

THE MALAYSIAN INSTITUTE OF ACCOUNTANTS

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DISSECTING BUDGET **2014**

- +** Group Relief : Accounting and relevant tax treatments
- +** MIA Conference 2013 : Taking Charge of Managing Value, Accelerating Growth



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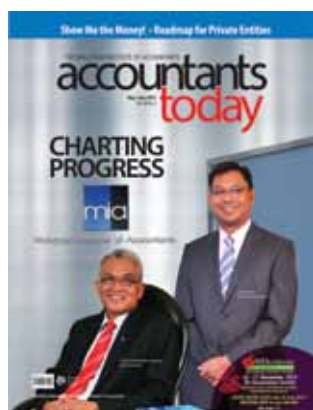
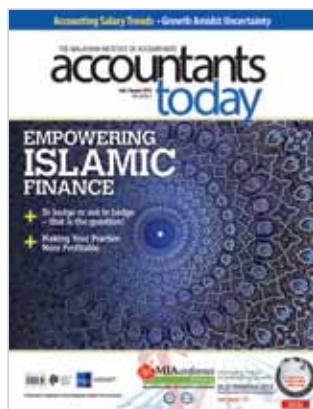
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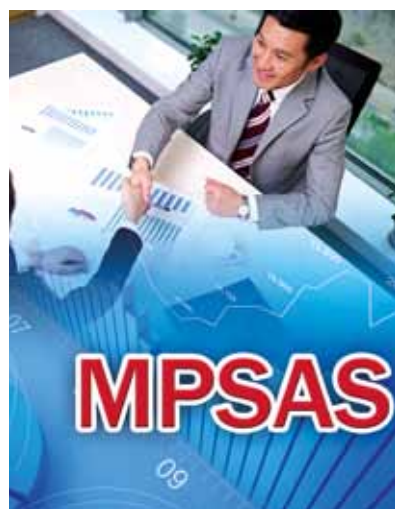
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MALAYSIAN INSTITUTE OF ACCOUNTANTS

Vision and Mission

MIA'S VISION

- To be a globally recognised and renowned Institute of Accountants committed to nation building.

MIA'S MISSION

- To develop, support and monitor quality and expertise consistent with global best practice in the accountancy profession for the interest of stakeholders.

Section 6 of the Accountants Act 1967 (the Act) states that the functions of the Institute shall be:

- To determine the qualifications of persons for admission as members;
- To provide for the training and education; by the Institute or any other body, of persons practising or intending to practice the profession of accountancy;
- To approve the MIA Qualifying Examination (QE) and to regulate and supervise the conduct of that Examination;
- 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.

Accountants Today is the official publication of the Malaysian Institute of Accountants (MIA) and is distributed to all members of the Institute. The views expressed in this magazine are not necessarily those of the MIA or its Council. Contributions including letters to the Editor and comments on articles appearing in the magazine are welcomed and should be sent to the Editor as addressed below. All material without prejudice appearing in *Accountants Today* are copyright and cannot be reproduced in whole or in part without written permission from the Editor.

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Developing Accountants, Transforming the Profession

Transformation is the name of the game in business. As the backbone of business, accountants too will have to reinvent themselves in order to remain relevant and useful to their stakeholders.

The key to evolution is education. As the champion of the accounting profession in Malaysia, MIA is committed to delivering knowledge on the latest trends and developments through different channels, such as *Accountants Today* and our recently-concluded flagship event, the **MIA International Accountants Conference 2013**.

In this issue, we highlight taxation changes and developments subsequent to the recent presentation of Budget 2014. Our cover on *Dissecting the Budget* focuses on the recent 2014 Budget Seminar organised by the MIA which zoomed in on Key Budget Changes and Their Implications. Not surprisingly, the seminar saw lively discussion of the upcoming implementation of the Goods and Services Tax (GST) by 1 April 2015 which will make Malaysian taxation more equitable, egalitarian, efficient and effective. Also of interest is a special technical analysis of the major issues in the Finance Bill, which upon enactment will bring about permanent changes to the taxing statutes. This analysis in particular covers proposed changes to the ITA (Income Tax Act) and RPGTA (Real Property Gains Tax Act) as these are the taxing statutes that concern most accountants. Meanwhile, we also feature a detailed analysis of the accounting and relevant tax treatments for group relief, which can serve as an excellent tax planning opportunity to optimise the quantum of tax payable.

This same message of unavoidable change was echoed by Warren Allen, President of the International Federation of Accountants (IFAC). Changes will sweep across all sectors of the accounting profession, whether public practice, academia, corporate or government. In particular, Warren singled out public sector finance reform as a key driver which will make governments more transparent and efficient and create new demand for competent and high-calibre public sector accountants. As such, it is timely for *Accountants Today* to feature an introductory article on the upcoming implementation of the

Malaysian Public Sector Accounting Standards ("MPSAS") by 2015, which will see a migration from cash-based accounting to accrual-based accounting. MPSAS have been adapted from the International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board ("IPSASB").

Public practitioners too will witness demands for transformation, as stakeholders expect better quality and standards of audit and assurance. In this issue, we look at the best practices and changes that are recommended in order to drive value in audit quality. We also feature an article on the fundamental changes being proposed by the IAASB (International Auditing and Assurance Standards Board) to the auditor's report, again with the objective of improving value in audit quality and ensuring that auditors remain relevant as a primary provider of financial assurance.

Last but not least, we have captured the best moments of the MIA International Accountants Conference in a special pictorial for the benefit of those who couldn't be there as well as those who would like to relive the moment. I'm happy to report that this was the most successful Conference to date, apart from the 18th World Congress of Accountants 2010, in terms of numbers and diversity - drawing over 2,500 participants from 24 countries. We hope to keep building on the success of this event in order to help develop our profession and our members. Going forward, we believe we can deliver content of even better standard and value. I strongly urge you to mark this annual event on your calendars and take advantage of early bird offers so as not to miss out on an intensive and thought-provoking learning opportunity.

As I pen this, it's already reaching the end of 2013. I believe that 2014 will usher in even brighter prospects and opportunities for our profession as global demand for our particular brand of skills and expertise spikes. All of us at the Institute look forward to learning and growing together with our members and fellow accountants.

Here's Wishing You a Merry Christmas and Happy New Year 2014! ■

ERRATA

- 1) In the *Accountants Today* September/October 2013: The stand first in the article "Audit Exemption and the Way Forward" on page 34 should read: *The implementation of the Limited Liability Partnership as an alternative business vehicle which came into effect on 26 December 2012 and not as specified earlier.*

Making the profession **INNOVATIVE** and **RELEVANT** again



The world's top accountant, Warren Allen, President of the International Federation of Accountants (IFAC), singled out integrated reporting (IR) and public sector finance reform as key trends that will transform the global accounting, business and governance landscape. Warren was speaking at the recent MIA International Accountants Conference 2013, which drew over 2,500 participants from over 24 countries.

IR is a very new development. The International Integrated Reporting Council (IIRC) is only about to approve a reporting framework for IR in December 2013, as of the time of writing. IR is currently mandatory only in South Africa for companies listed on the Johannesburg Stock Exchange, meaning that South Africa has a head start. Currently, approximately one hundred of the world's leading multinational corporations are piloting IR.

What IR does is present an integrated picture of the business as a whole in addition to traditional financial reporting which presents historical financial information. IR focuses on sustainability and risks, and evaluates how a company will manage these as well as the targets implemented and the results achieved. IR will facilitate analysis of a company's performance and prospects, and more informed decision-making among investors and capital markets. Where financial reporting is historical and talks about the past, integrated reporting talks about the future because the future is where opportunity lies.

In line with the country's mission to transform into a highly-developed nation by 2020, the Malaysian public sector is preparing to migrate into accrual-based accounting in 2015 from the current cash-

based system. MIA is committed to working with the government to strengthen public sector accounting which will improve accountability, transparency and efficiency. To facilitate the changeover, MIA will continue to assist the government through the Accountant-General's Department and collaborations with the Performance Management and Delivery Unit (PEMANDU), and we will also extend our support to the various State Governments and their local authorities in future.

RAMPING UP TALENT

IR and accrual-based accounting won't just reshape business and government, but will create a critical mass of new jobs for accountants. Accountants can count on job stability, because the country and the world will require vastly increased numbers of accountants and enhanced skill sets. If we acknowledge that the internal and external appetite for Malaysian accountants is rising, we must ramp up supply to meet domestic and global demand.

