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THE MALAYSIAN INSTITUTE OF ACCOUNTANTS

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MIA Sustainability, Digital Economy and Reporting Insights (January – March 2024)

at-mia.my/2024/06/05/mia-sustainability-digital-economy-and-reporting-insights-january-march-2024

June 5, 2024

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

Sustainability

The development of the MIA Sustainability Blueprint for the Accountancy Profession (the Blueprint) is reaching its final stage. Prior to this, a survey on Understanding Sustainability in the Accountancy Profession was conducted and MIA members from commerce and industry, public practice, public sector and academia sector have been engaged for their insights on sustainability and the accounting profession.

Following the overview of the Blueprint presented to the Council in January 2024, briefing sessions were held on 26 and 28 February and 12 March 2024 with the Chairs of MIA Committees. Feedback from the Committees has been considered by the Sustainability Blueprint Task Force and the Blueprint was tabled to the Council on 27 March 2024 for approval.

MIA Digital Month 2024

MIA Digital Month 2024 (MDM 2024) is set to return for the fourth consecutive year this April and May!

MDM 2024 brings you a month-long convention focusing on digitalisation of the accountancy profession in Malaysia. The programme will showcase a weekly complimentary webinar for four weeks and conclude with the grand finale of the reinvented MIA Accounting & Financial Technology Showcase 2024 (MIA AFT 2024), formerly known as the AccTech Conference.

The weekly webinars will feature sharing by esteemed industry speakers with diverse viewpoints including those from public practice, professional accountants in business, public sector, and academia. With top-notch speakers and topics, the attendees will be equipped with inspiring and revolutionary insights to advance in their roles with digital transformation. The grand finale of MDM 2024 will be taking place at the Malaysia International Trade and Exhibition Centre (MITEC), where attendees will have the chance to network in person and gain valuable insights from experts and leading technology solution providers.

MIA Digital Technology Adoption Awards (DTAA) Presentation Dinner

The Institute launched the Digital Technology Adoption Awards (DTAA) in March 2023 to promote digital technology adoption across the accountancy profession and raise awareness on how accountants contribute to businesses and economy through digitalisation. The DTAA also aims to recognise remarkable achievements of technology application by the accounting profession in commerce and industry, public practice, and public sector. Recognition of successful technology implementations in the accounting profession will encourage others in the profession to undertake their own digital transformation.

Following the evaluation by the esteemed adjudication committees, the DTAA Presentation Dinner is scheduled to take place on 15 May 2024 at the Malaysia International Trade and Exhibition Centre (MITEC).

Taxation Advocacy

The Institute continues to play an important role in advocating for its members and offering technical assistance in the ever-changing world of taxation, as demonstrated by its active participation in conversations, submissions, and collaboration efforts with other professional bodies.

Introduction of Service Tax for Maintenance Services and Other Related Issues

In February 2024, the Institute participated in a discussion chaired by the Secretary General of Treasury, YBhg Datuk Johan Mahmood Merican on the introduction of service tax for maintenance services and other related issues. Following the discussion, Circular No. 14/2024: Amendments to Service Tax was issued to invite members to submit issues with recommendations arising from the following legislation and policies:

- Service Tax (Amendment) Regulations 2024 (P.U.(A) 62/2024)
- Service Tax Policy No 1/2024
- Service Tax Policy No 2/2024
- Service Tax Policy No 3/2024

The Institute received issues from members which have been submitted to the MoF.

Issues Arising from 2024 Budget Proposals

Following the updates provided in the MIA Sustainability Digital Economy and Reporting (Insights October-December 2023), the dialogue session with LHDNM was held in February 2024 regarding the Joint Memorandum on Issues Arising from the 2024 Budget Speech and Finance (No.2) Bill 2023. In collaboration with the Chartered Tax Institute of Malaysia (CTIM), The Malaysian Institute of Certified Public Accountants (MICPA) and The Malaysian Institute of Chartered Secretaries and Administrators (MAICSA), the Institute has been addressing issues arising from the tax proposals tabled in the National Budgets. The minutes of this dialogue and LHDNM's responses are circulated to members through Circular No. 8/2024 published on 1 April 2024.

Capital gains tax

The Institute has participated in the discussion with the MoF to provide constructive feedback and recommendation in relation to policy-drafting of CGT. In January 2024, the Joint CGT WG had a discussion with the MoF on the matter. MIA further published an article in February 2024 titled Understanding Capital Gains Tax-and Real Property Gains Tax for better understanding of members and public.

IPSASB Strategy and Work Programme 2024-2028: Consultation

The international Public Sector Accounting Standards Board (IPSASB) issued the Consultation Paper on Strategy and Work Programme 2024-2028 in October 2023. This Consultation provides an opportunity for constituents to comment on the IPSASB's proposed Strategic Objective, and the two main activities to deliver on the Strategic Objective. In addition to that, constituents were also asked to comment on the potential future Financial Reporting Work Programme priorities, and suggest key issues related to public sector sustainability reporting that the IPSASB should consider incorporating to its Work Programme. MIA has submitted comments on the Consultation Paper which can be viewed here.

Global Updates on Public Sector Reporting Standards

Following the various developments in the global standard setting agenda of the International Public Sector Accounting Standards Board (IPSASB) in 2023, an article summing up the developments was issued in February 2024. The article focuses on the latest pronouncements on measurement, revenue and transfer expenses, retirement benefit plans and IPSASB *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.* Kindly click here to view the article.

MAREF Priority Research Topics 3.0 – Call for Proposals

On 21 March 2024, MAREF invited submission of proposals on a research study titled "*Correlation between Corporate Reporting using Integrated Reporting (IR) Framework and the Impact on the Performance (both financial and non-financial) of Companies (valuation-market value & cost of funds) for Malaysian Market and Demonstrates How Integrated Reporting (IR) Increases Investors' Confidence*". The deadline for submission is 15 May 2024. For more details, please refer here.

Acting in the Public Interest

at-mia.my/2024/06/25/acting-in-the-public-interest

June 25, 2024

By Johnny Yong & Prof Dr. Aiman Nariman Mohd Sulaiman

Members of the accountancy profession are familiar with the assertion that “a distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest.” This hallmark is stated in the Code of Ethics (the Code) of the International Ethics Standards Board for Accountants (IESBA), which has been fully incorporated into the MIA By-Laws. Nonetheless, within academia and the accountancy profession, this aspect of the Code which is found in paragraph 100.1 of the MIA By-Laws, has been viewed as a challenge to professional accountants (PAs) in performing their role and necessitates further clarification and guidance. Questions commonly posed include: (a) who is the face of the public interest that the accountant is expected to serve? (b) who could possibly be the “other stakeholders” whose interest the accountant must consider? and (c) how does the PA possibly reconcile and balance the divergent interests of all these stakeholders, assuming that they can be identified?

Under the self-regulatory framework that governs the accountancy profession, the Code establishes a set of ethical behaviours which is referred to as the fundamental principles. Under the latest version of the Code, paragraph 100.6 A1 states that “upholding the fundamental principles and compliance with the specific requirements of the Code *will* enable PAs to meet their responsibility to act in the public interest”. The fundamental principles within the Code are clarified with examples to provide guidelines for PAs in identifying possible scenarios where their judgment is to be applied in an ethical manner.

Currently, the Code does not specify whose interest among the public should be considered or what that interest would entail. Paragraph 100.6 A4 offers some guidance, stating that when acting in the public interest, a PA *should* consider not only the preferences or requirements of an individual client or employing organisation, but also the interests of other stakeholders when performing his or her professional activities. The term “other stakeholders” is left undefined without further elaboration.

What exactly is public interest?

In June 2012, IFAC issued its Policy Position (PP) 5, A Definition of the Public Interest. The paper aimed at presenting a practical definition of “public interest” that:

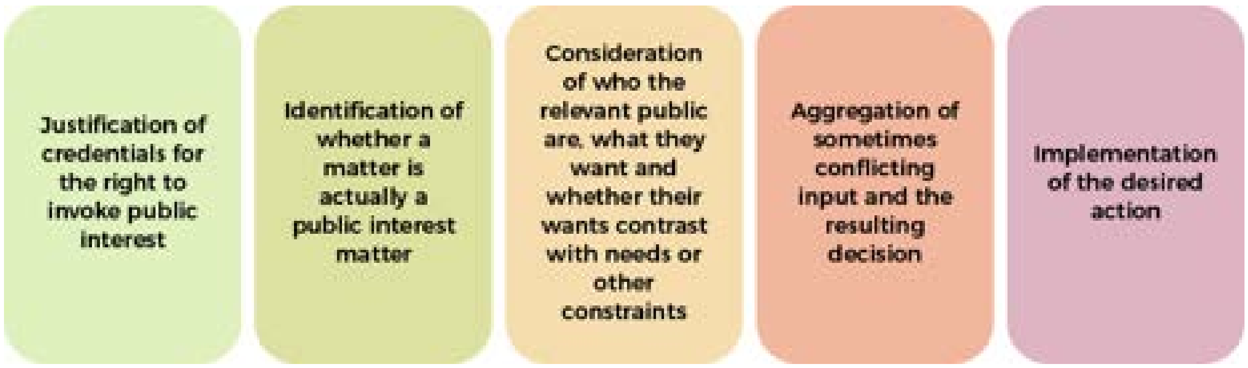
- Identifies the public interest as an overarching category; and
- Enables one to assess the extent to which actions, decisions or policies are made in the public interest.

In the said PP paper # 5, IFAC considered the public interest to be the sum of the benefits that citizens receive from the services provided by the accountancy profession, incorporating the effects of all regulatory measures designed to ensure the quality and provision of such services. The “public” in this case, includes the widest possible scope of society: individuals and groups of all jurisdictions sharing an international marketplace for goods and services. All levels of society are affected, directly or indirectly, by the activities and responsibilities of the accountancy profession. This includes all consumers and suppliers in the global economy, regardless of the size of the enterprise or group. The “public” also includes all users of financial information and decision-makers in the financial reporting supply chain: financial preparers, corporate boards, stakeholders, auditors, governments, and financial industries (e.g., banking, insurance, legal, and investment services). It also includes electors and taxpayers, who as citizens of local, regional, and national jurisdictions, are affected by the fiscal decisions of their respective governments for public expenditure and the distribution of public resources.

What then is the definition of “interest”? In the broadest sense, “interest” encompasses all things valued by society. These include rights and entitlements, including property rights, access to government, economic freedom, and political power. An interest is a matter people seek to acquire and control; they may also be ideals to be aspired to, and protections from things that are harmful or disadvantageous to the society at large. In the PP paper, the definition of “interest” is expanded to describe more specifically the responsibilities that PAs have to society. Examples of these responsibilities include:

- Providing sound financial and business reporting to stakeholders, investors, and all parties in the marketplace directly and indirectly impacted by that reporting;
- Facilitating the comparability of financial reporting and auditing across different jurisdictions;
- Reducing economic uncertainty in the marketplace and throughout the financial infrastructure (e.g., banking, insurance, investment firms, etc.);
- Requiring that accounting professionals apply high standards of ethical behaviour and professional judgment;
- Specifying appropriate educational requirements and qualifications for PAs;
- Encouraging governments and public sector organisations to provide their constituencies with sound fiscal information and decision-making; and
- Providing PAs in business with the knowledge, judgment, and the means to contribute to sound corporate governance and performance management for the organisations they serve.

In addition, in 2012, the Institute of Chartered Accountants in England and Wales (ICAEW) as part of the Market Foundations Initiative, issued a summary report entitled “Acting in the Public Interest – A Framework for Analysis”. This report can be seen as complementing the earlier IFAC PP paper # 5. This report acknowledged that public interest is an abstract notion. Asserting that an action is in the public interest involves setting oneself up in judgment as to whether the action or requirement to change behaviour will benefit the public overall – a far greater set of people can then be interacted with directly. It involves interference in people's ability to go about their own business or sometimes, as a positive policy decision, non-interference in the face of alternative actions. Rather, the summary report is contended to offer a framework that is based on the key issues that need to be addressed by those who are facing the challenge of justifying actions as being in the public interest. The framework in the report covers a number of stages:



This framework will at least guide the PA to act "in the public interest" – by providing an operable framework for asking some thought-provoking questions, although the application may not always be easy.

Enforcement action in relation to the responsibility to act in the public interest

Why is it important to understand the public interest concept in the first place? One reason is the apprehension about liability. The Code pronounces that a breach of the By-Laws due to failure to observe proper standards of ethics and professional conduct could result in disciplinary action before the Investigation and the Disciplinary Committees of the Institute pursuant to the Malaysian Institute of Accountants (Disciplinary) Rules 2002 [P.U.(A) 229/2002].

The significance of 'acting in the public interest' and how acting in the public interest should be demonstrated came under the spotlight due to enforcement action against a large firm and its partner and corporate finance expert for their conduct in relation to MG Rover's case in the UK.

The MG Rover case is unusual in that the FRC (the UK regulator) for the first time directly incorporated the public interest dimension of the work of chartered accountants in the allegations of misconduct. The case was heard by the UK FRC independent Disciplinary Tribunal and subsequently went on appeal to the Appeals Tribunal where the allegation of failure to act in the public interest was set aside.

In the MG Rover case, the Financial Reporting Council's (FRC) independent Disciplinary Tribunal severely reprimanded the firm involved for its conduct over MG Rover, which went into bankruptcy with debts of £1.4bn and 6,000 job losses. Its report stated that "the public must be protected from misconduct of this nature."

The misconduct referred to was related to the firm's role as advisors to MG Rover in two projects (i) Project Platinum which involved buying loan books from MG Rover's former owner BMW and (ii) Project Aircraft which involved a scheme to transfer MG Rover Group's tax losses to a company indirectly controlled by the Phoenix Four and enabling substantial payments to be made for the benefit of the Phoenix Four, the accounting firm and the corporate finance expert. The Phoenix Four were actually four directors of MG Rover who had set up a company, Phoenix Venture Holdings (PVH), a private consortium to buy the loss-making British carmaker for a token £10 five years earlier.

The FRC brought 13 allegations of misconduct which centred around both the firm and the corporate finance expert's (a) failure to adequately consider the public interest before accepting or continuing their engagements in relation to Project Platinum and Project Aircraft and (b) not imposing adequate safeguards to account for conflicts in relation to these projects. At the independent tribunal, it was decided that both the firm and the corporate finance expert were liable for all 13 allegations of misconduct.

However, sixteen months later in January 2015, on appeal by the firm, the Appeals Tribunal overturned eight of the initial misconduct findings including the charge of not acting in the public interest. The Appeals Tribunal acknowledged that the ICAEW Code stated that the public interest should be a factor for accepting any assignment or appointment but disagreed that the public interest is a stand-alone obligation which can be the basis of any charge that an accountant has been guilty of misconduct. According to the Appeals Tribunal, based on the Code, the PAs are required to act with integrity, honesty, objectivity and competence. Any charge of misconduct is based on a failure to demonstrate these four ethical criteria. In the case of the firm and corporate finance expert, the allegation of breach was based on Fundamental Principles 2 which is the requirement to strive for objectivity in all professional and business judgments. If there was a breach, it would have been for failure to act with objectivity. It does not follow that of a failure to act in public interest, but rather that the PAs had acted with a lack of objectivity. Using misleading financial information as an example, the Appeals Tribunal stated that the misconduct in that situation was due to lack of integrity and honesty, and not because the PAs had failed to have regard to the public interest.

An interesting part of the Appeals Tribunal decision was the example given as to what responsibility to act in the public interest *does not* entail. Acting in the public interest does not mean that the PAs will have to consider political views, philosophical views or the wider public sentiments regarding the morality of a particular business. The Appeals Tribunal gave the example of a takeover bid of a UK business by a foreign company, which could result in the domestic businesses being closed. The Appeals Tribunal was of the view that it is absurd if the PAs should have to consult the government or evaluate if the existing factories could still be continued before accepting the engagement.

Having regard to public interest is also related to other fundamental principles, one of which is the fundamental principle to observe confidentiality. Here, the Code states that public interest is served by observing confidentiality of clients' information as this ethical principle ensures the free flow of information by the client knowing that there will be no disclosure to any third party. This results in better quality of information and quality of the work performed by the PAs. Clients' confidentiality is paramount and disclosure cannot be made to others except with the client's consent or as required by law or regulatory body or association. Public interest here is represented by available laws requiring disclosure of otherwise confidential information. While it may not be in the client's interest to disclose confidential information, the promotion of compliance with laws and regulations would justify the disclosure.

The application of this fundamental principle has been in the public eye, a case in point being a 'tax scandal' involving a major accounting firm in Australia. One of the firm's former tax practitioners was deregistered as a tax agent for integrity breaches by the Tax Practitioners Board (TPB). The enforcement action was based on an allegation that the tax practitioner had made unauthorised use of confidential information when he was involved in a confidential consultation to improve tax laws for Australia. The government consultancy included new rules to stop multinationals from avoiding tax by shifting profits from Australia to other tax and secrecy havens. The practitioner had shared the information with other colleagues at the firm to aggressively promote the firm's tax services. The TPB found that the practitioner failed to act with integrity, as required under his professional, ethical, and legal obligations, and terminated his tax agent registration, including issuing a 2-year ban on being a registered tax practitioner. The TPB found evidence of internal firm emails about a plan to use the confidential information and to promote arrangements to circumvent these new tax laws to existing and potential clients. It was reported that the partners made plans around 2015 as to how the information could be used globally. This included contacting several high-profile tech clients such as Apple, Google and Microsoft informing them about the Australian government's plan and that the firm would be able to provide a plan to help them deal with the pending legislation.

While it could be argued that the practitioner owed a duty to the clients to ensure clients' interest is protected, this scandal is a good example of the conflict between the practitioner's self-interest, the clients to whom the practitioner provided the tax advisory services and the public interest. This is also a case involving conflict of interest between a former 'client' and the select few current clients that have been given access to the confidential information. In sharing the information, it was likely that the thinking was of the commercial opportunities that the clients would have secured and that the PAs' responsibility is to promote or protect the client's interests. However, it is unrealistic to think that the thought of the potential financial benefits accruing to the firm did not cross the minds of those who shared the information or those who let the information be shared. This goes against the standard content of the Code which states that a professional accountant shall not manipulate information or use confidential information for personal gain or for the financial gain of others (as guided by, for example, paragraph R240.3 of the Code). On the other hand, the scandal can also be viewed from the lens of the responsibility to act in the public interest as the subject matter was about the new tax law yet to be passed, which was aimed at increasing the government's tax coffers in the near future. The practitioners involved were advising companies to sidestep the new tax laws whilst being involved in advising the government to design the law. By giving early warnings, it was reported that the firm netted additional fees and potentially deprived Australia of tax revenue and funds which are important to foster economic growth and development, for social programs and public investment in order to have a prosperous and orderly society.

Is IESBA taking the lead?

The MG Rover case was a possible catalyst for the International Ethics Standards Board for Accountants (IESBA) to consider defining the scope of "acting in the public interest".

In its proposed strategy and work plan for 2018, the IESBA did mention its intention to explore further into this concept which may "possibly"' lead to strengthening of the Code. Unfortunately, resource constraints was quoted as a reason for not advancing on this project in the subsequent Work Plan.

