

Changing the Game • Bitcoin: Boon or Bane?

THE MALAYSIAN INSTITUTE OF ACCOUNTANTS

# accountants today

March / April 2014  
Vol. 27 No. 2

## INTEGRATED REPORTING

### *The Next Wave*

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UPSKILLING MALAYSIAN  
ACCOUNTING GRADUATES

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GOODS AND SERVICES  
TAX ON EMPLOYEE  
BENEFITS

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DEVELOPING  
AND REPORTING  
SUPPLEMENTARY  
FINANCIAL  
MEASURES

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MALAYSIAN INSTITUTE OF ACCOUNTANTS

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- To regulate the practice of the profession of accountancy in Malaysia;
- To promote, in any manner it thinks fit, the interest of the profession of accountancy in Malaysia;
- To render pecuniary or other assistance to members or their dependents as it thinks fit with a view to protecting or promoting the welfare of members; and
- Generally to do such acts as it thinks fit for the purpose of achieving any of the aforesaid objectives.

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# Getting to grips with Game-Changers

**T**he global business landscape is transforming irrevocably due to the forces of change, such as escalating stakeholder expectations and disruptive technologies. Likewise, the accountancy profession is not exempt from change. As such, accountants and financial professionals too must improve themselves to keep abreast of change and remain relevant.

One of the biggest game changers is the imminent implementation of Integrated Reporting (IR), which looks set to transform corporate reporting as we know it. According to the International Integrated Reporting Council (IIRC), IR applies principles and concepts that are focused on bringing greater cohesion and efficiency to the reporting process, and adopting “integrated thinking” as a way of breaking down internal silos and reducing duplication. It improves the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital. Its focus on value creation, and the ‘capitals’ used by the business to create value over time, contributes towards a more financially stable global economy and is a force for sustainability.

Apart from driving fundamental changes in corporate reporting and thinking, IR will ultimately change the behaviour of corporations and the accounting profession. As such, it is vital that accountants move beyond regular perceptions and roles and transform themselves in order to work in a landscape requiring integrated and strategic thinking. With IR's advent, accountants can no longer limit themselves to finance silos. Learn more about how IR will change the profession in this issue's cover story.

Another game-changer for the Malaysian market will come in the form of Goods and Services Tax (GST).

Malaysia will see the withdrawal of sales and services tax on 1 April 2015, as the replacement GST comes into full implementation. The standard rate of GST will be 6 per cent although some supplies will be exempted or zero-rated.

While businesses familiar with service tax may think that GST will be more of the same, this is not correct. The much wider scope, the new threshold, the new reporting cycle, the new filing and data-processing requirements,

the input tax credit mechanism, the “invoice” basis of GST accounting, and the cash-flow crunch etc. all point to a more complicated system not to be taken lightly. In fact, GST will have impacts on business systems beyond accounting and finance, such as human resources and employee benefits, as pointed out in our technical article on GST and its impacts on employee benefits.

While drawing from what businesses already know in service tax can help chart a course towards GST, what lies ahead is simply too complex to take for granted. What is needed is education, thorough preparation and well-planned implementation. The Institute is committed to helping our members navigate a smooth transition to GST and we will be running a series of articles to create awareness and educate our members on GST issues in the run-up to implementation.

The adoption of game changers such as GST and IR is meant to make Malaysia more sustainable and globally competitive. But to optimise GST and IR, building human capital will be key. Upskilling will be the key to unlocking and optimising accounting talent. Apart from training and developing existing professionals through continuing development programmes, the Institute is committed to supporting programmes which will develop a strong pipeline of young talents, such as Talent Corporation's Upskilling Programme for the Accountancy Profession. The Institute strongly encourages employers to leverage on this Upskilling Programme to build the required human capital. Read more about this programme in this issue.

Ultimately, the success of Malaysia's ambitious Economic Transformation Programme (ETP) will fall back on having the right quantity and quality of talent to sustain the country's priority sectors. This includes accountancy talent, which has been identified as being a fundamental driver and support for business and the economy. Let's all work together to make this happen.

Happy reading! ■

**EDITOR**

# Learn or be left behind



**L**ately, the Malaysian Institute of Accountants (MIA) has been placing intense emphasis on education. We are not just emphasising professional and academic education but also lifelong learning for continuous improvement – from womb to tomb or put another way, from cradle to grave.

Why do we need to focus so intensely on education? One, the profession needs to evolve to become more relevant to business, as shaped by trends in the global business environment. Two, regulatory reforms, the relentless pace of globalisation, regionalisation and liberalisation, the onset of new standards, requirements and technologies, the emergence of new risk disciplines and fundamental changes in financial reporting standards are realities in today's world. We should not bury our head in the sand; therefore, accounting and finance graduates and professionals must be equipped with global knowledge and diverse and transferable skills. Three, managing the finance function within an increasingly multifaceted and globalised accounting and finance sector and a more complex and ambiguous future is challenging indeed. Human capital development is vital to ensure the effective participation and performance of new graduates and young professionals in this dynamic financial landscape. The bottom line is that talent needs to be transformed - ASAP.

How do we achieve this transformation? We need a multifaceted strategy that engages all stakeholders.

One facet of this strategy is effective talent management. Employers must frame a comprehensive integrated talent management programme to recruit the right people with the right skills and aptitude. This programme must define long-term career development paths to engage and motivate the workforce and aid training and retention.

The strategy must also take into account the new talent landscape as well as

the trends driving the 21st century digital and knowledge economy, such as globalisation, cross-border mobility and the ubiquity of technology. While instilling technical knowledge, there is a need to emphasise ethical behaviour, sound judgement and soft skills to develop morally upright and responsible future leaders who will be able to lead a sustainable organisation over the medium and longer term.

Since talent development is so complex, the initiatives and programmes supporting the overarching strategy must be multi-disciplinary and multi-layered, the approach should be grounded in a shared commitment discharged in a comprehensive, coordinated and collaborative manner by industry, public and private sector and academia. This is our best hope to address the human capital challenge that lies before us. With the strong support of all key stakeholders and practitioners, we hope to ultimately transform the finance landscape.

## COLLABORATION IS KEY

To drive our education agenda, MIA itself is implementing a multifaceted initiative to drive education.

Collaboration is a prime strategy – MIA is a member of the Committee to Strengthen the Accountancy Profession (CSAP) which aims to formulate and recommend strategies and measures to strengthen the accountancy profession and to improve the contribution of the profession in enhancing the competitiveness of the country in response to the findings of the Report on Observance of Standards and Codes – Accounting and Auditing (RoSC Report), issued by the World Bank in 2012. CSAP will be a game changer for producing quality accountants.

We are cooperating with other agencies such as Majlis Amanah Rakyat (MARA), PENERAJU, TalentCorp, professional accountancy bodies, universities

and employers to broaden and deepen our talent pools. Our talent and education development strategies are closely aligned and integrated with those of CSAP, which is working to build capacity and strengthen the future supply for accountants in Malaysia. For example, MIA is supporting CSAP in conducting a survey amongst employers of accounting graduates, which aims to better understand their challenges and expectations in recruiting and retaining accounting staff.

## START EARLY

Education has to start early to build a robust talent pipeline. We have to build awareness of career prospects among our target audience of students and potential talent through engaging with students, schools, the Ministry of Education and higher education institutions. We provide career guidance and upgrading of quality, skills and work experience through our CARE programme and work together with professional bodies to encourage certification and pursuit of professional qualifications. MIA also works closely with education regulators and institutions to maintain competency and quality in accounting education, for example through reviews and syllabus reforms and by accrediting qualified universities.

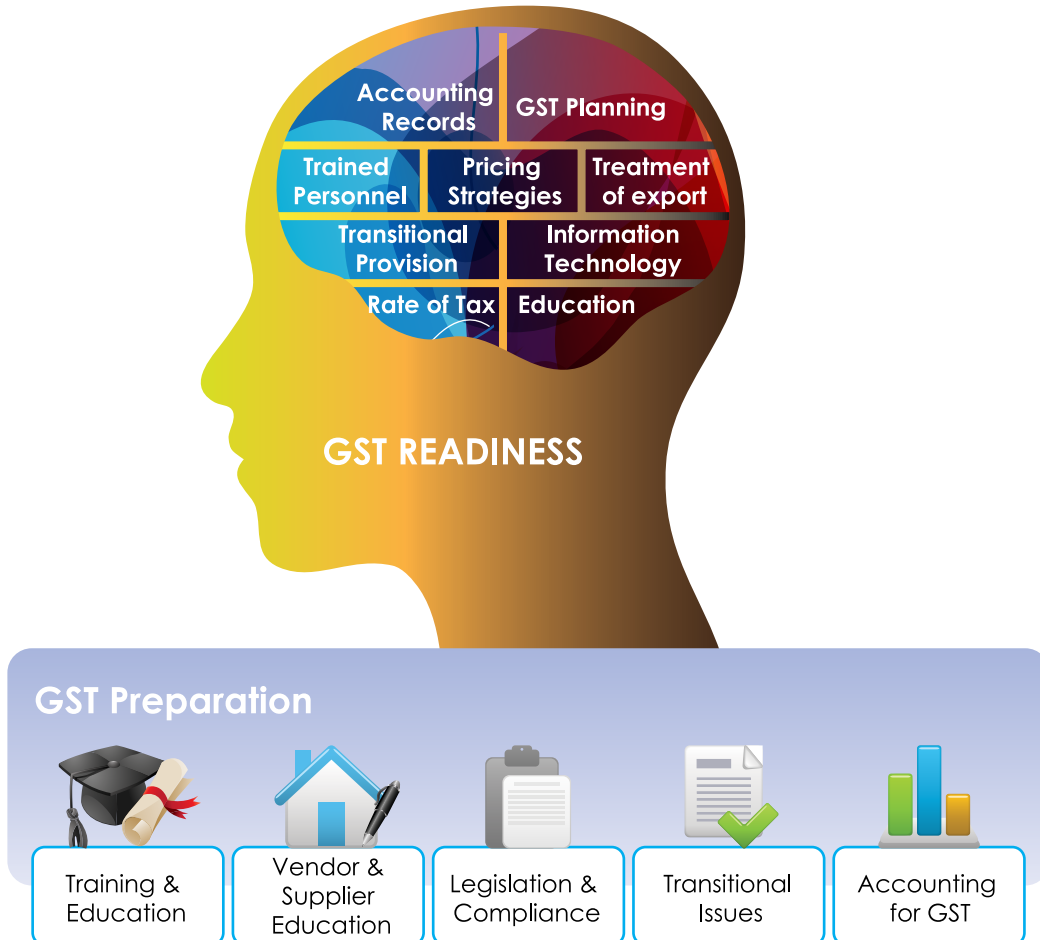
The goal under the Economic Transformation Programme (ETP) is to develop a deep pool of accounting and finance talents with world-class capabilities who can support our nation's aims for full development by 2020. By working to champion accounting education, MIA is supporting our national aspirations to move up the economic value chain through investing in people. Put another way, talent must be transformed to achieve our economic goals. If not, we run the risk of being has-beens and have-nots as other nations surge ahead of us in a globally competitive race. We must remain relevant! ■



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# Integrated Reporting

## *The Next Wave*

INTEGRATED REPORTING, THE NEXT STAGE IN THE ONGOING EVOLUTION OF CORPORATE REPORTING, LOOKS SET TO MAKE A BIG SPLASH IN THE GLOBAL BUSINESS WORLD. WHAT WILL BE THE IMPACT AND THE RISKS AND OPPORTUNITIES? HOW SHOULD BUSINESSES AND FINANCE PROFESSIONALS PREPARE FOR THIS WAVE?

Nazatul Izma

**I**ntegrated reporting (IR) has been hailed as a game changer for corporate reporting, and thus business and investors.

According to the International Integrated Reporting Council (IIRC), IR applies principles and concepts that are focused on bringing greater cohesion and efficiency to the reporting process, and adopting “integrated thinking” as a way of breaking down internal silos and reducing duplication. It improves the quality of information available to providers of financial capital to enable a more

efficient and productive allocation of capital. Its focus on value creation, and the ‘capitals’ used by the business to create value over time, contributes towards a more financially stable global economy and is a force for sustainability.

Standard setters and regulators aren’t the only ones enthused about IR. Businesses support IR as well. The recent release of the International Integrated Reporting Framework on 9 December 2013 marked an important milestone in the market-led evolution of corporate reporting, said

the IIRC. The framework was released following a three-month global consultation led by the IIRC which elicited over 350 responses from every region in the world, the overwhelming majority of which expressed support for IR.

Commenting on the release of the Framework, IIRC Chairman Professor Mervyn King SC, said that the IIRC had been “taken aback by the degree to which mainstream businesses and investors have been willing to participate in creating this Framework and embarking on their own IR journey.”

The IIRC's 100-plus strong business network includes leading names like Pepsi, HSBC, Unilever, Deutsche Bank, China Light & Power, Hyundai Engineering and Construction, National Australia Bank and Tata Steel.

The Framework will be used to accelerate the adoption of IR across the world, where it is currently being trialled in over 25 countries, 16 of which are members of the G20, the group of nations focused on strengthening the global economy.

King noted that "businesses worldwide can use the Framework as a tool for the better articulation of their strategy, and to engage investors on a more long-term journey to attract investment that will be crucial to achieving sustained, and sustainable, prosperity."

## IMPACT OF IR

However, the challenge lies in ensuring smooth adoption and relevancy to the mainstream business and investor communities. Businesses also need to figure out the key risks and opportunities of IR and how IR can be incorporated as part of existing reporting requirements. These were among the issues addressed at the recent plenary session on IR at the MIA International Conference 2013, which featured moderator Neil Stevenson, Brand Executive Director ACCA / International Integrated Reporting Council (IIRC Council) and distinguished panelists Warren Allen, President of the International Federation of Accountants (IFAC), Johan Idris, President of Malaysian Institute of Accountants (MIA), Dr. Ng Boon Beng, Finance Director, Oracle Corporation Malaysia and Indonesia, and Mikkel Larsen, Managing Director, DBS Bank Singapore.

Allen views IR as a key game changer and a wonderful opportunity for the global accounting profession to add value to users of financial reporting. "The users of our product are saying that they want more. We do not have a monopoly on corporate reporting. If we don't remain relevant, somebody else will eat our lunch. IR is a service that accounting firms can take to clients and we can work with them

to develop IR," he urged.

In Malaysia, IR is still very much at an "infancy stage," said Johan. "I see a lot of interest in IR going forward, because IR takes historical corporate reporting further by communicating the future of the company. For companies which are already immersed in sustainability reporting, the next step forward would be IR." According to Johan, Bursa Malaysia's stance is that IR must be market-led. Already, IR enjoys substantial support from Malaysian regulators and professional bodies. A next key step would be the establishment of a one-stop centre of excellence to promote IR and amp up

AT THE HEART OF THE MATTER, THE EFFECTIVENESS OF IR DEPENDS ON GOOD, GENUINE AND TRANSPARENT COMMUNICATIONS. AVOID VERBOSITY - EFFECTIVE IR SHOULD BE CONCISE AND COMMUNICATE ONLY WHAT IS MATERIAL.



awareness in Malaysia, suggested Johan.

When would be the right time to introduce IR? The global adoption process targeted by the IIRC began in 2014. "Everybody is new to IR. We need to take a leap of faith," said Johan.

Early adopters should benefit because empirical evidence shows that companies practicing IR enjoy a market premium. "IR will drive the valuations of companies and pricing differentials. Peer pressure and

market pressure – from sovereign wealth funds and investors looking beyond normal financial reporting, for example – will drive IR," explained Allen. IR demands boldness from companies to be accountable for information they disclosed and thus enhances credibility and integrity of the information shared, said Ng.

It's never too late to take up IR. "Although the IR train has left the station, do not panic if you aren't on that train yet. There will be brief stops along the way and I encourage all of you to get on that train," said Allen.

Should IR be made mandatory to drive adoption? Currently, South Africa is the only jurisdiction which mandates IR for companies listed on the Johannesburg Stock Exchange. "I would say it's better for IR if it's market-driven but has the support of regulators," said Allen.

Currently, the focus is on IR for listed and public entities. The jury is out on whether IR is a one-size fits all model – should SMEs adapt and adopt IR to their reporting needs?

## MAKING IR EFFECTIVE

As the first Singapore company to participate in the IIRC pilot programme, DBS did have challenges getting on the train. "While our reporting system was not perfect, it lent itself to IR. We felt we had enough to tell our story well," said Larsen. He noted that an integrated report is not the same as a sustainability report – "it's something different and something more. IR provides links between capitals used (e.g. financial, human, industrial, social, intellectual and natural, to name a few) and financial results; the real value lies in the ability to link these together."

At the heart of the matter, the effectiveness of IR depends on good, genuine and transparent communications, said the panelists. Avoid verbosity - effective IR should be concise and communicate only what is material, noted the panelists. The IR principles-based framework will dispel the tendencies of companies moving towards over-reporting on matters that are irrelevant to stakeholders' interest, said Ng.



Importantly, IR should also show connectivity and the interrelatedness of information by breaking down the silos in an organisation. Asked about the difference between a combined report and IR, Larsen replied that a combined report is still a report at risk of being developed and presented in “siloes” because it combines reports from many different silos. On the other hand, IR tells the reader about corporate strategy and business models, the risk undertaken and the results these produce. “IR does not really need an awful lot of adjustment. Silos can be broken down by bringing people together to work on IR. Unlike traditional corporate reporting, finance is not the only business unit involved in IR. Finance has the numbers but they are not the only ones in the game. Everybody must play a part in IR,” said Larsen.

Going forward, IR will drive reforms to education and competency development because “IR will definitely need a whole new set of skills and people in addition to finance. The profession has to encourage younger people to get involved to build capacity,” said Allen. For example, environmentalists will have to work together with social scientists and finance people to determine impact on the triple bottom-line of economy, environment and society.

## GETTING BOARDS ON BOARD

Board influence and direction will be fundamental in determining the successful take up of IR. “IR is perceived as a board issue. The board must be convinced that this is a step in the right direction. Creating that internal buy-in is key,” said Larsen.