MIA has a tough task ahead of us to build quality, not just quantity, and to create a renewable talent pool. We need to sustain our efforts to improve accountancy education, encourage more graduates to take up professional certification, and attract secondary students to pursue professional accountancy qualifications.

I'm pleased to note that MIA is conducting ongoing reviews of the accountancy programmes at the local institutes of higher education in order to improve the quality and relevancy of content and ensure graduates' readiness and enhance their employability in the job market. In response to employers' feedback, MIA is emphasising the importance of English

fluency in accounting programmes to ensure that graduates possess the requisite communication skills to articulate and convey ideas.

It is also critical to heighten university-industry linkages and to encourage the consolidation, centralisation and professional accreditation of accountancy education programmes at universities to control and enhance the quality of teaching and graduates to bridge the industry-academia mismatch.

During the MIA Conference 2013, Talent Corp and five professional accounting bodies, including MIA, signed a landmark agreement to join forces to address the shortage of qualified professional accountants under the Upskilling Programme for the finance shared services and outsourcing (SSO) industry in Malaysia. Only by executing the right strategies can Malaysia create and maintain a first-class education system for accountancy training in order to produce competent accountancy graduates.

MAKING THE PROFESSION "COOL" AGAIN

However, it will be equally important to promote the scintillating prospects and tremendous career prospects available in accountancy to potential talent. We have to brand the profession as an exciting avenue for personal and professional growth where people can strive to achieve their full potential. We have to show that accountants are in the vanguard of economic and business development, not just bean counters confined to the back office. Only when the profession is perceived as being "sexy" and "cool" can we attract many more members of Generation Y and beyond to shore up our talent pool. ■

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Dissecting

THE RECENT 2014 BUDGET SEMINAR ORGANISED BY THE MALAYSIAN INSTITUTE OF ACCOUNTANTS ZOOMED IN ON KEY BUDGET CHANGES AND THEIR IMPLICATIONS.

Nazatul Izma



The 2014 Budget presented by the Prime Minister Datuk Sri Najib Tun Razak on 25 October 2013 could be described as a Budget which aims to insulate Malaysia from the vagaries of international economic developments while creating shared prosperity and facilitating the country's intended transformation into a high-income developed nation by 2020.

The theme of Budget 2014 is *Strengthening Economic Resilience, Accelerating Transformation and Fulfilling Promises*. The main thrusts of Budget 2014 are invigorating economic activity, strengthening fiscal management, inculcating excellence in human capital, intensifying urban and rural development and ensuring the well-being of the *rakyat*, said Dr. Chen Chaw Min, Deputy Under-Secretary, Economics and International Division, Ministry of Finance (MoF), in his presentation entitled The 2014 Budget Proposal: The Economic Outlook & Implications.

Crafting this year's Budget was rather challenging because growth expectations were not up to par. In April 2013, the International Monetary Fund (IMF) projected global GDP growth of 3.3% and 4% respectively for 2013 and 2014, but revised these to 2.9% and 3.6% for 2013 and 2014 as of October 2013. Meanwhile, the IMF also revised growth projections for Malaysia downwards from 5.1% (2013) and 5.2% (2014) as of April 2013 to 4.7% (2013) and 4.9% (2014) as of October 2013.

Despite a weaker and volatile external environment, domestic GDP growth is expected to remain strong in 2013, anchored by domestic demand and backed by a gradual recovery in advanced economies. Nevertheless, Malaysian revenues are expected to be affected by projected downtrends in key commodity prices, namely crude oil, palm oil and rubber.

To strengthen economic resilience as per the theme of Budget 2014, the government will focus on managing volatility in capital markets and reductions in exports. To play good offence, the government will strive to strengthen the domestic economy, increase investment and transform Malaysia into an entrepreneurial nation. On the defensive side, the government will concentrate on fiscal consolidation and subsidy rationalisation.

Subsequently, Abu Tariq Jamaluddin, Director of the Dispute Resolution Department, Inland Revenue Board of Malaysia, highlighted key points of the 2014 Budget. The scope of his technical presentation covered amendments to the Income Tax Act 1967, the Stamp Act 1949, the Petroleum (Income Tax) Act 1967, the Real Property Gains Tax Act 1976, Rules and Exemption Orders.

Unsurprisingly, the upcoming implementation of the Goods and Services Tax (GST) was a key focus of the seminar, as MIA strives to educate the profession and the public on the issue. Subramaniam Tholasy, Director of Internal Taxes, Royal



Dr. Chen Chaw Min, Deputy Under-Secretary, Economics and International Division, Ministry of Finance speaking on the 2014 Budget Proposal: The Economic Outlook & Implications.

Malaysian Customs and a key member of the GST Task Force at Customs and the MoF, delivered a comprehensive presentation on Malaysia's proposed GST.

Described as a multi-stage consumption tax, GST will replace the sales and service tax, broaden the tax base to make it more stable and diverse, and address the inherent weaknesses in the prevailing sales and service tax system. "This is part of the government's tax reform programme to make taxes more efficient, effective, business-friendly, transparent and capable of generating a more stable source of revenue. GST is effective, self-policing and overcomes the inherent weaknesses of sales and service tax (SST). It is efficient because there is less bureaucracy. It is capable of generating a more stable source of revenue and is not susceptible to economic downturns. It is a beautiful tax because it is business friendly; it lowers operating costs. GST is also going to make our exports more competitive. GST is a very transparent tax system which makes it harder for unscrupulous traders to take advantage, which would ultimately benefit the consumers in Malaysia," enthused Tholasy.

The GST will be fixed at 6% effective from 1 April 2015. At 6%, Malaysia's GST will be the lowest in the ASEAN region, compared to the Philippines, Indonesia, Vietnam, Cambodia, and Laos at 10%, and 7% in Singapore and Thailand.



View from the experts (L-R) ... Yee Wing Peng, Country Tax Leader, Deloitte Malaysia; Dr. Veerinderjeet Singh, Co-Founder and Chairman, TAXAND Malaysia Sdn Bhd; Khadijah Abdullah, Senior Deputy Secretary, Tax Analysis Division, MoF; Subramaniam Tholasy, Director of Internal Taxes, Royal Malaysian Customs; and Abu Tariq Jamaluddin, Director Dispute Resolution Department, IRB.

Transportation services such as bus, train, LRT, taxi, ferry and boat services as well as education and health services are exempted from GST as are the sale, purchase and rental of residential properties and selected financial services.

Essential items are zero-rated or exempt to ensure that the neediest segments of society are not adversely affected. GST will not be imposed on basic food items such as rice, sugar, salt, flour, cooking oil, lentils, herbs and spices, salted fish, *cencalok*, *budu* and *belacan*; utilities such as piped water supply and the first 200 units of electricity; as well as services provided by the government such as the issuances of passports, licenses, health services and school education. Transportation services such as bus, train, LRT, taxi, ferry and boat services as well as education and health services are exempted from GST as are the sale, purchase and rental of residential properties and selected financial services. "The large base of zero-rated items and the exemption of critical sectors including government services make the Malaysian GST model progressive and not regressive," said Tholasy.

What will be the GST impact on prices? It is expected that the Consumer Price Index (CPI) will increase slightly by about 1.8% because there will be a slightly bigger coverage of the tax base, he said. Consumers will be protected against profiteering through the enforcement of the Price Control and Anti-Profitteering Act 2010 effective 1 April 2011. There will be a shoppers' guide introduced to keep customers informed of the price changes in goods and services



Speakers engaging with media professionals during the event press conference.

es before and after GST implementation as well as a comprehensive awareness and training programme on GST to educate consumers, he said.

With the implementation of GST, there will be a social safety net in place to protect the low and middle-income group, including one-off cash assistance of RM300 to households which are BR1M recipients and tax exemptions for households with incomes of RM4000 and below. To reduce the burden on taxpayers, the highest income tax bracket will be increased to RM400,000 instead of RM100,000 currently. Individual income tax will be reduced by 1 – 3 percentage points, corporate income tax rate reduced by 1 percentage point, income tax rate for SMEs reduced by 1 percentage point and the cooperative income tax rate reduced by 1 to 2 percentage points.

What will be the impact on business? "GST will not be burdensome because the proposed high threshold of RM500,000 will exclude 80% of small businesses," said Tholasy. "GST is also not a cost to the industry because GST paid on business inputs can be claimed as tax credits."

Critics and media have pointed out that there will be a high initial and com-

pliance cost to businesses after GST implementation. However, Tholasy said that there would be reliefs. The cost of purchasing ICT equipment and software will be given Accelerated Capital Allowance until 2016. Expenses for training in accounting and ICT relating to GST will be given tax deductions for 2014 and 2015. A RM100 million training grant would be provided for businesses which send their employees for GST training in 2013 and 2014. Financial assistance of RM150 million will be provided for the purchase of accounting software for SMEs in 2014 and 2015.