Nevertheless, in February 2023, IESBA released an Exposure Draft (ED) on the potential amendments to the Code pertaining to **Tax Planning and Related Services** which was subsequently finalised in April 2024. In the explanatory memorandum of the said ED, the IESBA mentioned the role of the PA in acting in the public interest (Pages 11-13). These include some observations such as:

INTERPRETATION OF THE TAX LEGISLATION.
The notion of a PA acting in public interest is closely linked to the approval of tax treatment or structure by the tax authority in the particular jurisdiction. If the tax authority agrees with a particular tax treatment or structure at the time of consultation, then the PA has acted in the public interest.

PA's EXPERTISE AND REPUTATIONAL RISKS.
A PA plays a public interest role by providing his/ her clients and employing organisations with high-quality tax planning advice, leveraging on their training and expertise. In providing high-quality tax planning advice, PAs need to consider the potential risks of tax planning to their clients or employing organisations and the reputational risks to the PAs – considerations that are relevant to the public interest.

PERCEPTION ISSUES.
The very nature of PAs helping their clients or employing organisations to obey the law is an embodiment of PAs acting in the public interest (or at the very least, balancing the act of preserving the client or the employing organisation's interest and those of the public at large).

Considering the above 3 scenarios, IESBA eventually decided not to attempt to define or describe public interest given the variety of observations. The IESBA has instead given contextual guidance in the proposed Code (as part of the ED) that explains that an important part of what acting in the public interest means for PAs is for them to contribute their knowledge, skills and experience to assist clients and employing organisations to meet their tax planning goals while complying with tax laws and regulations. In doing so, PAs help to facilitate more efficient and effective operations of a jurisdiction's tax system which is in the public interest.

Where Do We Go From Here?

It is also worth noting that the responsibility to act in the public interest applies not only to auditors but also to all PAs including the professional accountants in business (PAIBs) and those in academia. External auditors have always been in the limelight whenever financial scandals erupt but the internal controls set-up of organisations is also a significant part of the accounting and reporting eco-system (and well within the PAIB's domain). One wonders if the PAIBs realise the significance of their responsibility to act in the public interest which could have either prevented or contributed to the financial scandals. Nonetheless, several similar scenarios in other jurisdictions are currently unfolding. As an example, in the UK, Carillion PLC, a now-defunct construction and outsourcing firm is one of them. While there were allegations of external auditors' negligence, the internal auditor's failure to identify failings in risk management and financial controls was also a grave cause for concern. This goes to show that the profession as an institution and the members as individuals must be vigilant and consciously reflect on meeting the spirit of the Code continually.

One thing is certain: acting in the public interest is already a given. The 'responsibility to act in the public interest' concept underscores the *raison d'etre* of the accountancy profession. The Code reflect this responsibility. Calls for a better definition could resurface whenever scandals involving accountants and auditors occur and there are cries of loss of confidence in the profession by the public, thereby justifying more regulations. For some, finding a precise definition of the public interest is a holy grail for the accountancy profession. However, there are pragmatic views that even if a definition is provided, the practical application of the public interest concept is difficult due to the extensive list of stakeholders, i.e., the community and the institutions that use reported information generated by PAs or rely on the work of PAs.

The bigger question is whether accountants know when to sum up their moral courage to act in a way to ensure that the trust and confidence accorded by the public and society are maintained, so that the accountancy profession remains relevant. The framework as suggested by the ICAEW and IFAC may not have resolved the elusive task of defining the public interest concept but is still of help to guide the members forward as to how public interest would be served. The approach reminds PAs to avoid merely box-ticking or rubber-stamping and to consider compliance in spirit over the letter of the rules. After all, compliance with the requirements of the Code does not mean that PAs will have *always* met their responsibility to act in the public interest. At the very least, they should consider consulting with an appropriate professional or regulatory body as mentioned under paragraph 100.6 A3 at a certain point in time – when such a need arises. The PAs, by implementing the outcome of the consultation in good faith, would likely not be faulted for not acting in the public interest.

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Global Advancements in Public Sector Sustainability Reporting

at-mia.my/2024/06/27/global-advancements-in-public-sector-sustainability-reporting

June 27, 2024

MIA Sustainability, Digital Economy and Reporting Team

> **"Our stakeholders have been clear that the IPSASB should lead the development of International Public Sector Sustainability Reporting Standards. The IPSASB has heard this message and started the development of these important standards."**
>
> *Ian Carruthers, IPSASB Chair, in the Chair's Message of Consultation on Strategy and Work Program 2024-2028*

In the Sovereign Climate and Nature Reporting: Proposal for a Risks and Opportunities Disclosure Framework published by the World Bank in 2022, the World Bank invited the IPSASB to lead a consultative process to gain support for developing global public sector specific sustainability reporting guidance. Leveraging its extensive experience in public sector standard-setting, the IPSASB has also participated as an observer in the establishment of the International Sustainability Standards Board (ISSB).

The IPSASB initiated the development with the issuance of Consultation Paper, Advancing Public Sector Sustainability Reporting in response to the growing demands from its stakeholders for global sustainability reporting guidance. The respondents agreed that the public sector urgently needs its own sustainability reporting standards. This article sets out the developments at the IPSASB in relation to public sector sustainability reporting standards.

May

Consultation Paper on Accounting for Natural Resources

The IPSASB released a Consultation Paper (CP), *Natural Resources* which considers the issues relating to the recognition, measurement, and presentation of natural resources by public sector entities. This CP considers whether natural resources can be recognised as assets in general purpose financial statements or should be disclosed in broader financial reports.[1]

November

Exposure Draft (ED) on the update of Recommended Practice Guidelines (RPGs)

IPSASB issued an Exposure Draft (ED) to propose additional guidance on how two previously published Recommended Practice Guidelines (RPGs)[2] can be applied by governments and public sector entities to report on sustainability program information. ED 83, *Reporting Sustainability Program Information – RPGs 1 and 3: Additional Non-Authoritative Guidance* proposed additional Implementation Guidance, along with Illustrative Examples on such key topics as green bonds, green taxes, tax expenditures and other programs developed to mitigate the effects of climate change and achieve the United Nations (UN)'s Sustainable Development Goals.[3] Currently, the RPGs are not adopted in Malaysia.

December

Sustainability Steering Committee

IPSASB took the next step in advancing public sector sustainability reporting by establishing a Sustainability Steering Committee to lead the critical phase of research and scoping. The prioritised research topics were as follows:

- General Requirements for Disclosure of Sustainability-related Financial Information,
- Climate-Related Disclosures, and
- Natural resources – Non-Financial Disclosures (in parallel with the development of financial reporting guidance proposed in its Consultation Paper, Natural Resources)

This decision builds on IPSASB's 25 years of public sector standard setting experience as well as the strong global stakeholder support for the proposals in its *Consultation Paper, Advancing Public Sector Sustainability Reporting*.[4]

May

Public Sector Guidance to Report on Sustainability Program Information

Several months following the issuance of ED 83, *Reporting Sustainability Program Information – RPGs 1 and 3: Additional Non-Authoritative Guidance*, IPSASB issued additional non-authoritative guidance included in RPG 1 and RPG 3 which can be immediately applied by governments and public sector entities to report on sustainability program information.[5]

Amendments to RPG 1 Reporting on the Long-Term Sustainability of an Entity's Finances	**Amendments to RPG 3 Reporting Service Performance Information**
The amendments to RPG 1 added implementation guidance to: • Emphasise that RPG 1 applies to reporting information on the impact of sustainability programmes on an entity's overall finances. • Explain how sustainability programme impacts on the three dimensions (service, revenue, and debt) of long-term fiscal sustainability should be assessed; and • Highlight the applicable principles for reporting on sustainability programme information.	The amendments to RPG 3 added implementation guidance to: • Emphasise that RPG 3 applies to reporting information related to sustainability programmes; and • Explain how RPG 3 can be applied to individual sustainability programmes. And illustrative examples were also added to show how the guidance in RPG 3 could apply to different sustainability programmes, such as: • A programme financed by a green bond. • A programme financed by a carbon tax. • An investment in infrastructure to mitigate the impacts of climate change; and • A tax expenditure provided for sustainability investments.

June

Development of a Climate-Related Disclosures Standard for the Public Sector

The IPSASB decided to move forward with the development of a public sector specific Climate-Related Disclosures standard and has published the *Climate-Related Disclosures project brief.* Among the matters highlighted are as follows:[6]

> The **project objective** is to develop a global baseline for consistent and comparable public sector climate-related disclosures, separate from the current suite of IPSAS, to meet the needs of users of public sector sustainability reports (service recipients and resource providers) and ensure better transparency, accountability and enable improved decision-making.
>
> The **project scope** is to develop climate-related disclosure requirements for reporting entities as defined in the Conceptual Framework, by leveraging international sustainability reporting guidance.[7]

October

Proposed Changes to the Strategic Objective of IPSASB

The IPSASB issued Consultation Paper, *Strategy and Work Program 2024-2028* which proposes changes to the IPSASB's strategic objective and the two main activities to achieve the strategic objective which are as follows:

The IPSASB proposed to deliver its strategic objectives through four key areas below which include public sector sustainability reporting.

December

IPSASB issues Exposure Drafts related to Accounting of Exploration, Evaluation and Extraction Activities

The IPSASB approved Exposure Draft (ED) 86, *Exploration for and Evaluation of Mineral Resources* which provides guidance related to the costs incurred in the exploration and evaluation of mineral resources, and ED 87, *Stripping Costs in the Production Phase of a Surface Mine (Amendments to IPSAS 12, Inventories)* that gives guidance on how to account for costs incurred to remove waste material in a surface mining operation.[8] ED 86 is aligned with the private sector requirements in IFRS 6, *Exploration for and Evaluation of Mineral Resources*, with limited changes for the public sector context and ED 87 is aligned with the guidance in IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine with limited changes for the public sector context.

March

IPSASB issues Natural Resources Exposure Draft

Following the issuance of CP, *Accounting for Natural Resources* in May 2022, the IPSASB decided that the guidance on natural resources should be in a standalone IPSAS that will address all natural resources at a principled level and incorporate issues regarding subsoil resources, water, and living resources as implementation guidance or illustrative examples.[9] The IPSASB has developed ED, *Natural Resources* in March 2024 and it is subject for approval in the June 2024 IPSASB meeting.[10]

Further Development of Climate-Related Disclosures for Public Sector

The IPSASB reviewed the objectives, scope, and conceptual foundations for the development of the draft Climate-related Disclosures standard for the public sector. IPSASB agreed that a government's ability to set policy is unique to the public sector and specific guidance for government's policy setting activities that influence other entities, including other economic sectors, is necessary. The IPSASB sought feedback on technical topics and issues for consideration in the March 2024 meeting related to governance, strategy and risk management sections of the developing draft standard.[11]

Way Forward

Public sector sustainability reporting standards will enable governments and other public sector entities to provide better transparency, accountability, and comparability of their efforts to combat the climate crisis and other sustainability challenges.[12] This will in turn allow governments to be held accountable for the long-term impacts of their interventions and enable better-informed decision-making.

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[1] *"IPSASB Launches Consultation Paper on Accounting for Natural Resources", 16 May 2022; https://www.ipsasb.org/news-events/2022-05/ipsasb-launches-consultation-paper-accounting-natural-resources#:~:text=The%20International%20Public%20Sector%20Accounting,resources%20by%20public%20sector%20entities*

[2] *Recommended Practice Guideline 1 (RPG 1) Reporting on the Long-Term Sustainability of an Entity's Finances and Recommended Practice Guideline 3 (RPG 3) Reporting Service Performance Information.*

[3] *"The IPSASB Seeks Comments on Sustainability Reporting Implementation Guidance Proposals", 3 November 2022; https://www.ipsasb.org/news-events/2022-11/ipsasb-seeks-comments-sustainability-reporting-implementation-guidance-proposals*

[4] *"IPSASB Confirms its Role in Advancing Public Sector Sustainability Reporting", 8 December 2022; https://www.ipsasb.org/news-events/2022-12/ipsasb-confirms-its-role-advancing-public-sector-sustainability-reporting*

[5] *"IPSASB Issues Public Sector Guidance to Report on Sustainability Program Information", 9 May 2023; https://www.ipsasb.org/news-events/2023-05/ipsasb-issues-public-sector-guidance-report-sustainability-program-information*

[6] *"IPSASB Begins Development of Climate-Related Disclosures Standard for the Public Sector", 14 June 2023; https://www.ipsasb.org/news-events/2023-06/ipsasb-begins-development-climate-related-disclosures-standard-public-sector*

[7] *"Climate-Related Disclosures Project Brief and Outline", 14 June 2023; IFAC Normal Template (ifacweb.blob.core.windows.net)*

[8] *"IPSASB ENEWS: DECEMBER 2023", 14 December 2023; https://www.ipsasb.org/news-events/2023-12/ipsasb-enews-december-2023#sustainability-climate-related_disclosures*

[9] *"Agenda Item 12 – Natural Resources", 14 March 2023; https://www.ipsasb.org/_flysystem/azure-private/2023-03/12-Natural-Resources-.pdf*

[10] *"IPSASB ENEWS: MARCH 2024", 20 March 2024; https://www.ipsasb.org/news-events/2024-03/ipsasb-enews-march-2024*

[11] *"IPSASB ENEWS: DECEMBER 2023", 14 December 2023; https://www.ipsasb.org/news-events/2023-12/ipsasb-enews-december-2023#sustainability-climate-related_disclosures*

[12] *"IPSASB Begins Development of Climate-Related Disclosures Standard for the Public Sector", 14 June 2023; https://www.ipsasb.org/news-events/2023-06/ipsasb-begins-development-climate-related-disclosures-standard-public-sector*

Impairment of Investment in Subsidiaries

at-mia.my/2024/06/20/impairment-of-investment-in-subsidiaries

June 20, 2024

By MIA Financial Statements Review Department

Introduction

Investing in subsidiaries is a common practice for many businesses aiming to expand their market presence, diversify operations, or acquire new technology. However, evolving economic conditions in tandem with market fluctuations, or changes in the subsidiary's performance may lead to impairments in the value of these investments. Hence, it is vital for businesses to consistently evaluate the net worth of their investments.

Understanding and accounting for impairment of investment in subsidiaries is crucial for financial reporting, as it reflects the economic substance of the investments and ensures that the financial statements provide a true and fair view of the company's financial position.

Scope

This article intends to share the review findings of the Financial Statements Review Committee (FSRC or the Committee) relating to disclosures made in the financial statements and their accompanying notes to the financial statements. However, it does not delve into matters related to recognition and measurement of impairment of investment in subsidiaries.

Comments discussed herein are intended to be applied within the context of the specific facts and circumstances associated with the identified observations. It is not intended to be exhaustive and does not address all potential issues that may arise relating to impairment of investment in subsidiaries.

In addition, careful consideration and judgement should be applied in each individual facts and circumstances since the Malaysian Financial Reporting Standards (MFRS) are principles-based. Various circumstances may appear similar but different in substance.

Impairment of investment in subsidiaries affects the investing company's financial statements, leading to a decrease in reported assets and net income. It is crucial to have policies and processes in place to monitor whether there are unfavourable events or circumstances that may cause the investments to be impaired. This is to ensure accurate financial reporting and reflection of the investments' economic value recoverability. Effective impairment assessment is essential for maintaining transparency and providing stakeholders with reliable insights into the company's financial health and performance.

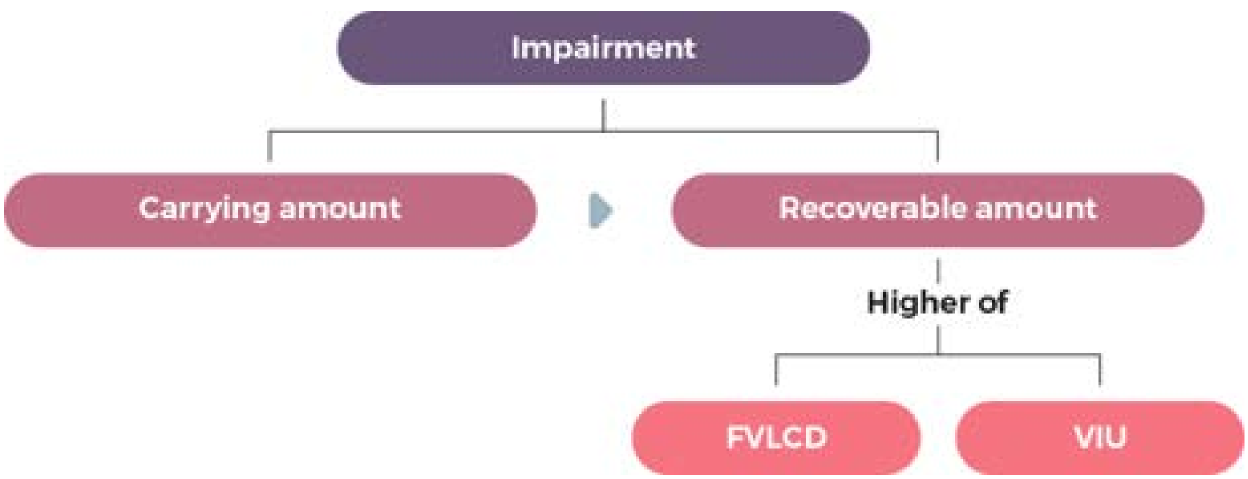
Applicable accounting standards

For entities that prepare financial statements in conformity with the MFRS, MFRS 136 *Impairment of Assets* specifies the requirements for impairment testing of all assets, except those assets specifically excluded from the standard's scope.

Paragraph 2 to 5 of MFRS 136 defines the scope of this standard. Paragraph 4 states that MFRS 136 applies to financial assets classified as subsidiaries, associates and joint ventures (unless measured at fair value and within the scope of MFRS 9 *Financial Instruments* as stated in Paragraph 2(e) of MFRS 136).

When an asset is impaired

An impairment occurs when the carrying amount of an asset (in this case, investment in a subsidiary) exceeds its recoverable amount, which is essentially defined as the higher of its fair value less costs of disposal (FVLCD) and its value in use (VIU). In simpler terms, it means the investment's value on the financial statements is higher than the amount at which it is currently recoverable.



Further reference shall be made to Paragraph 6 of MFRS 136 which defines the key terms that are essential in understanding its requirements.

Identifying an asset that may be impaired

At the end of each reporting period, an entity shall assess whether there is any indication that an asset, including investments in subsidiary, joint venture or associate, may be impaired except for certain categories of assets whereby as a minimum, an annual impairment assessment is required (for example, goodwill). If any such indication exists, the entity shall estimate the recoverable amount of the asset.