Boards are understandably wary about committing to IR because certain issues remain unresolved – such as assurance, liability and standards. “Do the benefits warrant the costs and risks?” asked Paul Chan, who is a founding member and Deputy President of the Malaysian Alliance of Corporate Directors (MACD), and serves on the Executive Committees of the Federation of Public Listed Companies (FPLC) and the Global



From left to right: Johan Idris, Warren Allen, Mikkel Larsen and Dr. Ng Boon Beng.

AT THE END OF THE PROCESS, IR SHOULD LEAD TO FUNDAMENTAL CHANGES IN CORPORATE REPORTING AND THINKING. IR WILL ULTIMATELY CHANGE CORPORATE BEHAVIOUR, AS WELL AS THE BEHAVIOUR OF THE ACCOUNTING PROFESSION.

Network of Director Institutes (GNDI).

Chan voiced several concerns on IR from the board perspective. Standards are key to ensure a certain threshold of quality and uniformity in corporate reporting. The question is, asked Chan: which body will establish and enforce IR standards?

Furthermore, the very nature of IR which aims to break down silos and present integrated information poses challenges for assurance and credibility. While auditors can carry out financial audits, who will handle other aspects of assurance? This will entail hiring other specialists to ensure quality assurance, which could be challenging when management of audit and assurance costs are already a key concern for boards, he said.

IR also potentially expands the scope of directors' liability, said Chan. “While the concept of IR is excellent, even strategic, there are unintended legal, regulatory, financial and personal liability issues for boards to contend with. Why should boards voluntarily adopt IR if all the unmitigated risks are borne by them in an environment that is already heavily regulated?”

In response, Larsen recommended that companies look carefully at the cost-benefits analysis and weigh the risks and opportunities. Allen assured the audi-

ence that IR audit is on the radar of the International Auditing and Assurance Standards Board (IAASB). “However, until people start to use it more widely, the topic of assurance will be in the background. Certainly, concepts of materiality will need assurance for credibility.”

## TIME TO CHANGE

At the end of the process, IR should lead to fundamental changes in corporate reporting and thinking. IR will ultimately change corporate behaviour, as well as the behaviour of the accounting profession. “IR has created opportunity for accountants to evolve beyond their habitual roles of statutory reporting and has allowed them to work consciously to transform their mission in reporting,” said Ng.

The time for IR has come. It is the right time to participate in the journey towards a better, more cohesive reporting landscape that makes sense both to businesses and to the decisions of providers of financial capital, in this interconnected, complex and resource-constrained world. However, companies should look at this as a learning process and refrain from expecting perfect results in year one of adoption, said Larsen. “Let's not let the perfect get in the way of the good,” concurred Allen. ■



# ACCA FUTURES CONFERENCE 2014

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PROFESSION**

DATE: **THURSDAY 15 MAY 2014**

VENUE: **MANDARIN ORIENTAL HOTEL, KUALA LUMPUR**

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# Minding your own Business

MINDING YOUR OWN BUSINESS IS THE KEY TO RUNNING A SUCCESSFUL PRACTICE.



Bill Taylor



**H**ow many times have you heard someone say “mind your own business?” For accountants, especially in these economic times, that just may be sage advice. We have seen many practitioners get so wrapped up “in their practice” they never seem to spend any time working “on their practice,” often leading to missed opportunities, errors, and sub-par results.

While it is easy for professionals to get caught up in the daily ins and outs of their practice, especially in smaller firms, finding a good balance is key. That is not to say you should not focus a substantial part of your energies on client work; preparing financial documents, providing timely client support, and delivering excellent quality work, but a single-minded approach toward always working “in the practice” could be holding you back and keeping your accounting business from becoming all that it can be. To be truly successful, accountants must allocate time each and every month to work “on their practice” and focus energies on developing their book.

So what do we mean when we say working “on the practice?” Working on the business aspects of the practice includes changing your perspective and taking a bird’s eye view to really look objectively at all key areas of your accounting business. It is important to spend time on the business development, marketing, and client servicing areas of your business. A thorough review must

always be accompanied by an in-depth financial analysis of your practice as well.

## GETTING STARTED

●● It is often said: “if you fail to plan – you plan to fail”. A great way to get started working “on the practice” is by developing a basic but solid business, marketing, and business development plan. Start by preparing your initial plan in a draft form, which does not need to be deeply thought through or for that matter encyclopedic in nature. In fact, if you are just starting out, less is more when it comes to developing your business and marketing plans.

Several pages, perhaps a maximum of ten pages, should probably do it. The plan needs to be specific about your targets. For example, which clients and potential clients and what types of engagements do you plan to focus on, along with the markets or segments you intend to reach. When you have identified your primary targets, consider the ways to best reach these targets, and outline those methods you intend to undertake to secure their business. We also recommend developing and integrating Key Performance Indicators (KPIs) into your plan to allow an opportunity to measure your success

versus your business plan. KPIs are an excellent way to establish criteria for measuring success prior to a specific engagement and then assessing achievement against these KPIs to benchmark the progress and eventual outcome of the engagement.

The next absolute requirement is to make time available every month. We recommend that you spend a minimum of eight hours every month working on your practice, especially in business development. Another good tactic is to pre-schedule your calendar with time blocked out every month for this work. Colleagues, employees, and clients – yes, even clients – requesting time to meet with you should be told that you have a prior commitment and schedule meetings and activities around your business development time. If finding time in a large block to dedicate to your practice development activities is difficult, another option may be to try scheduling several smaller blocks of maybe two hours a week instead. In any event, whenever working on business development always allow at least an hour of uninterrupted time so you can focus and maximise productivity.

The key is allocating the time investment each month, not whether it is scheduled in a few shorter periods or one long one. Try to avoid Monday mornings and Friday afternoons for phone calls to clients. Just as you are winding up at the beginning of the week and winding down at the end, so too are many of your clients and prospects. They will appreciate it and you will avoid wasting time unnecessarily.

## MINDING YOUR NUMBERS

●● Let’s face it; as an accountant you

already know that understanding the financial elements is critical. While most every accountant has a thorough understanding of the financial aspects of running a practice, they must also strive to become a smart business person too. This business person needs to determine what aspects and measurements will define your accounting practice as successful. Thoroughly review your P&L to see what is going on in your practice month-to-month and quarter to quarter. Engage your partners, trusted business advisors, and/or business coach in a discussion about your business and the information you have.

Do not take things for granted. Challenge yourself with questions about your profits, margins, and expenses. Why are the numbers as they are? What can you do differently? What can you do better? We are often surprised by the lack of budgeting that is prevalent amongst accountants! It appears the adage “the cobbler’s kids always seem to have the worst shoes” is apropos here! It is important to create an annual expense budget for your practice at the beginning of the year and stick to it!

## FOR SOLE PRACTITIONERS

●● If you are a sole practitioner or are just getting ready to strike out on your own, building a support team of professionals to help you is a smart course of action. The challenges for sole practitioners are somewhat different, especially if you are coming from the relative comforts of practicing within a larger organisation.

Since you are or plan to be on your own, it is understood that you are confident in your ability to handle the financial matters of your clients. However, the nuance is that while you are working with clients, you will still need to assure the correct handling of the day-to-day responsibilities required to run the business, often without the benefits of other available hands. Therefore, assembling a solid team to work with you will significantly help to improve your level of success.

Many accountants starting out in private practice make the mistake of trying to do too much. While you may be inclined to “do it yourself”, unless you are experienced in a particular area, do not do it! Set your mind toward building a professional support team. Start by identifying and securing a legal advisor and any other professional resources you may need. Ask for referrals from colleagues, friends, and even clients. Make the time

## Seven Keys to Minding Your Business

1. Schedule time on your calendar every month to work “on your practice”
2. Don’t let day-to-day activities interfere with managing your accounting business overall
3. Create a business plan to help you focus your thinking and measure your success
4. Identify the most important criteria to look at every month (Key Performance Indicators) that reveal how your business is doing
5. Have an annual expense budget and stick to it
6. Use the information gleaned from your financial reports to help support your business decisions.
7. Hire a great team to work with you and support your practice.

to interview several professionals before you select the ones that are right for you. It is important to find people for your team that have the right combination of experience and personal chemistry that matches with you.

Next, secure staff to help with the administrative tasks such as data entry and client billings. Use the same methodology to select your staff as that used to secure others for your professional team. While a part-time person may be sufficient when starting out, continuity is

essential. Determine at the outset if this person is flexible to provide additional time as your practice grows, perhaps even becoming a full-time employee. If not, you may want to select another candidate.

## SERVICE YOUR CLIENTS

●● In a commoditised field such as accounting, finding ways to differentiate yourself and your firm is extremely valuable. Look for any opportunity to improve a client’s experience with you and your firm. There is an oft-quoted statistic that says for every time a person receives great service they may tell one or perhaps two others about their terrific experience. Conversely, for every bad service received the recipient may tell as many as ten or more about how poorly they were treated. That is correct - 10 or more!!

It is with this in mind that you would do well to consider ways to exceed your client’s expectations in everything you do - from an initial call to delivery of the final product and everything in between. Always be incredibly thorough and accurate by checking and rechecking all client work before the client ever sees it. And return client phone calls unbelievably fast.

## LAST WORDS

●● Do not let the issues or problems *du jour* become your single focus. While you must be involved in the practice day-to-day, it should not be the only thing you do. Make the time to build your practice and rely on your team. Minding your own business is not only a great idea, it is essential, and you should thank everyone that reminds you to do so. After all, if you don’t mind your own business – who else will? ■

## About the author

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# Changing the Game

THERE IS A NEW REPORTING FRAMEWORK FOR PRIVATE ENTITIES IN MALAYSIA. IDENTICAL WITH THE IFRS FOR SMEs WITH MINOR AMENDMENTS, THE MALAYSIAN PRIVATE ENTITIES REPORTING STANDARDS (MPERS) WAS ANNOUNCED ON 14 FEBRUARY 2014, AND WILL BE EFFECTIVE ON 1 JANUARY 2016.

## MIA PROFESSIONAL STANDARDS AND PRACTICES

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**A**ccounting for 97.3% of the total business establishments in Malaysia, small and medium enterprises (SMEs) are the backbone of economic growth in Malaysia and the vehicle to propel Malaysia to a high-income nation by 2020. Furthermore, SMEs are critical to the nation's economic transformation because they are the bedrock of private sector activity.

However, their growth potential could be stymied by dated accounting standards. The existing accounting standards used by private entities (primarily SMEs), Private Entity Reporting Standards (PERS), are outdated as they were developed based on the 2003 version of International Accounting Standards (IAS). Indeed, the World Bank's Malaysia Report on the Observance of Standards and Codes (ROSC) - Accounting and Auditing 2012 highlighted that priority should be given to review the PERS framework.

### NEW ACCOUNTING STANDARDS FOR PRIVATE ENTITIES

After a series of outreach activities,

the Malaysian Accounting Standards Board (MASB) finally announced the new financial reporting framework for private entities<sup>1</sup>, the Malaysian Private Entities Reporting Standards (MPERS) on 14 February 2014. All private entities shall comply with either the MPERS or Malaysian Financial Reporting Standards (MFRS) in their entirety for financial statements with annual periods beginning on or after 1 January 2016.

Having considered various options like reduced disclosure requirements, revised PERS and others, the MASB decided to develop MPERS based on the ED 72 FRS for SMEs. The MPERS is identical with IFRS for SMEs issued by the International Accounting Standards Board (IASB) in 2009 apart from minor amendments to certain sections, such as scope, consolidation, income tax and property development activities.

### MPERS TO UPLIFT SMEs

MPERS is expected to help drive SME transformation in line with the SME Masterplan 2012-2020, which is expected to increase the contribution of SMEs to the economy. By adopting IFRS for SMEs,

private entities will be able to produce high-quality and credible financial statements, in turn enhancing their global competitiveness.

As IFRS for SMEs requires comprehensive disclosures, the adoption of IFRS for SMEs would enhance private companies' transparency and thus increase both investors' and bankers' confidence. This will enable private entities to compete in regional and global markets and attract foreign investors as they are able to make informed decisions based on high-quality financial reports.

Adopting IFRS for SMEs would also enhance the comparability of private entities' financial statements in Malaysia because the IFRS for SMEs are widely used globally. Over 80 jurisdictions (such as Hong Kong, Singapore, and the United Kingdom, among others) either have adopted the IFRS for SMEs or plan to adopt it in the near future. Comparable financial statements will also facilitate SMEs in gaining access to finance, as finance providers making cross-border loans would rely on IFRS-compliant financial statements in their credit assessment process and lending decisions.

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1. A private entity is a private company, incorporated under the Companies Act 1965 that:

- is not itself required to prepare or lodge financial statements under any law administered by the Securities Commission ("SC") or the Bank Negara Malaysia ("BNM"); and
- is not a subsidiary or associate of, or jointly controlled by, an entity which is required to prepare or lodge any financial statements under any law administered by the SC or the BNM.





Financial statements prepared in accordance with IFRS for SMEs will also simplify accounting and reporting for SMEs and improve comprehension for their stakeholders. The IFRS for SMEs is a simplified, self-contained set of accounting principles based on full IFRSs which was developed to meet the needs of users of SMEs' financial statements. Most of the complex options in IFRSs have been eliminated. For example, all borrowing costs are recognised as expenses, and all research and development costs are recognised as expenses. In addition, the disclosure requirements under IFRS for SMEs have been simplified, requiring approximately 300 disclosures as compared to IFRSs which require more than 3,000 items in the disclosure checklist.

Given that PERS was developed based on 2003 IASs, there is a widening gap between PERS and IFRS principles. Similarly, there is a gap between PERS and IFRS for SMEs since the latter's principles are developed based on the

current IFRSs. Making the switch to IFRS for SMEs would bridge this gap. In the event that private entities go for listing. Making the transition from IFRS for SMEs to MFRS (which is equivalent to IFRS) would incur lower costs compared to transitioning from PERS to MFRS.

#### IASB HELP AND GUIDANCE

IFRS for SMEs is subject to a periodic review by the IASB every three years, to ensure that the principles under IFRS for SMEs would be up to date with the latest IFRSs. Thus, the IFRS for SMEs is more robust and able to meet the needs of the users of financial statements in a complex and changing business environment. The periodic review would also maintain a period of calm for private entities as they may not have the resources to constantly apply changes in financial reporting requirements.

The IASB provides various materials to educate the public on IFRS for SMEs. Free training materials are avail-

able on the IASB website. There are 35 stand-alone training modules and each module includes a brief technical summary and worked examples to illustrate requirements, among others. Moreover, the IASB has issued the Guide for Micro-sized Entities Applying the IFRS for SMEs in 2009 with the objective of assisting micro-sized entities in their application of the IFRS for SMEs. These would help private entities to keep abreast with IFRS for SMEs.

#### MPERS' IMPACT ON PRIVATE ENTITIES

Some upfront investment may be required to ensure a smooth transition to MPERS upon adoption. This may include the costs resulting from system changes, revising the format of financial statements and training costs.

The private entities should strive to understand the changes from PERS to MPERS and thereafter assess the existing systems and processes to determine its impact on their operations. For example, the data collection processes and key supporting systems may need to be configured to comply with the MPERS.

Training and education costs are expected to increase as a result of implementing the MPERS. The preparers and users of financial statements need to learn and understand the new financial reporting standards. However, as the MPERS will not be updated every year, the ongoing training costs may be lesser.

#### CONCLUSION

Although the effective date of the MPERS is 1 January 2016, private entities should commence the impact assessment of the MPERS at the date of transition. For example, if the MPERS is adopted for annual periods beginning on 1 January 2016, the date of transition<sup>2</sup> is 1 January 2015. Ideally, every party in the reporting chain should prepare for the changes to MPERS now, rather than waiting till the mandatory effective date. ■

2. Date of transition is defined as the beginning of the earliest period for which an entity presents full comparative information in its first financial statements that comply with the MPERS.

## *REVIEW ENGAGEMENTS - A VALUE-ADDING CLIENT SERVICE*

Phil Cowperthwaite,  
Member,  
IFAC SMP Committee



**P**rofessional accountants in practice are frequently looked upon as trusted business advisors. This relationship stems from their significant breadth of business experience combined with detailed knowledge of their clients' businesses, much of which is obtained in the process of performing assurance engagements on their clients' financial statements. Professional accountants are therefore in a unique position to add value, both in terms of enhancing the credibility of their clients' financial statements and being able to provide them with tailored business advice.

The International Auditing and Assurance Standards Board (IAASB) has issued International Standard on Review

Engagements (ISRE) 2400 (Revised), Engagements to Review Historical Financial Statements, which is now effective for periods ended on or after December 31, 2013. Review engagements provide a limited form of assurance on historical financial statements and may be a cost effective and value-adding alternative when an audit is not required.

### **ADDING COST-EFFECTIVE VALUE TO CLIENTS**

A review, consisting primarily of inquiry and analysis, is based on the professional accountant's understanding of the entity and its environment and the applicable financial reporting framework according to which the financial statements are

prepared. This understanding includes relevant industry, regulatory, and other external factors; the entity's operations, ownership, and governance structure; how it is financed; and its accounting systems and records. The professional accountant uses this knowledge to design and perform inquiry and analytical procedures on both material items in the financial statements and on those items where material misstatements are likely to arise. In the course of the engagement, the practitioner develops a significant understanding of the client and its business, which gives him/her an excellent opportunity to offer additional value to the client through the provision of bespoke advice.

Practitioners can provide review services most efficiently by staffing a review engagement with professionals competent in assurance skills and techniques, consistently using the same staff members, and making use of technology to automate the mechanics of the engagement wherever possible. As so much of a review consists of effective communication with clients, performing a significant proportion of the work at the client's place of business is preferable.

### ADDING A MEANINGFUL LEVEL OF ASSURANCE TO FINANCIAL STATEMENTS

In accordance with ISRE 2400 (Revised), a review engagement is not just about practitioners obtaining knowledge of their clients through questions and analysis; it also requires the accountant to dig deeper and obtain additional evidence if it is determined there may be a material misstatement in the financial statements. Additional procedures are also required when further questions arise, such as if related party transactions fall outside the normal course of business, fraud or non-compliance with laws or regulations is suspected, or doubts arise regarding the entity's ability to continue as a going concern. This additional work effort allows for the meaningful and valuable level of assurance conveyed by the review conclusion.

Under ISRE 2400 (Revised), the practitioner is required to comply with relevant ethical requirements, including those pertaining to independence in the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), or national equivalent requirements that are at least as restrictive. The review standard also requires professional accountants to exercise professional judgment and to be skeptical throughout the engagement.