The Budget seminar also featured a panel discussion and Q&A on the 2014 Budget Proposals, moderated by Yee Wing Peng, Country Tax Leader, Deloitte Malaysia.

Subsequently, Chow Chee Yen, Executive Director and Tax Partner, Advent Tax Consultants Sdn Bhd, covered issues relating to anti-avoidance provisions in the tax legislation. Chow Kuo Seng, Executive Director, Deloitte KassimChan Tax Services Sdn Bhd, rounded off the day with a discussion on the Tax Audit Framework 2013 and the Tax Investigation Framework. ■

ON THIS JOURNEY OF LIFE, WE'RE ALL TRAVELLERS LOOKING TO MAKE THAT GREAT TRIP WITH SOMEONE.

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MIA Conference 2013 : Taking Charge of Managing Value, Accelerating Growth

MIA CONFERENCE 2013 HIGHLIGHTS THE ROLE OF ACCOUNTANTS IN SUPPORTING ORGANISATIONS DELIVER CONSISTENT, SUSTAINABLE GROWTH AND SHAREHOLDER VALUE.

MIA attracted a record turnout of more than 2,500 delegates from 24 countries to its flagship event, the MIA International Accountants Conference 2013 which was officiated by YB. Dato' Seri Ahmad Husni Mohamad Hanadzlah, Minister of Finance II, Malaysia.

Held over two days from 26 – 27 November 2013, the theme of the Conference was highly pertinent to the pressures of today's business environment and the diverse expectations placed on the profession. Accountants today are urged to lead in creating and managing organisational value. Their key function is to help their organisations deliver consistent, sustainable growth and shareholder value.

"Facing these pressures, accountants are expected to shoulder multiple roles beyond the finance and assurance function in this new economic era where turbulence and volatility are constants," said MIA President, Johan Idris at the opening ceremony of the MIA Conference 2013.

MIA Conference Organising Committee Chairman, Datuk Mohd Nasir Ahmad, concurred: "As managing value becomes vital to the business agenda, more accountants are taking on strategic and leadership roles and increasingly being held accountable for the business performance of their organisations."

During the two-day Conference, 38 thought leaders explored issues related to key areas that are predicted to have seismic effects on the accountancy profession now and in the future. Furthermore, they offered insights into the solutions being proposed to manage these issues



YB Dato' Seri Ahmad Husni officiating the MIA Conference 2013. Looking on are Datuk Wan Selamah Wan Sulaiman, Accountant General; Johan Idris, MIA President; Datuk Mohd Nasir Ahmad, MIA Conference 2013 Organising Committee Chairman; and Warren Allen, President of the International Federation of Accountants.

"Facing these pressures, accountants are expected to shoulder multiple roles beyond the finance and assurance function in this new economic era where turbulence and volatility are constants."

JOHAN IDRIS, MIA PRESIDENT

and their potential impact in four plenary sessions and 12 concurrent sessions.

Headlining the MIAC 2013 was Warren Allen, President of the International Federation of Accountants (IFAC) and an influential global business leader who spoke on the latest developments in the profession which will affect accountants. He noted that demand for accountants would spike due to the proposed adoption of integrated reporting and the public sector's migration to accrual-based accounting.



Dato' Seri Ahmad Husni Mohamad Hanadzlah, Minister of Finance II, Malaysia.

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Moderator
NEIL STEVENSON

Panelist
**WARREN ALLEN
JOHAN IDRIS
DR NG BOON BENG
MIKKEL LARSEN**



This flagship Conference represented an important platform for accountants to keep themselves up to date with the latest developments in order to attain their full potential, and to develop a world-class talent pool. "We must bear in mind that all our strategies and plans can only be achieved with competent human capital," said Johan.

In line with this emphasis, during the opening ceremony, MIA hosted a special Document Exchange Ceremony between TalentCorp and five professional accounting bodies to address the shortage of qualified professional accountants under what is known as the Upskilling Programme for the finance shared services in Malaysia. ■

To view conference images please visit
www.mia.org.my



Around and about MIA Conference 2013...

The Conference attracted more than 2,500 delegates from across 24 nations to Kuala Lumpur.





Introduction to MPSAS

Grasp the fundamentals of the Malaysian Public Sector Accounting Standards (“MPSAS”)

MIA Professional Standards and Practices

BACKGROUND OF MPSAS

In 2015, the Federal Government of Malaysia’s financial statements will be prepared using the accrual basis, in accordance with the Malaysian Public Sector Accounting Standards (MPSAS) for the first time. MPSAS have been adapted from the International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board (“IPSASB”). IPSASB is an independent standard-setting board that develops high-quality IPSASs, guidance, and resources for use by public sector entities around the world for preparation of general purpose financial statements. It has 18 members from various countries. Datuk Wan Selamah Wan Sulaiman, Accountant General of Malaysia is an IPSASB member, nominated by the Malaysian Institute of Accountants (MIA) for a three-year term (2013 – 2015).

MPSAS are endorsed by the Government Accounting Standards Advisory Committee (GASAC) and approved by the Accrual Accounting Steering Committee (AASC), under the Accountant General’s Department. Eleven MPSASs have been approved to date by the AASC as follows:

- MPSAS 1 – Presentation of Financial Statements
- MPSAS 2 – Cash Flow Statements
- MPSAS 3 – Accounting Policies, Changes in Accounting Estimates and Errors
- MPSAS 4 – The Effect of Changes in Foreign Exchange Rates
- MPSAS 9 – Revenue From Exchange Transactions
- MPSAS 17 – Property, Plant and Equipment
- MPSAS 12 – Inventories
- MPSAS 13 – Leases
- MPSAS 16 – Investment Property
- MPSAS 23 – Revenue From Non-Exchange Transactions
- MPSAS 24 – Presentation of Budget Information in Financial Statements

IPSASs have generally been based on the International Financial Reporting Standards (“IFRS”) which are adapted to address the needs of the public sector entities. The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors¹. Key characteristics of the public sector are as follows:



- Volume and financial significance of non-exchange transactions such as taxes and transfers;
- Importance of the approved budget;
- In the public sector, assets are held generally to provide services rather than to generate cash flows, especially assets that are specialised in nature (e.g. roads and military assets), items that contribute to the historical and cultural character of a nation or region (for example, art treasures, historical buildings, and other artifacts), national parks, other areas of natural significance with native flora and fauna and natural resources such as mineral reserves, water, fishing grounds and forests;
- Longevity of the public sector where national governments generally have very long lives, although political control may change regularly. While the nature of public sector programmes are long-term and the ability to meet commitments depends upon future taxation and contributions;
- Regulatory role of public sector entities; and
- Relationship to statistical reporting.

Due to the above characteristics, general differences arise between IPSASs and IFRS as follows:

- Recognition and measurement differences to address the nature of public sector entities where services are being pro-

¹ International Public Sector Accounting Standards Board, July 2013, “Preliminary Board View: The Preface to the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities”.

In this issue, we will look into the salient requirements of MPSAS 23 – Revenue From Non-Exchange Transactions which has been approved by the AASC. MPSAS 23 does not have an equivalent standard in IFRS as it is unique to the public sector.

vided at no charge or an amount less than cost recovery;

- IPSASs may use different terminologies to reflect the nature of public sector entities;
- IPSASs may contain a different set of definitions compared to IFRS;
- IPSASs may have different transitional provisions compared to those in IFRS; and
- IPSASs may have standards not available in IFRS.

In this issue, we will look into the salient requirements of MPSAS 23 – Revenue From Non-Exchange Transactions which has been approved by the AASC. MPSAS 23 does not have an equivalent standard in IFRS as it is unique to the public sector.

MPSAS 23 – REVENUE FROM NON-EXCHANGE TRANSACTIONS

Exchange and non-exchange transactions

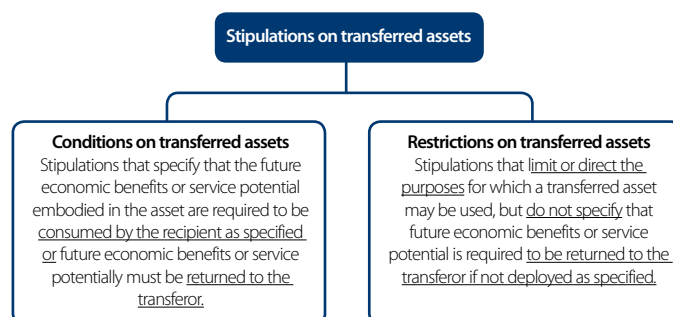
Exchange transactions are transactions in which one entity receives assets or services or has liabilities extinguished, and directly gives approximately equal value to another entity in exchange. This is governed under MPSAS 9 – Revenue From Exchange Transactions. Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange. For instance, a working citizen in Malaysia will pay annual income tax, say, of RM15,000. He may not receive services from the government in equal value to what he has paid in income tax. This is a non-exchange transaction.