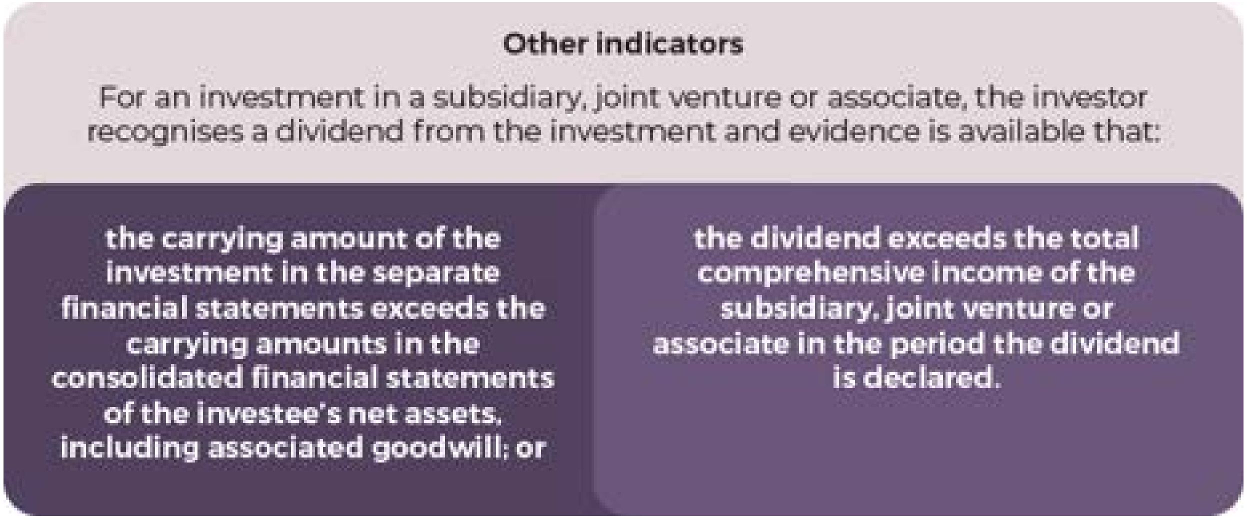
MFRS 136 requires consideration of several indicators that an asset may be impaired, considering both internal and external sources of information. Entities shall consider, as a minimum, the indicators outlined in Paragraph 12 of MFRS 136. However, the list in Paragraph 12 is not exhaustive. An entity may identify other indications that an asset may be impaired.

External sources of information

- there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.
- significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
- market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
- the carrying amount of the net assets of the entity is more than its market capitalisation.

Internal sources of information

- evidence is available of obsolescence or physical damage of an asset.
- significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.



Disclosure requirements

Summarised below are several main disclosure requirements on impairment or reversal of impairment of assets:

DISCLOSURE REQUIREMENTS	MFRS 136 PARAGRAPH REFERENCE
Amounts of impairment losses or reversals of impairment losses recognised in profit or loss for the period and the line items in which they are included or reversed.	136.126(a) & (b)
Amounts of impairment losses or reversals of impairment losses on revalued assets recognised in other comprehensive income during the period.	136.126(c) & (d)
The events and circumstances leading to the impairment or reversal.	136.130(a)
A description of the nature of the asset or CGU.	136.130(c) & (d)
The recoverable amount and whether it is value in use (VIU) or fair value less costs of disposal (FVLCD).	136.130(e)
If the recoverable amount is fair value less costs of disposal, the level of MFRS 13's fair value hierarchy within which the fair value measurement of the asset or CGU is categorised together with additional detailed disclosures if it is within level 2 or level 3 of that hierarchy.	136.130(f)
If the recoverable amount is VIU, the discount rate used when the recoverable amount is calculated using present value techniques.	136.130(g)
The requirement to disclosure the discount rate also applies if FVLCD is measured using a present value technique.	136.130(f)(iii)

Further reference relating to the required disclosure requirements shall be made to Paragraph 126 to 135 of MFRS 136.

Observations

Below are the observations noted by the FSRC relating to the impairment of investment in subsidiaries from the review of financial statements of public-listed companies/entities (PLC).

Observation 1

It was noted that the Company’s total equity is higher than the Group and the Group also recorded a gross loss for the financial year.

There were no additional impairment losses made during the financial year. Instead, a reversal of impairment loss was recognised during the financial year.

There were no other disclosures of whether the Group and Company had considered the impairment indicators and whether any impairment assessment on investment in subsidiaries was performed during the financial year.

Response from PLC

The PLC explained that they have considered the impairment indicator for the investment in subsidiaries, tested the impairment of the investment in subsidiaries and have concluded that the amount of impairment of investment in subsidiaries shall remain as it is (i.e. no further impairment is required for the financial year).

As for the reversal of impairment loss, the PLC clarified that the amount arose from advances previously granted to one of the subsidiaries, which is accounted for in accordance with MFRS 127 *Consolidated and Separate Financial Statements* and had been fully repaid during the financial year. Following this, the impairment loss previously recognised was reversed during the financial year.

FSRC’s comments

The Committee acknowledged that the PLC have carried out impairment assessment on the investment in subsidiaries. However, there were no disclosures regarding the events and circumstances that led to recognition or reversal of the material impairments.

Paragraph 130 of MFRS 136 clearly outlines the disclosure requirements for each material impairment loss recognised or reversed during the period for an individual asset, including goodwill, or a cash-generating unit. These include a description of events and circumstances that led to the recognition or reversal of the material impairment loss. As such, it was highlighted that necessary disclosures in the financial statements are required to be made in accordance with MFRS 136.

Observation 2

The PLC recognised material impairment loss on its investment in subsidiaries, as the affected subsidiaries reported continued losses.

As disclosed in the notes to the financial statements, the recoverable amounts were determined based on the net assets of the respective subsidiary companies.

There were no other disclosures noted in the financial statements other than the above.

Response from PLC

The PLC clarified that they had calculated the recoverable amount and compared it to the carrying amount of the assets. These subsidiaries are currently in semi-active and inactive status, and they are mainly from property investment and logistics segments which are not the core business of the Group, and highly dependent on the advances from related or holding companies. The PLC was of the opinion that the value-in-use method was not appropriate in determining the recoverable amount and instead, fair value less costs of disposal was deemed to be a more appropriate basis for measuring recoverable amount.

The PLC further added that there are three methods suggested under MFRS 13 *Fair Value Measurement* in deriving at the fair value, namely market approach, cost approach and income approach and fair value can also be measured using the net assets approach.

The PLC felt that the net assets approach is the most appropriate approach in measuring the fair value of the subsidiaries. By applying the net assets approach, if the Group would like to sell the subsidiaries at cost, it will be assessing the values of assets and liabilities of the subsidiaries. The net assets of the subsidiaries will represent the fair value of the Company and the recoverable amount of the subsidiaries.

FSRC's comments

Paragraph 6 of MFRS 136 defined recoverable amount as the higher of its fair value less costs of disposal and its value in use, accordingly both amounts should be estimated when an impairment loss is anticipated. Further, "carrying amount of the net assets of the entity is more than its market capitalisation" was cited in Paragraph 12(d) of MFRS 136 as an example of impairment indicator. However, MFRS 136 did not specify net assets as being an appropriate basis for measuring recoverable amount.

Paragraph 18 of MFRS 136 states that recoverable amount is defined as the higher of an asset's or cash generating unit's fair value less costs of disposal and its value in use. Paragraphs 19–57 set out the requirements for measuring recoverable amount. These requirements use the term 'an asset' but apply equally to an individual asset or a cash-generating unit, and accordingly should be applied when determining the recoverable amount of an investment in subsidiary.

Based on the PLC's response, it appears that the Group had carried out the impairment assessment whereby the recoverable amount of the subsidiaries was estimated based on the fair value less costs of disposal (instead of "net asset approach"). The disclosure needs to be more concise, stating whether the recoverable amount of the asset is its fair value less costs of disposal or its value in use.

The Committee emphasised that when using the adjusted net asset method to determine the fair value less costs of disposal of an investee's equity instruments (for e.g. the FVLCD of an investment in subsidiary), the assets and liabilities of the investee recognised in the statement of financial position need to be adjusted to reflect their respective individual fair values, as well as adjusted for the fair value of any unrecognised assets and liabilities at the measurement date. Consequently, the resulting fair values of both recognised and unrecognised assets and liabilities should represent the fair value of the investee's equity (rather than simply relying on the carrying amount of the net assets in the investee's financial statements which may not be at fair value). Where applicable, the existence of other factors might result in the need for additional adjustments such as for lack of liquidity on unquoted equity instruments.

The Committee wishes to highlight the disclosure requirement in accordance with Paragraph 130 (e) of MFRS 136 which states that for an impairment loss which has been recognised or reversed during the period, an entity shall disclose the recoverable amount of the asset (cash-generating unit) and whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs of disposal or its value in use.

Conclusion

The impairment of investment in subsidiaries holds significant importance in financial management for companies. Recognising and accounting for impairments accurately is vital for transparency in financial reporting and to facilitate informed decision-making. Regular assessments and monitoring of events or circumstances that may indicate impairment, adherence to accounting standards, and MFRS 136-compliant disclosures ensure that stakeholders are informed about the true financial health of a company in relation to its subsidiary investments.

By understanding and proper accounting for impairment of investment in subsidiaries, entities can proactively manage and mitigate risks and navigate challenges in their investment portfolios. This would also enable entities to maintain transparency and adherence to accounting standards, thereby fostering trust and confidence in financial markets.

Navigating the Potential Changes in Audit Exemption Thresholds (Part 1): Advocacy for a Balanced Approach

May 3, 2024

By SMP Department, Professional Practices & Technical Division

MIA's stance on audit exemption goes as far back as 2013 when Suruhanjaya Syarikat Malaysia (SSM) issued the consultative document on the Companies Bill for public consultation. MIA had then proposed to SSM that only dormant companies be exempted from statutory audit in consideration of various factors, including the value generated by audit for private entities, the ripple effects on regulatory bodies like SSM, the Inland Revenue Board, and the Royal Malaysian Customs, and ultimately, the broader impact on the Malaysian economy. Additionally, MIA's stance aimed to provide a supportive environment for smaller audit firms, ensuring a smoother transition amidst regulatory changes. This stance was reiterated in a response to a Draft Practice Directive in 2016. Subsequently, when SSM issued Practice Directive (PD) 3/2017 for implementation of audit exemption in Malaysia, the thresholds were much lower (i.e. revenue threshold at RM100,000, assets' threshold at RM300,000 and employees' threshold at 5 persons) if compared to the original proposal. This decision was influenced by feedback from various stakeholders, including MIA.

Public Consultation in February 2023

Fast forward to February 2023, 6 years after the issuance of PD3/2017, SSM issued the *Consultative Document on the Proposed Review of Audit Exemption Criteria for Private Companies in Malaysia (CD).* This document sought the public's view on the proposed revisions to the audit exemption criteria, which mainly suggested an increase in the revenue threshold (from RM100,000) and assets' threshold (from RM300,000) to RM1 million and employee threshold (from 5 persons) to 30 for threshold-qualified companies.

MIA shared our perspectives to SSM and highlighted that although MIA broadly agreed with the proposed review in audit exemption thresholds, a strong consensus on audit exemption thresholds for smaller companies might be unattainable because of the existence of different perspectives from the varied stakeholders of MIA and there was a lack of available comprehensive impact assessment done by SSM pertaining to the current proposals, including the analysis of the expected costs, the benefits and the impact of the policy and that the benefits outweigh the costs.

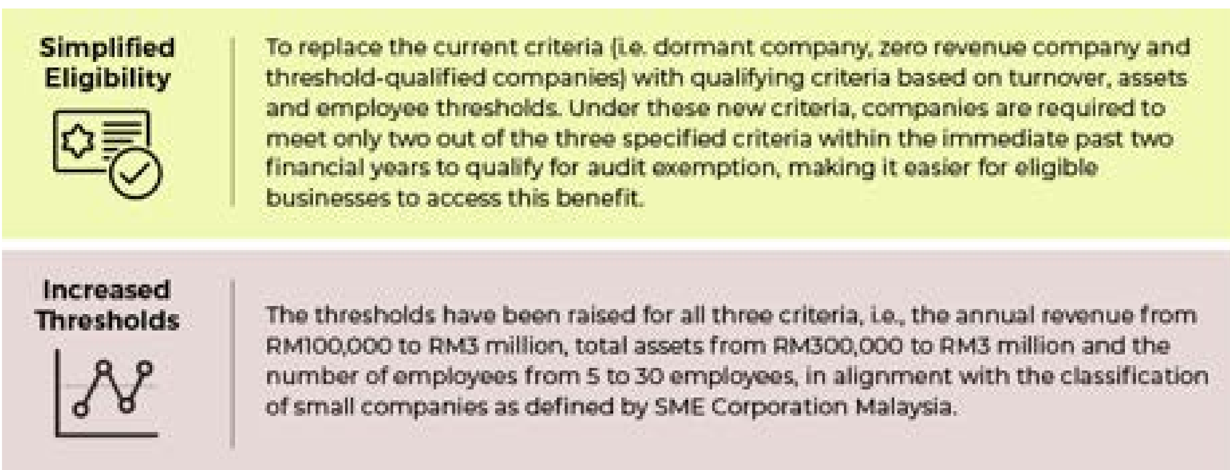
In the event that the proposed increases in the thresholds are implemented, MIA recommended the following safeguards to ensure that the changes are well-executed:

- Baseline requirements for finance function to include a member of MIA;
- Introducing alternatives to audits, such as review and compilation services;
- Strengthening statutory declaration under Section 251(1)(b) of the Companies Act 2016 to be performed by a member of MIA.

Public Consultation in February 2024

In February 2024, SSM issued the *Consultative Document on the Proposal of the New Audit Exemption Criteria for Private Companies in Malaysia* (CD) that introduces significant changes to the audit exemption criteria for private companies in Malaysia, for public consultation.

The following are key highlights of the revised audit exemption criteria which aim to extend the potential benefits of reduced regulatory burdens and lowered cost of doing business to a larger number of small companies:



The proposed revisions compared to the current criteria as per Practice Directive 3/2017 are as per the table below.

Type of private companies	Practice Directive No. 3/2017	SSM CD 2 February 2023	SSM CD 7 February 2024
DORMANT COMPANIES *(Effective for FS with annual period commencing on or after 1 Sept 2017)*	Companies must have either been dormant since the time of incorporation, or dormant during the immediate past and current financial year.	No changes	Companies must fulfill at least two (2) of the following criteria: a. The annual income of the company during the current financial year and in the immediate past two (2) financial years **does not exceed RM3,000,000;** b. The total assets of the company in the current statement of financial position and in the immediate past two (2) financial years **do not exceed RM3,000,000; or** c. The number of employees at the end of the current financial year and in the immediate past two (2) financial years **does not exceed thirty (30).**
ZERO-REVENUE COMPANIES *(Effective for FS with annual period commencing on or after 1 Jan 2018)*	Companies must fulfil the following three (3) requirements: a. No revenue during the current financial year; b. No revenue in the immediate past two financial years; and c. Total assets do not exceed RM300,000 for the current Statement of Financial Position as well as in the immediate past two financial years.	a. No changes b. No changes c. Total assets do not exceed RM500,000 for the current Statement of Financial Position as well as in the immediate past two financial years.	
THRESHOLD-QUALIFIED COMPANIES *(Effective for FS with annual period commencing on or after 1 July 2018)*	Companies must fulfil the following three (3) requirements: a. Annual revenue not exceeding RM100,000 during the current financial year and the immediate past two (2) financial years; b. Total assets of RM300,000 or less in the current Statement of Financial Position and in the immediate past two financial years; and c. Has not more than five (5) employees at the end of its current financial year and in the immediate past two (2) financial years.	a. Annual revenue not exceeding RM1,000,000 during the current financial year and the immediate past two (2) financial years; b. Total assets of RM1,000,000 or less in the current Statement of Financial Position and in the immediate past two financial years; and c. Has not more than thirty (30) employees at the end of its current financial year and in the immediate past two (2) financial years.	

Practice Directive No. 3/2017 *(click here to download)*

SSM CD 2 February 2023 *(click here to download)*

SSM CD 7 February 2024 *(click here to download)*

The rationale for revision of threshold

In SSM Consultative Documents issued in February 2023 and February 2024, it was stated that the threshold was reviewed to ensure it is relevant to achieve the objective of audit exemption and thus, ensuring the maximum number of companies could benefit from the audit exemption. In addition, it also aimed to help SMPs transform the current landscape to one that is progressive and able to move up the value chain of professional services to better serve the needs of SMEs; easing the burden due to the current shortage of auditors (including their staff) in Malaysia.

The quantum of the revision of threshold

While the increase in thresholds aligns with the practices adopted in various other developed nations such as Singapore, the United Kingdom and Australia, it is important to note that the increases in the Malaysian context are very substantial as demonstrated in the table below:

AE Threshold	UK	Australia	Singapore	Malaysia
	Companies may qualify for audit exemption if they meet at least two (2) of the following criteria (except for Malaysia where all 3 criteria must be fulfilled when audit exemption was first introduced):			
Turnover	1994: £90K 1997: £350K (288% increase) 2000: £1 mil (186% increase) 2004: £5.6 mil (460% increase) 2009: £6.5 mil (16% increase) 2016: £10.2 mil (57% increase)	Prior to 2019: A$25 mil 2019: A$50 mil (100% increase)	2003: S$2.5 mil 2004: S$5 mil (100% increase) 2015: S$10 mil (100% increase)	2017: RM100k 2023: RM3 mil **(2900% increase)**
Balance Sheet Total	1994: £1.4 mil 1997: £1.4 mil 2000: £1.4 mil 2004: £2.8 mil (100% increase) 2009: £3.3 mil (18% increase) 2016: £5.1 mil (55% increase)	Prior to 2019: A$12.5 mil 2019: A$25 mil (100% increase)	2003: NA 2004: NA 2015: S$10 mil	2017: RM300k 2023: RM3 mil **(900% increase)**
Average Employees	50	Prior to 2019: 50 2019: 100 (100% increase)	2003: NA 2004: NA 2015: 50	2017: 5 2023: 30 **(500% increase)**

It is imperative to bear in mind that the appropriateness of audit exemption must be carefully evaluated within the Malaysian context, which varies significantly in terms of economic scale, business landscape, and the level of maturity of accounting and financial reporting practices among small companies. While the increase in thresholds appear to move in the direction of practices adopted in various other developed nations such as Singapore, the United Kingdom and Australia, it is important to note that these countries are highly developed economies with a much larger economy and a much bigger base and depth of businesses compared to Malaysia. The small businesses in these countries are generally larger in size compared to those in Malaysia.

These leading jurisdictions have developed their audit exemption regimes over a significantly longer period of time thus reducing the "sudden displacement" to the marketplace and users of audited financial statements.

While there may be perceived benefits from audit exemption such as reduced cost of doing business, savings in management time and resources that can be reallocated for other purposes, there are also other perceived costs and social impacts that could potentially outweigh these advantages. The perceived costs include poorer accounting quality leading to misleading financial statements, potential tax implications due to risks of underreporting, increased economic crime facilitated by a laxer regulatory regime, and the loss of a training ground for future accountants as fewer audit firms operate in Malaysia, limiting opportunities for professional development. Therefore, any policy revision regarding audit exemption should only be considered if the perceived benefits clearly outweigh the associated costs.

Why gradual increase of threshold should be the way forward

While some owner-managed companies with good governance and financial management may benefit from audit exemption, it may not be universally applicable to all such entities. For business owners who are not financially trained, audits necessitate the need for proper accounts preparation as well as contributing to internal control enhancement, fraud deterrence, operational efficiency and cost-effectiveness, and improved access to funding. Overall, audits offer business owners peace of mind, credibility, and valuable insights into the financial health and operations of their companies, ultimately supporting long-term success and growth. A gradual approach will benefit SMEs in their decision to opt for audit exemption as they need to assess their business growth trajectory, balancing the potential benefits of exemption against the risk of incurring substantial audit costs to perform work on opening balances, if they no longer qualify for exemption.

