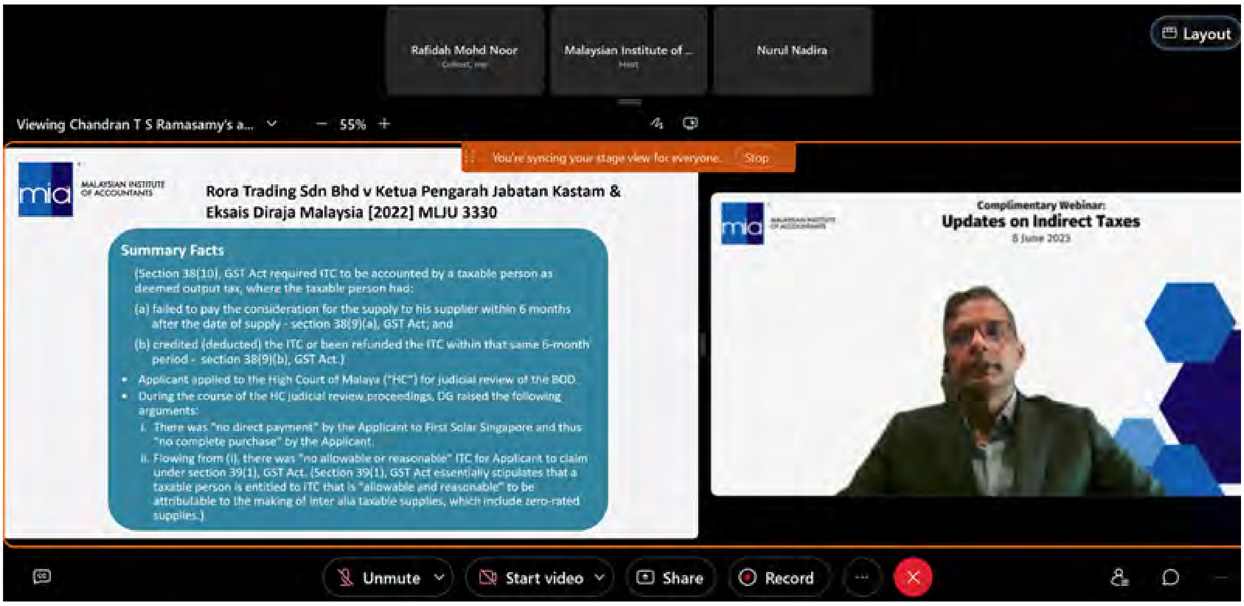
The session highlighted the importance of data in enhancing public sector financial management, current initiatives implemented in the Government to facilitate data and data analytics, and further discussed how professional accountants in public sector can utilise data in ensuring the effectiveness and efficiency of public sector financial management.



The discussion was moderated by Ting Choo Wai, MIA Public Sector Accounting Committee Member and joined by Muhammad Syarizal Abdul Rahim, Partner, Ernst & Young, Saadiah Yaacob from the Accountant General's Department and Dzulhusni Anjang Ab. Rahman from MAMPU. The webinar also featured a special presentation on the DTAA by Dr Nurmazilah Dato' Mahzan, Chair of MIA DTAA Task Force.

Updates on Indirect Taxes

The subject matter expert on indirect taxes of the Taxation Practice Committee, Mr Chandran T S Ramasamy shared the latest indirect tax updates with 236 members at a webinar held on 8 June 2023. Amongst the updates are Customs forms (as determined by Director General of Customs and announced in public ruling), sales tax exemption on materials for registered-manufacturers i.e. amendments to C1 & C3, penalty/surcharge reduction program vs Voluntary Disclosure Program (VDP) 2.0, excise duty compliance for e-cigarette/vape liquids/gels whether or not containing nicotine, case law updates and change in payee for cheque/bank draft payments to Customs.



Advocacy on taxation and public sector

Engagement on Budget 2023

The Institute, together with CTIM, MICPA and MAICSA had a dialogue session with the IRB on 21 June 2023 to discuss on the Joint Memorandum on Issues Arising from 2023 Budget Speech & Finance Bill 2023 that was submitted to the IRB in April 2023.

During the said dialogue, both parties discussed issues pertaining to the proposed changes to corporate tax, personal tax stamp duty and others. The Institutes also indicated the need to engage with the MOF and the IRB (Tax Authorities) on luxury goods tax, capital gains tax, restructuring of investment incentives towards tiered tax rates based on outcomes, voluntary disclosure programme and implementation of e-invoicing. Members have been informed via Circular No 36/2023 dated 17 July 2023 on the minutes of dialogue and responses from the Tax Authorities.

Engagement on Other Tax Issues

In April and May 2023, MIA engaged with the Tax Authorities to provide constructive design inputs on capital gains tax and e-invoicing. MIA also provided feedback on guidance materials in relation to the voluntary disclosure programme.

Circular No 27/2023 was circulated to members on 21 June 2023 to update members on the guidelines and Frequently Asked Questions on voluntary disclosure programmes administered by IRB and RMCD.

Concessionary Leases and Right-of-Use Assets in Kind

The International Public Sector Accounting Standards Board (IPSASB) issued Exposure Draft 84 (ED 84), *Concessionary Leases and Right-Of-Use Assets in Kind* in January 2023. It forms part of phase two of the IPSASB's Leases project. It proposes amendments to IPSAS 43, *Leases* on accounting for concessionary leases, as well as new guidance on right-of-use assets in-kind and consequential amendments to IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. MIA has submitted comments on the ED which can be viewed here.

Elevating Public Sector Financial Management

Puan Nor Yati Ahmad

The Malaysian accountancy profession enjoys excellent representation at global level. Advocating for Malaysia at the global level is Deputy Accountant General of Malaysia, Puan Nor Yati Ahmad, who became a member of the International Public Sector Accounting Standards Board (IPSASB) in January 2023. She was nominated by the Accountant General's Department of Malaysia under the Ministry of Finance, Malaysia. Her involvement in IPSASB is beneficial in developing our Malaysian Public Sector Accounting Standards (MPSAS) and assists public

sector financial statements preparers in Malaysia preparing high quality financial statements. Kindly click here for an exclusive interview with Puan Nor Yati.