In some situations, it can be a combination of exchange and non-exchange transactions. For example, an entity receives RM5 million funding from a multi-lateral development agency. The agreement stipulates that the entity must repay RM4 million of the funding received over a period of 10 years, at 5% interest when the market rate for a similar loan is 11%. The entity has effectively received a RM1 million grant (RM5 million received less RM4 million to be repaid) and entered into a RM4 million concessionary loan which attracts interest at 6% below the market interest rate for a similar loan. The RM1 million grant received, as well as the off-market portion of the interest pay-

ments in terms of the agreement, are non-exchange transactions. The contractual capital and interest payments over the period of the loan are exchange transactions².

STIPULATIONS

Assets may be transferred with the expectation and/or understanding that they will be used in a particular way and, therefore, that the recipient entity will act or perform in a particular way. Where laws, regulations, or binding arrangements with external parties impose terms on the use of transferred assets by the recipient, these terms are stipulations. Stipulations relating to a transferred asset may be either conditions or restrictions.



Example 1: Conditions on transferred assets

Majlis Perbandaran Kajang (MPKj) receives a conditional grant of RM20 million from the national government to purchase buses to increase the efficiency of public transport in the Kajang area. The grant has to be repaid if not utilised for the specific purpose before the end of the financial year. This is a condition of the grant.

Example 2: Restrictions on transferred assets

The RM20 million grant received by MPKj does not specify that it has to be returned to the national government if not used to purchase buses. Although the national government can turn to the courts to enforce the stipulations in the contract, there is no requirement in the contract that the grant is to be returned to the funder if not used as per the agreement. This is a restriction on the grant.

² International Public Sector Accounting Standards Board, 2010, "IPSAS 23, Revenue From Non-Exchange Transactions (Taxes and Transfers)".

RECOGNITION AND MEASUREMENT OF ASSETS, REVENUE AND LIABILITY OF NON-EXCHANGE TRANSACTIONS

An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset shall be recognised as an asset when, and only when the following recognition criteria are met:

- It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and
- The fair value of the asset can be measured reliably.

An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it shall reduce the carrying amount of the liability recognised and recognise an amount of revenue equal to that reduction. Revenue from non-exchange transactions shall be measured at the amount of the increase in net assets recognised by the entity.

A present obligation arising from a non-exchange transaction that meets the definition of a liability shall be recognised as a liability when, and only when the following recognition criteria are met:

- It is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.



The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors.

Conditions on a transferred asset give rise to a present obligation on initial recognition that will be recognised when the recognition criteria of a liability are met. The amount recognised as a liability shall be the best estimate of the amount required to settle the present obligation at the reporting date.

Example 3: Recognition and measurement of assets, revenue and liabilities - conditions on transferred assets

This is similar to Example 1. In this case, MPKj will recognise the asset (i.e. a receivable of RM20 million) and a corresponding liability that MPKj has not met yet the condition attached to the grant (i.e. a deferred income of RM20 million).

If MPKj purchases RM18 million of buses during the financial year, the condition attached to the grant will be partially satisfied and consequently the liability will be reduced to RM2 million (RM20 million – RM18 million), as that is the remaining amount of the obligation that may have to be repaid. As the liability is reduced by RM18 million, this will result in a corresponding RM18 million increase in revenue as the present obligation is satisfied.

Example 4: Recognition and measurement of assets and revenue - restrictions on transferred assets

This is similar to Example 2. As this is a restriction, no liability is recognised. In this case, MPKj can recognise a receivable and revenue of RM20 million in its books.

TYPES OF NON-EXCHANGE TRANSACTIONS

Non-exchange transactions are taxes and transfers. Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes. These include grants, debt forgiveness, fines, bequests, gifts, donations, and goods and services in-kind.

An entity shall recognise an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met. The taxable events for various types of taxes are likely to be as follows:

- Income tax is the earning of assessable income during the taxation period by the taxpayer;
- Goods and services tax is the purchase or sale of taxable goods and services during the taxation period;
- Customs duty is the movement of dutiable goods or services across the customs boundary;
- Death duty is the death of a person owning taxable property; and
- Property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system. Such expenses are benefits that government pays to individuals whether or not the individual pays taxes. For instance, in the UK, newly-delivered working mothers (irrespective of whether they pay taxes or not) would receive a maternity allowance for a period of up to 39 weeks during her maternity leave. Taxation revenue shall also not be grossed up for the amount of tax expenditures. Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others. For instance, in Malaysia, a taxpayer can deduct to a maximum amount of RM6,000 for life insurance

and provident fund from their gross income when calculating tax assessable income.

An entity recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset. However, an entity may, but is not required to, recognise services in kind as revenue and as an asset.

MPSAS 23 requires certain information to be disclosed either on the face of, or in the notes to the financial statements. The next issue will look into MPSAS 24 – Presentation of Budget Information in Financial Statements. ■

Centres for Accountancy Excellence

DEVELOPING CENTRES FOR ACCOUNTING EXCELLENCE ARE A KEY STRATEGY IN ESTABLISHING MALAYSIA AS THE REGIONAL HUB FOR PROFESSIONAL AND WORLD-CLASS ACCOUNTING EDUCATION AND SERVICES.



One for the album: Left: Teh Cheng Hock, Genting Malaysia Berhad; Dato' Abdul Halim Mohyiddin, MICPA; Michael Izza, ICAEW; Ng Eng Kiat, Folks DFK & Co. Azman, Wong, Salleh & Co.; Chong Chang Choong, Sunway Berhad; Dr. Suhana Osman, Petronas; Dato' Gan Ah Tee, BDO; Pauline Ho, PricewaterhouseCoopers; Tengku Nurul Azian Tengku Shahrman, PEMANDU; Lee Weng Keng, Sunway Education Group; Datuk Prof. Dr. Roziah Omar, Ministry of Education; Datin SK Yap, MIA, Dato' Narendra Jasani, Grant Thornton; Teo Ee Sing, Sunway TES, Assoc. Prof. Dr. Che Ruhana Isa, University Malaya; Nizar Najib, Deloitte; Adrian Lee, KPMG; Megat Iskandar Shah Mohamad Nor, Ernst & Young; May Law, ACCA.

MIA supports the establishment of centres for accounting excellence as a key strategy for developing Malaysia as a regional hub for professional accountancy education and services. This in turn will help grow the high-value services sector and support national transformation objectives of becoming a high-income developed nation by 2020.

Sunway TES is currently the first and only accountancy education provider to be selected as the Centre for Accountancy Excellence (CAE) by the government via PEMANDU under EPP 17 (Entry Point Project 17), which is aimed at transforming Malaysia as the leading accountancy hub in the Asia Pacific region by 2020. This is part of the government's ongoing Economic Transformation Programme (ETP) projects. Sunway

TES with strategic partners will now champion accountancy programmes at the professional level nationwide.

This CAE is a multilevel collaborative initiative between Sunway TES, professional accounting bodies such as the ACCA, ICAEW, and MICPA, international and local professional accounting firms as well as public institutions of higher education and large corporations. This collaboration is the first public-private partnership of its kind with a specific focus on accountancy and financial programmes.

The prestigious CAE selection ceremony was officiated by Datuk Prof. Dr. Roziah Omar, Deputy Director General (IPTs), Higher Education Department, Ministry of Education, on behalf of YB Dato' Seri Idris Jusoh, Minister of Education II in November 2013. ■

Overhaul of auditor reporting: IAASB proposes fundamental changes to the auditor's report

Auditor reporting has been a topic of discussion for many years. Users of financial statements are calling for auditors to provide more relevant information of what has been performed in the audit. While the auditor's opinion is valued, many perceive that the auditor's report can be more informative. Changes to auditor reporting is therefore paramount.

In July 2013, the International Auditing and Assurance Standards Board (IAASB) issued an exposure draft (ED) Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (the Proposed ISAs) intended to fundamentally transform the auditor's report on audited financial statements. The IAASB solicited comments on the ED until 22 November 2013. A copy of the ED can be downloaded by accessing MIA Circular

56/2013 at http://www.mia.org.my/new/psp_auditandassurance_circulars_detail.asp?tid=1&rid=1&id=1202.