In 2017, the Swedish National Audit Office conducted a study on the impact of audit exemption for small, limited companies which was implemented in Sweden on 1 November 2010. The study aimed to assess whether the intended outcomes of the reform were realised, examine the consequences of the exemption and evaluate how any undesirable effects were addressed. The report's impact assessment revealed that audits of small entities contribute value to both the companies and the public good. Exempting companies from audits was found to increase risks to the economy, including risks of accounting errors, tax evasion, and economic crime. Consequently, the study recommended the reintroduction of audit obligation for small limited companies. Based on the findings, the Swedish Government decided to keep the thresholds as they were, i.e. not to exempt more companies from the audit requirement. Lessons from the experience in Sweden underscore the potential risks associated with audit exemptions, emphasising the need for a gradual and balanced approach.

The strategic decision by SSM to establish a low threshold during the introduction of audit exemption in 2017 facilitated a smooth industry transition. Acknowledging this precedent, should there be an increase in thresholds, MIA advocates for a deliberate and phased strategy, incorporating an exhaustive policy impact assessment complemented by a transparent timeline and detailed roadmap to ascertain effectiveness and align with SSM's objectives of alleviating regulatory burdens and cost for small enterprises while addressing the audit profession's talent shortage. This approach allows for comprehensive deliberation and preparation, ensuring a smooth adaptation to any forthcoming revisions in thresholds.

This is the first of a two-part article on audit exemption thresholds in Malaysia.

Navigating the Potential Changes in Audit Exemption Thresholds (Part 2): Practical Considerations for SMEs and SMPs

at-mia.my/2024/05/07/navigating-the-potential-changes-in-audit-exemption-thresholds-part-2-practical-considerations-for-smes-and-smps

May 7, 2024

By SMP Department, Professional Practices & Technical Division

To ensure a smooth adaptation to any forthcoming revisions in audit exemption thresholds, MIA advocates for a deliberate and phased strategy that aligns with SSM's objectives of alleviating regulatory burdens and cost for small enterprises while addressing the audit profession's talent shortage.

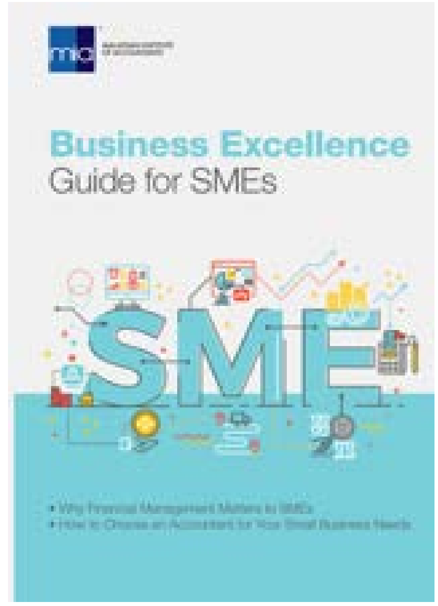
MIA believes that SSM will aim to strike a fine balance facilitating regulatory relief and upholding the integrity of financial reporting. Meanwhile, it is imperative to educate companies to understand the significance of submitting accurate unaudited financial statements and grasp the repercussions of failing to do so. Accounting firms can play a pivotal role in aiding companies to navigate regulatory compliance.

Small and Medium Enterprises (SMEs)

Notwithstanding these audit exemptions, it is essential that proper accounting records are maintained and companies should still be cognisant of the compliance requirements in relation to the following:

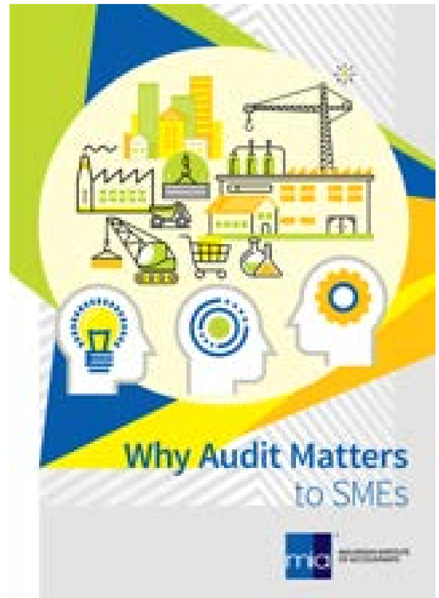
- Preparation of unaudited financial statements;
- Maintenance of proper accounting records;
- Empowerment of shareholders who have at least 5% voting rights to require a company to prepare audited financial statements.

MIA urges all eligible companies to carefully review and consider any changes to the audit exemption criteria and to seek advice from qualified professionals when necessary. Thorough consideration of the implications is necessary for enterprise owners to make informed decisions about their compliance requirements. For more information about services provided by an accountancy firm, please refer to MIA's publication *Business Excellence Guide for SMEs*.



For more information about the value of audit, please refer to MIA's publication *Why Audit Matters to SMEs.*

In the absence of statutory audits, the quality of financial statements of companies may be supported by other means such as compilation or review engagements. For more information about the compilation and review services, please refer to IFAC's publication *Comparing Audit, Review, Compilation and Agreed-Upon Procedures Services*.



Small and Medium Practices (SMPs)

MIA recognises that small and medium audit firms are an integral part of the Malaysian accountancy profession, and their success is essential for the overall health of the industry. We are committed to supporting these firms as they continue to serve as vital contributors to the nation's economic growth.

This potential change in audit exemption criteria will inevitably impact on audit firms. As such, there is a compelling need to facilitate the transformation of services of small audit firms into a more dynamic landscape and to advance up the value chain of professional services, effectively catering to the demands of SMEs and alleviating the strain due to the current shortage of auditing personnel in Malaysia.

In preparing practising members for audit exemption, MIA had adopted a two-pronged approach to enhance the services offered by SMPs and to advocate for value of audit since 2016.

Recognising that there may be appropriate alternatives in cases where an audit is not required, review and agreed-upon procedures engagements have the potential to be an attractive and fast-growing service offering to SMEs. MIA has been promoting alternative services to audit for small practitioners. SMPs are urged to focus their resources on moving up the value chain to provide higher value-adding services that are in demand by SMEs, explore other services which are not heavily regulated, and be trusted business advisors for SMEs. The small audit firms are also urged to take steps to strengthen their competitive edge through merger and acquisition or strategic affiliation.

To create awareness among SMEs on the benefits of a voluntary audit, MIA also published informative booklets 'Why Audit Matters to SMEs" and "Business Excellence Guide for SMEs" in 3 languages, as well as conducting various engagement sessions with Chambers of Commerce and SMEs to educate on the value of audit. MIA is currently still engaging with various stakeholders to promote the benefits of voluntary audits, even for SMEs exempted from audit. Small companies that perceive audits to be beneficial are more likely to continue being audited and pay a reasonable fee.

Suggested Strategies for Audit Firms

Here are some suggested strategies for audit firms to consider in coping with the increase in audit exemption thresholds:

Diversify Service Offerings, Enhance Business Advisory and Specialise in Niche Markets

Audit firms should consider a broader range of services beyond traditional auditing by providing high-value advisory services, such as financial planning, strategic consulting, mergers and acquisitions support and performance improvement guidance. Develop industry expertise in niche markets, understand the unique challenges and regulations within those sectors, and tailor your services to address the specific needs.

Offer Review or Compilation Services

Review and compilation engagements may be more suitable and cost-effective for smaller companies. By promoting these services, you can cater to the needs of businesses eligible for audit exemption while still addressing the reliability of financial information.

To learn more about the Review and Compilation Engagements, please view the following IFAC's publications:

> IFAC's Guide to Review Engagements: https://www.ifac.org/knowledge-gateway/supporting-international-standards/publications/guide-review-engagements
>
> IFAC's Guide to Compilation Engagements: https://www.ifac.org/knowledge-gateway/supporting-international-standards/publications/guide-compilation-engagements

Invest in Technology

Embrace technology to improve the efficiency and effectiveness of your services. Implement data analytics, artificial intelligence, and automation to streamline your work processes to support diversified service offerings.

To get more support on your firm's digital transformation journey, please visit the MIA Digital Economy Website at https://MIA.org.my/knowledge-centre-resources/digital-economy/ .

Network, Collaborate and Explore M&A

Collaborate with legal, tax, and financial advisory firms. Building strategic partnerships can create a network of professionals who can collectively provide comprehensive solutions to clients, making your firm even more valuable.

To look for accounting firms that are interested in some forms of affiliation, please visit https://e-merger.mia.org.my/

Moving forward

Recognising the critical need to maintain an equilibrium between streamlining regulatory burdens and maintaining the integrity of financial information, the MIA has not only articulated its stance but also put forth constructive recommendations to SSM. These recommendations are intended to promulgate the implementation of safeguards aimed at fortifying the effectiveness of changes to the audit exemption criteria:

While the MIA continues to advocate for the above safeguards, small audit firms are encouraged to reach out to MIA on their specific concerns, questions or feedback through smp@mia.org.my. The Institute is committed to provide assistance in adapting to the revision in audit exemption thresholds and addressing the interests of smaller audit firms.

This is the second of a two-part article on navigating audit exemption thresholds in Malaysia. Part 1 can be accessed here.

New Practice Review Framework (Part 1): Enhancing Audit Quality through Peer Review and Quality Assessment Programme

at-mia.my/2024/06/26/new-practice-review-framework-part-1-enhancing-audit-quality-through-peer-review-and-quality-assessment-programme

June 26, 2024

By SMP Department, Professional Practices & Technical

The Institute's Practice Review (PR) Framework is set to undergo changes starting 1 July 2024, aimed at enhancing audit quality. This article delves deeper into the new elements being introduced, particularly focusing on the Peer Review process for audit firms (AF) with a Type 3 rating and the Quality Assessment Programme (QAP). By providing a detailed comparative analysis of these two approaches, this article aims to enhance clarity and understanding among practitioners, facilitating their adaptation to the new framework and promoting continuous improvement in audit practices.

Order 3A and 3B

Under the revised PR Framework, there are two (2) types of orders that can be determined by the Practice Review Committee (PRC), which are order 3A and order 3B. The AF is required to engage either a Peer Reviewer or undergo a Quality Assessment Programme (QAP) based on the PRC's order on Type 3 firms.

- Order 3A: The firm is required to engage a Peer Reviewer.
- Order 3B: The firm is required to undergo a Quality Assessment Programme (QAP).

The rectification process shall be completed within 24 months upon receipts of the final PR reports. Following this, a fresh review of the firm will be conducted to assess the effectiveness of the rectification measures implemented. It is imperative that all necessary actions are taken within the specified timeframe to ensure compliance and improvement. Timely completion of the rectification process is crucial for maintaining regulatory compliance and enhancing the overall audit quality of the firm.

These changes reflect a strategic shift towards more personalised and rigorous oversight of audit practices, especially for those firms that have been identified as needing significant improvement in their auditing standards.

For more detailed information about the new Practice Review Framework, practitioners are encouraged to refer to related articles and FAQs published by the MIA:

- Revision of Practice Review (PR) Framework Effective 1 July 2024 published on 21 November 2023 and
- Frequently Asked Questions (FAQs) on the Peer Review Process under the Practice Review Committee (PRC)'s Order for Type 3 Firms published on 3 January 2024.

Part 1 of this article intends to provide further clarification on the Quality Assessment Programme, a strategic collaboration between MIA and MICPA to promote continuous improvement in audit quality in Malaysia.

The QAP

The QAP is a structured review of a MIA Member firm by reviewer(s) appointed by MICPA. The review of the whole firm will comprise two parts:

- A review of the firm's compliance with International Standard of Quality Management (ISQM) 1, and;
- A review of the documentation of one completed audit engagement.

The review will be conducted at the firm's premises. At the end of the review period, the QAP reviewer(s) will provide a report on the findings and the reviewed firm will provide the proposed remedial action plans for implementation.

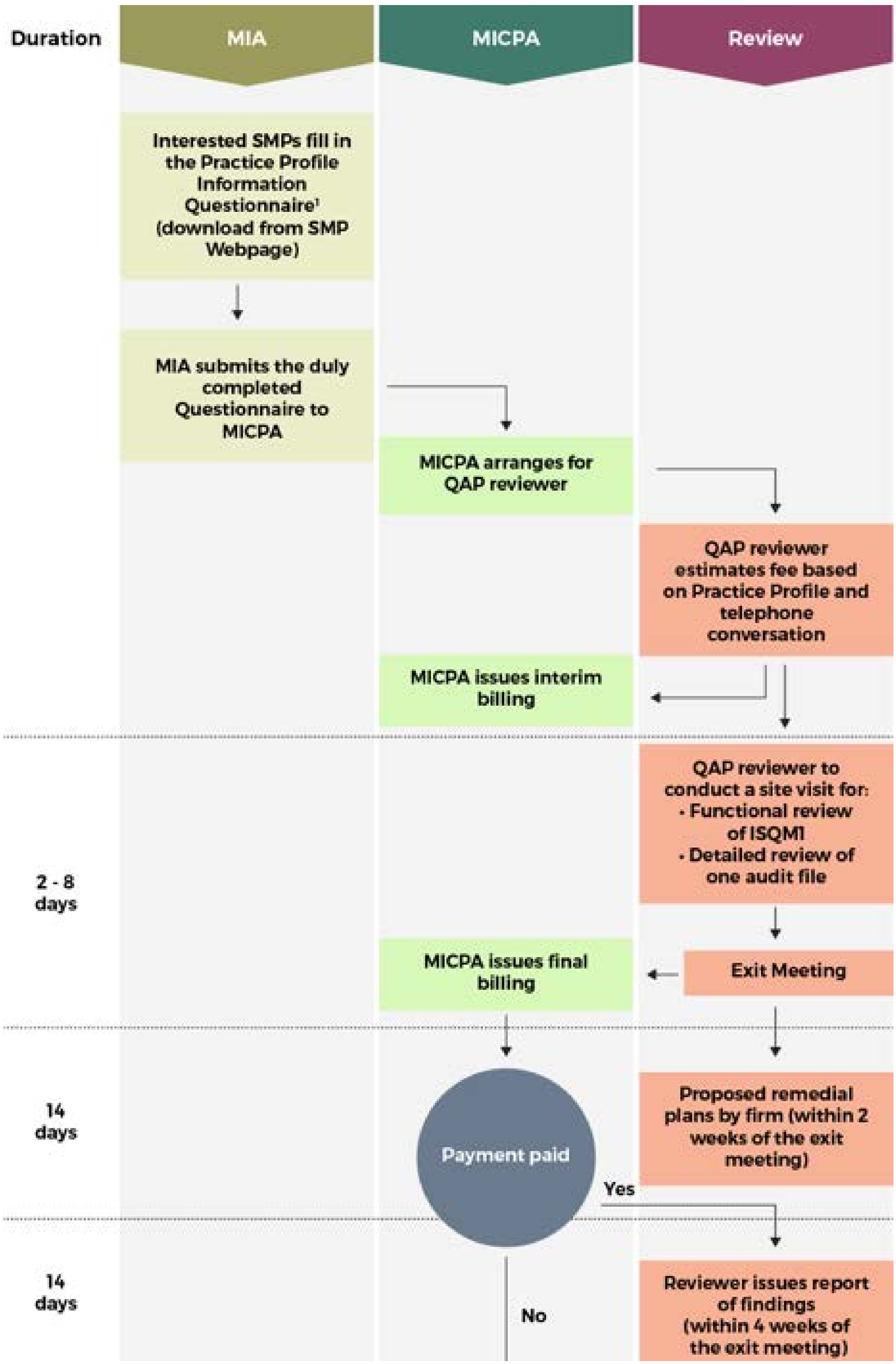
Fee

The fees are variable depending on the firm size and complexity of the audit engagement reviewed. The charges are RM1,200 per man day and the maximum charge is capped at RM10,000, excluding SST and reimbursements.

Duration

The estimated duration for a site visit under the QAP Programme is 2 to 8 days.

Process Flow of QAP


Duration
MIA
MICPA
Review
Interested SMPs fill in the Practice Profile Information Questionnaire[1] (download from SMP Webpage)
MIA submits the duly completed Questionnaire to MICPA
MICPA arranges for QAP reviewer
QAP reviewer estimates fee based on Practice Profile and telephone conversation
MICPA issues interim billing
2 - 8 days
QAP reviewer to conduct a site visit for:
• Functional review of ISQM1
• Detailed review of one audit file
Exit Meeting
MICPA issues final billing
14 days
Payment paid
Proposed remedial plans by firm (within 2 weeks of the exit meeting)
Yes
14 days
No
Reviewer issues report of findings (within 4 weeks of the exit meeting)

[1] *Practice Profile Information Questionnaire*

Testimonials from QAP participating firms and common findings of the QAP can be found in the following articles published in e-AT:

• Thumbs up for QAP

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

Transitioning to Peer Review or Quality Assessment Programme

As audit firms prepare to transition to the new framework, it is essential to understand the different methodologies and requirements of Peer Review and the Quality Assessment Programme (QAP). While both approaches aim to elevate audit quality, they provide distinct pathways and processes to achieve this goal. A Peer Review allows for a more personalised improvement process through peer guidance, whereas QAP offers a formal and structured evaluation by experienced reviewers. Part 2 of this article will provide a detailed comparison of Peer Review and QAP to help practitioners navigate the new system and make informed decisions.

Part 2 of this article on Peer Review and the QAP can be accessed here.

New Practice Review Framework (Part 2): Comparison between Peer Review and Quality Assessment Programme and Their Implementation

at-mia.my/2024/06/26/new-practice-review-framework-part-2-comparison-between-peer-review-and-quality-assessment-programme-and-their-implementation

June 26, 2024

By SMP Department, Professional Practices & Technical

The goal of subjecting the work of the practitioners under the order to a review (peer review or Quality Assessment Programme (QAP)) by the Practice Review Committee (PRC) is to uphold audit quality by enabling the practitioner of a Type 3 firm (the Practitioner) to improve the quality of work under the supervision of suitably qualified practitioners. The reviewer serves as a mentor assisting the practitioner under review and the focus is to assess the quality of the audit process undertaken and provide recommendations on the improvements needed.

Whilst both Peer Review and QAP aim to enhance audit quality, their approaches differ as follows:

	Peer Review	QAP
Nature of review	Mandatory under Order 3A The review can occur either before or after the audit has been completed and signed (hot or cold review).	Mandatory only under Order 3B, as an additional measure to peer review. The review is conducted after the audit has been completed and signed.
Selection of reviewer	The practitioner under review can engage any suitably qualified practitioner as peer reviewer, subject to PRC's approval, as long as there are no conflicts of interest or independence issues. Peer reviewers should not be appointed among practitioners who are not in good standing or currently under litigation/suspended by any relevant regulatory authority.	MICPA as the main coordinator for QAP will determine the reviewer (based on their availability) for each firm's application to participate in QAP.
Qualifications of reviewers	An individual serving as a reviewer should at a minimum: • Be a member of the MIA in good standing; • Be practitioners (with valid PC certification and a valid audit license) who must not have failed the MIA's practice review / are not in a non-suspended status / are free of restrictions from regulatory or governmental bodies on the practitioner's ability to practice; • Be currently active in public practice in the accounting or auditing function with current practice experience by performing or supervising accounting or auditing engagements in the audit firm or carrying out a quality control function in the firm, with reports dated within the last 18 months; • Not be associated with a firm that has received a report with a practice review rating of Type 3 or Type 4 or a firm that is currently in the process of complaint; • Not currently be in the process of practice review and/or have received the notification that practice review will be conducted in the next 12 months; • Possess current knowledge of professional standards and experience related to the kind of practice and industries of the engagements to be reviewed; • Have spent the last 5 years practicing in the accounting or auditing function; • Have completed at least 10 out of 20 structured CPE hours each year which must be related to International Standards on Quality Management (ISQM) 1, approved auditing standards, approved accounting standards and/or professional ethics; • Meet specific additional qualifications if he/she plans to review engagements that must be selected during a peer review.	The review shall be led by at least an experienced director, who has at least three years of review experience as a director, in a sizable audit firm.
Prior approval for reviewer selected	The Practitioner needs to seek prior approval from MIA for the peer reviewer selected. The approval process focuses on avoiding the practitioner under review engaging practitioners that are not in good standing or currently under litigation and/or suspended by any relevant regulatory authority.	No approval is required from MIA. However, each practitioner is required to send the application firm, i.e., Practice Profile Information Questionnaire to MIA for preliminary screening of the firm's details. Once this screening is satisfactorily completed, MIA will forward the application to the MICPA for further processing.