### BENEFITS FOR ALL PARTIES INVOLVED

In summary, there are benefits for all parties

involved in an ISRE 2400 (Revised) review engagement. Practitioners will obtain the knowledge base to enable them to add value to their clients' businesses while expressing the assurance conclusions needed on annual financial statements. Clients and other financial statements users will have the comfort of a meaningful level of assurance provided

The professional accountant uses this knowledge to design and perform inquiry and analytical procedures on both material items in the financial statements and on those items where material misstatements are likely to arise.

by an objective and independent professional accountant.

### A GUIDE TO REVIEWS FOR PRACTITIONERS AND IFAC MEMBER BODIES

The newest guide from the IFAC SMP Committee, the Guide to Review Engagements, is intended to help IFAC member organisations and their members in practice, especially small- and medium-sized practices (SMPs), with the implementation of ISRE 2400 (Revised). To help practitioners develop a deeper understanding of a review engagement conducted in compliance with the standard, the guide includes illustrative examples alongside relevant extracts from the standard. It also includes practical points for practitioners' consideration, tips on how to efficiently implement the standard, and checklists and forms that practitioners can adapt to meet the requirements and circumstances in their particular jurisdiction. ■



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## Building World-Class Businesses for the Long Term

HOW CAN COMPANIES BUILD WORLD-CLASS SUSTAINABLE BUSINESS MODELS? ONE WAY IS TO TRANSFORM THE WAY IN WHICH BUSINESS VALUE IS MEASURED AND REPORTED, AND MANAGEMENT ACCOUNTANTS PLAY AN INTEGRAL ROLE IN THIS, SAID CIMA MANAGING DIRECTOR ANDREW HARDING.

Nazatul Izma

Current financial reporting models don't offer accurate valuations. Change the way in which companies are valued, and this could reset business and investing mindsets from focusing on the short-term to prioritising long-term sustainability instead.

"There is a dramatic shift in the way corporate entities are valued and quantified. In the 19th century, corporate value was defined by what was set out on the balance sheet. Today, most of the valuations on market indices are off-balance sheet or not measured," said Andrew Harding, Managing Director, Chartered Institute of Management Accountants (CIMA). Harding was delivering a talk entitled 'Building world-class businesses for the long term' at the MoU signing ceremony between CIMA and the Malaysian Institute of Accountants (MIA) on 23rd January 2014.

According to research by intellectual capital equity firm, Ocean Tomo, in 1975 a total of 83% of the market capitalisation of companies in the Standard & Poor's 500 index was accountable from tangible assets. This had fallen to 68% by 1985, 32% in 1995 and 19% by 2009.

If this is the case, why are firms still placing so much emphasis on financial value?

"For too long there has been a fixation on short-term financials, short-term reporting and short-term gains. What we all really need to see is a focus on long-term goals, long-term planning and long-term results," said Harding.





## ●● OBSTACLES TO MEASURING NON-FINANCIAL VALUE

But this is easier said than done. An international survey of business leaders by CIMA found that almost 70% believed “the financial markets are holding businesses to ransom as many investors show little or no interest in the longer term. This sentiment was felt even more strongly in South East Asia and the Asia Pacific region than in the UK and US which really surprised us, as short-termism is more commonly associated with Western markets,” Harding elaborated.

This issue is compounded by other obstacles, most notably:

- Current reporting tools that are skewed in favour of financial reporting
- Deficiencies in current information available on non-financials and
- Challenges from existing and new regulations.

If organisations aim to measure their full value, the status quo prioritising financial reporting has to change. Balance sheets need to record the value of the business and not just a company’s financial net position.

One of the biggest challenges on the CIMA radar is changing the perspective of corporate reporting. “The reporting model must move with the times if it is to remain relevant. Moreover, the emphasis on accountability has shifted focus from shareholders to a broader base of stakeholders - and different kinds of information are required by different people. This all ties in directly with sustainability and taking a long-term business view,” said Harding.

## ●● ACHIEVING SUSTAINABILITY

Today’s companies, whatever their size, have to ask themselves some fundamental questions:

- What is your business model?
- How does it make money?
- And, what are the risks and opportunities to making money in the future?

“These questions need to be asked

from a material and a long-term perspective to ensure that sustainability is embedded into the equation. From this basis, we can start to develop a new form of reporting that looks at a company’s value from all sides,” said Harding.

Beyond this, organisations and boards must focus on the critical areas of the business model or the risks that affect sustainability. These are:

- cost leadership
- robustness of the supply chain
- motivating staff, and
- attracting and retaining customers.



The good news is that there is a great deal of interest in rebooting reporting, through game-changers such as the development of integrated reporting (IR).

IR demonstrates the linkages between an organisation’s strategy, governance and financial performance and the social, environmental and economic context within which it operates. By reinforcing these connections, IR can help business to take more sustainable decisions and enable investors and other stakeholders to understand how an organisation is really performing.

At the end of 2013, the IIRC launched its first framework for IR. “The message from this work is that acting sustainably does not mean that the drive for profit is abandoned.

Quite the opposite. The world is increasingly competitive and it is only companies with robust business models generating durable, long-term profitability and cash flow that will prosper,” stressed Harding.

“What is clear from the IIRC’s work is that integrated reporting will first require integrated thinking and integrated decision making which will help to embed sustainability into the heart of business. Integrated thinking cannot be achieved overnight. But the work being done by companies in response to this challenge is impressive and the evolution of integrated thinking has truly begun.”

## ●● ARRESTING BOARD FAILURE

Meanwhile, CIMA’s recent research has also focussed on the role of the board in driving sustainability. There is little doubt that the board’s failure to grasp strategy has been a major factor in the global financial crisis, lamented Harding. There is no shortage of examples where even the most prestigious companies have failed to observe the basics of good governance, such as in the case of UBS and the rogue trader, Kwaku Adoboli. Adoboli received a seven-year prison sentence at the end of 2012 for rogue trading which cost the Swiss bank \$2.3 billion. UBS’s chief executive, Oswald Grubel and the co-heads of UBS’s equities business resigned in the wake of the scandal.

Harding said that UBS's case is worryingly reminiscent of the Lehman Brothers collapse in 2008. In hindsight, some of the fundamental questions that need to be asked are:

- Organisational culture – there appeared to be lax financial controls. Was there a willingness to 'look the other way'?
- Did the board understand its core business model and the associated risks?
- Was there a bias towards questioning unusual losses rather than unusual profits?
- How could it have gone on for so long?
- Was there a failure to challenge and ask 'awkward' questions?

The UBS affair highlights the role that organisational culture plays in high-profile trading scandals. "The common thread that runs through Barings, Lehman Brothers and UBS is that management supervision and risk controls failed to stop the catastrophic losses of renegade traders. But ultimately the board must be responsible for creating the right culture and having access to the right information," said Harding.

Even for those countries that have not been so affected by the downturn, boards need to oversee strategy effectively if they are to be truly sustainable. Evidence shows that boards do indeed want to focus more on strategy and risk. There is also evidence that the best boards are those that manage to focus on long-term strategy effectively - and thus add value to their organisations.

But there are a number of reasons why boards struggle in this area. Lack of time, crowded agendas, business complexity, information overload and lack of robust processes all make the job difficult, said Harding. "Added to that is the inability or unwillingness to ask the tough, challenging, questions that ensure that management is scrutinised effectively. We should also not forget just how much the markets force short-termism. Again, many of the most successful companies are rowing back against this, such as Nestlé and Unilever."

## ●● BOARD SUPPORT – THE CFO IS KEY

Who is the most important member of the board when it comes to ensuring that the framework for sustainable strategies is effectively constructed and managed? Harding contends that this person is the chief financial officer (CFO).

CIMA recently joined forces with management consultancy, Accenture, to provide specific sustainability recommendations for CFOs. The joint study discusses how sustainability has the potential to drive business value across a number of dimensions which can be defined in four segments:

- Firstly, revenue generation. This is not just about meeting uncertain consumer demand for 'green' products or identifying new markets with long-term income streams, but can also relate to how technology and innovation are deployed. The roll-out of low-carbon technology in buildings, transport and energy, driven by targets to reduce CO<sub>2</sub>, is creating huge opportunities – estimated at 2.9 trillion in the EU alone between 2011 and 2020.
- Secondly, cost control. This is always on the agenda of the CFO. Saving money by reducing energy and water consumption, production costs, travel spend and exposure to unnecessary waste and carbon costs are obvious business benefits. All these can flow from a well-worked sustainability programme and will become more important with rising commodities prices and compliance costs.
- Third, building trust. In this context, building trust often means brand value. According to the Edelman Trust Barometer, 77% of consumers have refused to buy from a company they do not have faith in. But a sustainable business also nurtures intangibles other than brand or reputation – such as talent and intellectual property for long-term value creation.
- And finally, risk management. This will continue to be a key consideration with large fines for non-compliance

on waste regulations or carbon emissions, for example. In addition, firms that have untrustworthy sustainability records are losing out on sales. And failure to embed sustainable thinking into operations is, in itself, a major risk.

## ●● CFOs PLAY HUGE ROLE IN SUSTAINABILITY

CFOs can ensure that sustainability can, and should, be taken into account clearly and consistently in day-to-day decision making in order to ensure a healthy triple bottom line. The emphasis must be for organisations to ensure that their finance professionals are given the opportunity to become business partners and to work across the business to add value.

The bottom-line is that better-managed companies lead to long-term, sustainable success, said Harding. The challenge for organisations is to do more to manage risk and protect the value they create at a time when the information available has never been more abundant, more complex and more difficult to interpret.

"To achieve sustainability, getting the right information is everything. Recent high-profile failures of once-powerful companies point to the dangers of not fully comprehending change and drawing the wrong conclusions from the data at hand," said Harding.

In this landscape, he said, "Management accounting has become more relevant than ever before. Forward-looking and externally-facing, management accounting brings structured solutions to unstructured problems, ensuring organisations have the quality of data, analysis and judgement to ensure that the best decisions are made and communicated effectively."

Where they are employed, management accountants have the ability and judgement to make objective, ethical decisions that consider the public interest. But the fact is that not all companies have management accountants in key positions and the overall quality of financial management remains varied. Smaller

businesses could benefit from importing some of the best practices of the largest organisations. In turn, many large organisations acknowledge that their own decision-making processes could be improved with a greater utilisation of the forward-looking skills of management accountants.

## ●● TOWARDS WORLD-CLASS GLOBAL MANAGEMENT ACCOUNTING

CIMA, alongside its joint venture partners, the American Institute of CPAs (AICPA) will launch a pioneering set of Global Management Accounting Principles, which will help organisations across the world ensure they have the very best management accounting systems in place.

The new Global Management Accounting Principles outline the fundamental values and qualities that represent best practice in management accounting. “We are providing an authoritative frame-

work that will help companies fully understand their business model and make the most efficient use of the volume of information at their disposal. Moreover, the Principles will equip organisations with the tools to ensure that the right governance is in place, enabling business leaders across the world to make better, more sustainable judgements that will minimise risk and maximise opportunity.”

## ●● EMPHASISING NON-FINANCIAL VALUE

“The Global Management Accounting Principles will also provide companies with the ability to connect the dots between the financial and non-financial data in a way that many still lack. There is increasing importance being placed on non-financial value to achieve sustainability, and it is critical that businesses have the ability to capture and measure it,” said Harding.

According to a CIMA survey, 75% of the business leaders surveyed want to put more emphasis on measuring and

demonstrating the non-financial value of their organisations. 76% agree the current reporting system promotes an excessive focus on financials.

Perhaps because the reporting system promotes an excessive focus on financials, only 12% of these business leaders said they would go to their finance team for help. In fact, they indicated that they would be more likely to go to multiple sources, ranging from the executive team to external consultants and/or investment analysts.

“It seems that CEOs have an unmet need here since they currently have to go to multiple sources to gather this vital information. This demonstrates that measuring non-financial value isn’t part of the routine – but it needs to be for businesses aiming to become world-class.”

Coming full circle, integrating non-financial and financial value will be the key to achieving long-term sustainability and nurturing world-class business models. ■

# Making a Difference

## WHO ARE SOME OF THE LEADERS IN CHARGE TO TRANSFORM FINANCIAL REPORTING TO REFLECT TRUE BUSINESS VALUE?

A clear transformation is going on in the area of financial and non-financial reporting and there are some very interesting standard-bearers coming into the arena, said Andrew Harding, Managing Director, Chartered Institute of Management Accountants (CIMA).

The German sportswear giant, Puma, claims to be the first business to publish a set of environmental P&L accounts. The company has calculated the cost of its total environmental impact in terms of carbon emissions and water consumption – not only for the core group but along its entire supply chain.

In due course, Puma intends to extend these metrics to land use, waste, pollutants and social impact. By putting a clear set of measurements in place, the company has a much better idea of where it needs to focus on waste and energy reduction and how to factor this in to future procurement decisions. The company also views its new e-P&L as a lever to get key suppliers and industry peers on board.

But there are many instances where making decisions on business sustainability are not so dry, said Harding. In the UK, the French-owned utility giant, EDF Energy, has been criticised by environmental pressure group Greenpeace for pocketing a £1bn windfall from a state-driven increase in the price of carbon. The environmental campaign group said if EDF was ethical, it would redirect that money to reducing bills for those families least able to cope with soaring energy prices.

In response, EDF said it was ploughing the money back into the business to make it more financially sustainable. So who is right? “This kind of debate is set to take centre ground more and more. How we cost ethics and social responsibility will be one of the biggest challenges for accountants in the future,” said Harding.

The answer to this question probably lies in the time horizon over which the business strategy is formulated, he said. “A short-term outlook tends to bypass ethical and sustainable considerations. What is needed is a more long-term view – one in which both commercial organisations and society realise they have a symbiotic relationship. In other words, they need each other.”

# Developing and Reporting Supplementary Financial Measures

HOW PROFESSIONAL ACCOUNTANTS IN BUSINESS CAN IMPROVE  
STAKEHOLDERS' UNDERSTANDING OF ORGANISATIONAL PERFORMANCE.

By Chris Hicks, Principal, Research, Guidance, & Support, CPA Canada  
and Vincent Tophoff, Senior Technical Manager, IFAC



**M**any organisational leaders believe that measures developed under generally accepted accounting principles (GAAP) often do not fully capture an organisation's current performance or future prospects. To fill this void, they frequently provide additional financial measures that are not specifically defined by accounting standards: supplementary financial measures.

Many such measures are widely used in both internal and external reporting, for example, Earnings Before Interest, Taxes, Depreciation, and Amortisation (EBITDA); Underlying Profit; and Free Cash Flow. However, some commentators believe that organisations use such measures in their external reporting to obscure poor performance.

To help professional accountants address this issue and develop and report useful measures, the Professional Accountants in Business (PAIB) Committee of the International Federation of Accountants (IFAC) has issued proposed guidance, *Developing and Reporting Supplementary Financial Measures*.

The proposed guidance provides principles regarding the qualities a measure should have and disclosures that should accompany them if reported externally. The guidance is meant for all organisations that want to use supplementary financial measures, regardless of size or

structure, private or public. The guidance can also be applied to non-financial measures, such as greenhouse gas emissions or barrels of oil equivalent production.

## CONSIDERATIONS FOR DEVELOPMENT AND REPORTING

Building on the qualitative characteristics of useful financial information, the guidance recommends professional accountants consider a number of attributes when developing and reporting supplementary financial measures. A supplementary financial measure should be:

- Relevant - used by management to assess performance or employed by knowledgeable users of the external report.
- Complete - provides all the information necessary for a user to understand the phenomenon being depicted.
- Neutral - not slanted, weighted, or manipulated to obtain a desired result.
- Transparent - aligns with its components and accompanied by sufficient explanation to make it as free as is practical from uncertainty and estimation error.
- Understandable and verifiable - allows knowledgeable users to understand its construction and limitations and conclude that it faithfully reports what it purports to depict.
- Comparable - between entities in the



same industry and between periods.

- Timely - reported at the same time as the related financial statements.

## DISCLOSURE TIPS

In addition to these attributes, the guidance provides a number of tips for disclosure of supplementary financial measures.

- To avoid confusion, supplementary financial measures should be clearly defined. Additionally, the purpose of a measure should be disclosed. Further, supplementary financial measures should be labeled as such and be clearly distinguished from GAAP measures.
- When the components of a measure change or their calculation changes, the reason for the change should be explained and the comparative amounts should be restated to the new basis of calculation.
- A supplementary financial measure should include a quantitative reconciliation of the measure to the most directly comparable reported GAAP measure.



- A supplementary financial measure should be presented with sufficient information to enable a user to understand its components and see that the measure is complete, neutral, and free from error.
- An externally-reported supplementary financial measure should be presented so that it complements but does not overshadow an organisation's GAAP measures.

Given the absence of definitions for supplementary financial measures, many jurisdictions regulate their use and disclosure when reported externally. Accordingly, the proposed guidance should be considered in light of the regulations in the particular jurisdiction where it is applied.

The proposed guidance also includes a limited list of relevant resources from IFAC, its member bodies, and other relevant organisations.

#### HOW TO COMMENT

The PAIB Committee invites all stakeholders to comment on the proposed guidance; comments are requested by May 26, 2014.

#### ABOUT INTERNATIONAL GOOD PRACTICE GUIDANCE

International Good Practice Guidance (IGPG) issued by the PAIB Committee covers areas of international and strategic importance in which professional accountants in business are likely to engage. In issuing principles-based guidance, IFAC seeks to foster a common and consistent approach to those aspects of the work of professional accountants in business not covered by international standards. IFAC seeks to clearly identify principles that are generally accepted internationally and applicable to organisations of all sizes in commerce, industry, education, and the public and not-for-profit sectors. Previously issued guidance is available

on the IFAC website, including Preface to IFAC's International Good Practice Guidance.

#### ABOUT THE PAIB COMMITTEE

The PAIB Committee serves IFAC member bodies and professional accountants worldwide who work in commerce, industry, financial services, education, and the public and the not-for-profit sectors. Its aim is to promote and contribute to the value of professional accountants in business by increasing awareness of the important roles professional accountants play, supporting member bodies in enhancing the competence of their members, and facilitating the communication and sharing of good practices and ideas. ■

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# GoingGreen

## Improving Communication



Greetings from all of us at the Malaysian Institute of Accountants!