The Proposed ISAs represent the culmination of the IAASB's deliberations to date on auditor reporting, which were informed by international research, public consultation and stakeholder outreach.

The Proposed ISAs, and the key enhancements to auditor reporting, are:

PROPOSED ISAs	KEY ENHANCEMENTS
Proposed ISA 700 (Revised), <i>Forming an Opinion and Reporting on Financial Statements</i>	Establish new required reporting elements, including a requirement for the auditor to include an explicit statement of auditor independence and disclose the source(s) of relevant ethical requirements, and to illustrate these new elements in example auditor's reports.
Proposed ISA 701, <i>Communicating Key Audit Matters in the Independent Auditor's Report</i>	Establish requirements and guidance for the auditor's determination and communication of key audit matters (KAM).
Proposed ISA 260 (Revised), <i>Communication with Those Charged with Governance</i>	Amendments to the required auditor communications with those charged with governance ("TCWG"), for example, to include: <ul style="list-style-type: none"> • Significant risks identified • Circumstances that require significant modification of the auditor's planned approach to the audit
Proposed ISA 570 (Revised), <i>Going Concern</i>	Amendments to establish auditor reporting requirements relating to going concern, and to illustrate this reporting within the auditor's report in different circumstances.
Proposed ISA 705 (Revised), <i>Modifications to the Opinion in the Independent Auditor's Report</i>	Amendments to clarify how the new required reporting elements of proposed ISA 700 (Revised) are affected when the auditor expresses a modified opinion, and to update the illustrative auditor's reports accordingly.
Proposed ISA 706 (Revised), <i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i>	Amendments to clarify the relationship between Emphasis of Matter ("EOM") paragraphs, Other Matter ("OM") paragraphs and the KAM section of the auditor's report.
Proposed Conforming Amendments to Other ISAs	Conforming amendments related to communicating KAM, including: <ul style="list-style-type: none"> • Requirement to include a statement in the audit engagement letter on intent to communicate KAM when they are communicated on a voluntary basis • Requirement to document auditor's determination of KAM



The primary beneficiaries of the IAASB's work on auditor reporting will be investors, analysts and other users of the auditor's report. The ED represents an important development in auditor's communication. The proposed ISAs are viewed to have positive benefits to audit quality or users' perception of it. In addition, the IAASB believes the following benefits, among others, could be realised as a result of implementing the Proposed ISAs:

- Enhanced information value of the auditor's report.
- Increased attention by management and TCWG to the disclosures in the financial statements of which reference is made in the auditor's report.
- Renewed focus of the auditor on matters to be reported, which may help to increase professional scepticism and thereby improve audit quality.
- Enhanced communication between the auditor and TCWG, particularly on the KAM that will be communicated.

WHAT ARE THE SIGNIFICANT PROPOSALS?

A new section in the auditor's report to communicate "KAM"

The ED includes a proposed new ISA designed to provide more informative audit reports. The proposed new ISA 701 would require an auditor to communicate those matters that, in the auditor's judgement, were of "most significant" in the audit of financial statements.

❖ Determining KAM

Auditors would be expected to determine KAM from among the matters communicated with TCWG in the audit of the current period. The proposals suggest that the auditor shall take into account areas of significant audit attention in performing the audit, including:

- Significant risks or areas involving significant judgement;
- Areas where the auditor encountered significant difficulty during the audit, including with respect to obtaining suf-

ficient appropriate audit evidence; and

- Circumstances that required significant modification of the auditor's planned approach to the audit, including as a result of the identification of a significant deficiency in internal control.

Detailed application guidance is included in the proposed ISA 701 to assist the auditor's decision-making process in determining KAM and to foster consistency in auditor's reports across similar entities.

❖ Communicating KAM

When KAM are determined, the auditor would be required in the auditor's report to:

- Explain why they consider the matter to be one of the most significant in the audit and, to the extent the auditor considers it necessary as part of this explanation, its effect on the audit; and
- Include a reference to the related disclosure(s), if any, in the financial statements.

In describing the effect of KAM on the audit, the proposed ISA 701 allows for flexibility for the auditor to include a discussion of audit procedures or a conclusion with respect to the matter.

Detailed application guidance is included in the proposed ISA 701 to support this judgement. Illustrative examples are also provided in the proposed ISA 700 (Revised) to highlight the different approaches that would be permitted under the standard.

The communication of KAM is not intended to alter the auditor's opinion on the financial statements as a whole. If the auditor determines there are no KAM to communicate, the auditor would state that conclusion in the auditor's report.

❖ Applicability of the proposed ISA 701

The proposal to communicate KAM is required in the auditor's report for listed entities. For non-listed entities, the inclusion of KAM is left to the auditor's discretion, unless required by law or regulation.

❖ Relationship between KAM and communications with TCWG

Because KAM are selected from matters communicated with TCWG, the ED includes limited amendments to the proposed ISA 260 (Revised) that addresses such communications. Amendments are proposed to the required auditor communications with TCWG for all audits, not only for listed entities. The ED proposes that the auditor communicate significant risks identified when providing TCWG with an overview of the planned scope and timing of the audit. The ED also proposes that the auditor communicate circumstances that require significant modification of the auditor's planned approach to the audit, to align with the factors the auditor considers in determining KAM.

❖ Relationship between KAM and EOM paragraphs and OM paragraphs

	CURRENT REPORTING	PROPOSED REPORTING
EOM	EOM is included in the auditor's report to draw users' attention to a matter presented or disclosed in the financial statements that is of such importance that it is fundamental to users' understanding of the financial statements	<ul style="list-style-type: none"> • Concept of EOM retained • EOM should not be used for matters determined to be KAM • When both the KAM section and the EOM paragraph are included in the auditor's report, there needs to be a statement that explains that the matter being emphasised is separate from KAM
OM	OM is included in the auditor's report to draw users' attention to a matter not presented or disclosed in the financial statements that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report	<ul style="list-style-type: none"> • Concept of OM retained • OM should not be used for matters determined to be KAM

Currently, there are some underlying accounting issues, including a lack of consistent understanding of certain concepts, for which clarification or additional guidance from the accounting standard setters may be necessary such that the IAASB's proposed statements on going concern in the auditor's report are not misunderstood or misinterpreted by users of the financial statements.

A NEW SECTION IN THE AUDITOR'S REPORT TO ADDRESS GOING CONCERN

The auditor's report will include a new section applicable to all audits to address the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements, and whether the auditor has identified a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern. This section will include:

1. An explanation of the going concern basis of accounting in the context of the applicable financial reporting framework;
2. A statement that, as part of the audit of the financial statements, the auditor has concluded that management's use of the going concern basis of accounting in the preparation of the entity's financial statements is appropriate;
3. A statement that, based on the audit of the financial statements, the auditor has not identified a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern; and
4. A statement that neither management nor the auditor can guarantee the entity's ability to continue as a going concern.

Currently, there are some underlying accounting issues, including a lack of consistent understanding of certain concepts, for which clarification or additional guidance from the accounting standard setters may be necessary such that the IAASB's proposed statements on going concern in the auditor's report are not misunderstood or misinterpreted by users of the financial statements.

Accordingly, the IAASB is working with accounting standards setters to facilitate a holistic approach to addressing going concern in financial reporting. The finalisation of auditor reporting related to going concern may defer depending on the status and planned actions of the accounting standard setters.

OTHER PROPOSALS

The ED also proposes a number of other changes to enhance transparency or clarify responsibilities, including:

- Prominent placement of the auditor's opinion and other entity-specific information in the auditor's report.
- An explicit statement of auditor independence, and disclosure of the source(s) of relevant requirements, for all audits including those of unlisted entities;
- Disclosure of the engagement partner's name, with a "harm's way" exemption. This disclosure is only required for audits of financial statements of listed entities;
- Reporting on the auditor's responsibilities with respect to other information (to be finalised as a separate project to revise ISA 720, The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements) ;
- Enhanced description of the auditor's responsibilities and key features of the audit (together with provision for certain components of this description to be relocated to an appendix to the auditor's report, or for reference to be made to such description on the website of an appropriate authority).

OVERHAUL OF AUDITOR REPORTING: IAASB PROPOSES FUNDAMENTAL CHANGES TO THE AUDITOR'S REPORT



PROPOSED EFFECTIVE DATE

Assuming the Proposed ISAs are issued as final standards in the fourth quarter of 2014, a possible effective date for the standards may be for audits of financial statements for periods beginning on or after 15 December 2015, that is, for 31 December 2016 reporting periods.