Compensation of reviewer	Any compensation (if any) made to a peer reviewer is the private arrangement between the Practitioner and the Peer Reviewer.	The charge is RM1,200 per man day and the maximum charge is capped at RM10,000, excluding SST and reimbursements, payable to MICPA.
Appointment letter of reviewer	The appointment letter should cover matters pertaining to scope of engagements, remuneration, confidentiality, responsibilities and professional conduct, etc. There should also be a signed declaration of independence between the Peer Reviewer and the Practitioner.	The entire assessment will be conducted by MICPA's appointed QAP reviewers. The QAP Reviewer will be required to sign a reviewer agreement with MICPA, which shall consist of a confidentiality clause and conflict of interest clause.
Selection of audit engagement files	There are different orders that can be issued by the PRC depending on the severity of findings during the practice review. The PRC may order that certain audit engagements signed off by the Practitioner within a specified review period be subject to peer review. In most cases, the number of audit engagements subject to peer review within a specified review period will be stated in the order issued by the PRC.	Limited to one (1) completed audit engagement. If the volunteered statutory audit engagement is a group engagement, the QAP Reviewer will review up to one (1) significant component file and the consolidation process. An audit engagement that has been previously reviewed or has been selected for practice review cannot be selected. MICPA has the absolute discretion to determine whether to accept or reject the selected file. MICPA can reject any audit engagement selected for QAP without giving any reasons.
Criterion for file selection	The Practitioner should bear in mind that the objective of the peer review is to provide an opportunity for him/her to improve on his/her audit process under the guidance of another suitably qualified practitioner. For this purpose, the audit engagements selected should at the minimum consist of the findings as identified in the practice review report. Other considerations for file selections should be the audit fees, the size and complexity of the engagements, and the nature and operations of the auditees.	In the event a QAP Reviewer or any partner, employee or personnel employed in the same firm (related parties) in which the QAP Reviewer is employed had been involved in any investigation and/or disciplinary action previously conducted by MIA and/or MICPA on a practitioner, such a QAP Reviewer shall recuse himself/herself as a QAP Reviewer of such practitioner's firm. Likewise, in the event a QAP Reviewer or a related party had been involved in a QAP review, such a QAP Reviewer shall recuse himself/herself from any future involvement as a member of any investigation and/or disciplinary action conducted by MIA and/or MICPA on such a practitioner's firm.
Participation	Conducted by a peer from the industry. Practitioners will engage a suitably qualified reviewer themselves. The reviewer must fulfil the qualifications of reviewers as mentioned above.	Conducted by a pool of subject matter experts from MICPA, providing a more formal and regulated framework. SMPs who are interested to participate in the QAP are required to complete the Practice Profile Information Questionnaire and forward the same to the SMP Department at smp@mia.org.my. The questionnaire will enable the QAP reviewer(s) to understand

		each practice better.

By introducing Peer Review and the QAP, the framework aims to tailor interventions to the specific needs of audit firms, ensuring both immediate improvements and long-term excellence in audit practices. Audit firms, particularly those with a Type 3 rating, should prepare to engage with these new processes, which will not only address existing deficiencies but also foster a culture of continuous improvement and professional integrity within the auditing sector.

For any enquiry, please contact:

- Peer Review – practicereview@mia.org.my
- QAP – smp@mia.org.my

Part 1 of this article on Peer Review and the QAP can be accessed here.

Promoting Inclusivity Through an Accounting Technician Qualification

at-mia.my/2024/06/07/promoting-inclusivity-through-an-accounting-technician-qualification

June 7, 2024

By Timothy Dawkins and Leong Mun Foong

Like other countries, Malaysia too faces a shortage of qualified accountancy professionals. According to targets for the development of the accounting sector which were published in the Economic Transformation Programme in 2010, Malaysia aimed to produce 60,000 accountants by 2020, which was subsequently revised to 2030. To date, there are close to 40,000 members registered with the Malaysian Institute of Accountants (MIA), who are the professional accountants referred to as Chartered Accountant (M) based on the Accountants Act 1967.

To address the challenges of training more accountants, one solution is to establish recognised standards for Accounting Technicians based on the foundation proficiency level in line with the International Federation of Accountants (IFAC) International Education Standards. Therefore, MIA has developed a competency framework for accountancy professionals that includes Accounting Technicians, to be more inclusive and considering the demands of this professional title as well as employer feedback.

The MIA Competency Framework has been developed to ensure the future relevance of the profession and future fitness of accountancy professionals, including by focusing on the role of accounting technicians. The Association for Accounting Technicians (AAT) is the world's leading professional body for Accounting Technicians and offers qualifications in Malaysia, which provide an option for many more people to gain access to a career in accountancy.

Qualified Accounting Technicians are well placed to be able to fill the shortfall in accountancy professionals. Their training gives them the skills to be able to support businesses of all sizes to not only survive but thrive in a rapidly changing global business environment. Additionally, hiring Accounting Technicians can also be cost effective for employers, as they can offer solutions to help businesses manage their finances efficiently. In particular, the growth in Shared Service Centres may spike demand for Accounting Technicians as they are needed to gather, process and interpret the data in Malaysia.

Bearing the above in mind, the Committee to Strengthen the Accountancy Profession (CSAP) Implementation Committee has requested the Ministry of Finance to consider incorporating the Accounting Technicians title under the new Act once the present Accountants Act has been repealed.

Inclusive opportunities

The AAT Accounting qualification provides a strong foundation of financial knowledge and skills, which students can use to find a job in accounting or to pursue further studies. Anyone can begin their Accounting Technicians journey no matter what their age or previous career roles. The AAT is the world's leading professional body for Accounting Technicians including bookkeepers and offers qualifications in Malaysia, which provide an option for many more people to gain access to a career in accountancy.

> It has nearly 124,000 members and students in over 105 countries around the world, including Malaysia, and has been helping people access careers in the accountancy profession for over 40 years.

Although the title of Accounting Technicians is widely used in other countries such as the United Kingdom, the term is not commonly used in Malaysia. Therefore, MIA will have to advocate for greater collaboration and awareness to ensure the role of the Accounting Technician bodes well for the market, including legislative amendment to the present Accountants Act.

The Accounting Technician qualification is suitable for school leavers who can be trained to support senior accounting staff. Through AAT, among others, they can gain an internationally recognised qualification. The AAT programme also offers competency training for school leavers in preparation of joining the workforce. The modern AAT Q2022 qualifications give additional insights to modern trends such as block chain and data analytics as well as the solid foundation to accounting practices for business. Big data is the next big thing as highlighted in the MIA Digital Blueprint as part of the Industrial Revolution 4.0. Accounting Technicians are required to process and interpret a lot of data in the wake of the rising growth of Shared Service Centres and Global Business Services in Malaysia.

The focus of these qualifications is practical skills, making AAT professionals or Accounting Technicians real-world-ready, so that employers can trust that they are getting someone ready to come into a role and have an instant impact.

AAT membership community

Alongside being a qualifications provider, globally AAT plays a key role in establishing, maintaining, and raising professional standards in select economies. This is how the organisation gives back to members, by providing a strong voice for them in the sector and working to address issues that affect professionals across the community. AAT has worked closely with training providers in Malaysia for several years and continues to represent the accounting community passionately around the country.

AAT also works with IFAC to develop the illustrative competency framework for Accounting Technicians, which highlights the importance of Accounting Technicians in line with the MIA Competency Framework.

AAT is looking forward to working with MIA on expanding the base of Accounting Technicians for the future relevance of the profession and nation-building. This is a real opportunity to show how Accounting Technicians can play a crucial role at a time of significant economic change worldwide, and ensure these qualifications are recognised for the value they bring to individuals, businesses and the economy.

Timothy Dawkins is the International Development Lead, Association of Accounting Technicians (AAT)

and Leong Mun Foong is Head of the Competency Framework Development, Malaysian Institute of Accountants

Recent Key Changes within the Revised AML/CFT/CPF and TFS for DNFBPs & NBFIs Policy Document Affecting Accountants

at-mia.my/2024/06/28/recent-key-changes-within-the-revised-aml-cft-cpf-and-tfs-for-dnfbps-nbfis-policy-document-affecting-accountants

June 28, 2024

The revised Policy Document on *Anti-Money Laundering, Countering Financing of Terrorism, Countering Proliferation Financing and Targeted Financial Sanctions for Designated Non-Financial Businesses and Professions & Non-Bank Financial Institutions (AML/CFT/CPF and TFS for DNFBPs and NBFIs)* was issued on 5 February 2024 by Bank Negara Malaysia (BNM) and came into effect on 6 February 2024.

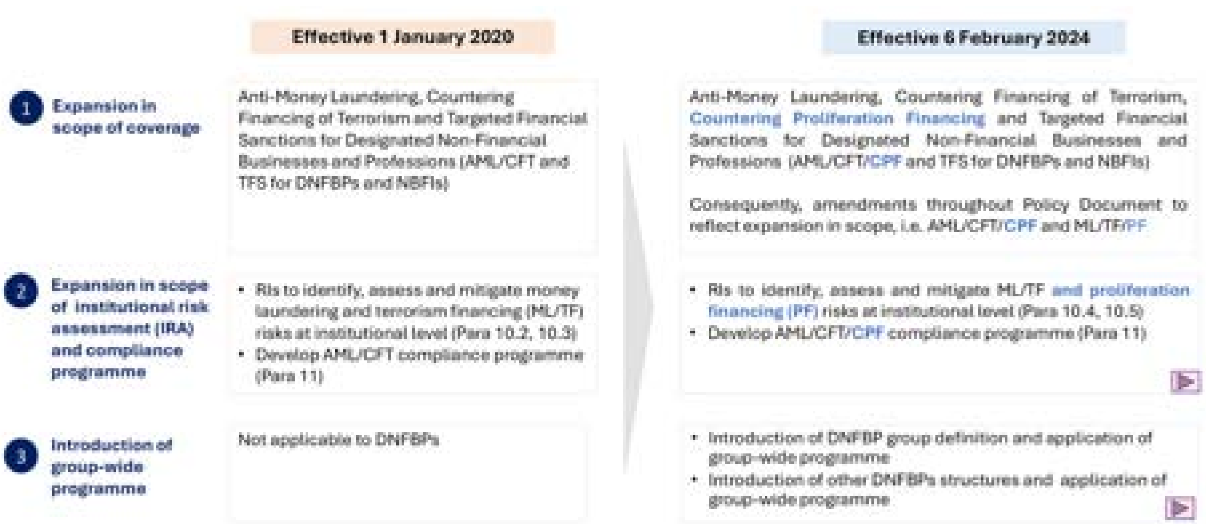
On 29 March 2024, MIA in collaboration with BNM conducted a webinar on the key changes within the Revised AML/CFT/CPF and TFS for DNFBPs & NBFIs Policy Document as it relates to accountancy services.

The session was divided into 2 sections and presented by:

- Cik Masya Zafira binti Supaat on the revised AML/CFT/CPF and TFS Policy Document for DNFBPs and NBFIs; and
- Cik Nur Afiqah Rahma binti Nosruddin on Data and Compliance Report (DCR) 2024

The changes in the policy document were made to align with the changes in Financial Action Task Force (FATF) standards and to further provide clarity on the policy implementation. The detailed changes as presented by BNM are as follows:

Changes to FATF standards necessitate update to the Policy Document



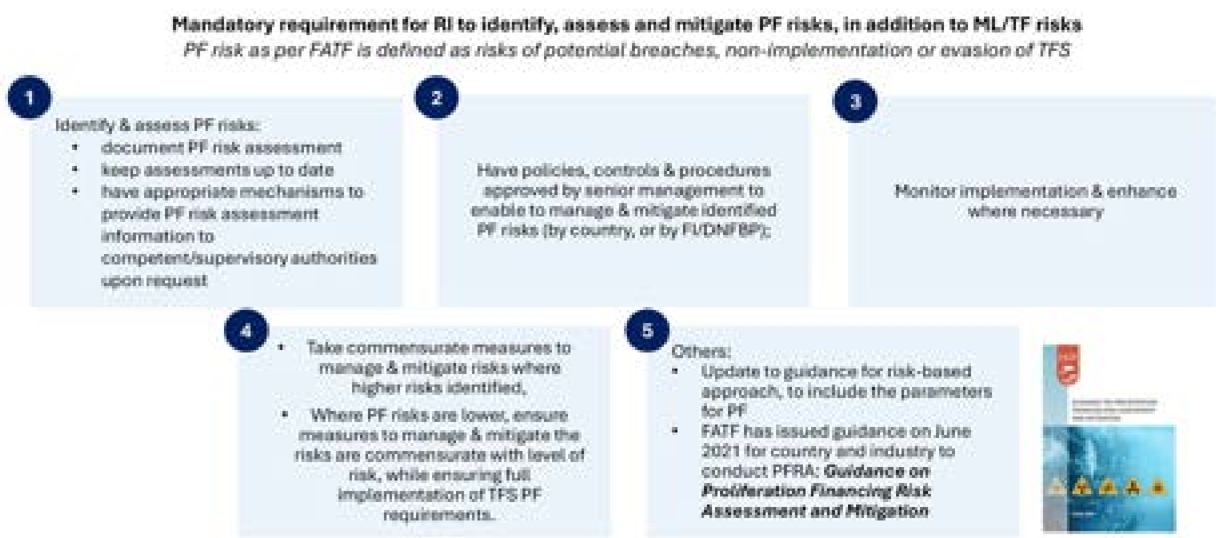
	Effective 1 January 2020	Effective 6 February 2024
1 Expansion in scope of coverage	Anti-Money Laundering, Countering Financing of Terrorism and Targeted Financial Sanctions for Designated Non-Financial Businesses and Professions (AML/CFT and TFS for DNFBPs and NBFIs)	Anti-Money Laundering, Countering Financing of Terrorism, Countering Proliferation Financing and Targeted Financial Sanctions for Designated Non-Financial Businesses and Professions (AML/CFT/CPF and TFS for DNFBPs and NBFIs) Consequently, amendments throughout Policy Document to reflect expansion in scope, i.e. AML/CFT/CPF and ML/TF/PF
2 Expansion in scope of institutional risk assessment (IRA) and compliance programme	• RIs to identify, assess and mitigate money laundering and terrorism financing (ML/TF) risks at institutional level (Para 10.2, 10.3) • Develop AML/CFT compliance programme (Para 11)	• RIs to identify, assess and mitigate ML/TF and proliferation financing (PF) risks at institutional level (Para 10.4, 10.5) • Develop AML/CFT/CPF compliance programme (Para 11)
3 Introduction of group-wide programme	Not applicable to DNFBPs	• Introduction of DNFBP group definition and application of group-wide programme • Introduction of other DNFBPs structures and application of group-wide programme

Abbreviation: RI – Reporting Institutions

Where does the key change reside within the AML/CFT/CPF Ecosystem?

Abbreviation: OSR – Other Sanctions Regime

Expansion in institutional risk assessment (IRA) coverage



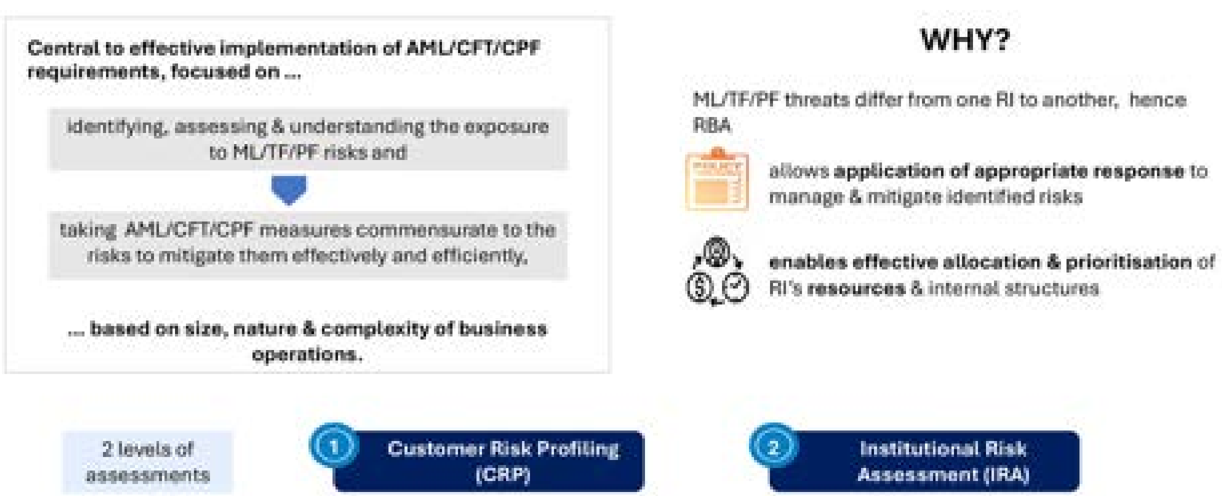
Simplified guide on key AML/CFT/CPF requirements to elevate reporting institutions' understand and compliance

Abbreviations: EDD – Enhanced Due Diligence, ODD – On-going Due Diligence

Comply to Protect with 7-Steps

1. To Know Your Clients/ Customers
2. To Screen – Sanctions Screening
3. To Profile
4. To Enquire More – EDD
5. To Report – STR
6. To Keep – Record Keeping & Management Information System
7. To Monitor & Update - ODD

Why apply Risk Based Approach (RBA)?



How customer risk profiling supports institutional risk assessment?

How to perform risk assessment?

Step A1 : Identify **all risk factors** that affect your business & operations, based on .....

.... risk factors which may be similar to CRP, but **aggregated at institution** level, for example

Types of customer you are dealing with
- Individuals, Corporates, trust
- PEPs, high net worth
- Level of complexity
- Nationality
- Type of business / occupation
- Nominee shareholders
- From higher risk countries or tax haven jurisdictions
- Provides vague or incomplete information
- Companies with directors or BO listed in the unilateral list or adverse news
- Engage in complex trade deals
- Dealing with dual-used goods

Countries / geographic location of your business
- Country's border / entry points
- Tourist or crime hotspots
- Countries called by FATF or Malaysia having higher risk
- Countries associated with criminal activities , etc.
- Jurisdictions identified as providing funding or support for money laundering, terrorism or proliferation of weapons of mass destruction.

Product & services offered
- Nature & level of complexity
- Cash intensive / High value
- Easily transferable, transported or concealed
- Nominee services, etc.