We would like to thank you for all the cooperation and support extended to us to ensure smoother and better operations at the Institute. We would also like to take this opportunity to remind you to update your e-mail address with us by sending it to [membership@mia.org.my](mailto:membership@mia.org.my)

#### Why is your e-mail address so important to us?

MIA strives to become increasingly socially responsible and expedite the information sharing process. As the world collectively joins hands to be more environmentally friendly, we believe that the accountancy profession too should take measures to help ensure that we do our bit. Since technology has given us a better alternative in the form of e-mails, we are glad to cut down on the use of paper. We hope that this will not just stop with us. We want members to emulate environmental-friendly practices, be it in business or personal life.

With the pace of business picking up all around us, we realise that speed becomes an essential element in responding to the countless challenges and changes that come our way. As such, we believe that using e-mail as a mode of communication will help us lessen the turnaround time of information dissemination to members. We thank you in advance for your cooperation.



For more information please contact the membership department at **603 2279 9200** or email [membership@mia.org.my](mailto:membership@mia.org.my)

**Nazatul Izma**

“Although there are more than 30,000 members currently registered with MIA,

system system as a whole. Professionally qualified financial and business leaders are crucial for the accountancy sector's development and to support Malaysia's position as a global financial centre and business hub. With CIMA, MIA aims to support the sector's talent development by encouraging qualified and eligible business leaders to acquire professional accountancy qualifications and competencies.





*MIA President, Johan Idris (second from left) and Managing Director CIMA, Andrew Harding signing the MoU. Also present were G. Shanmugam, Head of Professional Development MIA (extreme left) and Irene Teng, Regional Director SE Asia & Australasia, CIMA (extreme right).*

Talent needs to be transformed to manage the mounting challenges of managing the finance function within an increasingly multifaceted and globalised accounting and finance sector, and to produce the quality talent necessary to drive the Economic Transformation Programme (ETP). It cannot be denied that finance leaders operate in an evolving landscape where regulatory reforms, onset of new standards and requirements, emergence of new risk disciplines and the fundamental changes in financial reporting standards have become the norm. All of these require financial and business leaders to be equipped with new knowledge and skills, and the CIMA-CFO programme fits the bill.

Irene Teng, Regional Director of CIMA SE Asia and Australasia, said that CIMA is very pleased to implement the CFO programme in collaboration with MIA to fill a clear talent

void and to promote business sustainability. “We recognise the fact that there are many CFOs and senior finance professionals in Malaysia who will benefit from this programme as it is a fast track route to being professionally qualified. The CIMA professional qualification is ideal in preparing CFOs with the necessary cutting-edge skills to meet the changing finance landscape which is now moving towards business partnering. In business partnering, CFOs have an important role to play in ensuring that performance management is not just about the achievement of current financial targets but longer-term strategic objectives too.”

The CFO programme undertaken by MIA and CIMA as well as other areas of co-operation under the MOU (including training courses, thought leadership events and National Award for Management Accounting) is proof that these two bodies are committed to enhancing the competency and professional development of the accountancy profession in Malaysia. ■





# GST **VS** *Service Tax*

**BUSINESSES ALREADY FAMILIAR WITH SERVICE TAX MAY IMAGINE GST AS A MERE EXTENSION OF A FAMILIAR SYSTEM. DON'T BE FOOLED. GST IS A MUCH MORE COMPLEX SYSTEM NOT TO BE TAKEN LIGHTLY.**

Kenneth Yong Voon Ken

**M**alaysia sees the withdrawal of Service Tax on 1 April 2015, as the new Goods and Services Tax (GST) comes into full implementation. Technically, and procedurally, GST is markedly different from service tax. Yet, it's difficult to get truly worried about a new tax when it sounds so similar to the old. After all, service tax is already written into the name of GST, and the tax rate for GST is the same as the existing 6% under service tax. So an uninformed neutral party may be left wondering what all the fuss is about. But this time round, familiarity betrays the genuine need for anxiety.

This article draws comparisons between GST and Service Tax to allow readers to grasp key similarities and differences with a view to facilitate easier understanding of the GST adoption process, especially for the service industry (including eateries and restaurants) which are currently under the purview of Service Tax. Admittedly, GST is a replacement for Sales Tax and Service Tax, both of which will be withdrawn on 1 April 2015, but the scope of this article is limited to comparisons between GST and Service Tax. Hence, Sales Tax is excluded from the discussion.





## SCOPE OF SERVICE TAX AND GST

In Malaysia, service tax is charged on any “taxable service provided by any taxable person”. It will be noted that the service tax regulations are prescriptive - only those taxable services or taxable persons spelt out in the regulations will be required to charge service tax. Any persons or services not specifically named in the regulations are not required to charge service tax.

On the other hand, GST law is drafted to be more inclusive and all-encompassing. GST is charged on any importation of goods into Malaysia, and on any supply of goods or services supplied in Malaysia which is a “taxable supply” made by a taxable person in the course or furtherance of his business. “Taxable supply” basically covers all goods and services other than those specifically designated under “Exempt” classification. It can be further broken into “standard-rated” and “zero-rated” supplies, of which, the latter is treated as being taxed at zero-per cent. Nonetheless, the important distinguishing point is that all goods and services will carry GST except those specifically falling into the “exempt” or “zero-rated” list.

An important practical implication emerges for disbursements charged by professional firms. Under the service tax rules, disbursements (which are not a taxable service) do not bring any charge to service tax. That means an invoice issued by professional firms will show (in a top-down presentation) fees, service tax and disbursements in this order, such that service tax is only levied on the fee component.

However, under GST, both fees and disbursements will be subject to GST, unless it can be shown that the said fees and disbursements fall clearly into the “zero-rated” and “exempt” classifications. (Admittedly, pure payments-on-behalf should not be subject to GST. Nonetheless, separate and clear documentation is required to avoid disagreements during GST audit).

Leading from this is the new GST-mandated invoice whose informational

disclosures are more onerous than the existing invoice for service tax. A simple substitution of the words “service tax” to “GST” will not meet the case, as GST software needs to be rewritten inside-out instead of retro-fitted with “GST” labels.

## THRESHOLD

Threshold refers to the minimum taxable supply to be exceeded (annually) before triggering service tax or GST. The concept of a threshold applies to both service tax and GST, and is an important indicator for registration of service tax or GST.

**It must be noted that a zero-rated supply, which does not carry any GST, is nonetheless included in the threshold determination, and even businesses providing zero-rated supplies must constantly monitor the threshold, which if exceeded necessitates GST registration.**

Under service tax, there are numerous thresholds for different types of taxable persons and taxable services. Example: the threshold for “restaurants located outside hotels” is RM3 million, whereas the threshold for a car-park operator is RM150,000, and the threshold for a public accountant or for an advocate and solicitor is NIL. In other words, different businesses have different thresholds for service tax registration.

The threshold criteria for GST has been streamlined to just one number: RM500,000 per annum. However, this threshold includes standard-rated supply, zero-rated supply and deemed supply. It must be noted that a zero-rated supply, which does not carry any GST, is nonetheless included in the threshold determination, and even businesses provid-

ing zero-rated supplies must constantly monitor the threshold, which if exceeded necessitates GST registration.

Because of the resetting of the threshold, certain businesses that currently side-step service tax may be brought into the GST net. Many restaurants located outside hotels (whose service tax threshold is RM3 million) could well fall into the GST registration radar as the GST threshold of RM500,000 is arguably much lower.

Furthermore, because of the enlarged scope of GST, goods or services that previously did not carry service tax may be scoped in for GST, and by extension, be counted towards hitting the threshold.

## TAXABLE PERIOD

The taxable period is the period of coverage for which a service tax return or a GST return needs to be prepared.

Under service tax, the reporting period is fixed at two months. That means for instance, January and February may form one cycle, after which a service tax form is prepared covering the said two months. Whereas, under GST, the reporting cycle depends on the annual business turnover of the business and is assigned as:

- Below RM5 million annually : three-month taxable period
- RM5 million and above annually : one-month taxable period

The default taxable period for GST is a three-month taxable period, and the starting month depends on the effective date of registration, which may not necessarily coincide with the start of each quarter. For businesses with unique circumstances (such as extremely seasonal businesses), it is possible to appeal to the Royal Malaysian Customs (RMC) to vary the taxable period citing strong reasons to justify the appeal. A modified six-month taxable period or some other period-length may be assigned at the discretion of the RMC.

Businesses accustomed to the two-month reporting cycle under service tax must acclimatise themselves to the one-month or three-month taxable period pre-

scribed by GST. Switching to the shorter one-month taxable period, in particular, will entail beefing up the internal reporting and data compilation process to meet the reduced timeline, a process in which advance planning and sufficient human resources becomes vital.

### INPUT TAX CREDIT

The service tax system does not provide for a buyer of a service to claim back the service tax paid. Arguably, this is one of the most contrasting differences between service tax and GST, whereby the latter allows GST paid by registered businesses to suppliers or vendors to be recovered in the form of input tax credit – a major plus point according to proponents of the GST system.

Any GST-registered business can put a claim into the GST return form for all GST paid to suppliers or vendors during a taxable period, and the associated input tax credit is available to offset against the GST payable (known as output tax) to the RMC. In the GST return, GST is computed and settled on a net basis (output tax minus input tax credit), thus providing a major cash flow relief for businesses with sizeable input taxes paid. Conversely, where input tax exceeds output tax, a net refund is recoverable from the RMC.

While the cash-flow friendly character of input tax credit is a welcome feature of GST, proper execution requires an overhaul of the transaction-capturing and record-keeping system, as businesses must now not only prove GST has been properly accounted for in sales invoices but also in fixed asset bills/expense bills. The latter requirement is wholly absent under the service tax system, necessitating training of personnel unfamiliar with this process.

### SUBMISSION OF RETURN AND PAYMENT OF TAX

The service tax return (and accompanying tax payable) must be submitted to the RMC 28 days after the taxable period.

Under GST, the return form (and associated GST payment) must be sub-

mitted one month after the taxable period. For example, the submission of a GST return for a 3-month taxable period of February-March-April must be done by the end of May, accompanied by the payment of the net GST for the taxable period. It has been indicated that where there is a net refund on submission of the GST return, then the said refund is forthcoming within 14 working days of submission of the GST return form online or within 28 working days for manual submission.

On paper at least, this swift refund policy is indeed welcome, signifying the government's aspirations toward greater efficiency. If realised, this will allow it to finally ditch the "cash hog" label.



### PENALTY FOR LATE PAYMENT

The penalty structure under the existing service tax system is computed based on the number of late days in blocks of 30 days. Penalty rate is 10% for the first 30 days after the due date for payment, and the incremental penalty is 10% for every 30 days until the accumulated penalty reaches 50% (i.e.  $10\%+10\%+10\%+10\%+10\%=50\%$ ).

For GST purposes, the late payment penalties for GST are also computed in a similar fashion. The penalty rate for the first 30 days is 5% on the unpaid amount, followed by an additional 5% for the next 30 days, then by an additional 3% for every next 30 days until the penalty accumulates to, and is capped at, 25% (i.e.  $5\%+5\%+3\%+3\%+3\%+3\%+3\%=25\%$ ).

It is worth noting that the accumulated penalty under GST is capped at 25%, which compares favourably to the accumulated penalty under service tax of 50%.

### ACCOUNTING BASIS

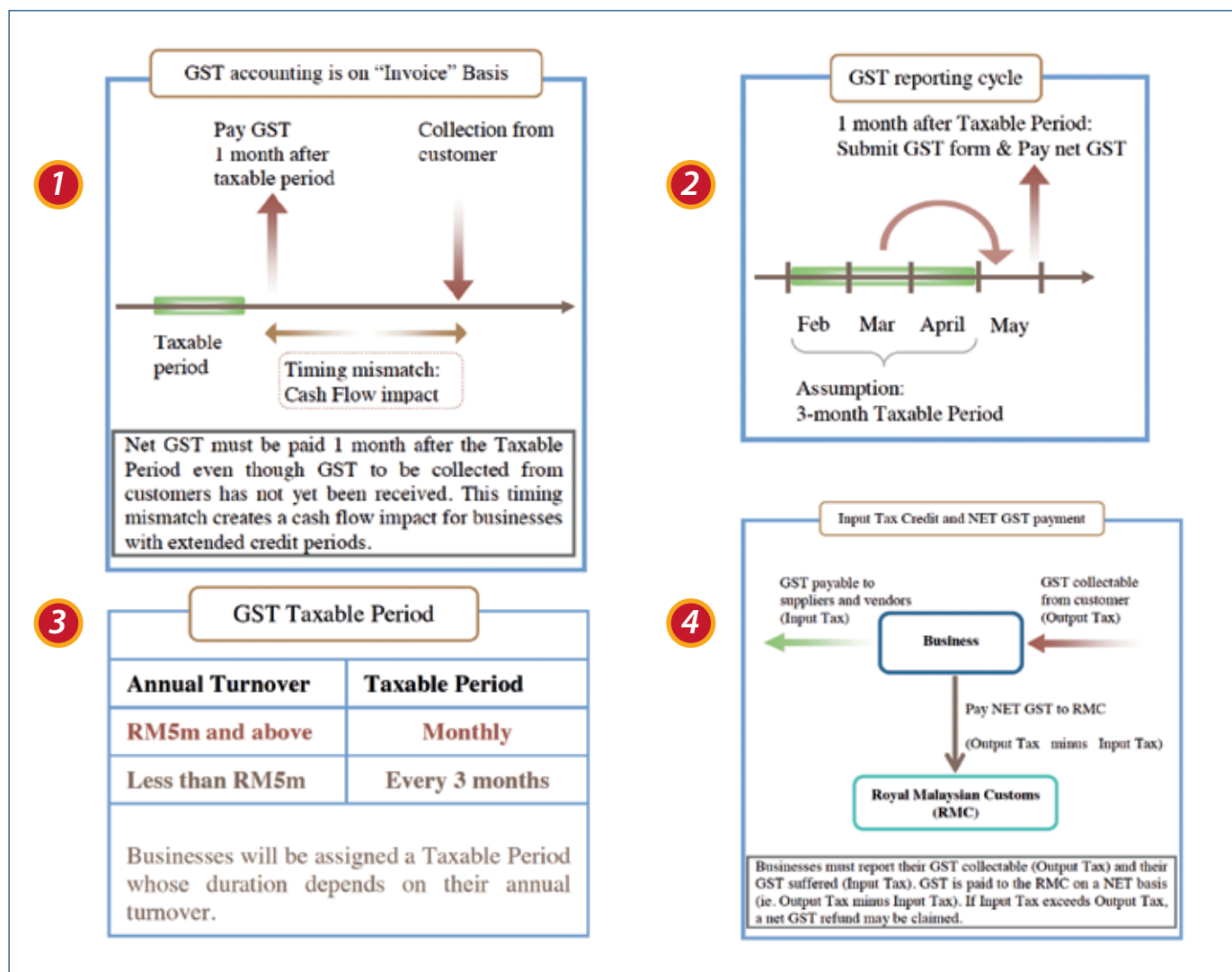
The accounting basis for service tax is on a modified receipt basis. This means that service tax is payable to the RMC only when it is received from the customer, or when 12 months has elapsed since the sales invoice date, in which case it is payable to the RMC even though not collected from the customer. Hypothetically, the maximum delay between issuing an invoice and paying the corresponding service tax is 12 months.

GST, on the other hand, is accounted for using the "invoice" basis ("cash" basis will only be approved under very special situations). When a sales invoice is issued during a taxable period, the GST on the said invoice must be accounted for immediately into the GST return form covering the said taxable period. Following this, the GST return must be submitted and the GST is paid within one month after the taxable period.

The key distinction between GST and service tax is the timing of tax payment: GST is payable to the RMC shortly after the taxable period even though the business has not received any money from its customer; whereas service tax payment follows a modified receipt basis extendable to a 12-month delay before payment of service tax is required.

This startling difference can impact heavily on business cash flows, especially if the normal credit period of that particular business is longer than the taxable period. For many (smaller) businesses, an extended credit period well beyond the taxable period (of one or three months) may be a foreseeable norm, and these businesses may regularly face the disagreeable prospect of forking out GST payments ahead of customer collections. Thus, cash flow planning becomes a major feature upon GST adoption.

On the other side of the coin, businesses can claim input tax credit on GST charged in suppliers' or vendors' bills



even though such bills are yet unsettled. However, there is a six-month "no-pay" rule which reverses any input tax credit claims if businesses do not pay their suppliers / vendors (this together with a closely related six-month "bad debt" rule is beyond the scope of this article).

### ACCOUNTING ENTRIES

The accounting for service tax and GST is the same for output tax (related to GST chargeable to customers) in that the service tax or GST itself is not an "income" in the Income Statement, and so, is captured on the balance sheet as a liability (to pay the RMC).

However, when it comes to service tax or GST paid to suppliers, the accounting treatment diverges. Service tax paid is accounted for as an expense, because it is not recoverable, and so must be

absorbed by the payer. By contrast, GST paid to suppliers / vendors is recoverable through input tax credits, and should not be recorded as an expense – it is captured on the balance sheet as an asset (recoverable from RMC) or as a reduction in liability (reduction in amount payable to RMC).

This difference in accounting treatment calls for proper assignment of account codes and redesign of the accounting system and related documentation, failing which businesses may short-claim their input tax credits.

### CONCLUSION

Understandably, businesses already familiar with service tax may imagine GST as just more of the same; a mere extension of what's already been known and practiced for years. But naivety and complacency can conceal the complex-

ity hidden beneath the GST system. The much wider scope, the new threshold, the new reporting cycle, the new filing and data-processing requirements, the input tax credit mechanism, the "invoice" basis of GST accounting, and the cash-flow crunch etc. all point to a more complicated system not to be taken lightly.

Drawing from what's known in service tax can help chart a course towards what's not yet known in GST. But only thorough preparation and well-planned implementation will businesses have a smooth GST transition through choppy waters. What lies ahead is simply too disruptive to take for granted. ■

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# Goods and Services Tax on Employee Benefits

GST IMPACTS NOT ONLY ACCOUNTING SYSTEMS IN ISOLATION, BUT ALSO EMPLOYEE BENEFITS VIA THE PAYROLL AND HUMAN RESOURCES SYSTEMS. COMPANIES NEED TO INTEGRATE GST TREATMENTS INTO THEIR OVERALL SYSTEMS TO ENSURE A SMOOTH TRANSITION AND IMPLEMENTATION BY 1 APRIL 2015. IT CANNOT BE STRESSED ENOUGH THAT PLANNING AND PREPARATION DURING THE TRANSITIONAL PERIOD WILL BE INSTRUMENTAL IN MAKING A SMOOTH MIGRATION TO GST.