However, the IAASB is also interested in views on whether an earlier effective date would be feasible, for example, for audits of financial statements for periods ending on or after 15 December 2015, that is, for 31 December 2015 reporting periods, and whether early adoption should be permitted or encouraged.

LOOKING AHEAD

The Proposed ISAs represent a significant change in practice, but enhanced audited reporting is viewed as critical to the perceived value of the financial statements audit and to the continued relevance of the auditing profession.

The Auditing and Assurance Standards Board ("AASB") of the Malaysian Institute of Accountants ("MIA") has consulted with audit firms and regulators on the IAASB's proposals. The AASB provided feedback to the IAASB on the ED and will continue to hold outreach sessions to relevant stakeholders. ■

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Value of *Quality Audit*

Nazatul Izma

It is critical to enhance and communicate the value of quality audit as a means to advance the auditing profession and enhance its reputation and credibility.

What is a quality audit? How do you measure and benchmark audit quality? If audits weren't mandatory, would businesses still demand audits? What is the value of a quality audit to business and markets? How can audit quality be improved?

These were among the key issues debated at the recent MIA-ACCA Forum on *The Value of Quality Audit*, which brought together investors, businesses, auditors and regulators to facilitate open and constructive dialogue about audit quality issues in the broadest sense.

THE VALUE OF A QUALITY AUDIT

"A quality audit will result in an audit opinion that should carry weight of impact and is reliable, hence instilling confidence in the market," remarked then MIA Vice-President Johan Idris. "The value of audit is deeply intertwined with its quality. Hence, a compromise on the quality of audit would also lead to a diminished benefit of audit."

With audit coming under increased scrutiny from commentators and governments, it is vital to re-examine the role of audit. "ACCA strongly believes that audit is not 'broken', but needs to have its value constantly tested against the demands and needs of users and beneficiaries of assurance," said Jennifer Lopez, Country Head, ACCA Malaysia.

Stakeholders must also recognise that the responsibility of assurance lies not only with the auditor, but the entire business eco-system. "Although auditors have



to comply with stringent quality control standards, all the stakeholders in the corporate reporting supply chain have to pull together to maximise audit quality," added Lopez.

IS AUDIT REQUIRED?

If regulations did not require audits, would businesses still want an audit? The answer appears to be a resounding yes. Chari TTV, Chief Financial Officer, Celcom Axiata Bhd, said, "Audit is an assurance function and an external independent party assuring the accuracy of the financial statement provides an element of comfort. It is critical that an independent professional body come back and say our financial reports are accurate. For a listed company with public shareholders and multiple other stakeholders, it is absolutely essential."

Agreeing, Paul Chan, Founding Board Member and Deputy President of the Malaysian Alliance of Corporate Directors (MACD) said, "Audits are abso-

lutely a requirement, especially for PLCs (public listed companies) - much more so for those that have vast and complex operations, so they need to rely on professionals for assurance and independent checks and balances."

Furthermore, said Chan, "Board members, as strategic assets to the company, have fiduciary duties to enhance the shareholders' value as its priority; and the auditors are a very important part of the value chain in the whole equation to assure the Board of the integrity of the financial information, so the Board can focus on strategic issues."

EXPANDING THE AUDIT SCOPE

On this note, Chan urged auditors to go beyond their current scope of auditing financial statements for statutory compliance only but to be strategic business advisors to boards and companies. "Auditors need to be reasonably knowledgeable to advise directors to chart the company's strategic direction which is very important in the corporate world where its eco-system is increasingly interdependent and integrated. Even if regulatory requirement for audits were to become non-mandatory, businesses will still need the assurance of independent auditors on the fidelity of its financial information. The expectation of corporate business already trends toward that direction. Do the auditors have that kind of perspective?"

Chan also noted that various types of risks the company will encounter have significant impact on the scope of audits, especially in areas of IT (informa-



Panel members in action... (L-R) Sukanta Dutt, Managing Partner Quality and Risk Management EY; Johan Idris, MIA President and Partner, Head of Audit KPMG; Nik Mohd. Hasyudeen Yusoff, Executive Chairman AOB; Chiew Chun Wee, ACCA Head of Policy, Asia Pacific; Paul Chan, Founding Board Member and Deputy President, Malaysian Alliance of Corporate Directors; and Chari TVT, Chief Financial Officer, Celcom Axiata Bhd.

“Board members, as strategic assets to the company, have fiduciary duties to enhance the shareholders’ value as its priority; and the auditors are a very important part of the value chain in the whole equation to assure the Board of the integrity of the financial information, so the Board can focus on strategic issues.”

Paul Chan, Founding Board Member and Deputy President of the Malaysian Alliance of Corporate Directors (MACD)

tion technology) risks. The use of IT is prevalent in all companies, and inherent risks of that platform must be addressed appropriately. A recent requirement of Bursa Malaysia on the auditors to sign off the “Statement of Risk Management and Internal Control” that the company declared in its financial report is a significant added responsibility. “How confident are auditors in signing off such a statement on risk management statement, especially when due attention is not clear on IT risks? Is the company’s risk management framework even the role of auditors?”

There is no easy solution, said Chan, but it is increasingly more important that auditors have a diverse knowledge base to meet the needs of the company being audited. “If you don’t expand your expertise to cover more holistic needs of the company that limited scope of audit and assurance may become less relevant to users, other than for regulatory compliance, in the ever changing and dynamic business world.”

MOVING FROM COST TO VALUE

How can auditors elevate themselves from being a cost element to a value element? Sukanta Dutt, Managing Partner, Global Risk Management Infrastructure, Ernst & Young, said that audit becomes a value imperative for business financing. “If you want to raise or borrow money, you must demonstrate accountability, transparency and evidence of reliability. This fundamentally determines businesses’ need for audit.”

Meanwhile, Johan said that independent third-party audits lend credibility to companies. He also noted that audits will still have value even as the business environment allows audit exemptions for businesses adopting the LLP form. “If the LLP wants to grow, it will need an audit and business advice to make it better.”

Audits also pressure companies to organise and prepare their financial statements in accordance to a timetable. “If you cannot close your books, how can you make relevant decisions because the information is not there?” said Johan.

STAKEHOLDER PERCEPTIONS

How do users perceive the value of audit? “The issue of the utility of audit differs from one organisation to another,” said Nik Mohd. Hasyudeen Yusoff, Executive Chairman, Audit Oversight Board. “You cannot legislate value. How do people price an audit? Ask yourself if I don’t have an audit, how much would I lose?”

From the quality perspective, Nik warned that a good audit report isn’t necessarily a clean audit report. Furthermore, a high quality audit hinges on high quality financial reporting which is the responsibility of the preparer, he said. “Generally we always aspire to have good financial reporting, so it’s not just the auditor’s task, but the other parts of the financial ecosystem are affected as well.”

GAME-CHANGING – HOW CAN THE AUDITOR’S REPORT AND AUDIT PROCESS BE IMPROVED?

How can audit reports deliver more value? How do they need to change? Should the scope and length of audit reports be expanded to justify audit fees?

There have been recommendations to expand the audit report and go beyond boilerplate statements, noted Johan. “Should audit reports discuss going concern and improve disclosure? What about materiality thresholds? Should companies require more precision e.g. 5% materiality versus 3% materiality?” The caveat, said Johan, is that more precision will cost more.



Among the delegates attending the forum.

Meanwhile, there were also objections to key governance changes which had made the audit process costlier and more onerous – such as the proposed mandatory audit firm rotation (MAFR). The Global Network of Director Institutes (GNDI), comprising nine leading Director Institutes with a global membership of 100,000, after extensive deliberations, recently published its position not in favour of MAFR. The AICPA (American Institute of Certified Public Accountants) also recently presented its position to the US House of Representatives that eventually ruled against the MAFR proposal. “At the end of the day, not only will the exercise be very costly, it negates years of specialised industry expertise acquired by the auditors in the process of their audits; newly appointed MAFR auditors will have to acquire such industry expertise in a very short window period for reporting. The real question to ask is what robust process has been put in place for continual assurance in the independence of existing auditors – not requiring MAFR, which could be fraught with extensive unintended consequences,” said Chan.

“Mandatory rotation doesn’t mean independence when there is a lot of job-hopping going on. It doesn’t enhance independence or audit quality,” said Johan. From the regulatory perspective, Nik said that the AOB tracks global regulatory developments, “but we only want to look at measures that work in Malaysia. At the end of the day, it must make sense.”