Transactions & delivery channels
- Non-FTF transactions or relationships volume & frequency
- Cash vs other payment mode
- Mode of distribution, e.g. direct / agent / technology
- Cross-border vs domestic
- Cross border transactions with high-risk jurisdictions
- Involve with possible companies with opaque ownership structure

How to perform risk assessment?

Step A1 : Identify **all risk factors** that affect your business & operations, based on .....

.... **and additional** risk factors relevant to your business, **for example**

Structure of your business
- Size, nature & complexity
- Number of branches / agents
- Number & profile of employees
- Size relative to industry

National Risk Assessment Findings
- Overall exposure to sectors highly vulnerable to ML/TF/PF risks
- Crimes identified as high ML/TF/PF risk

Other factors
- Current trends & typologies
- Internal audit findings

Step A2 : Formulate **parameters for each risk factor** according to the size and complexity of your business

Risk factor	Examples	Formulated parameters
Customer	Higher risk customers	• No. of higher risk customers more than 20% of total customer base for a year • No of high risk PEPs more than 5% of total customers
	Local and foreign customers	• % of local and foreign customers
	Companies with nominee shareholders	• % against total non-individual customer base
Transactions & Delivery channel	Cash-intensive or other forms of anonymous transactions	• High volume of cash transactions in general, or above a pre-determined threshold • High volume of nominee or proxy transactions, or easily transferable products
	Non-face-to-face transactions	• % of non-face-to-face transactions / relationships against total transactions / customers
Findings of NRA	Sectors identified as highly vulnerable	• No of customers with occupation or nature of business from highly vulnerable sectors

Step A3 : Determine your business' **level of ML/TF/PF risks**

- Apply all risk factors and parameters to determine extent of ML/TF/PF risk exposure
- Assign risk rating based on the level of ML/TF risks you are willing to accept, i.e. risk appetite

Step A4 : **Senior Management and/or Board** approval & maintain records

Next, how to establish risk management measures?

Develop risk mitigation measures and controls that commensurate with identified ML/TF/PF risks, based on:

Nature, scale and complexity of operating structure	Types of customers	Product or services offered	Volume & size of transactions	Diversity of operations, geographical locations	Delivery channels e.g. direct, third parties or agents or non FTF bases

Examples of risk mitigation measures

1. Restrict or limit transactions
2. Require additional internal approvals for certain transactions, products/services
3. Conduct regular training programme for relevant employees
4. Employ biometric system for better customer verification
5. Enhance controls for effective sanctions screening and transaction monitoring, e.g. risk-based measures to mitigate sanctions evasion, employ technology-based screening, improve screening algorithms

Can IRA be based on selected factors and what is the appropriate frequency?

YES,

subject to

- **first IRA must be comprehensive** covering all risk factors
- **update** to IRA can be on based on selected factors

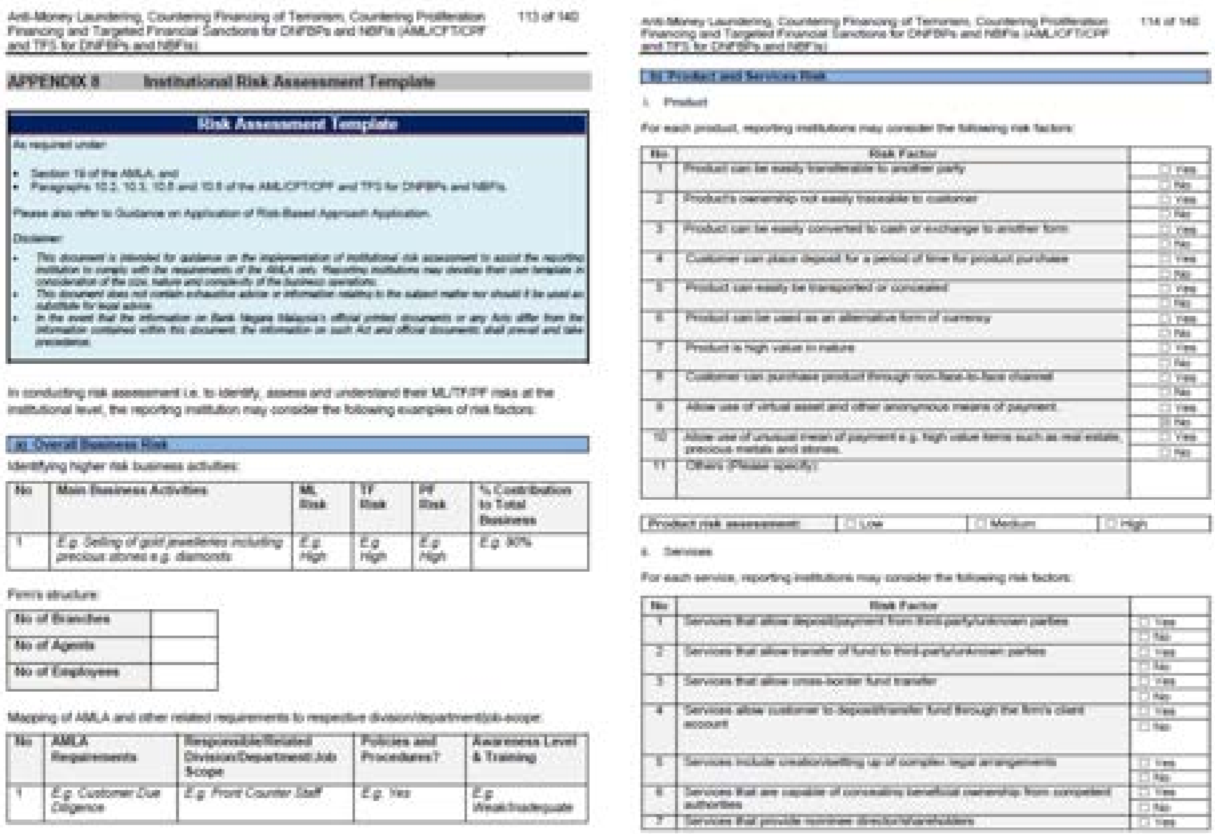
NO fixed frequency,

may be set based on, for example:

- **Specific period**, e.g. 1 -2 years
- **Change in circumstances**, e.g. material changes in risk profile, significant internal audit finding, changes in business direction, new typologies or new technologies

Provide IRA to BNM when requested as part of supervisory assessments or during on-site

Sample as Guidance to RIs: Appendix 8 on IRA Template



Anti-Money Laundering, Countering Financing of Terrorism, Countering Proliferation Financing and Targeted Financial Sanctions for DNFBPs and NBFIs (AML/CFT/CPF and TFS for DNFBPs and NBFIs) 113 of 140

APPENDIX 8 Institutional Risk Assessment Template

Risk Assessment Template

As required under:

- Section 19 of the AMLA; and
- Paragraphs 10.2, 10.3, 10.8 and 10.9 of the AML/CFT/CPF and TFS for DNFBPs and NBFIs.

Please also refer to Guidance on Application of Risk-Based Approach Application.

Disclaimer:

- *This document is intended for guidance on the implementation of institutional risk assessment to assist the reporting institution to comply with the requirements of the AMLA only. Reporting institutions may develop their own template in consideration of the size, nature and complexity of the business operations.*
- *This document does not contain exhaustive advice or information relating to the subject matter nor should it be used as substitute for legal advice.*
- *In the event that the information on Bank Negara Malaysia's official printed documents or any Acts differ from the information contained within this document, the information on such Act and official documents shall prevail and take precedence.*

In conducting risk assessment i.e. to identify, assess and understand their ML/TF/PF risks at the institutional level, the reporting institution may consider the following examples of risk factors:

(a) Overall Business Risk

Identifying higher risk business activities:

No	Main Business Activities	ML Risk	TF Risk	PF Risk	% Contribution to Total Business
1	*E.g. Selling of gold jewelleries including precious stones e.g. diamonds*	*E.g. High*	*E.g. High*	*E.g. High*	*E.g. 90%*

Firm's structure:

No of Branches	
No of Agents	
No of Employees	

Mapping of AMLA and other related requirements to respective division/department/job-scope:

No	AMLA Requirements	Responsible/Related Division/Department/Job Scope	Policies and Procedures?	Awareness Level & Training
1	*E.g. Customer Due Diligence*	*E.g. Front Counter Staff*	*E.g. Yes*	*E.g. Weak/Inadequate*

Anti-Money Laundering, Countering Financing of Terrorism, Countering Proliferation Financing and Targeted Financial Sanctions for DNFBPs and NBFIs (AML/CFT/CPF and TFS for DNFBPs and NBFIs) 114 of 140

(b) Product and Services Risk

i. Product

For each product, reporting institutions may consider the following risk factors:

No	Risk Factor	
1	Product can be easily transferable to another party	☐ Yes ☐ No
2	Product's ownership not easily traceable to customer	☐ Yes ☐ No
3	Product can be easily converted to cash or exchange to another form	☐ Yes ☐ No
4	Customer can place deposit for a period of time for product purchase	☐ Yes ☐ No
5	Product can easily be transported or concealed	☐ Yes ☐ No
6	Product can be used as an alternative form of currency	☐ Yes ☐ No
7	Product is high value in nature	☐ Yes ☐ No
8	Customer can purchase product through non-face-to-face channel	☐ Yes ☐ No
9	Allow use of virtual asset and other anonymous means of payment	☐ Yes ☐ No
10	Allow use of unusual mean of payment e.g. high value items such as real estate, precious metals and stones	☐ Yes ☐ No
11	Others (Please specify)	

Product risk assessment:	☐ Low	☐ Medium	☐ High

ii. Services

For each service, reporting institutions may consider the following risk factors:

No	Risk Factor	
1	Services that allow deposit/payment from third-party/unknown parties	☐ Yes ☐ No
2	Services that allow transfer of fund to third-party/unknown parties	☐ Yes ☐ No
3	Services that allow cross-border fund transfer	☐ Yes ☐ No
4	Services allow customer to deposit/transfer fund through the firm's client account	☐ Yes ☐ No
5	Services include creation/setting up of complex legal arrangements	☐ Yes ☐ No
6	Services that are capable of concealing beneficial ownership from competent authorities	☐ Yes ☐ No
7	Services that provide nominee director/shareholders	☐ Yes

Where does the key changes reside within the AML/CFT/CPF Ecosystem?

Introduction of group-wide programme

A) Introduction of DNFBP group & application of group-wide programme

A vertical structure between the parent company/ head office and subsidiaries/ branches.

RI who act as a parent company/ head office for another RI are required to have the following measures:

a) framework for AML/CFT/CPF compliance programme at the group level;
b) appoint a Group Compliance Officer at management level;
c) policies and procedures for sharing information required for the purposes of CDD and ML/TF/PF risk management;
d) the provision of customer, account and transaction information from branches and subsidiaries when necessary for AML/CFT/CPF purposes; and
e) safeguards on the confidentiality and use of information exchanged.

B) Introduction of other DNFBP structures & application of group-wide programme

A relationship between DNFBP that shares common ownership, management or compliance control.

Additionally, DNFBPs within this structure that:

a) rely on other RIs under the same structure to conduct CDD; and
b) undertake more than one type of activity within & across more than one jurisdiction

are required to have common policies and procedures that is consistent with the AML/CFT/CPF requirements in Malaysia.

a. Common ownership
    - Common shareholder(s) or partner(s).
b. Common management
    - There is a group governing or managing body, each entity works on the basis of a group-wide business strategy and/or business model;
    - Group level reporting e.g. directors and other senior management;
    - Group audit or reporting function overseeing implementation of common/group policies and procedures;
    - Arrangements exist requiring two or more entities/ offices to implement and operate to common policies and procedures; or
    - Where responsibility for developing group policies and procedures rests with one entity in the group/network/franchise.
a. Common compliance controls
    - Existing group-wide policies, compliance and audit functions;
    - Where an entity is obliged to periodically report to another connected individual/entity on compliance and/or risk management matters; or
    - Periodic central administration/compliance costs being charged to the local entity by a connected individual/entity

Changes for clarity of expectations to elevate understanding and compliance – not exhaustive, Risk must refer to the Policy Document for all changes

1	AML/CFT/CPF Compliance Programme - employee screening	RIs to maintain records of information relied for employee screening (Para 11.7.8)
2	On-going due (ODD) diligence	RIs to periodically review ODD measures to ensure it remains relevant and effective (Para 14.12.4)
3	Non-FTF business relationship	Provision of guidance on identification and verification of customers when establishing non-FTF business relationship (Para 14.4.9)
4	Reliance on third parties	Guidance on expectations to be met when relying on third parties within the group (Para 16.8)
5	Suspicious transaction report	Changes to STR forms that are available on as provided in Bank Negara Malaysia's AML/CFT website: https://amlcft.bnm.gov.my/aml/cft-policies (Para 19.2.5)
6	Targeted financial sanctions (TFS)	• Clarity that TFS requirements not tied to CDD and prescribe minimum data points to facilitate screening (Para 23.4.2 / 24.4.2 / 23.4.3 / 24.4.3) • RIs to maintain records to demonstrate conduct of sanctions screening (Para 23.4.6 / 24.4.6) • RIs must submit STRs for any match to unilateral sanctions list, e.g. OFAC, etc (Para 23.8.3 / 24.8.3)

Additional information: Data and Compliance Report 2024

BNM also highlighted that there will be a mandatory requirement to submit the Data and Compliance Report 2024 (DCR 2024) which will be issued in October 2024 with a submission window of three months.

The overall information request remains largely unchanged,covering a two-year period i.e. 2022 and 2023. The DCR comprises several sub-sections: business information and structure, risk assessment, compliance programme and DNFBP group. In line with the issuance of DCR 2024, targeted DCR Clinics will be conducted to assist accountancy practitioners in submitting the DCR.

The session concluded with insightful responses to questions by participants and key takeaways for implementation.

Redefining Precision: Malaysia’s Unique Arm’s Length Range

May 31, 2024

By Gagandeep Nagpal & Thomas Chan Yeu Wai

In a stride towards aligning the local transfer pricing regulations with the global common approach, Malaysia released revised Transfer Pricing Rules last year (TPR23). The TPR23 includes a departure from the contentious reliance on a median-based approach for comparability analysis, which had long been a matter of dispute during audits. Instead, the TPR23 embraces the widely recognised “range” concept. As the dust settles on this revision, it would be interesting to assess the implications of this change.

Why statistical measures are relevant in transfer pricing comparability analysis?

To set the context, the integration of statistical measures such as range and median adds a crucial layer of objectivity to the entire comparability process and transforms transfer pricing into more of a science than an art. These statistical measures are of assistance when the application of the most appropriate method(s) produces a range of potential arm’s length outcomes instead of single figure (e.g., price or margin). These statistical measures that take account of central tendency to narrow the range (e.g. interquartile range or other percentiles) are relevant in the comparability analysis primarily due to the following reasons:

While it could be argued that any point in the full range satisfies the arm’s length principle, there may still be some comparability defects. Therefore, sometimes, it may make more economic sense to apply further measures of central tendency to pinpoint a precise point within the range (e.g. median, arithmetic mean) to conclude the comparability analysis instead of comparison with a range of figures.

The aforesaid theory finds support in the OECD TP Guidelines Chapter III. Now, after understanding the theoretical background and rationale for the use of these statistical measures in transfer pricing comparability analysis, let us explore the practical implications of these principles in Malaysia.

How has this concept evolved in Malaysia?

Historically, and due to the absence of clarity in the Transfer Pricing Rules 2012 (TPR12) on this subject, reliance was placed on the Malaysia TP Guidelines 2017 (TPGL) which prescribe the following:

The facts and circumstances of a case are important in determining a range, or the point in a range, that is the most reliable estimate of an arm's length price.	A substantial deviation among points or between the data in the range (e.g., upper quartile and lower quartile) may indicate that comparables used are not reliable, and material differences exist in terms of the functional analysis which warrant comparability adjustment.	In case comparability defects remain even after making comparability adjustments, it may be appropriate to make transfer pricing adjustments to a value that best reflects the facts and circumstances and it may be derived from utilising statistical tools depending on the specific characteristic of the data set.

In the past, the Inland Revenue Board of Malaysia (IRB) placed reliance on the above guidelines and preferred the median as the default point of adjustment in transfer pricing audits by citing one or more of the following arguments (non-exhaustive)-

Limitations in identifying adequate number of local comparable companies to form the comparable set (particularly if taxpayer is engaged in niche industry/ business).	Levels of disclosures made in the financial statements of the comparable companies are not adequate to reliably check the comparability criteria.	A very wide range indicates comparability defects that cannot be identified or reliably adjusted.

Some taxpayers successfully contested this approach in the Courts[1]. However, these disputes were more factual than legal, and the uncertainty persists until a final decision is reached by the Courts, enticing some taxpayers to seek out-of-court settlements as well. Recognising these challenges and the need for alignment with international standards, the IRB embraced the concept of "range" in TPR23, albeit with a narrower definition (37.5 percentile to 62.5 percentile) compared to the customary interquartile range (25th percentile to 75th percentile).

What are the practical implications of the newly introduced range?

It is a welcome move that the IRB has finally given recognition to the “range” concept, albeit with its own flavour. The key features of the newly introduced range are –

Arm’s length range is considered as a range of figures or a single figure falling between the value of 37.5 percentile to 62.5 percentile of the data set accepted by the IRB during audit.

Where the price at which a controlled transaction entered by a person is—
- within the arm’s length range, such price may be regarded to be the arm’s length price; or
- outside the arm’s length range, the arm’s length price shall be taken to be the median.

The Director General may adjust the price of the controlled transaction to the median or any other point above median within the arm’s length range—
- where the uncontrolled transaction is the kind which has a lesser degree of comparability; or
- where any of the comparability defects cannot be quantified, identified, or adjusted.

Median has been defined as the value at the mid-point of the arm’s length range.

TPR23 is effective for Year of Assessment (YA) 2023, and currently, it is a kind of wait and watch situation to see how the IRB would regulate and implement these during audit. However, it is worthwhile anticipating some potential implications of these changes, as outlined below:

Malaysia has followed the path similar to a few other countries like India and Vietnam which have introduced a "range" narrower than the interquartile range. It means that taxpayers have less flexibility. Further, a taxpayer may face a transfer pricing adjustment in case the result of the tested controlled transaction falls outside this narrower range, because the result will be adjusted to the median point instead of the edges of the range, as per TPR23.

It may lead to double taxation in case the counter-party jurisdiction follows the interquartile range concept and may not give recognition to this narrower range under TPR23.

A foreign service provider (considered as a tested party) would have preference to adopt a consistent pricing policy (i.e., to keep margins within interquartile range) for all group companies in different jurisdictions, but may now need to carve out an exception for Malaysia.

TPR23 additionally empowers the use of any other point above median (up to 62.5 percentile) in case of a lesser degree of comparability / comparability defects in the benchmarking, which eventually would create further uncertainty and may lead to more disputes.

For a transfer pricing audit on multiple years of assessment (YA 2023 and prior open years of assessment), it could be a challenge to agree on the definition of "range" to apply. The IRB may be inclined to use the new narrower range, while the taxpayer may prefer otherwise.

Taxpayers would need to exercise additional diligence in selecting comparable companies for benchmarking analysis. Local comparables will clearly be preferred over global / regional comparables to mitigate the risk of IRB alleging comparability defects or lesser degree of comparability that allow transfer pricing adjustment to median or any other point above median (up to 62.5 percentile) even though the taxpayer's margin is within the arm's length range.