## MIA PROFESSIONAL STANDARDS AND PRACTICES

**A**pril 2015 marks a new milestone in the Malaysian tax system, with the implementation of the Goods and Services Tax (GST) which will replace the current Sales and Services Tax system.

To create more awareness, *Accountants Today* will be publishing a series of articles pertaining to GST issues in the run-up to the deadline to facilitate members' education and understanding. It is vital that members understand and embrace GST because the "wait and see" approach is no longer tenable given the short time frame.

Many may believe that GST merely impacts the accounting system, but its implications on the human resource or payroll system should not be ignored. GST will impact employee benefits, and the article will explore the relevant GST treatment on such benefits.

The Royal Malaysian Customs Department (RMC) has issued the draft Guide on GST Treatment on Employee Benefits (the Guide) dated 16 August 2013. Members are advised to follow up on any updates on GST via the RMC's website from time to time.

### WHAT ARE EMPLOYEE BENEFITS?

Employee benefits refer to any goods or services provided free to employees, given or provided by an employer to an employee, or by another person on behalf of the employer to the employee.

It includes any right, privilege, service or facility provided free of charge to employees. Goods and services acquired and given as employee benefits are considered as used for the purpose of business. As such, an employer (who is a taxable person<sup>1</sup>) is required to account for output tax<sup>2</sup>. However, the employer or the company is allowed to claim the GST incurred (i.e. input tax claim) on expenses arising from providing the employee benefits. The above will not apply if the employer is not registered for GST.



<sup>1</sup> A Taxable person refers to a GST registered person whose annual taxable turnover has exceeded RM500,000.00.

<sup>2</sup> Output tax refers to the amount of tax charged on the provision of goods or services free to the employees.



**TABLE 1: Goods provided free as employee benefits need to be accounted for output tax except for those shown below:**

Employees Benefits	Account for Output Tax	Input Tax Claimable	Reference
Goods given free to employees as stated in the contract of employment	No	Yes	-
Exempt supply <sup>3</sup>	No	No	Goods and Services Tax (Exempt Supplies) - Appendix A2.
Zero-rated supply	No	Yes	Goods and Services Tax (Zero Rated Supplies) - Appendix A1.
Supply of goods under gift rule	No (if value is below RM500.00. It includes supply made to a connected person)	Yes	As long as the total value on the series of gift given to same person in the same year does not exceed RM500.00
Supplies where the input tax claims were disallowed	No	No	Input tax claims were disallowed under the GST Regulations.

Employee benefits as stated in the contract of employment are such as leave entitlements i.e. annual leave, maternity leave, sick leave, long-term illness leave, compassionate leave, paternity and marriage leave. It also encompasses benefits such as retrenchment benefit, gratuity payment, voluntary separation scheme, non-contractual compensation for loss of office, profit-sharing, share option schemes, cash subsidy, transport allowance, and interest-free loans granted by the company to employees such as housing, housing renovation, car, study and personal loans. Monetary rewards are clearly NOT subject to GST since money is neither a good nor a service.

#### ACCOUNTING FOR OUTPUT TAX AND RECOVERY OF GST INCURRED (INPUT TAX CLAIMABLE)

Goods or services that are given free to the employees as employee benefits are regarded as being for business purposes; thus, any input tax incurred can be claimed knowing the fact that some business assets acquired are used for both business and non-business purposes. An employer is required to account for output tax on any use of business goods for private or non-business purposes. (refer Table 1)

In a nutshell, with regards to employee benefits stated in a contract of service of employees to be given free to the employees, output tax need not be accounted for. Conversely, if it is not stated in the contract of employment, taxable goods provided free to the employees are subject to GST (subject to the gift rule of RM500.00<sup>4</sup>). Input tax incurred in the making of the taxable supply is claimable.

With regard to services, there is no liability to account for output tax for any services provided free to employees as it is not regarded as a supply, except where such free services are

provided to a connected person or for the benefits of the sole proprietor or directors of the company. The taxable person would be required to account for output tax on such supply based on the open market value.

#### ENTITLEMENT TO CLAIM INPUT TAX AND CIRCUMSTANCES WHERE INPUT TAX ARE DISALLOWED

As a general rule, a taxable person is entitled to claim input tax if he is making a taxable supply and satisfies the following criteria:

- input tax has been incurred;
- input tax is allowable;
- he is a taxable person, i.e. a person who is or is liable to be registered;
- goods or services acquired in the course or furtherance of his business; and
- goods or services made in Malaysia or any supply made outside Malaysia which would be a taxable supply if made in Malaysia.

In this regard, goods and services provided to the employee as employee benefits are regarded as used for the purpose of business, thus any input tax incurred in the acquisition of such goods and services would be claimable as shown in Table 1 above. Note that for exempted and blocked input tax goods, output tax need not be accounted for on such a gift of goods, similarly input tax incurred is NOT claimable.

Besides the tax exempt supply, a taxable person will not be entitled to claim GST incurred on goods and services purchased if he purchased the goods or services from traders who are making taxable supply but who are not GST-registered or from any person who makes an out of scope supply<sup>5</sup>. The employer will be required to account for output tax if the goods are acquired

3. Exempt supply is a supply which is not subject to GST. As such, any goods provided as employee benefits are neither accountable for output tax nor is input tax claimable.  
4. Gift rule refers to any goods worth RM500.00 given to the same person in the same year, which is not a supply and hence is not subject to GST. There is no restriction on the series of gifts, as long as the total value on the series of gifts given to the same person in the same year does not exceed RM500.00.  
5. Out of scope supply refers to supply which is not within the ambit or boundary of GST. Issuance of licenses and collection of assessment tax by local authorities are examples of out of scope supply.

TABLE 2

Employee Benefits	Account for Output Tax	Input Tax Incurred Claimable
Utilities incurred by expatriate employees	Yes	Yes
Utilities incurred by directors for private use	No	No
Reimbursement of mobile phone charges for staff	No	Yes, but need to segregate into business from private use.
Gift voucher/monetary rewards	No Money is neither goods nor services	No
Tax invoice is issued to employee (instead of the company)	No	No, unless proven that the supplies are acquired in the course of his official duty or acting on behalf of the company.
Foods and beverages provided during annual dinner	No	Yes, provided the function is attended by the employees of the company only. Apportionment will be required if function is attended by family members.
Provided at subsidised or discounted price	Yes, the GST is calculated based on the subsidised or discounted price	Yes

from the former when given free to employees (subject to cost of more than RM500.00). However, the supply acquired from the latter is neither output tax accountable nor input tax claimable.

#### BLOCKED INPUT TAX

Input tax incurred by a taxable person on acquisition of the following supplies shall be excluded from any credit under GST Regulations (input tax is not claimable) even though the taxable goods and services are for business purposes:

- the supply or importation of a passenger motor car<sup>6</sup>;
- the hiring of a passenger motor car (refers to the GST paid on the hiring or lease charge);
- Club subscription fee (means any joining fee, subscription fee, membership fee, transfer fee or other consideration charged by any club, association, society or organisation established principally for recreational or sporting purposes or by the transferor of the membership of such club, association, society or organisation);
- medical and personal accident insurance premium or *takaful* contribution<sup>7</sup> for employees;
- medical expenses (any medical expenses in connection with the provision of medical treatment to any person employed by a taxable person);
- family benefits (refers to any benefits, including hospitality of any kind, provided by the taxable person for the benefit of any person who is the wife, husband, child or relative of any person employed by the taxable person).
- entertainment expenses to a person other than employees or

existing customers except entertainment expenses incurred by a person who is in the business of providing entertainment. Entertainment expenses to family members and potential clients (not existing clients) are disallowed.

#### OTHER CONSIDERATIONS (Table 2)

Other than those provided in the Guide mentioned above, there are other employee benefits that the employer may need to take into consideration for GST purposes. (refer Table 2)

A taxable person is required to maintain complete documents such as invoices, employment records, and any documents related to the employee benefits given to employees. Such records must be retained for seven (7) years and must be made available upon request by the authorities concerned.

#### CONCLUSION

GST implications should not be seen in isolation as affecting only a company's accounting software. GST may impact the human resource or payroll systems, as not all payroll systems are integrated with the accounting software. Training is no longer limited to accounting staff, but must also involve those involving human resource and payroll, in order to properly comply with the GST rules.

Companies should focus on reviewing their overall systems to ensure a smooth transition to GST and implementation by 1 April 2015. It is extremely important to carry out the necessary preparations and put in place well-planned strategies during the transitional period to facilitate GST implementation. ■

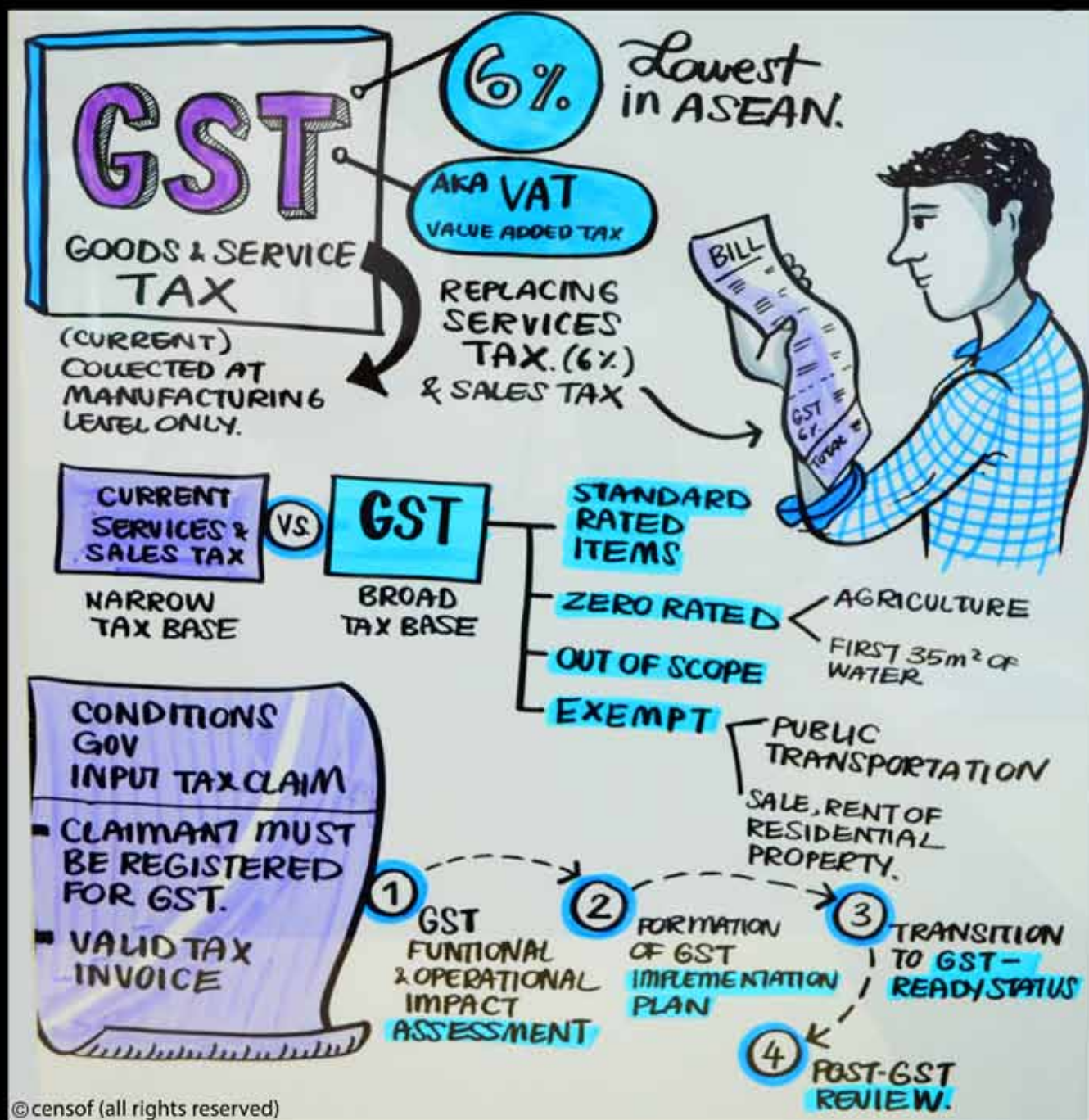
6. Passenger motor car refers to a motor car normally used on public roads that accommodates not more than nine passengers, inclusive of the driver, and the unladen weight does not exceed 3,000kg. For detailed information, members are advised to refer to the GST Guide on Input Tax Credit issued by the RMC dated 27 October 2013 at the link [gst.customs.gov.my](http://gst.customs.gov.my).

7. Medical and personal accident insurance premium or *takaful* contribution means any payment or contribution towards any of the insurance contracts or *takaful* certificates per the GST Guide on Input Tax Credit.

1<sup>st</sup> April 2015

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# Bitcoin: Boon or Bane?

DOES BITCOIN HAVE STAYING POWER? OR IS THIS VIRTUAL CRYPTOCURRENCY SWATHED IN SPECULATION SET TO FIZZLE OUT?

Preetha Nadarajah

**B**itcoins are certainly creating a buzz. As with any new innovation, it is impossible to predict the future – will bitcoins become entrenched in modern life or will it die out as authorities move to curb its use? Just as the Internet has cut out layers of the distribution network for books and films allowing producers to sell direct to consumers without virtual middlemen, the bitcoin could revolutionise the world of traditional finance which relies on trusted central services for trading, for asset registers and for clearing et al – bypassing regulators and the banking industry.

On 2 January 2014, Bank Negara Malaysia (BNM) issued a statement cautioning the public of the risks of using the digital currency, bitcoin which is not legal tender in Malaysia and is not regulated by BNM. Just about a month prior to this announcement, China's central bank, the People's Bank of China (PBOC) not only warned the public, but also moved to bar all local third party payment providers from offering clearing services for digital currency exchanges, such as bitcoin, with effect from 31 January 2014. However, individuals in China are still legally allowed to buy and sell bitcoins on the Internet at their own risk. There have been similar cautionary notes against use of bitcoins or barring of bitcoin trading by other central banks worldwide over the past few years.



## WHAT IS BITCOIN?

According to *bitcoin.org*, bitcoin is “an innovative payment network and a new kind of money.” It is the first decentralised digital online global currency.



## ●● LET'S BREAK THIS DEFINITION DOWN

It is “decentralised” because, unlike a ‘fiat’ currency which is backed by a state or central bank, bitcoin has no institutional control, but rather is managed by many computers on a network of computers.

It is an “online” and “global” currency as it is transferred directly from person to person via the Internet without going through the bank or a clearing house resulting in (almost) instant peer-to-peer transactions worldwide. *bitcoin.org* brags that this lowers transaction fees and that there are no prerequisites or arbitrary limits imposed by the middlemen.

It is considered “currency” because it is used to purchase goods or services from willing sellers who accept bitcoins as payments; “digital” because there is no cold, hard cash associated with bitcoins that you can physically hang on to, as is the case with the Ringgit. You could think of it as intangible digital money, one that you cannot withdraw from an ATM machine, but one that you store in your digital bitcoin “wallet”, regardless of whether your bitcoin balance is tracked via a software wallet on your computer, a mobile wallet on your smartphone or web wallet stored in a cloud.

At the heart of the bitcoin network is a shared public ledger called the “block chain”. This is akin to a public asset reg-

ister where confirmed “transactions” are stored, recording of who gave what to whom and when. A transaction is a transfer of value between bitcoin wallets. This long list of transactions (31 million at last count, according to <https://blockchain.info>) which make up the block chain is replicated across a network of thousands of computers. To pay with bitcoins, you send from your wallet app on the computer or smartphone, a transfer message with the recipient’s address (an identifier of 27-34 alphanumeric characters, not your email or home address!) and payment amount to the network, which copies the request around the computers and checks that all is in order. It is put in a block of transactions, which are added to the ledger (the ‘block chain’). To work out how much bitcoins you have, you just look down the list of your transactions and add them up.

## ●● OWNERSHIP AND CONTROL

Who owns bitcoin? No one, is the short answer. Bitcoin is created as a result of an open-source community project. Open-source is a development model that promotes universal access and redistribution via free license to a product’s design or blueprint, including subsequent improvements to it by anyone - well, any (IT programme) developer, to be more precise. Other examples of

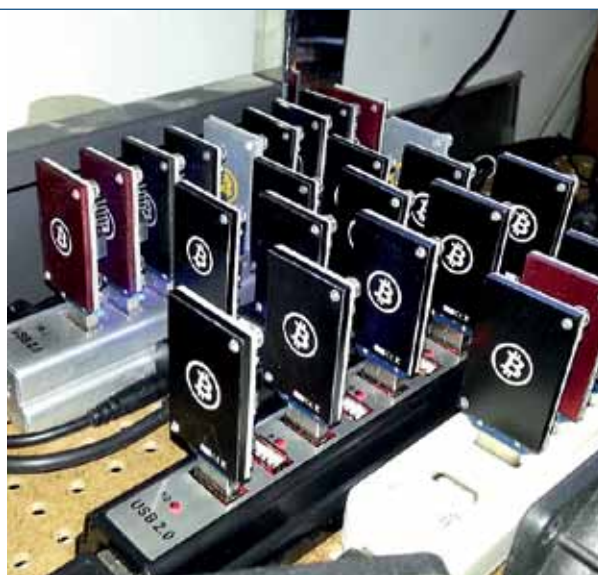
open-source software include *openoffice.org*’s OpenOffice which provides office suites including word processor, spreadsheet and presentation software. This is the free software that is typically installed when buyers of new home PCs do not want to buy Microsoft Office products. In contrast, Microsoft Office is an example of a proprietary software where you would have to pay Microsoft a licence fee to use the software.

Bitcoin specification and proof-of-concept was launched in 1999 by Satoshi Nakamoto who subsequently left the project in 2010. Given the nature of this open-source product, there are many developers who have contributed to what bitcoin is today and could be tomorrow, such that it no longer matters who created it as there is a large (and growing) community that contributes to bitcoin software and its future evolution.