Finally, said Nik, there is value attached to these “two pieces of paper. Some shareholders don’t look at the audit report. But if you are investing huge sums on behalf of many people, like pension funds, you will not be investing in a company which lacks those two pieces of paper. That is the opportunity cost of not having an audit.”

Audit is also vital to inspire trust and confidence in capital markets, said Nik. “Our capital markets are valued in the low trillions. Imagine a market without audit!” ■

IAASB - A Framework for Audit Quality

Enhancing audit quality and bridging the audit communication gap between the profession and stakeholders are key priorities for the International Auditing and Assurance Standards Board (IAASB), which recently released a related discussion paper entitled “A Framework for Audit Quality.”

“This discussion paper is not an attempt to set new standards, but to create discussion and provide a frame of reference for auditors and other stakeholders involved,” said Sukanta Dutt, Managing Partner, Global Risk Management Infrastructure, Ernst & Young, in a presentation on the IAASB paper.

Dutt shared some points for further discussion. Importantly, he stressed there needs to be a common definition for audit quality. “Now is the time to define audit quality. We need a common baseline reference, definition or set of criteria and attributes for audit quality or we could really go off in different directions.”

Business, regulators and the profession also recognise that audits are not confined to a single jurisdiction anymore and are increasingly becoming multi-jurisdictional. “The global nature of audit itself and the interaction with different jurisdictions present challenges. We have to recognise the global nature of audit as it relates to multinational corporations and multi-jurisdictional audits,” said Dutt.

Complex businesses require multi-disciplinary audits. Accountants may no longer be able to handle these audits by themselves, and require the involvement of other experts and specialists.

There is also the challenge of the relationship between auditing standards and the increasing complexity of accounting standards. “Some people scratch their heads when they read an accounting standard and they ask: can I audit such a transaction? Is this even auditable?” said Dutt.

Finally, auditors must be prepared for the complexity of audits in the future to ensure audit quality. “In the audit of the future, expect that there will be complex laws, regulations, and complex accounting and auditing standards. Put that into the multi-national situation across many jurisdictions and you can see how some audits will be very complex,” Dutt concluded.

Celebrating Reporting Excellence

NACRA 2013 RECOGNISES MALAYSIA'S LEADING CORPORATE REPORTING

The National Annual Corporate Report Awards (NACRA) are a benchmark for outstanding corporate reporting, catalyse good governance, and inspire confidence in investors and capital markets.

NACRA is jointly organised by Bursa Malaysia Berhad, the Malaysian Institute of Accountants (MIA), and the Malaysian Institute of Certified Public Accountants (MICPA). The key objective of NACRA is to promote excellence in corporate reporting, greater transparency and accountability by respective parties in their financial reporting and the awards are to acknowledge and recognise high quality corporate reporting.

For 2013, the NACRA 2013 contest carried the theme of "Towards Excellence and Accountability", reflective of the need to create a corporate Malaysia that exceeds global benchmarks and cultivates greater confidence in our economy.

NACRA 2013 Organising Chairman Stephen Oong mentioned that NACRA is a brand long valued and recognised by the business community in Malaysia as the stamp of excellence when it comes to corporate reporting.

"For more than 20 years now, organisations in Malaysia identify NACRA for its significant and valuable role in recognising excellence in corporate reporting. It provides organisations a common platform for benchmarking against the best of the best. Although compliance with regulatory and legislative requirements and accounting standards in corporate reports is a given, an excellent

financial report must be able to effectively present the organisations' commitment in presenting fair and true information to its stakeholders in the most meaningful way possible. That is the true challenge in the NACRA competition," added Oong.

The NACRA 2013 Adjudication Committee Chairperson, Loh Lay Choon, said, "NACRA 2013 received a substantial number of excellent entries from Malaysia's corporate entities. Many of those which emerged victorious at NACRA 2013 had faced stiff competition from equally strong contenders, with some of the companies winning by a very small margin. It is evident from this year's results that there has been an improvement in the standard of corporate reporting by the Malaysian corporate entities, in line with international best standards."

She pointed out that adjudicators not only look for Annual Reports that comply with regulatory requirements and standards. But these should also "be written, presented, designed and packaged in such a way that communicates clearly and precisely the company's underlying performance, how it creates value for its shareholders, how it discharges its social responsibilities, and how it planned to enhance shareholders' value in the coming year. These attributes are what a good annual report should have, and these are what the adjudicators look for."

WINNING ROLL CALL

- The 2013 NACRA Overall Excellence Awards were dominated by the telecom-

munications and financial sector, with Telekom Malaysia Berhad emerging as the Overall Excellence Platinum Award Winner.

- Telekom also won three other awards, the Best Annual Report in Bahasa Malaysia – Silver, the Best Corporate Social Responsibility Reporting Award – Gold and the Industry Excellence Award for Main Board company in trading and services category.
- The Gold and Silver Awards for the Overall Excellence Category went to Malayan Banking Berhad and Public Bank Berhad respectively.
- Perbadanan Insurans Deposit Malaysia (PIDM) won the Special Award for Non-Listed Organisations for yet another year, making it four years in a row.
- Meanwhile the Platinum Award for Best Corporate Social Responsibility Reporting was won by Media Prima Berhad.
- Public Bank Berhad emerged as the top winner for the Best Annual Report in Bahasa Malaysia by winning the Platinum Award. Eight companies were also presented with Certificates of Merit.

All awards were presented by Dato' Paduka Ahmad Bashah Md. Hanipah, Deputy Minister of Domestic Trade, Co-operatives and Consumerism at the 2013 NACRA Awards Presentation ceremony which was held in Kuala Lumpur on 21 November 2013. ■

To view full results please visit www.mia.org.my



An analysis of selected issues from the Finance Bill (No. 2) 2013

This article represents a technical analysis of the major issues in the Finance Bill, which upon enactment will bring about permanent changes to the taxing statutes. The scope of this article has been confined to proposed changes to the ITA and RPGTA as these are the taxing statutes that concern most accountants.

Richard Thornton and Thenesh Kannaa

The National Budget for 2014 was tabled on 25 October 2013 and shortly thereafter the Finance Bill (No. 2) 2013 was introduced. In furtherance of the Budget objectives, the bill stipulates changes to the Income Tax Act 1967 (ITA), the Stamp Act 1949, the Petroleum (Income Tax) Act 1967, the Real Property Gains Tax Act 1976 (RPGTA) and the Labuan Business Activity Tax Act 1990. While the mainstream media have adequately discussed and debated the impact of the budget from a macro economic perspective and the impact on the various classes of the society, this article represents a technical analysis of the major issues in the Finance Bill, which upon enactment will bring about permanent changes to the taxing statutes. The scope of this article has been confined to proposed changes to the ITA and RPGTA as these are the taxing statutes that concern most accountants.

1) BASIS PERIOD FOR COMPANIES THAT COMMENCE OPERATIONS

The proposed change to Section 21A of ITA simplifies the rules for determination of basis period for a company that newly commences operation. Once the change is effective, the basis period for tax purposes will be the same as the accounting period, even in the early years of operation. Although this is not expected to lead to savings in tax payment itself, the taxpayers and tax agents appear to welcome such changes as it reduces the complexities and the compliance burden.

2) LOANS AND ADVANCES TO DIRECTORS

A new Section 140B is proposed to deem an amount as interest income for a company when it makes any loan or advances to a person who is a director. Such amount is to be computed by a formula which is based on the amount of loan or advances outstanding at the end of each month and the average lending rate of commercial banks published by the Central Bank at the end of each calendar month.



This deeming provision applies only when:

- the loan is made from the internal funds of the company;
- the company either does not charge interest to the director or it charges interest which is less than the outcome of the statutory formula; and
- the loan is made to a director who, either on his own or with his associates, own or control at least 20% of the ordinary shares of the company.

Note that this deeming provision covers loans made to any person who is occupying the position of director (by whatever name called), including any person who is concerned in the management of the company's business (provided the other conditions listed above are met).

Some of the difficulties with this new provision are:

- if the director to whom the loan is made owns more than 50% of the company's ordinary shares, the company is also required to observe Section 140A (which requires an arm's length rate to be used) whereas Section 140B uses the average lending rate of the commercial banks. These provisions are not quite the same as the latter does not take into account the creditworthiness of the director. It has not been made clear that Section 140B will take precedence over Section 140A. In other words, there is a risk that if the company complies with the formula in Section 140B, it may be subject to further adjustments during a tax audit based on the provisions of Section 140A.
- This new provision has been proposed to be effective from the year of assessment 2014. This means that there is an element of retrospection for companies with year-end other than 31 December. For example, the basis period for a company which closes its accounts to 30 April is 1 May 2013 to 30 April 2014 for the year of assessment 2014. As the deemed interest income is required to be computed on a monthly basis, the deemed income would commence in May 2013 (and last until the month preceding the month in which the loan or advance is discharged).