There may be increased scrutiny (and potential disallowance) of comparability adjustments proposed by taxpayers, on the premise that some degree of concession has already been made by using a "range" (instead of median) for the purpose of comparison.

Taxpayers rely on historical data of comparables to perform benchmarking analysis, instead of year-on-year results, for the purpose of price setting or year-end adjustments. However, similar to TPR12, TPR23 requires year-on-year comparison during audit. This poses an additional challenge, because going forward, taxpayers will need to keep some buffer in their margins to mitigate the risk of falling outside the new narrower range during an audit.

As the definition of "arm's length" may now differ between Malaysia and the counterparty jurisdiction, it could create more complexity under the OECD Pillar 2 GloBE rules that require transactions between constituent entities in different jurisdictions to be priced consistently with the arm's length principle and recorded at the same price for GloBE purposes for all constituent entities that are parties to the transaction.

With the anticipated challenges outlined above, it is imperative for taxpayers to closely monitor their transfer pricing results and ensure compliance with the arm's length principle in both counterparty jurisdictions. Exploring alternative dispute prevention mechanisms, such as bilateral advance pricing arrangements, can provide much needed certainty. Robust operational transfer pricing tools will also be key to sustainable tax transformation.

[1] Director General of the Inland Revenue Board of Malaysia ("DGIR") v Sandakan Edible Oils Sdn Bhd; DGIR v Procter & Gamble (Malaysia) Sdn Bhd.

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The content in this article is the personal view of the author and does not purport to reflect the views of Deloitte Malaysia.

Seeking Better Integration in Sustainability Reporting: Are Existential Questions Around Integrated Reporting Valid?

at-mia.my/2024/06/21/seeking-better-integration-in-sustainability-reporting-are-existential-questions-around-integrated-reporting-valid

June 21, 2024

By Pauline Ho

Is the Integrated Reporting (IR) Framework still relevant amid the increasing convergence of frameworks and standards? After all, it has been a decade since this principles-based framework was launched by the International Integrated Reporting Council (IIRC) in 2013. It is definitely not a new term in the Malaysian market, as one of the early movers in Southeast Asia to take a market-led approach to its adoption. Against the backdrop of increasing momentum on addressing sustainability issues catalysed by the pandemic, a number of developments have taken place, with the IR Framework having gone through a revision in 2020 to emphasise the importance of balanced reporting. The IIRC itself merged with the Sustainability Accounting Standards Board in June 2021 to form the Value Reporting Foundation (VRF). One year later, the VRF was consolidated into the IFRS Foundation. Early this year, new sustainability standards were released by the International Sustainability Standards Board (ISSB), a standard-setting body established in 2021–2022 under the IFRS Foundation.

The answer to this question is clear. The joint statement issued by the Chairs of the International Accounting Standards Board (IASB) and the ISSB in May 2022 states that they are convinced that the IR framework drives high quality corporate reporting and connectivity between financial statements and sustainability-related financial disclosures. The continued use of the IR Framework is also encouraged. In Malaysia, platforms which recognise good corporate reporting – such as the National Annual Corporate Report Awards (NACRA) – have realigned their assessment criteria with the principles of the IR framework. When reading the recently issued IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information, the disclosure requirements which promote communication about sustainability-related risks and opportunities are precisely an element that is promulgated by the IR framework in explaining how an organisation tells its value creation story. More importantly, good reporting is a by-product of integrated thinking which aims to promote cohesive strategies and measurement. Therefore, sustainability strategies can also be integrated as part of business strategies.

The adoption of the IR framework as part of a company's corporate reporting has been on an increasing trend. There are currently over 100 adopters of integrated reporting amongst Malaysian listed companies in 2021. The inclusion of Practice 12.2 in the update to the

Malaysian Code on Corporate Governance issued in April 2021 where large companies are encouraged to adopt integrated reporting based on a globally recognised framework would have pushed the number of adopters even higher. Concerns around readiness for compliance are weighing on companies' minds, especially with the release of the new Bursa Malaysia listing requirements on sustainability-related disclosures for listed companies in stages from 2023, and the proposal to mandate the adoption of IFRS S1 and S2 in stages.

What we have observed

I believe that listed companies in Malaysia already have a head start in complying with these enhanced disclosure requirements. As part of PwC Malaysia's Building Trust Awards 2023, selected FBM KLCI companies and Mid 70 Index companies were assessed for Integrated Reporting and Sustainability Reporting using PwC Malaysia's IR benchmarking tool and PwC Malaysia's ESG reporting assessment tool. Some notable findings from the IR benchmarking exercise which will be useful for listed companies in their journey towards adopting IFRS S1 include:

Clear definition of their strategy in their report, linking them to **material capitals, risks and their value creation model.** Those with clear business models also described the outcomes related to each capital.

For governance reporting, companies are beginning to **share insights into their specific activities,** sharing the areas of focus for the Board of Directors and linking back to the companies' strategies.

Development of their materiality matrix and disclosure of material matters along with their **risks and opportunities.** Some companies took it a step further to link these matters with their business model/ strategic plan and explained their key mitigation strategies.

Explanation of the **changes in their identified risks over time** (e.g. how a risk could be "moderate" in the prior year but developed into a "high" in the current year).

More transparency when it comes to **disclosing their actual performance against targets and KPIs set** for the business with some even linking to their overall strategy. Companies that provided clear linkages were able to provide specific and quantifiable targets in relation to their strategic priorities.

Enhancement of their **narrative on their future outlook** by linking it back to the macroeconomic environment in which they operate.

The above findings demonstrate that connectivity of information has improved over time – where the external factors that affect the company's business model are considered, the risks and opportunities impacting the company's strategies are identified, tracked and mitigated, measures of success are established and results reported transparently.

As for ESG reporting benchmarking, some of the good practices that were noted which will be useful for the adoption of IFRS S1 and S2 include:

Good disclosure over stakeholder management and identification of material matters. This is an area that is a required disclosure since sustainability reporting has been in place for several years.

Most companies disclose their **sustainability strategy, mission and vision.**

Disclosures on **carbon neutrality or net zero targets** are made by some companies.

However, there is a longer journey towards the adoption of IFRS S2 given the limited number of companies that have included Task Force on Climate-Related Financial Disclosures (TCFD) in their annual report. This is an area that can be progressively addressed in line with companies' efforts to meet the Bursa's sustainability reporting requirements. There is alignment between the IR Framework and the TCFD recommendations at a strategic level, notably in focusing board thinking and decision making on strategy, which provides a case for change given the 2025 target deadline for reporting TCFD-aligned disclosures for Main Market listed issuers.

Aiming for progress, not perfection

Companies that have adopted IR for their corporate reporting will note that it is an iterative process. Refinements and adjustments will need to be made along the way. Improving the ability to demonstrate the integration of resources used by the business and the impact they bring to the stakeholders over time will be key for better decision making. This same approach can be applied to the adoption of the new sustainability standards.

In order to disclose sustainability-related risks and opportunities, it is important to ascertain the material matters to providers of financial capital (as one of the stakeholders of the IR framework). This will provide the starting point for determining the governance processes, controls and procedures that the company should implement to monitor, manage and oversee.

There will be a need to incorporate the additional requirements into existing governance structures of companies, where sustainability reporting oversight resides. Additional controls and procedures may need to be considered as more data points will probably be required to be disclosed. Those providing oversight will also need some assurances that the data reporting is accurate and complete. Similar governance processes, controls and procedures are expected of companies preparing an integrated report.

Whilst we have seen some disclosures of sustainability pathways especially on emissions such as carbon neutrality or net zero emissions, short and medium-term targets may not have been set or disclosed. There are also other material sustainability-related targets which are not disclosed. The relevant governance body will need to set these goals, embed them into management KPIs and review periodic reporting on achievement of these targets.

Ultimately, it is important to establish the value and impact delivered by the business. The materiality assessment performed as the first step will establish what is of value to your stakeholders. We observed from our benchmarking exercise that many companies have been including stakeholder metrics in their annual report, focusing on material matters around people, planet and prosperity. The management information system that is designed based on the process of value creation will help with the monitoring of performance and informed decision-making. The end result will be the impact delivered (outcomes) to the stakeholders.

I am a strong believer that consistent, transparent and balanced reporting will help companies build trust with their stakeholders. There are certainly merits to continuing the use of the IR framework for long-term value creation and in promoting stakeholder trust.

This article is the view of Pauline Ho, Chair of the MIA Integrated Reporting Committee. Pauline is also the Chief Operating Officer and an Assurance Partner in PwC Malaysia.

Taking Public Sector Internal Audit to the Next Level

at-mia.my/2024/06/04/taking-public-sector-internal-audit-to-the-next-level

June 4, 2024

By the Accountants Today Team

Public sector internal audit in Malaysia is embarking on a transformative journey to enhance its role in driving good governance for nation building. Internal audit practitioners in the public sector therefore have to be prepared to take on evolving and expanding roles in this changing landscape.

“In a world of evolving governance, where tech is king, the role of internal audit in the Malaysian public sector is vital. It’s not just about ticking compliance boxes; it’s about sustainability, tech acceptance, and a risk-based mindset. Internal audit becomes the superhero, leading the charge in value creation, performance optimisation, and transparency,” stated Datuk Wan Suraya Wan Mohd Radzi, Auditor General Malaysia in her keynote address at the recent Public Sector Internal Audit Conference 2024 jointly organised by the Malaysian Institute of Accountants (MIA) and the Institute of Internal Auditors Malaysia (IIA Malaysia).

Addressing an audience of close to 150 public sector internal audit professionals on the conference theme of *Shaping Tomorrow’s Governance: Innovation In Public Sector Auditing*, Datuk Wan Suraya advised that, “Old auditing ways don’t cut it anymore. We need to evolve, innovate, and adapt to face the challenges ahead.”

Key takeaways

Datuk Wan Suraya highlighted key developments and initiatives undertaken by the National Audit Department of Malaysia (NADM) that will level up the internal audit practice in Malaysia.

Embracing Technological Advancements

“By harnessing the power of technology, auditors can uncover insights, detect anomalies, and identify potential risks more effectively, thereby strengthening the internal audit function,” she said.

The NADM has embarked on a digitalisation project that includes developing a data warehouse, an audit analytics application, an audit dashboard, as well as hardware and other supporting infrastructure. “This project aims to generate high-impact results that will empower NADM to make well-informed decisions by leveraging big data analytics, integrated data management, and data sharing across agencies. The outcome of this project will play a crucial role in strengthening the NADM's main systems, empowering the delivery of enhanced auditing services, increasing fraud detection and facilitating policy changes through the adoption of new technologies for sustainable digitalisation."

Enhancing Collaboration and Communication

The NADM intends to strengthen collaboration and communication between internal audit, management, and other stakeholders to ensure alignment of objectives, transparency, and accountability. "By fostering open dialogue and constructive feedback, internal audit can build trust, enhance governance practices, and drive performance improvement initiatives more effectively," said Datuk Wan Suraya. In this regard, NADM has signed a Memorandum of Understanding (MoU) with the Malaysian Anti-Corruption Commission (MACC) focusing on knowledge and experience sharing to improve service delivery to stakeholders. NADM also has a similar agreement with Universiti Teknologi MARA (UiTM). NADM has also signed an MoU with the IIA Malaysia to develop a mutual collaboration, sharing of knowledge and training in the field of auditing.

Investing in Professional Development

Investing in the professional development of internal audit professionals will equip them with the necessary skills, knowledge, and competencies to navigate complex governance challenges effectively. Furthermore, providing opportunities for training, certification, and skill-building initiatives will empower auditors to perform their roles with excellence and integrity.

The NADM is providing training programmes through the National Audit Academy to upgrade the skills and knowledge of auditors. "Internal auditors should be given appropriate ongoing training programs to meet the growing technical complexity and diversity of tasks within the organisation," said Datuk Wan Suraya. For example, the National Audit Academy recently conducted a course on Financial Statements of Majlis Agama Islam for all states and also a Financial Statements course for Local Authorities.

Integrate Sustainability Principles

Sustainability principles should be integrated into internal audit processes to promote environmental, social, and governance (ESG) considerations. By evaluating the impact of organisational activities on sustainability outcomes, internal audit can help mitigate risks, enhance resilience, and drive long-term value creation for the public sector, said Datuk Wan Suraya. In this matter, the NADM plans to conduct collaborative audits with other Supreme Audit Institutions, focusing on the ESG aspect, particularly climate change.

Continuous Monitoring and Assurance to further enhance the utilisation of the Auditor General Dashboard (AGD) – NADM uses the AGD as a platform to address and monitor issues published in the Auditor General Report to be resolved at once appropriately by the relevant ministries/departments/agencies and State-Owned Enterprises, thus helping to improve public perception of the Government.

Datuk Wan Suraya noted the persistent recurrence of issues despite being highlighted in the Audit Report year after year. One reason is because follow-up on the audit findings or recommendations is less prioritised after the tabling of Audit Reports. "Through the Auditor General Dashboard, the NADM can effectively monitor and follow up on actions taken and ensure timely resolution of outstanding matters."

Internal audit should utilise the dashboards, key performance indicators (KPIs), and benchmarking metrics to track progress, identify trends, and proactively address areas of concern. By adopting a proactive stance, internal audit can support decision-making processes and drive continuous improvement initiatives effectively.

By focusing on these key areas and implementing strategic initiatives, public sector organisations can strengthen the internal audit function, enhance governance practices, and drive sustainable performance improvement for the benefit of all stakeholders.

The Intersection of Tax Evasion and Money Laundering: A Professional Accountant's Perspective

at-mia.my/2024/06/06/the-intersection-of-tax-evasion-and-money-laundering-a-professional-accountants-perspective

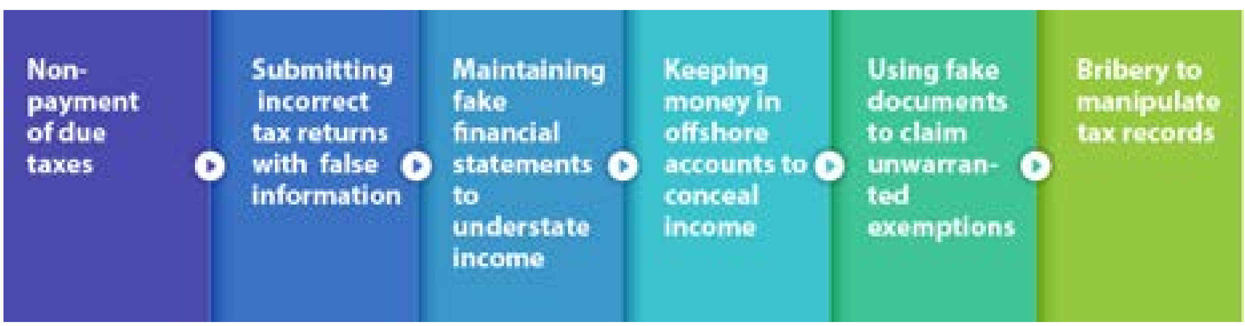
June 6, 2024

Tax evasion and money laundering are two interrelated financial crimes that pose significant threats to the integrity of financial systems worldwide. Understanding the intricacies of these offenses, along with the legal frameworks and penalties associated with them, is crucial for effective enforcement and compliance. In this article, we delve into what tax evasion and money laundering entail, the laws governing the involvement of accountants, and the penalties for these offenses.

What is Tax Evasion?

Tax evasion refers to the illegal act of deliberately evading tax obligations by underreporting income, overstating deductions, or concealing assets and income. It involves fraudulent practices aimed at reducing tax liability, thereby depriving the government of revenue rightfully owed. Tax evasion undermines the fairness and integrity of the tax system, affecting public services and social justice.

It encompasses various fraudulent practices such as:



Tax evasion not only deprives the government of essential revenue but also distorts the fairness and equity of the tax system.

What is Money Laundering?

Money laundering involves disguising the origins and ownership of illegally obtained funds, making them appear legitimate. It typically involves three stages: **placement, layering, and integration**. Money launderers seek to conceal the illicit source of funds, often through complex financial transactions and international transfers. Money laundering facilitates various criminal activities, including **tax evasion, drug trafficking, and terrorism financing.**

Identifying key **red flags** associated with tax evasion and money laundering is imperative for accountants to safeguard against unwitting involvement in illicit activities. Some common **red flags include**:

Laws Regarding Accountants' Involvement in Tax Evasion and Money Laundering

Under various jurisdictions, including Malaysia, laws are in place to hold accountants accountable if they knowingly aid individuals or entities in committing tax evasion or money laundering. In Malaysia, the **Inland Revenue Board (LHDN)** has stringent measures to combat such financial crimes. Accountants found complicit in these offenses may face severe legal consequences, including fines and imprisonment.

Penalties for Tax Evasion and Money Laundering

The penalties for tax evasion and money laundering can be substantial and may include:

Civil penalties such as audits, penalties for failure to maintain proper accounts, and fines for non-compliance with tax regulations

For detailed information on specific **penalties for tax evasion and penalties for non-compliance related to money laundering**, you can refer to:

- https://www.hasil.gov.my/en/legislation/offences-fines-and-penalties/
- https://amlcft.bnm.gov.my/penalties-for-non-compliance/

Conclusion: Intersection of Tax Evasion and Money Laundering

The intersection of tax evasion and money laundering highlights the intricate landscape of financial crime. Laundering proceeds from tax evasion fuel further illicit activities, posing significant challenges for law enforcement and regulators. Upholding legal and ethical standards is crucial for individuals, businesses, and financial professionals to combat financial crime and safeguard the integrity of the global financial system.

In essence, tax evasion and money laundering are grave offenses with profound implications. Compliance with tax laws and anti-money laundering regulations is paramount to uphold transparency, fairness, and trust in the financial realm. A comprehensive understanding of the associated laws and penalties empowers stakeholders to contribute effectively to the fight against financial crime and promote financial integrity worldwide.

This article was contributed by Ingenique, Titanium sponsor of MIAC24.

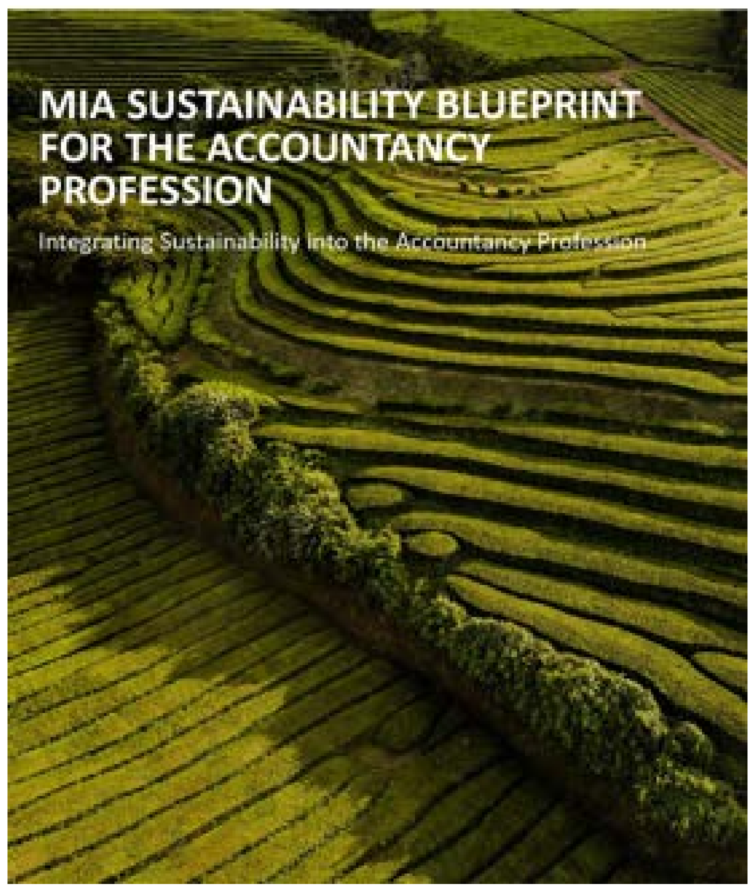
The MIA Sustainability Blueprint for the Accountancy Profession

June 24, 2024

The nation’s sustainability agenda is fast gaining momentum as Malaysia seeks to transition to a low-carbon economy and honour its climate commitments. In the fast-evolving sustainability landscape, everybody has a role to play.