So if no one owns bitcoin, who controls it? Again, no one, is the short answer. *bitcoin.org* describes bitcoin as a “consensus network that enables a new payment system” and a “decentralised peer-to-peer payment network”. A block of transactions has to be agreed among the majority of the computers, known as the “bitcoin miners”, in the network before it can be added to the block chain. So any rogue computer is just ignored by the rest.

## ●● MINING FOR BITCOINS

Bitcoin mining is used to describe the process of spending computing power to process transactions, secure the network, and keep everyone in the system synchronised together. It can be done by anyone with powerful specialised computer hardware running a free bitcoin mining application. Bitcoin miners are incentivised when they earn transaction fees in terms of bitcoins paid by users for faster transaction processing. A bitcoin miner’s profit comes from managing the overhead costs of the specialised hardware infrastructure versus the revenue from the market value of bitcoins received. In essence, it is the consensus among decentralised, independent bitcoin miners that make up the network that manages the bitcoin lifecycle and payment system.



Where do bitcoins come from? How are they created? In contrast to a typical monetary authority such as a central bank that could run the printing presses to generate more money, new bitcoins can be created by the bitcoin miners when they solve mathematical problems that are designed to be hard, but easy to check - like a really challenging *Sudoku* puzzle. The first bitcoin miner in the network to solve the puzzle informs the network and wins the ownership of 25 new bitcoins. These mathematical problems automatically become harder to ensure that bitcoin supply slows over time. As the mathematical problems become harder, mining pools could be created where a group of miners can pool their resources together to solve a block and if this pool wins, the reward gets proportionally allocated among the group members according to the hashing power provided.

### ●● HOW CAN THE BITCOIN BE USED?

The usage of bitcoins in Malaysia is still at the infancy stage: there are a handful of individuals in Malaysia selling bitcoins and thus far only one known merchant in Malaysia accepts bitcoins as payments in exchange for their goods and services as at end of 2013. However, in China, bitcoins have achieved a measure of popularity. Prior to the ban by the PBOC, China Telecom - a state-owned enterprise and the third largest mobile phone provider in China with a subscriber count that is at least three times the population of Malaysia - had launched a promotion allowing the payment of bitcoins as a deposit to reserve a new Samsung phone set to be launched in 2014. In the UK, it is possible to buy beers or a meal at some local pubs using bitcoins. In the US, bitcoins were also the currency of choice on Silk Road, an underground website that served as an online clearing house for illegal goods and services, until the FBI (Federal Bureau of Investigation) shut it down in October 2013. Silk Road's turnover was estimated to be USD1.2 billion in sales. You could also buy everyday items such as pizzas online with bitcoins in the US.

## ●● BITCOINS IN CIRCULATION

According to <https://blockchain.info>, currently, there are about 12.3 million bitcoins in circulation. The total that can be created, under the programme governing the system, is 21 million, a theoretical limit not due to be reached until 2140. The number of new bitcoins created each year is automatically halved over time until bitcoin issuance halts completely. Mining activities however would still need to continue after bitcoin issuance is halted and miners would then be incentivised solely by revenue from the transaction fees.

What is the value of a bitcoin? The bitcoin value can change based on market and demand, as is the case with any other currency. Bitcoins can be acquired on a bitcoin exchange for dollars, euros and more or even exchanged with someone near you. During the month of December 2013, the closing price of the bitcoin on the Mt Gox exchange, one of the larger exchanges in the US ranged from under USD1,238 on 4 December to USD541 on 18 December. A wild swing indeed!



On a practical level, bitcoins facilitate cheap, anonymous, global transactions without interference from state authorities. The ability to bypass the state authorities increases the attractiveness of bitcoins to the more shady activities. Bitcoins are also perfect for getting around tight capital controls imposed by the state, which prevent the rich from moving too much money overseas. It is understandable that this threatens the state authorities as it likely reduces the income stream from taxes and reduces the ability of the authorities to monitor or police or control asset movements in and out of the country.

### ●● WHAT ARE THE RISKS FROM REGULATORS?

With more serious interest in bitcoins, there will be increasing scrutiny from regulators on trading with bitcoins. Although regulators cannot enforce bitcoin given the decentralised and distributed nature of the bitcoin network, regulators could tame the market by imposing regulations on the merchants and customers. A case in point is the regulator enforced ban resulting in reduced avenues for those in China to make payments with bitcoins after 31 January 2014.

Similarly, Malaysian authorities do not condone the use of bitcoins. On 2 January 2014, Bank Negara Malaysia (BNM) issued a statement cautioning

the public of the risks of using the digital currency, bitcoin which is not legal tender in Malaysia and is not regulated by BNM. Just about a month prior to this announcement, China's central bank, the People's Bank of China not only warned the public, but also moved to bar all local third party payment providers from offering clearing services for digital currency exchanges, such as bitcoin, with effect from 31 January 2014. However, individuals in China are still legally allowed to buy and sell bitcoins on the Internet at their own risk. There have been similar cautionary notes against use of bitcoins or barring of bitcoin trading by other central banks worldwide over the past few years.

### ●● BITCOINS FOR INVESTMENT

What is the future for bitcoin? As with any innovation, it is impossible to predict the future. Just as the Internet has cut out layers of the distribution network for books and films allowing producers to sell direct to consumers, without virtual middlemen, such as *iTunes* or *Amazon* being involved, the bitcoin could revolutionise the world of finance which relies on trusted central services for trading, for asset registers and for clearing.

Should you hold bitcoins as part of your investment portfolio? In the short term, a few possibilities exist in bitcoin investments - investing by purchasing

the bitcoin itself or investing in or becoming a bitcoin miner. For the former, at this stage, 'speculate' may be a more apt word to use, rather than 'invest'. If you have a weak heart, stay well away and gawk at the roller-coaster ride on a bitcoin exchange of your choice from the sidelines. Otherwise, use only funds that you set aside for speculative purchases and don't bet the house on it! The fact that the bitcoin network is decentralised means that there is no one body to back the bitcoin as we have with the PIDM (Perbadanan Insurans Deposit Malaysia) deposit insurance in Malaysia, which protects up to RM250,000 per depositor per PIDM member bank. Plus, the recent bankruptcy of the Tokyo Mount Gox exchange – formerly the world's largest bitcoin exchange – hardly instils further confidence in investors.

As for investing in or becoming a bitcoin miner, unless you have the combination of an affinity for geek speak such as "hashing" and an eagerness to devour technical terms such as "GPU cards", "FPGA", or "ASIC machine" and an understanding of the energy consumption, optimisation and redistribution behind the running of specialised hardware platforms, this may not necessarily be your cup of tea.

However, for the mere mortal, in due course, companies that offer services and products that run on top of the bitcoin network may prove to be a more palatable form of bitcoin investment.

The bitcoin could be as big a game changer as the Internet and computers before that and the telephone in the 1800s. That said, *bitcoin.org* also very frankly states that it is possible that bit-

coins could become worthless and offers no guarantees! Take heed of Warren Buffet's first rule of never losing any money and the second rule which states never to forget the first rule! ■

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*Preetha Nadarajah has an MBA from Insead, France, one of the world's leading and largest graduate business schools. She strongly advocates that everyone regardless of financial background should actively manage their personal finances.*

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#### References:

- BNM's statement warning public re: Bitcoin. 2 Jan 2014: [http://www.bnm.gov.my/index.php?ch=en\\_announcement&pg=en\\_announcement\\_all&ac=275](http://www.bnm.gov.my/index.php?ch=en_announcement&pg=en_announcement_all&ac=275)
- PBOC barring of Bitcoin: <http://www.pbc.gov.cn/publish/goutongjiao>

#### ADVERTISEMENT

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UNIT4 Agresso has a long and successful history of helping complex organisations to manage change and growth, thanks to its Vita architecture, designed for this very purpose. In November 2013, UNIT4 commissioned market research firm IDC to complete a custom survey of UNIT4 customers to evaluate the relative cost of change for those who use Agresso. The survey followed a May 2013 study which evaluated ERP change costs paid by companies not using Agresso ERP. When IDC compared the two data sets of Agresso vs. non-Agresso ERP users, it found substantial differences in the cost and disruption factors of undertaking change tied to business events, such as reorganisations, mergers and acquisitions, new regulatory requirements, business process changes or new financial/tax laws.

UNIT4 customers spent an average of 55% less than the general ERP community on supporting business change. **On the other hand, customers using other ERP solutions pay 74% more (plus the organisational time**

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# *Whither Asia in 2014?*

WHAT DOES 2014 HOLD FOR ASIAN ECONOMIES?

Safiah Ashedoff

**S**ince the global financial crisis of 2008, emerging markets - particularly in Asia - have been the locomotive and driver of the global economy even as advanced economies battle economic weakness.

However, the tables look set to turn somewhat. The International Monetary Fund at its annual meeting in October 2013 discussed the changing dynamics between advanced economies and emerging markets, whereby signs show that that advanced economies are expected to record stronger economic growth in 2014 while growth in emerging markets, including India, is expected to slow down.

Malaysia will be no exception to the general trend of deceleration among emerging economies. Early in 2013, growth in Malaysia also showed signs

of moderating mainly due to certain factors and vulnerabilities e.g. the rapid rise of household debt, rising property prices, and current account surplus, amongst others.

These developments call into question the sustainability and resilience of Asian economies and growth, which were hotly debated during the third plenary of the MIA International Accountants Conference 2013. Nevertheless, the panellists concluded that while Asia is not out of the woods, several key factors will positively support Asia's continuing growth in the next decade, albeit there may be a slowdown. Of course, in the short term there will be a number of challenges facing Asia, but the region has the capacity to weather an increasingly uncertain global environment.



## ASSESSING ASIAN ECONOMIC PROSPECTS

Kicking off the plenary, Marzunisham Omar, Assistant Governor, Bank Negara Malaysia, talked about a recent survey referencing growth in nine countries, including key ASEAN nations, China, Korea, Hong Kong, and Chinese Taipei. These economies have a collective GDP of USD18 trillion as of 2012. These countries have registered an annual growth of 5.1% in the last decade and their economies are increasingly driven by domestic demand.

In response, Ken Pushpanathan, President, Malaysian Institute of Certified Public Accountants said that Japan needs to be included in surveys of countries driving growth in Asia given its position as the third largest economy in the

world and its resilience. The scope of what constitutes Asian countries should also be expanded to include South Asia, the Middle East and the former USSR countries. The latter especially is blessed with huge oil reserves and subsequently, will have a substantial influence on the economic development of Asia.

Studies further show that Asia's share of global GDP has grown from 6% to 22%, and forecasts project this share will increase up to 52% by 2050. Meanwhile, trade, consumption, liberalisation and mobility will be among the key drivers of Asian economic growth. By 2014, 40% of the world's demand for luxury items is projected to be derived from Asia. The increasing number of trade pacts being signed between Asian countries

will also drive intra-regional trade. Other key developments catalysing growth are the number of reforms in the region aimed at developing human capital and capital markets.

Meanwhile, Martyn Jones, President of the Institute of Chartered Accountants in England and Wales (ICAEW) noted that Asian countries have also benefited from recent low US interest rates and strong investment flows to Asia.

Whither Asia in the short-term? Even though signs show Asia's growth has moderated, Marzunisham said that there will be improvement by June 2014. Domestic demand is expected to remain strong and further impetus to growth will come from gradual improvement in external trade as the world economy recovers.



*Audience during the presentation*

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On the flipside, there are risks to Asian economies. External risks include the uncertainty in US fiscal and monetary policy. Domestically, certain Asian economies face internal challenges, for example, weaker fiscal positions, weaker current account balances, rising household indebtedness and sharp increases in property prices. Where Malaysia is concerned, key drivers moving forward will be the private sector, particularly, private sector investments.

## AND CHALLENGES

The future definitely won't be plain sailing for Asia, and the panellists identified certain challenges which could throw a wrench in Asian growth.

Managing diversity will be a major challenge, noted Pushpanathan. Not only does Asia exhibit a diverse range of cultures and languages, but Asian countries range from developed nations, developing markets, and emerging markets right down to the new emerging markets. To illustrate, while domestic demand might be a key driver for growth, but this will vary in accordance to individual stages

of development and depends on whether the country in question is a developed nation or an emerging market. Similarly, factors that will drive growth are physical infrastructure, sectoral and industry development, a strong service sector, and accessibility to finance and banking, among others. These factors again differ vastly between different markets. For example, one country may have no issues getting a favourable rating for its sovereign bond but others may struggle to get an attractive enough rating to warrant marketability, thus affecting financing.

Population and healthcare issues were singled out as major challenges even while quality of life improves and life expectancy increases. Developed and developing nations have families with fewer children whilst emerging and newly emerging nations typically have families with large families. Both pose different challenges. Population demographics with larger numbers of the older generation put pressure on the younger generation to provide support, especially given the rising cost of living and medical care. Rising healthcare costs is an emerg-

ing and expensive issue as most Asian countries except Japan are a long way away from providing first-class affordable healthcare to the masses.

Conversely, in an emerging economy, huge families and a large and youthful population pose job creation challenges. Ensuring low unemployment rates and sustainable job creation are equally vital to maintain political and economic stability and to catalyse growth. Human capital and talent is a challenge dogging Asian countries across the board. Governments need to pay attention to literacy, which does not merely mean having secondary and/or tertiary education but entails producing the right type of talent with relevant skills. Malaysia is currently grappling with this very problem as it strives to reform education to make talent more competitive and competent.

Improving the quality and size of the services sector can also accelerate growth. Developed and developing nations have a strong services sector with Malaysia's service sector comprising over 56% of the economy, and this will be a challenge for emerging economies to emulate. Environmental sustainability is a key issue going forward. Environmental resources, including water, require protection as increasing environmental disasters threaten sustainability. Recent months have seen a deluge of typhoons and floods, wreaking environmental and economic havoc. How countries manage the environment will be key in deciding development.

Since Asia is hardly insulated, external issues including the legacies of European and American weakness post the global financial crisis will pose a threat to growth. A major challenge facing Asia in 2014 will be the US fiscal cliff which has only been approved up to January 2014. Thereafter, the US Senate will have another decision to make and this will have an effect on the rest of the world including Asia.



*Marzunisham Omar*



*Martyn Jones*



*Ken Pushpanathan*

Will exports recover? Asian countries which rely on the European export market will continue to be affected as EU countries work to restore sustainable growth. Merely relying on the strength of the German market will not be enough to sustain Europe in the long term.

Leakages constitute a sizeable challenge for most Asian nations, including Malaysia. In order for a country to ascend the value chain from say, an emerging economy to a developed economy, these leakages need to be contained or completely eradicated.

ICAEW's Martyn Jones added that the political instability between China and Japan should not be underestimated as demand for Japanese cars in China has decreased substantially. Jones also pointed out that Asia will be affected by "reshoring" where manufacturing is moving back to certain countries. "This happens when wages begin to rise in Asian countries."

While Asian countries work to manage these challenges, it is equally vital to emphasise fiscal responsibility. Maintaining foreign reserves of up to six

months is essential to cover short term debt and the national debt ratio should be kept below 50%.

Promoting strong financial controls in public and private sector is equally important for growth and countries will succeed if they serve the public and ensure public benefits are increased as nations grow. Given that financial controls are the domain of the accounting profession, Jones concluded that "accountants will be vital in assisting the managers of the economies to get their accounting and math right." ■

MIA SURVEY 2014

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The Institute would like to invite you to take part in its MIA Survey 2014, which examines members' expectation to activities conducted or services provided by MIA. Your response will enable us to continue to improve the quality of activities and services we provide to you.

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To compensate your time, each completed response is entitled to RM100 worth of CPE vouchers and every 500th respondent will receive a mystery gift worth more than RM500. Each completed response will be entered into a lucky draw for an iPad Mini Retina Display (128GB) worth RM2,249 (Recommended Retail Price).

To be eligible for the CPE Vouchers, Mystery Gifts and Lucky Draw Gift you must –

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- Complete all sections which are applicable to you;
- Include your name and membership number for purposes of delivering the CPE Vouchers and Mystery Gift;
- Respond only once as one member is entitled to only one set of CPE Vouchers and one Mystery Gift;
- Ensure that your communication details with the Institute is updated as CPE Vouchers will be sent to your correspondence address as per the Institute's records;
- Complete and send your response by 12 noon, Friday 30 May 2014.

Please note that the decision of the Institute in awarding the Mystery Gift and the Lucky Draw Gift is final. Many thanks for your views and time.

**Here is a link to the survey:**

[https://www.surveymonkey.com/s/Malaysian\\_Institute\\_of\\_Accountants](https://www.surveymonkey.com/s/Malaysian_Institute_of_Accountants)





## Global business growth jeopardised by the failure of organisations to adjust to 21st-century workforce

ONE OF THE LARGEST GLOBAL SURVEYS OF ITS KIND REVEALS THAT ORGANISATIONS ARE NOT READY TO ADDRESS THE STRIKING SHIFT IN EMPLOYEE EXPECTATIONS, POTENTIALLY RESULTING IN A CRISIS IN RETENTION AND LEADERSHIP.

**T**he highly connected and global 21st-century workforce is here and, according to the **Deloitte Global Human Capital Trends 2014** report, organisations are not prepared to respond to the challenges it represents.

“As the world’s population grows, the global workforce is simultaneously getting younger, older, and more urbanised,” says Josh Bersin, principal and founder of Bersin by Deloitte, part of Deloitte Consulting LLP. “Millennials are reshaping the talent markets with new expectations; new technologies are changing work in countless ways; and we are more frequently competing and racing with machines for knowledge work. The findings of our global survey reveal that a majority of global organisations are not prepared to deal with these trends that are reshaping the workforce.”

According to the report, the single biggest challenge cited by most (86 per cent) respondents is leadership development, followed by retention and engagement (79 per cent), and reskilling the HR function (77 per cent). Importantly, most respondents indicate that their organisations are not ready to address these challenges.

The report brings together 15 years of research as well as one of the largest global talent management surveys to date, incorporating the views of more than 2,500 business and HR leaders in 94 countries around the world.

“Given the radical shifts in demographics and technology, doubling down on the human capital practices of the past will not be enough to get the job done,” continues Bersin. “The research shows that organisations should re-imagine their approach to engaging people

and move to reengineer many of their HR practices. Attracting top talent has become a serious competitive issue that demands attention at the highest levels of the organisation.”