As the regulator and developer of the accountancy profession, the Malaysian Institute of Accountants (MIA) strongly advocates for accountancy professionals to lead and contribute to sustainable development and practices which are the new frontiers of business.

To drive our advocacy, the MIA has put in place a strategic framework to manage our sustainability agenda. Key to this was the recent release of the future-forward MIA Sustainability Blueprint for the Accountancy Profession, which was officially launched at the recent MIA International Accountants Conference 2024 by the guest of honour YB Senator Datuk Seri Amir Hamzah Azizan, Minister of Finance II.



Holistically speaking, this Blueprint is intended to enable accountancy professionals to be future relevant, adaptable and resilient in navigating sustainability. The Blueprint seeks to empower accountants to align their practices with sustainability imperatives to achieve the following objectives:

- Establishing aspirations for accountants in Malaysia with regards to sustainability

- Analysing key challenges facing the accountancy profession in Malaysia based on the domestic and global sustainability landscape
- Enabling accountants in the sustainability space.

The Blueprint outlines the following overarching aspirations for accountants in advancing sustainability, namely:

In order to realise the above aspirations, a set of guiding principles have been identified to facilitate accountancy professionals in navigating their sustainability journey. The Blueprint sets out these guiding principles at three levels of maturity: Foundation, Intermediate and Advanced, each of which offers a path to reach their desired sustainability maturity.

Please click here to learn more about the Blueprint.

Understanding the Use of Discount Rate in the Assessment of Impairment in Goodwill

at-mia.my/2024/06/19/understanding-the-use-of-discount-rate-in-the-assessment-of-impairment-in-goodwill

June 19, 2024

By MIA Financial Statements Review Department

Introduction

Goodwill is an intangible asset that typically arises in the context of business combinations. It represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. As goodwill can be impacted by fluctuation in market conditions or shifts in the business environment, it is subject to periodic impairment testing to ensure its carrying value does not exceed its recoverable amount. To ensure accurate financial reporting, the discount rate used in impairment testing plays a crucial role in determining the fair value of goodwill. In this article, we will delve into the concept of discount rates, their significance in impairment testing, and the various factors influencing their determination.

Scope

This article intends to share the review findings of the Financial Statements Review Committee (FSRC) relating to the disclosures of discount rates used in the goodwill impairment assessment in financial statements.

The comments discussed herein are intended to be applied within the context of the specific facts and circumstances associated with the identified observations. Hence, it is not intended to be exhaustive and does not address all potential issues that may be raised relating to impairment of goodwill.

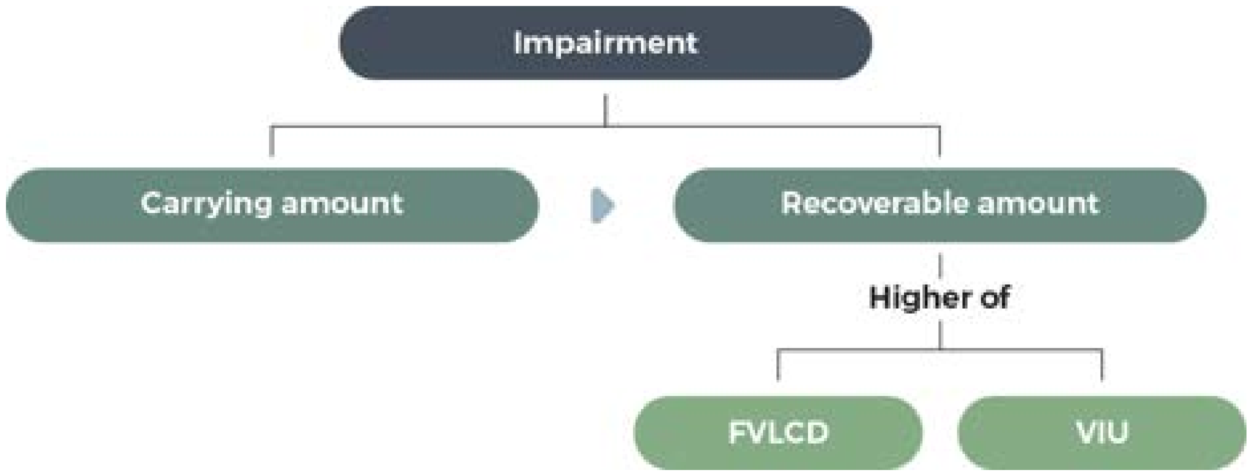
Additionally, careful consideration and judgement should be applied in each individual fact and circumstance as the Malaysian Financial Reporting Standards (MFRS) are principles-based. Circumstances may appear similar but different in substance.

Impairment Testing on Goodwill

For entities that prepare financial statements in conformity with the MFRS, MFRS 136 *Impairment of Assets* describes the requirements for impairment testing of all assets except those assets specifically excluded from the standard’s scope.

When an asset is impaired

An impairment occurs when the carrying amount of an asset (in this case, goodwill) exceeds its recoverable amount, which is essentially the higher of its fair value less costs of disposal (FVLCD) and its value in use (VIU). In simpler terms, it means the goodwill's value on the financial statements is higher than the amount at which it is currently recoverable.



For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating unit (CGU), or groups of CGUs, that is expected to benefit from the synergies of the combination. This is irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated shall:

1. represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and
2. not be larger than an operating segment as defined by Paragraph 5 of MFRS 8 *Operating Segments* before aggregation.

A CGU to which goodwill has been allocated is subject to impairment testing at least annually or whenever events suggest a potential impairment.

Estimating recoverable amount using value in use

The recoverable amount of an asset (or a CGU or a group of CGUs) is the higher of its fair value less costs of disposal (FVLCD) and its value in use (VIU). If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised to reduce the carrying amount.

VIU in effect assumes the asset will be recovered through its continuing use and ultimate disposal which reflects the entity's intentions as to how an asset will be used. Hence, it represents the present value of the future cash flows expected to be derived from an asset or CGU. Estimating the VIU of an asset involves the following steps:

1. estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and

2. applying the appropriate discount rate to those future cash flows.

Discount Rate in Goodwill Impairment Testing

The discount rate applied in impairment testing is a crucial factor in assessing the present value of future cash flows generated by the acquired assets. This rate reflects the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. It is used to discount future cash flows to their present value, determining the fair value of the CGUs to which goodwill is allocated. The higher the discount rate, the lower the present value of future cash flows, which may increase the likelihood of impairment.

Determining the appropriate discount rate

The discount rate shall be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset or the CGU being tested for which the future cash flow estimates have not been adjusted.

The discount rate applied to the future cash flows estimates should reflect the return that investors would require, if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the entity expects to derive from the asset.

This rate is estimated from:

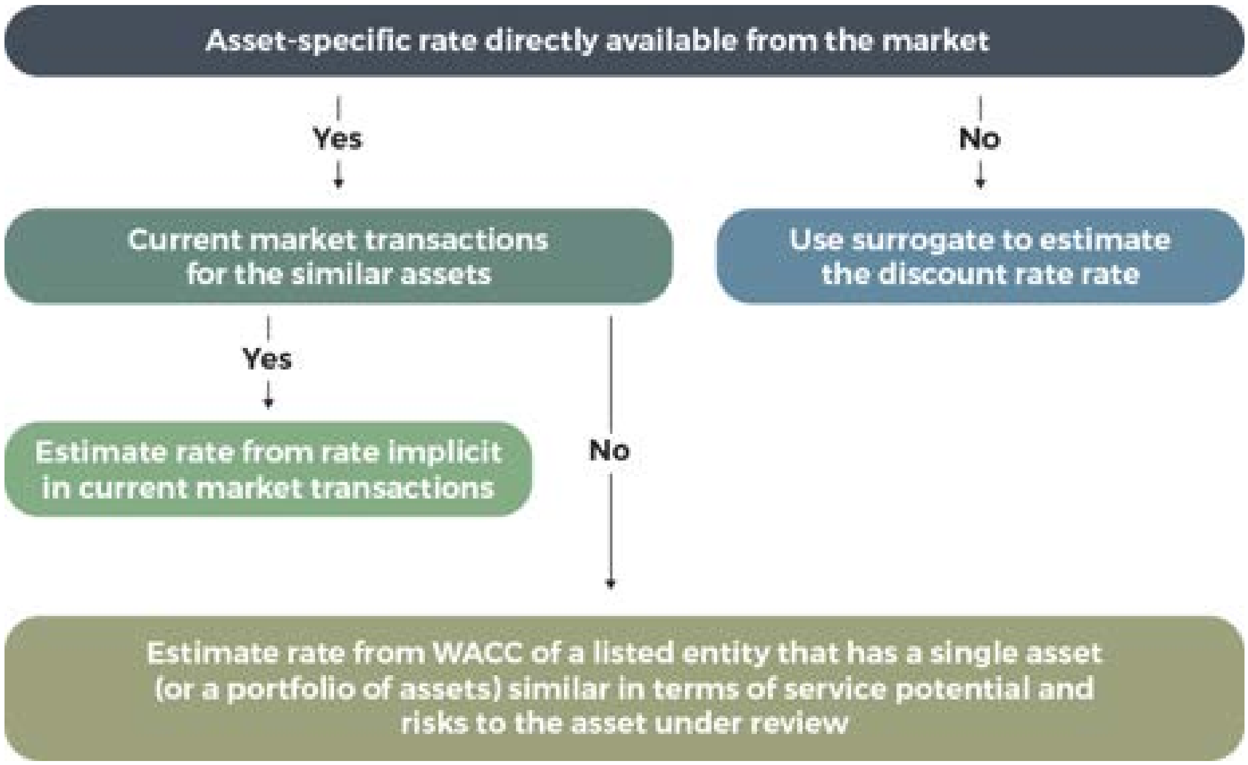
1. the rate implicit in current market transactions for similar assets; or
2. the weighted average cost of capital (WACC) of a listed entity that has a single asset (or a portfolio of assets) similar in terms of service potential and risks to the asset under review.

However, the discount rate used to measure an asset’s value in use shall not reflect risks for which the future cash flow estimates have been adjusted. Otherwise, the effect of some assumptions will be double-counted.

For example, considering there is a risk of economic instability, if the future cash flow estimates were adjusted to account for potential economic downturns, incorporating this same risk into the discount rate would essentially be double counting because the effect of economic uncertainty has already been factored into the cash flow projections.

When an asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate. Appendix A of MFRS 136 provides additional guidance on estimating the discount rate in such circumstances.

The guidance to determine an appropriate discount rate as required by MFRS 136 is illustrated as follows:



It is important to note that determining the discount rate involves judgement, and changes in the discount rate can have a significant impact on the results of the impairment test. Companies typically use market-based data and financial models to estimate the appropriate discount rate for their CGUs.

Further reference shall be made to Appendix A of MFRS 136 on the use of present value techniques to measure VIU as well as determining the appropriate discount rate.

Observations

Below are the observations noted by the FSRC from the review of financial statements of public-listed companies/entities (PLC) relating to the use of discount rate in the assessment of impairment of goodwill.

Observation 1

Impairment losses were recognised on goodwill allocated to one of the PLC's subsidiaries. The pre-tax discount rate used in determining the VIU was based on the WACC of the CGU.

Response from PLC

The PLC clarified that the discount rates used in assessment of goodwill on consolidation was based on the WACC rate of the PLC extracted from Bloomberg.

The PLC stated that Bloomberg had taken into consideration the country risk and the market risk premium by considering the beta rate, risk free rate and market risk premium in deriving the cost of equity. The management believed that the discount rate applied had been adjusted to reflect the way that the market would assess the specific risks associated with the asset's estimated cash flows and to exclude risks that are not relevant to the asset's estimated cash flows or for which the estimated cash flows have been adjusted as per Paragraph A18 of MFRS 136.

The PLC was of the view that the discount rate applied is independent of the entity's capital structure and the way the entity financed the purchase of the asset.

FSRC's comments

Paragraph 55 of MFRS 136 states that the discount rate (rates) shall be a pre-tax rate (rates) that reflect(s) current market assessments of: (a) the time value of money; and (b) the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Paragraph 56 of MFRS 136 states that a rate that reflects current market assessments of the time value of money and the risks specific to the asset is the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the entity expects to derive from the asset. This rate is estimated from the rate implicit in current market transactions for similar assets or from the weighted average cost of capital of a listed entity that has a single asset (or a portfolio of assets) similar in terms of service potential and risks to the asset under review. However, the discount rate(s) used to measure an asset's value in use shall not reflect risks for which the future cash flow estimates have been adjusted. Otherwise, the effect of some assumptions will be double-counted. When an asset specific-rate is not directly available from the market, an entity uses surrogates to estimate the discount rate.

Accordingly, the PLC should first assess whether the asset-specific rate for the CGU is directly available from the market by applying the principles in the paragraphs above, in the absence of which the PLC estimates the discount rate using surrogates.

Paragraph A17 of MFRS 136 on the determination of discount rate states that as a starting point in making such an estimate, the entity might take into account the following rates:

1. the entity's weighted average cost of capital determined using techniques such as the Capital Asset Pricing Model;
2. the entity's incremental borrowing rate; and
3. other market borrowing rates.

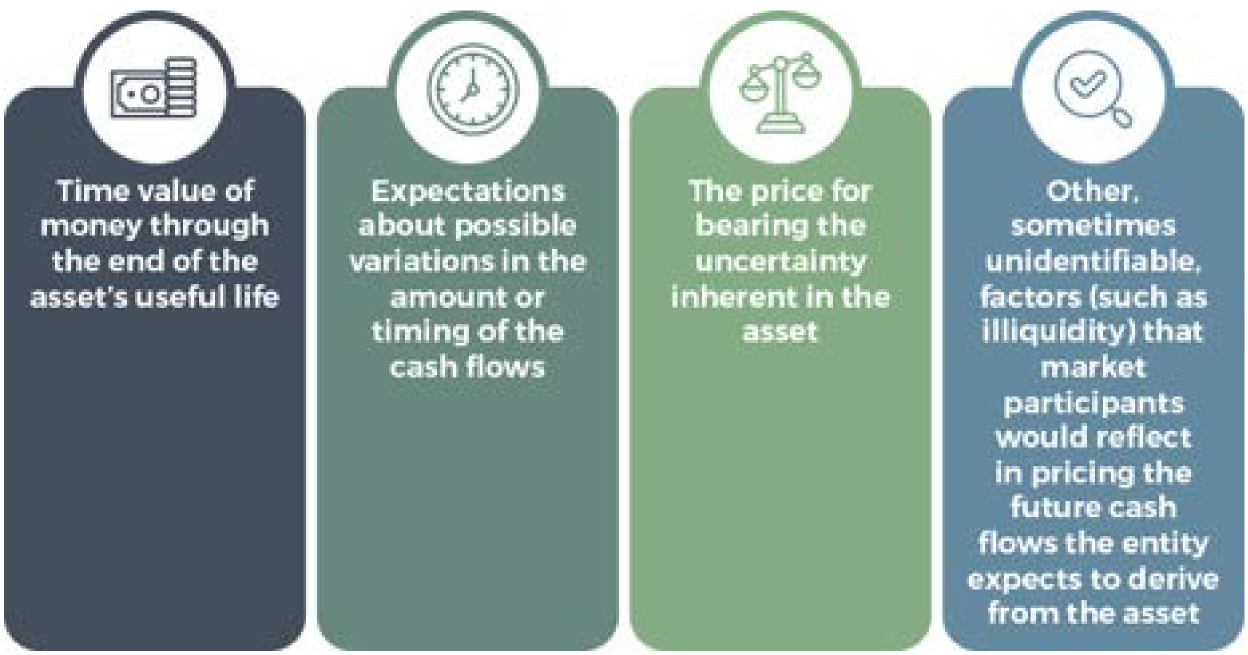
Further, paragraph A18 of MFRS 136 states that these rates must be adjusted:

1. to reflect the way that the market would assess the specific risks associated with the asset's estimated cash flows; and
2. to exclude risks that are not relevant to the asset's estimated cash flows or for which the estimated cash flows have been adjusted.

Consideration should be given to risks such as country risk, currency risk and price risk.

Paragraph A19 of MFRS 136 states that the discount rate is independent of the entity's capital structure and the way the entity financed the purchase of the asset, because the future cash flows expected to arise from an asset do not depend on the way in which the entity financed the purchase of the asset.

It appears that the discount rate applied by the PLC for impairment testing of the CGU represents the WACC of the PLC itself and not the respective CGUs and does not reflect necessary adjustment taking into consideration the relevant information of other market participants. As guided by MFRS 136, when an asset-specific rate is not directly available in the market, the entity should use a surrogate to estimate the discount rate. The purpose is to derive a market assessment reflecting factor such as:



Hence, if the asset-specific discount rate is not directly available from the market, the management should determine a market consistent discount rate and adjust this rate to take into account factors specific to the asset/ CGU being tested. Adjustments need to be made taking into consideration the market participants' information. The WACC of the company should be adjusted to reflect the market participant's view of specific risks associated with the asset/ CGU estimated cash flow. Adjustments might also be necessary to exclude risks that are not relevant to the asset's estimated cash flows.

Disclosure Requirements

When an entity performs goodwill impairment testing, it is important to provide transparent and comprehensive disclosures regarding the key assumptions and methodologies used in the impairment assessment. These disclosures help stakeholders, including investors and analysts, understand the basis for the impairment test results and the inherent uncertainties involved.

Guidance on the disclosure requirements relating to impairment of assets are stated in Paragraphs 126 to 135 of MFRS 136.

Specifically, in accordance with Paragraph 130(g) of MFRS 136, an entity is required to disclose the discount rate(s) used in the current estimate and previous estimate (if any) of value in use, if the recoverable amount is based on value in use.

In addition, Paragraph 130(f)(iii) requires an entity to also disclose the discount rate(s) used in the current measurement and previous measurement if fair value less costs of disposal is measured using a present value technique.

Conclusion

The discount rate used in impairment testing for goodwill is a crucial element that directly influences the recoverable amount of intangible assets. As a complex interaction of various factors, the determination of the discount rate requires careful consideration of both general market conditions and company-specific characteristics. Regular reviews and updates to the discount rate, coupled with a thorough understanding of the underlying assumptions, are essential to maintaining the accuracy and relevance of impairment testing in financial reporting. By grasping the intricacies of the discount rate, companies can enhance their ability to assess and communicate the true value of their goodwill.