### ●● LACK OF LEADERSHIP THREATENS COMPETITIVENESS

Developing global leaders is the top issue facing these organisations, yet only 13 per cent of respondents believe they do an excellent job in providing leadership programmes across all levels; 66 per cent believe they are “weak” in their ability to provide leadership programmes for Millennials, and about half (51 per cent) have little confidence in their ability to maintain clear and consistent succession programmes.

Faced with a dire shortage of technical and professional skills, many organisations are resorting to the old-fashioned way of addressing the problem – i.e., trying to “hire the right person” to fill in the gaps – according to the report. Yet, the report indicates that as skills become obsolete more rapidly, organisations should learn to leverage Massive Open Online Courses and internal development resources to build a “supply chain for skills” – developing deep, specialised skills on the job.

### ●● PAYCHECK NO LONGER ENOUGH TO RETAIN AND ENGAGE TALENT

The second top challenge cited by respondents—retention and engagement of employees—is another area where executives rate themselves as either “weak” or just “adequate.” More than one-third (38 per cent) report they are “weak” at integrating social, community, and corporate

programmes and aligning employee and corporate goals. Four-in-ten respondents (40 per cent) state their organisation is “weak” in helping employees balance their personal and professional lives, and only eight per cent believe they have a strategy to help employees manage the barrage of information they receive every day.

“Twenty-first century employees have radically different expectations about work than those of previous generations,” says Bersin. “Today, people want to work for organisations that continually invest in developing their skills, thereby enabling them to stay relevant in the ever-changing workforce. They also want balance, passion, and purpose in their jobs. This changing employment value proposition requires organisations to align their business and corporate objectives with the professional, personal, and social goals of their employees and give them an opportunity to make a difference, not just earn a paycheck.”

### ●● HR PLAYING CATCH-UP

The third top-rated issue is the need to reskill the HR function. Many HR teams lack the skills and data they need to understand today’s global business environment, local labour markets, evolving workforce demographics, shifts in technology, and the changing nature of work itself. In fact, more than one-third (34 per cent) of the respondents report that their HR and talent programmes are just “getting by” or even “underperforming.” Moreover, less than eight per cent of HR leaders have confidence that their teams have the skills needed to meet the challenge of today’s global environment and deliver innovative programmes that drive business impact.





“There’s no doubt that human capital strategies are now a major factor in business growth,” says Jason Geller, national managing director for U.S. human capital consulting at Deloitte Consulting LLP. “Yet, today’s HR departments are not equipped to face the challenges of this new role. When you add to this the rapidly changing landscape of HR technologies, such as cloud and big data, and their impact on attracting, retaining, and developing talent, it becomes clear that reskilling HR teams is arguably the most critical mission for organisations today.”

Specifically, 43 per cent of respondents to Deloitte’s survey indicated that their organisations are “weak” when it comes to providing HR with appropriate training and experiences, and 47 per cent rank their organisations “weak” on preparing HR to deliver programmes aligned with business needs.

### ●● TOP TRENDS

The 12 trends identified in the report can be analysed within three major categories: 1) attracting and engaging, 2) leading and developing, and 3) transforming and reengineering the HR function. Trends highlighted in the report include:

#### ●● ATTRACT & ENGAGE

**Reinventing talent acquisition:** Even as the majority of respondents (62 per cent) say their organisations rely on social tools for sourcing and advertising positions, when it comes to fully utilising analytics for recruitment and staffing, more than

half (54 per cent) indicate that their practices are “weak.”

**The overwhelmed employee:** Information overload and the always connected 24/7 work environment are overwhelming workers, undermining productivity and contributing to low employee engagement. Sixty-five per cent of executives responding to the survey rate the overwhelmed employee phenomenon as being an urgent or important trend, while 44 per cent say that they are “not ready” to deal with it.

**Engaging the 21st-century employee:** Millennials will make up 75 per cent of the workforce by 2015, and 66 per cent of the respondents report “weak” capabilities when it comes to providing focused leadership programmes for Millennials and 58 per cent of executives report “weak” capabilities in “providing programmes for younger, older and multi-generational workforces,” underscoring the challenges associated with a multi-generational 21st-century workforce.

**Shifting from diversity to inclusion:** Nearly all respondents say their organisations promote diversity, but most fail to realise the business benefits of a diverse workforce. About one-third (34 per cent) of respondents say their organisations are unprepared in this area, while only 20 per cent claim to be fully ready.

#### ●● LEAD & DEVELOP

**Developing leaders at all levels:** Eighty-six percent of respondents in the Deloitte survey rate leadership as “urgent” or “important,” however, only 13 per cent say they do an excellent job in developing global leaders.

**The quest for workforce capability:** While 75 per cent of respondents rate “workforce capability” as an “urgent” or “important” challenge, only 15 per cent believe they are ready to address it.

**Time to replace “rank and yank”:** Even as the nature of the work done by a majority of employees has changed dramatically, the way organisations evaluate employees has not. Only eight per cent of respondents believe their organisation’s performance management process drives high levels of value, while 58 per cent say

their current performance management process is not an effective use of time.

**Corporate learning redefined:** More than two-thirds (70 per cent) of respondents surveyed see new learning methods, such as free online and mobile learning platforms, as “urgent” or “important,” yet only six per cent say they have mastered the content and technology capabilities needed to make online learning accessible and compelling for their employees.

### ●● TRANSFORM & REINVENT

**Delivering on big data:** Talent analytics is starting to enable HR departments to make informed talent decisions, predict employee performance, and enable advanced workforce planning. While 78 per cent of respondents from large organisations (with 10,000 or more employees) rated HR and talent analytics as “urgent” or “important,” enough to place analytics among the top three most urgent trends, 45 per cent of the same respondents rated themselves “not ready” when assessing their readiness in HR analytics – among the lowest readiness rankings for any of the 12 global trends.

**Racing to the cloud:** Organisations are rapidly moving away from legacy systems to implement a new breed of highly integrated, cloud-based talent and HR systems. More than two-thirds (68 per cent) of Deloitte’s respondents say that HR technologies are “urgent” and “important” and yet 56 per cent report no definitive plans for their HR systems.

**The global and local HR function:** Global HR and Talent Management, an integrated global operating model that allows for customisable local implementation, is the second most “urgent” and “important” trend for large organisations around the world (those with 10,000 or more employees), according to the survey.

**Reskilling the HR team:** More than one-third (34 per cent) of the respondents report that their HR and talent programmes are just “getting by” or even “underperforming” and twice as many respondents rate HR and talent programmes as “underperforming” (10 per cent) compared to “excellent” (5 per cent). ■

# Choosing the Right Shared Services Model

HOW CAN ORGANISATIONS CHOOSE THE MOST EFFECTIVE SHARED SERVICES & OUTSOURCING (SSO) MODEL?

Safiah Ashedoff



**S**hared services and outsourcing (SSO) are fast gaining traction among businesses that wish to become more efficient and reduce costs through centralisation and standardisation of business processes. Thus it was small surprise that SSO was the focus of a session entitled “Effectiveness of Shared Services & Outsourcing (SSO): Choose the Right SSO Models that will impact you!” at the MIA International Accountants Conference 2013.

Jason Crimson, Director of Asia Pacific Shared Services, Kimberley-Clark Regional Services (Malaysia), Rajaduray Selvaduray, General Manager Finance SSO, Telekom Malaysia Berhad and John Kidd, Chief, Global Shared Services

Centre, United Nations Development Programme (UNDP) were on hand to share best practices and lessons learned from their organisations’ SSO experiences.

An important lesson is to not dive blindly into a SSO solution but ensure that the SSO solution is the right fit for the organisation. Crimson said, “The business environment that organisations operate in today is highly challenging and there is a constant need to streamline processes and budgets due to budget cuts and other constraints. If you believe the SSO solution is the way to go, choose a SSO model that is right for the organisation.”

Having the intent to streamline and standardise processes is important before SSO can be considered as an

option, he said.

“The decision as to which model to use is very organisation-centric and depends on needs, how much can be saved, the size of the organisation’s operation and how globally diverse its businesses are,” agreed Rajaduray.

## LESSONS FROM A MULTINATIONAL

Kimberly-Clark has a few Shared Services Centres across the various regions globally including the centre in Kuala Lumpur that serves the Asia Pacific region, applying a combination of captive SSO models as well as hybrid models. “The differences in models used are largely driven by the maturity of the centres and the level of standardisation of processes,” said Crimson.



### He advised businesses to ask some key questions before deciding on whether captive, outsourced or hybrid models are more appropriate:

- Are you comfortable with allowing third party outsourcing provider access to your organisation’s systems & processes? Which processes are riskier than others?
- Do your processes have Key Performance Indicators (KPI) or expected service levels that can be used to effectively manage the processes that you outsource to a third party provider?
- How much flexibility does your organisation require on the service levels to support your business operations? Will the third party outsourcing provider be able to support the flexibility?
- Finally, does your organisation’s internal culture enable effective management of agreed Service Level Agreements with third party outsourcing providers?

## TELCO'S SSO EXPERIENCE

Meanwhile, Telekom Malaysia (TM) conceived the idea of shared services operations as early as 2004 and in their experience, a lot of time, effort and analysis was required in deciding which model was best. TM also had to evaluate whether there was a need for a shared services model in the first place or to do without it entirely, explained Rajaduray. TM decided that the shared services model was more appropriate as it brings more value to the organisation in terms of cost management, centralisation of resources and economies of scale.

Prior to the establishment of SSO, Telekom's operations were concentrated in every state in Malaysia. Centralisation was done in stages from the respective states to a regional centre in order to streamline manpower and resources. TM started out by establishing shared services centres for the procurement, human capital, IT and Finance functions.

"It was so successful that 14 TM subsidiaries are also currently benefiting from TM's SSO operations. We have achieved continuous improvements in automation and standardisation by using supplier self-service systems i.e. e-procurement services and implementing the electronic document submission process. This enabled TM to streamline administrative functions, concentrate on TM's core expertise and ensure human capital retention," said Rajaduray.

Efficiency and effectiveness, not just cost savings, are among the key benefits of SSO. "Shared services is able to provide value to the business by ensuring only pertinent information is passed on to the business units," said Rajaduray.

## SSO BENEFITS FOR PUBLIC SECTOR ORGANISATIONS

The United Nations Development Programme (UNDP) decided to adopt the finance SSO model when implementing International Public Sector Accounting Standards (IPSAS) across its global footprint.

"As an international organisation, transparency is important at the UNDP as funding is obtained from donors and tax-



(L-R): Jason Crimson, Rajaduray Selvaduray and John Kidd.

payers around the world. In recent years, the UNDP decided to use the IPSAS which is the public sector equivalent of IFRS. In the private sector, accrual-based accounting is rather straightforward and basic. But for the UNDP to move from cash accounting to accrual-based accounting was a major challenge. As our operations are in 130 countries there are also some highly volatile countries with post-war crises to manage," said Kidd.

"The decision to establish a global SSO was a need to consolidate in one country to take on this more complex accounting work in order to avoid inconsistencies," he continued.

Talent was a key consideration in choice of location. "To make it work, we had to make a thorough analysis of the talent available, particularly their familiarity with global accounting standards, the qualifications of the talent pool and the country-wide infrastructure," said Kidd. After a global study, UNDP decided to choose Malaysia and its SSO site for global finance and accounting was established in Cyberjaya. "After choosing the country and site, there was a need to ensure that talent hired has a working knowledge of the common UN languages: English, French and Spanish. They also had to be made aware of the goals to be achieved which are timeliness, consistency and responsiveness," explained Kidd.

When the IPSAS project began, the UNDP headquarters was located in

New York while the project site was in Cyberjaya. One of the critical first steps was to establish SOPs (standard operating procedures) in advance before taking on any transactions, which is vital for any SSO. "Firstly, Service Level Agreements (SLAs) needed to be drawn up and this was a challenge for the UN. Work had to be done within a 24-hour timeline which was an improvement on the status quo coupled with upstream and downstream delivery expectation between the service centre and the countries it was serving. The third aspect to be established was the escalation method where mechanisms were established for countries to lodge a complaint in the event they were not happy with the service provided."

"Transactional SLAs were used for the nine-month transitional period when work was transferred to the Cyberjaya service centre and work was done at a slower pace. A lot of training and knowledge transfer workshops were done with staff from around the world being flown over to Malaysia. The service centre went live in January 2013 - the volume in accounting transactions is much lower at that time of the year and also, we could avoid the year-end rush," he explained.

Moving forward, there will be a lot of work migrating from New York to Cyberjaya in future. Efforts are in place to ensure that the Cyberjaya finance SSO is fully independent and functional, said Kidd. ■



# Creativity

## A Different Perspective

Creativity is the holy grail of the 21st-century economy, and many organisations have declared that creativity will make the difference between the mediocre and the sublime. Dance doyen **Datuk Ramli Ibrahim** offered a different perspective into creativity based on his experiences as a dance choreographer and an artistic director of Sutra Dance Theatre, which has raised the profile of theatre and dance in Malaysia. Ramli drew parallels between his strategies for running a dance company with the corporate agenda of striking an optimum balance between executive and creative forces to outperform the competition.

Patricia Francis

**W**hat is creativity? Is it positive destruction and reconstruction? Can creativity be achieved without the chaos of change?

For dance choreographer Datuk Ramli Ibrahim, creativity meant reinvention, not just of his persona but his vocation as a dancer, a choreographer, a teacher and artistic director of performances and festivals.

Creativity also means being comfortable in your own skin and having the guts to follow the beat of your own drum. Despite his unlikely background - Ramli was educated at the Royal Military College and gained a degree in Engineering - he gave that up for the performing arts which was more in tune with his creative and artistic temperament.

"Although I started out with Malay traditional dance and trained in classical ballet, I was still looking for something deeper and found it in Indian classical dance which is very integrated with the philosophy of metaphysics, of the total world view. Although I ventured deeply into it, I did not abandon Malay traditional dance and classical ballet," he said. Today, Sutra Dance Theatre, the dance academy that Ramli founded, is recognised as an international and highly creative dance company, with excellence especially in the field of Indian classical dance. However, Sutra works across the traditional, contemporary and avant-garde.



*Datuk Ramli Ibrahim*



*A performance by students of Datuk Ramli Ibrahim*





*Audience were in awe with the speech by Datuk Ramli Ibrahim*

## APOLLO VS. DIONYSIUS

In his personal philosophy, Ramli said he found it important to integrate the duality of things, like *Yin* and *Yang*, and positive and negative. "I always try to integrate two major philosophical and literary principles from Greek mythology, which are the Apollonian and the Dionysian principles," he said.

Apollo represents order, predictability and stability. It is based on individuality and celebrates creativity through reason and logical thinking. Apollo is said to be represented by institutionalised regulatory bodies, such as the police, the armed forces and universities or learning institutions, which are governed by order.

Conversely, Dionysius represented madness, hedonism and intoxication in Greek mythology. Dionysius is all about chaos, disorder, asymmetry, instability and surprise. These are the opposite of rationalism, order and logic, and relate to emotions, instincts and the pleasure principle.

According to Ramli, accountancy, which is classed under Apollonian principles in a way, would have to assimilate more of the Dionysian lack-of-method in order to boost creativity.

In his role as a creative director, Ramli has to strike a balance between these two principles. Apollo rules when he has to form order out of a troop of dancers, but it has to be balanced with the inspiration of Dionysius "because creativity dwindles down under the tyranny of discipline."

Striking a parallel with business, Ramli noted that while the profession needs regulation and compliance to ethics and some semblance of discipline and conformity, "accountants should try not to lose the element of surprise or excitement in order to be creative. Ultimately, a person should strive to find a balance between the Apollonian and the Dionysian forces." ■



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# Winning with Interdependence

P. MOHANA POOPATHI

"DEPENDENT PEOPLE NEED OTHERS TO GET WHAT THEY WANT. INDEPENDENT PEOPLE CAN GET WHAT THEY WANT THROUGH THEIR OWN EFFORT. INTERDEPENDENT PEOPLE COMBINE THEIR OWN EFFORTS WITH THE EFFORTS OF OTHERS TO ACHIEVE THEIR GREATEST SUCCESS."- STEPHEN COVEY, **"THE SEVEN HABITS OF HIGHLY EFFECTIVE PEOPLE"**, 1989.

**I**nterdependence is fundamentally described as a two-way relationship, where partners, business stakeholders and clients are mutually dependent on one another to realise their goals. In a global market system, interdependence is essential - especially to reap mutual benefits and establish long-term growth and development between two or more entities. Colloquially, it is nothing short of a "win-win" principle!

On 18 February 2014, MIA's Professional Development (PD) Division hosted well over 100 guests at the MIA Appreciation Luncheon & Knowledge Sharing Session in Kuala Lumpur. The luncheon event was held as a gesture of appreciation and to give due recognition to MIA's long-time supporters, sponsors and key clients, who have contributed significantly towards MIA's continuing professional education (CPE) efforts and projects over the years, including its flagship event, the MIA International Accountants Conference.

The event was officiated by MIA's Registrar, Sudirman Masduki, who welcomed the attendees on behalf of MIA President, Johan Idris. Sudirman remarked that the ongoing cooperation between MIA with its supporters, sponsors and key clients has "contributed significantly to the growth and development of the accounting profession in Malaysia."





*Left: Celebrating long term partnership: Attendees tossing the yee sang*

*Below: ACCA's Jennifer Lopez takes home a lucky draw hamper. Presenting the hamper is MIA Registrar, Sudirman Masduki*



*One for the album: (L- R) Zahrin Maarif, Luciano Pezzota and G. Shanmugam*

Key clients comprised of representatives from commerce and industry, public practice, public sector, professional accounting bodies, "Big 4" accounting firms and academia. Distinguished guests included Hoon Tai Chee, General Manager, Hotel Armada; Ang Hsin Shieh, Director (Group Business Development), Century Software Sdn. Bhd.; Lucas Chew, Director, CIMB Bank Berhad; Jennifer Lopez, ACCA Country Head; Loh Wei Yuen, Head ICAEW Malaysia; Tan Theng Hooi, Country Managing Partner, Deloitte; Teo Ee Sing, Executive Director of Sunway TES; Saravana Kumar Segaran, Partner, Lee Hishammuddin Allen and Gledhill; Tan Bee Ling, Technical Director, Malaysian Accounting Standards Board (MASB); and Nur Hayati Baharuddin, Executive Director, The Institute of Internal Auditors Malaysia (IIAM).

In developing the accounting profession in Malaysia, MIA places vital importance on interdependent and collaborative initiatives to drive continuing

professional education (CPE). "To actualise MIA's mission to develop, support and monitor the quality and expertise of the Institute's members, Covey's principle of interdependence is embraced wholly and effectively by MIA's PD Division. As a prominent entity that develops and trains the Institute's members as well as members of the accounting fraternity and business, MIA PD engages with leading professional speakers and trainers in carrying out high-quality CPE programmes," said G. Shanmugam, Head of MIA's Professional Development Division.

Currently, Malaysia is in the throes of economic transformation. As the business environment transforms, requirements become more fluid. It is essential that professional knowledge and training efforts support Malaysia's rapid and disruptive shift from an industrial economy to a knowledge-based economy.

Upon special request, some of the CPE programmes are custom-designed to suit participants, who comprise both MIA members and non-members serving

the accounting profession. To that effect, MIA PD plays an active role in organising the CPE programmes via conventions, seminars, workshops, symposiums, conferences and, to a certain extent, by e-learning. These programmes have proven very useful and effective in developing the various stakeholders of MIA.

"Through our partnerships, we get better at broadening the training portfolios of MIA's continuing professional education initiatives. Through the support and invaluable contributions received from our supporters and key clients, MIA will constantly innovate in its approach to deliver more high-quality professional training programmes and knowledge events to the accounting and business fraternity in Malaysia. This synergistic approach is essential and necessary if we want to continue serving the CPE needs of this professional group meaningfully, purposefully and sustainably," said Johan Idris.

G. Shanmugam said that MIA has accomplished much through the practice of the interdependence principle since it taps each partner's strengths while identifying areas of improvement.

"Strong supporters and partners are the keys to a successful enterprise. For MIA to remain relevant in its role in developing and growing the accountancy profession, a supportive clientele is absolutely crucial. The long term relationship between MIA and its special stakeholders from the industry, the Government, public practice, professional accounting bodies and the academia has also been instrumental in enhancing MIA PD to innovate in its role to deliver top-notch training experiences to our special stakeholders. Moving ahead, we certainly look forward to continuing and maintaining this level of engagement, both formal and informal," added G. Shanmugam.

Rounding off the luncheon was special guest speaker, Luciano Pezzota, a highly sought after Blue Ocean Strategy practitioner and consultant who spoke extensively on "Innovation in Business Thinking" during the knowledge-sharing session. ■



# UPSKILLING MALAYSIAN ACCOUNTING GRADUATES

UPSKILLING IS A KEY MEASURE TO ADDRESS THE SHORTAGE OF QUALIFIED PROFESSIONAL ACCOUNTANTS IN MALAYSIA.

P. MOHANA POOPATHI

**T**he accounting profession is wholly committed to upskilling young talent and promoting the exciting career opportunities available in accountancy in order to fill the shortage of qualified professional accountants.

To draw young people to the profession, it is vital to expose them to the wealth of opportunities on offer in accountancy. One such avenue for exposure was the Mini Sector Focused Career Fair (Mini SFCF) for Accounting at Sunway University in February 2014, hosted by Talent Corporation Malaysia Berhad (TalentCorp) in collaboration with the Malaysian Institute of Accountants (MIA). The Mini SFCF was officiated by the Minister in the Prime Minister's Department, YB Dato' Sri Abdul Wahid Omar.

While the Mini SFCF focused on accounting, the SFCF in general was conceived as a part of TalentCorp's strategic initiative to promote, enhance, and upskill

the competencies of Malaysian graduates and undergraduates.

SFCF aims to educate the public, particularly students, on the diverse career paths in the 11 National Key Economic Areas (NKEAs) - Oil & Gas, Electronics & Electrical, IT, Telecommunication, Biotechnology, Finance, Accounting, Healthcare, Tourism, Fast Moving Consumer Goods (FMCG) and Education. By targeting universities and public career fairs, SFCF aims to attract

fresh graduates, undergraduates and young professionals with one to three years' working experience.

## UPSKILLING PROGRAMME FOR ACCOUNTING

Exposure goes hand-in-hand with education. Once talent has been identified, it is vital to upskill them and get them ready and relevant for employers and a dynamic and fluid business landscape.

To achieve this, TalentCorp has launched the Upskilling Programme for Accounting, a proactive measure dedicated to training and developing young accounting talent and address the shortage of qualified professional accountants in Malaysia. The Upskilling – Accounting Programme was introduced subsequent to the MIA-hosted Document Exchange Ceremony between TalentCorp and five professional accounting bodies (ACCA, CIMA, CPA Australia, ICAEW and



*Scenes from the Mini SFCF MIA Membership Services and Small and Medium Practices (SMP) including Afrizan Tarmili Khairul Azhar, Salihin, CAS & Associates, Hals & Associates and Folks DFK & Co. Participating universities included Universiti Malaysia Terengganu, Sunway University, Monash University, Multimedia University, Universiti Institut Teknologi Mara, Universiti Kebangsaan Malaysia, Universiti Pertanian Malaysia, Universiti Utara Malaysia and Universiti Sultan Zainal Abidin.*

MICPA) at last year's MIA International Accountants Conference.

Apart from increasing the availability of local talents, the Programme will also provide employment opportunities in high-skilled jobs for local fresh graduates. This will enable the programme to fulfil its two objectives – to supply industry-ready entry-level talent for high-skill jobs and to create a world-class workforce in Malaysia, especially in the context of the Economic Transformation Programme (ETP).

Currently, there are five main upskilling programmes available in the market, all of which are endorsed by TalentCorp: ACCA's Certify Me Now!; CIMA SME Talent Development; ICAEW-TalentCorp UPSKILLING; PAR Excellence by MICPA, and Get Qualified Fund! by CPA

Australia.

The programme is open to fresh graduates who have graduated from a Malaysian public or private university accredited by the Malaysian Qualifying Agency (MQA) and with less than a year's working experience. To ease the burden on employers, the Government has undertaken to fund 50% of the programme's tuition fees while the employer bears the remaining 50%. However, the employer is required to pay 100% of the tuition fees upfront. Refunds will be on a claims basis, provided that candidates meet mandatory requirements to pass each paper and subject to endorsement from the professional bodies. The training duration for successful candidates will last for 36 months and they must pass all the papers. Selection of candidates for

the programme will be at the discretion of the employers themselves.

Employers of SMPs, SMEs and Mid-Tier companies associated with finance, accounting and shared services and outsourcing are strongly encouraged to participate in this programme in order to assuage their talent challenges. SMPs especially would benefit from upskilling high-calibre candidates to fill the talent void.

## THOUGHTS FROM LEADERS

Leading professional accountants concur that upskilling is the key to unlocking and optimising accounting talent. "Though Malaysia has a potentially strong pipeline of young talents, the success of Malaysia's ambitious transformation agenda will ultimately fall back on having the right quantity and quality of talent to sustain the country's priority sectors," said Johan Mahmood Merican, CEO, TalentCorp.

Accounting professionals are instrumental in accelerating economic growth and filling key market roles. "The accountancy profession has an important role to play in assisting efforts to build a credible, reputable and internationally competitive capital market. It wields considerable influence in the capital market through its many roles as auditors, advisors, consultants and members in the corporate sector," said Johan Idris, MIA President, commenting on the need for the upskilling programme.

Furthermore, upskilling will nurture the professionals who are in voracious demand in Malaysia as it seeks to transform. "The demand for human capital development in Malaysia is increasing in light of the ETP and Malaysia's vision to become a high-income, knowledge-based economy by 2020. The Mini SFCF acts as the platform for employers to scout for industry-related talent directly from universities and colleges in Malaysia, while providing an opportunity for employers to play a role in developing and enhancing local talents to help the nation achieve its transformational goals," said Dato' Seri Wahid. ■

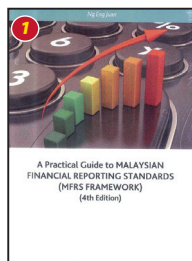


*Dialogue session with accounting students: (L-R) YB Dato' Sri Abdul Wahid Omar, Minister in Prime Minister's Department; Mr. Lee Wee Keng, CEO Education and Healthcare Division, Sunway Group; Johan Mahmood Merican, CEO TalentCorp; Johan Idris, President Malaysian Institute of Accountants.*

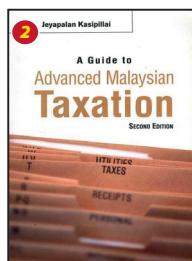


*Audience listening attentively during the talk*



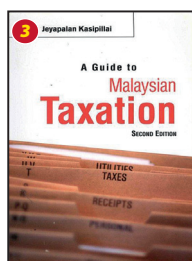


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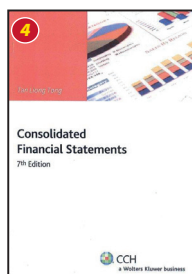
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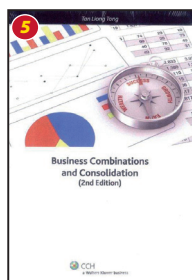
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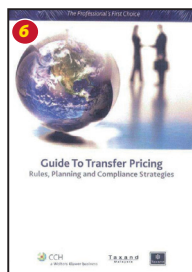


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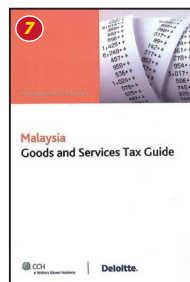
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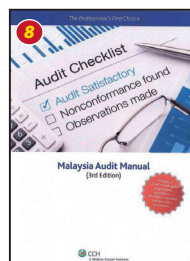
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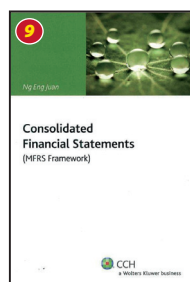
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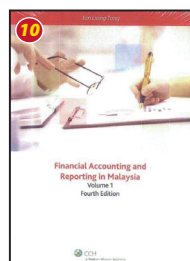


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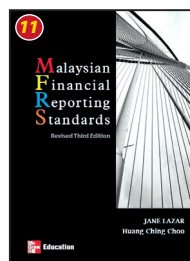


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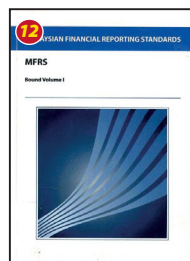
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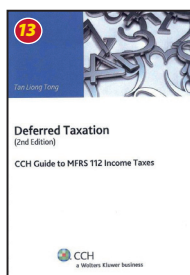


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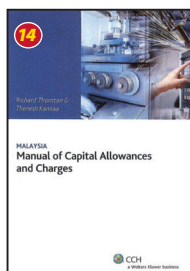
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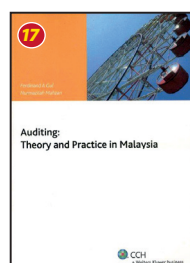
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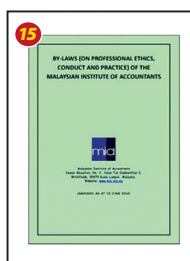
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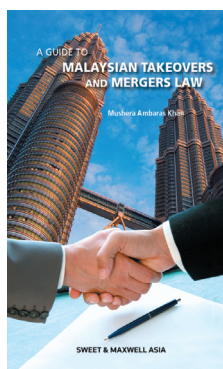
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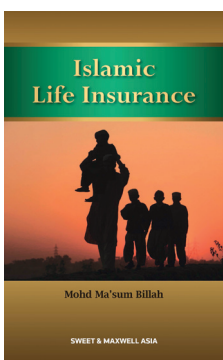
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Considering the technical and complex nature of takeovers and mergers law, this book provides valuable guidance to the implementation and application of the law. The subject is treated in a practical manner to meet the realities of the market. This book addresses issues commonly faced in takeovers and mergers such as compliance with the Code, voluntary and mandatory offer, acceptance level, offer and settlement period, triggering of mandatory offer, exemptions from obligation to make mandatory offer, role of the board of directors, acquisition of minority shares as well as the right of the dissenting minority shareholders. Reference to English and Australian materials is made where necessary to provide more depth to the discussion.

This book is written in a succinct and easy to read style and should prove to be very useful for company directors, in-house counsel, investment advisers, practitioners and students of company law and company secretaries. ■

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Buying into a strata development can hold a certain attraction for many property owners. Many strata property owners are attracted to the community-style living, cost sharing of facilities, the prospect of a pleasant lifestyle with shared recreational and community facilities and the likelihood of increased security.

Strata property ownership and living however bring the responsibilities of self-management and shared decision-making through the management corporation which every strata property owner is a member of. The management corporation in turn holds funds on trust and administers significant financial assets on behalf of property owners. All management corporations have statutory duties and powers under Malaysia's

strata laws. These include legal responsibilities for matters such as financial management, management of common property, record keeping and meeting practice and procedures. Thus, some knowledge by owners and relevant others of the laws, rules/regulations and by-laws which affect the management of a strata property is not only essential but financially prudent. The only way to ensure that a management corporation delivers no surprises is for owners to be at least aware of their obligations and entitlements. Owners must be engaged to ensure that their investment, lifestyle and financial well-being are protected and enhanced when living in this form of housing. This book gives owners the tools to do that.

It expresses in as plain a language as possible the meaning of the key provisions of the new Strata Management Act 2013. Drawing on his experience as an owner-occupier of a condominium apartment in Kuala Lumpur and his first-hand knowledge of strata living in Malaysia, the author has prepared a thoroughly readable text on the legal provisions which impact on management corporations. This book will greatly benefit strata property owners as well as professional, industry and consumer associations, the broader real estate industry including valuers, building surveyors and developers, and state and federal land office/department officials. ■

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The book presents an alternative *Shariah*-compliant life insurance scheme. It takes a comparative look at the elements involved in both the conventional system and the proposed scheme, and suggests a proper model which is both competitive and *Shariah*-compliant.

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## DECISION OF THE DISCIPLINARY COMMITTEE MALAYSIAN INSTITUTE OF ACCOUNTANTS

The Council of the Malaysian Institute of Accountants hereby gives notice that on 11 December 2013, after due inquiry by the Disciplinary Committee of the Institute, **Ong Boon Hai (Mem. No.: 11482)** was found to have committed an act amounting to 'unprofessional conduct' within the meaning as provided under Rule 2 of the Malaysian Institute of Accountants (Disciplinary) Rules 2002 [P. U. (A) 229/2002] ["the MIA (Disciplinary) Rules"].

The decision of the Disciplinary Committee was based on the member's own admission that he had failed, refused and/or neglected to return, after having taken the secretarial records of Sekolah Pengurusan Suria Sdn. Bhd.

The Disciplinary Committee in exercise of its powers under Rule 18(3) of the MIA (Disciplinary) Rules has ordered the member:

- (1) to be reprimanded; and
- (2) to pay the Institute the sum of RM1,500.00 in respect of costs and expenses of and incidental to the disciplinary hearing before the Disciplinary Committee and the investigation conducted by the Investigation Committee.

The decision of the Disciplinary Committee is effective from 13 January 2014.

**SUDIRMAN BIN MASDUKI**

Registrar

*On behalf of the Council of the Malaysian Institute of Accountants*

## NOTICE

### HOLDING OUT AS CHARTERED ACCOUNTANTS UNDER THE ACCOUNTANTS ACT 1967

The Malaysian Institute of Accountants ("MIA") is a statutory body established under the Accountants Act 1967 ("the Act") to regulate and develop the accountancy profession in Malaysia.

Under Sections 22 and 23 of the said Act, persons are required to be registered with MIA as members, to practice or hold out as chartered accountants, associate members, auditors, tax consultants, tax advisers or other like descriptions.

Please note that recently the Council of MIA has removed members who have not renewed their membership (due on 1 July 2013), pursuant to rule 7 (1) of the Malaysian Institute of Accountants (Membership and Council) Rules 2001.

Please be informed that you may find out the status of a member from the directory of active members that is available at MIA's website at the following URL: [http://www.mia.org.my/new/1\\_memberreg\\_searchmem.asp](http://www.mia.org.my/new/1_memberreg_searchmem.asp)

Alternatively, you may also find out the status of a member by contacting Membership Services at 03-2279 9200 or e-mail to [membership@mia.org.my](mailto:membership@mia.org.my).

If you would like to know more about MIA's chartered accountants or associate members, you may use the same contact details as above.

**The Management  
Malaysian Institute of Accountants**



## NOTICE TO ALL APPROVED COMPANY AUDITORS

### *Early Submission of Renewal Forms for Approved Company Auditors*

All Approved Company Auditors are granted an audit approval, with a validity period of two years from the approval date. Currently, the Accountant General's Department allows the submission of renewal forms (Borang B) three months prior to the expiration date, for renewal every two years.

With the agreement of the Accountant General's Department, approved company auditors are now encouraged to submit their renewal forms six months prior to the expiration date.

The Institute has observed that some audit approvals were not renewed on time, hence resulting in a gap in the validity period of audit approval. The delay in renewal may be due to investigation proceedings undertaken by various regulators.

The best way to prevent a gap in the validity period, or a delay in the renewal of audit approval, is for approved company auditors to be fully aware of their obligations. They should maintain their competence at all times, and avoid improper conduct that would bring the profession into disrepute. Nevertheless, it is hoped that the early submission of renewal forms of six months prior to the expiration date will provide sufficient time for the renewal process, especially in cases which are under investigation proceedings which may require deliberation amongst various regulators.

Having a gap in the validity of audit approval is one which practitioners should strive to avoid. Section 9(4) of the Companies Act (CA) 1965 clearly states that **all the partners** of the firm will have to be

approved auditors in order to sign the auditor's report. This means that all the partners within the same firm must have valid audit approvals at the point of signing audit reports by any of the partners within the same firm. Breach of this section will cause each partner of the firm to be penalised as stated in Section 9 (5) of CA 1965.

Therefore, practitioners are urged to submit their renewals early (six months prior to expiration date), allowing sufficient time for the renewal process and to facilitate the renewal of audit approval before the expiration.

Please be guided accordingly.

**HO FOONG MOI (Ms)**  
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