3) TIMING OF DEDUCTION FOR INTEREST DEDUCTION

A new subsection (4) to Section 33 has been proposed. This new provision relates to the timing on which interest expenses are deductible and its impact is best illustrated with the use of an example. Say, a person obtains a five-year loan in 2014 and the interest will be due only at the end of the term. Though some of the interest becomes payable in 2014, such amount is not deductible at the present time. Once it becomes due five years later, the tax for the year of assessment 2014 (as well as the subsequent years) has to be revised downwards to take into account the deduction for the interest expense.

While the tax authorities have indicated that retrospection will be necessary in situations of this kind, it is peculiar that there does not seem to be any avenue in the ITA for such retrospection to be made, although we are made to understand that the powers of the Director General pursuant to Section 131 will be used to grant relief in situations of this kind. However, we strongly feel that Section 131 is not an appropriate avenue for the adjustment to be made as the grounds for the retrospection is not an error or mistake. In addition, the taxpayer should not be unduly denied the right of deduction if the interest becomes due later than six years from the year of assessment for which the interest became payable.

We perceive this as an anti-avoidance provision and thus we believe its application should have been limited to related party transactions, or at least an exception could have been made for interest on loans from the licensed financial institutions.

4) PROCEDURES ON APPEAL TO THE SPECIAL COMMISSIONERS AGAINST THE TAX RETURN FURNISHED BY THE TAXPAYER

At present, Section 99 of ITA provides for any person aggrieved by an assessment to appeal to the Special Commissioners and Section 90 deems an assessment to have been made when a tax return is being submitted by a taxpayer. It is proposed that Section 99 be limited in its application to taxpayers appealing against such deemed assessment who are aggrieved by a tax treatment in a public ruling.

Under the self-assessment regime, it is not very common for a person to appeal against the assessment deemed to be made on him in respect of a return that he himself has prepared and furnished to the Director General when he is not aggrieved by a public ruling. Where a person is dissatisfied with the return that he has furnished, this is likely due to some error or mistake which he comes to know about after submitting the return. In such cases, a remedy is offered under Section 131 that requires an application to be made to the Director General for relief in respect of the error or mistake made. If the person is aggrieved by the decision of the Director General on the application he may, within six months of being notified thereof, request the Director General in writing to forward the application to the Special Commissioners pursuant to subsection 131(5) whereupon it is dealt with as an appeal.

Given the existence of subsection 131(5), the amendment to Section 99 does not seem to be too fundamental in nature but we wish that Section 131 stipulated some kind of time frame (such as under Section 101) within which the Director General must make a decision in relation to the application made by the taxpayer.

5) FAILURE TO FURNISH INFORMATION REQUIRED BY THE DIRECTOR GENERAL

It has been proposed that a new subsection 39(1A) be introduced to disallow the deduction of an expense if the taxpayer fails to furnish information relating to the expenditure within the time specified in a notice issued pursuant to Section 81 or such other time allowed by the Director General. A wide range of information may be required under Section 81, including details on payments to agents, payment of facilitation fees and payments to related parties.

There are two unpleasant elements in this provision. First, a taxpayer who poses all the necessary information may still be denied the right for deduction simply because he did not comply with the time frame specified in a notice (although some taxpayers possess all the necessary information, it may be extremely difficult to retrieve and collate the information required within the given time). Second, this new provision seems to provide no chance of a remedy for the disallowance where the information required is obtained and provided after expiry of the time limit.



6) MANDATORY ELECTRONIC SUBMISSION OF FORM C BASED ON AUDITED ACCOUNTS

The proposed amendment to Section 77A touches on two crucial matters in relation to submission of Form C. Firstly, the filing of Form C for the year of assessment 2014 onwards can be done only through e-Filing (i.e. electronic medium). Secondly, Form C should be submitted based on the audited accounts. While this may be a reasonable requirement in the case of most companies, it must not be overlooked that some companies are not required to have their accounts audited. Some important examples of such exceptions would be the permanent establishment of a company incorporated in a jurisdiction outside Malaysia where auditing is not mandatory.

If the proposed Bill is passed as legislation in its present form, companies having no statutory obligation to have their accounts audited will be in a dilemma. We would hope that a proviso can be introduced to subsection 77A(4) to limit the application of this requirement to situations where the company is required by the Companies Act 1965 to have its accounts audited.

7) OPTION TO TREAT MONTHLY TAX DEDUCTION AS FINAL TAX

It has been proposed that an individual may opt not to furnish Form BE if all of the following conditions are met:

- the individual has no other sources of income (such as rental income or non-exempt interest income);
- the individual does not have any employment benefits assessable under subsections 13(1)(a) or 13(1)(b);
- the employer has made monthly tax deductions from his/her salary;
- the individual is employed by the same employer for a period of 12 months in that year of assessment;
- the individual's tax is not borne by his employer; and
- the individual's spouse has not elected for a joint assessment.

If the individual chooses not to submit Form BE, his monthly tax deductions (if any) will be deemed as the final tax, but the power of the Director General to raise additional assessments has been preserved.

This is another effort towards simplification which should be welcomed. At this juncture, we remind employers that the monthly tax deductions for additional remuneration, particularly the annual bonus, are to be calculated on a specific basis as specified by Income Tax (Deduction from Remuneration) Rules 1994. When the deductions for bonus payments are calculated in any other manner, it may result in taxpayers having tax over-payments and thus having to submit their Forms BE to obtain a refund. The enactment of Section 77C effectively places greater importance on the role of the payroll function to strictly adhere to the Rules.

The difference can be seen from the table below which gives a comparison

	EFFECTIVE TAX RATE			
	2013	2014		
Holding period - years	All	Companies & other bodies	Citizens and permanent residents	All other individuals
Up to 1	15	30	30	30
1-2	15	30	30	30
2-3	10	30	30	30
3-4	10	20	20	30
4-5	10	15	15	30
more than 5	Nil	5	Nil	5

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8) CHANGES TO REAL PROPERTY GAINS TAX (RPGT) RATES

It seems that the proposed change to higher rates of RPGT introduced by the recent Budget did not come as a surprise. Except for individuals who are citizens or permanent residents and have owned a property for 5 years or more, everybody will move onto a higher tax rate from 1 January 2014 when the changes become effective.

Most taxpayers are probably willing to accept the increases to support the Government's efforts to curb speculation. The rate of tax is at a modest 5% and even nil for some after five years of ownership.

The rates in column 5 are exactly the same as they were for such individuals before 1 April 2007. Such persons are neither citizens nor, in most cases, resident in Malaysia so it is not surprising that they are treated more harshly than other individuals with the rate of tax remaining at 30% until the end of the 5th year of ownership. However, there is one group of individuals falling under that column who are nearly all Malaysian residents and there is no justification for treating them differently. This group consists of individuals who have come to Malaysia to settle under the Malaysia My Second Home programme which allows them to have a resident renewable visa valid for 10 years and encourages them to buy a residential property in Malaysia to use as their home. It would be reasonable to include such individuals in the same group as citizens and permanent residents.

9) IMMINENT DISPOSALS

Understandably, some taxpayers may be tempted to dispose of a real property asset or real property company shares (the same rates apply) before 1 January 2014. However, care should be taken to ensure that the disposal date actually falls into 2013. Where there is a written agreement for the sale of the asset, the disposal date is the date of the agreement. Otherwise, it is the date on which the asset is transferred by the disposer (being the date when all things required by written law have been done) or on the date when the whole of the consideration for the transfer has been received by the disposer, whichever is earlier. The relevant documents should be fully executed and stamped if they are to be produced as evidence of the disposal date (para 15, sch 2 RPGTA).

A disposal under a conditional contract, such as an option agreement, needs to be handled carefully. Where the condition specified by the contract is satisfied (by the exercise of a right under an option or otherwise), the date of disposal is the date when the contract was made and that is a useful way to fix the disposal date in many cases. However, care must be taken if the disposal under the conditional contract requires the approval by the Government or a State Government or an authority or committee appointed by the Government or State Government. In that case, the date of disposal is the date when that approval is given or, if the approval itself is conditional, on the date on which the last of all such conditions is satisfied. This will usually

be impossible to predict at the time of making the contract (para 16 sch 2 RGTA).

OTHER ISSUES

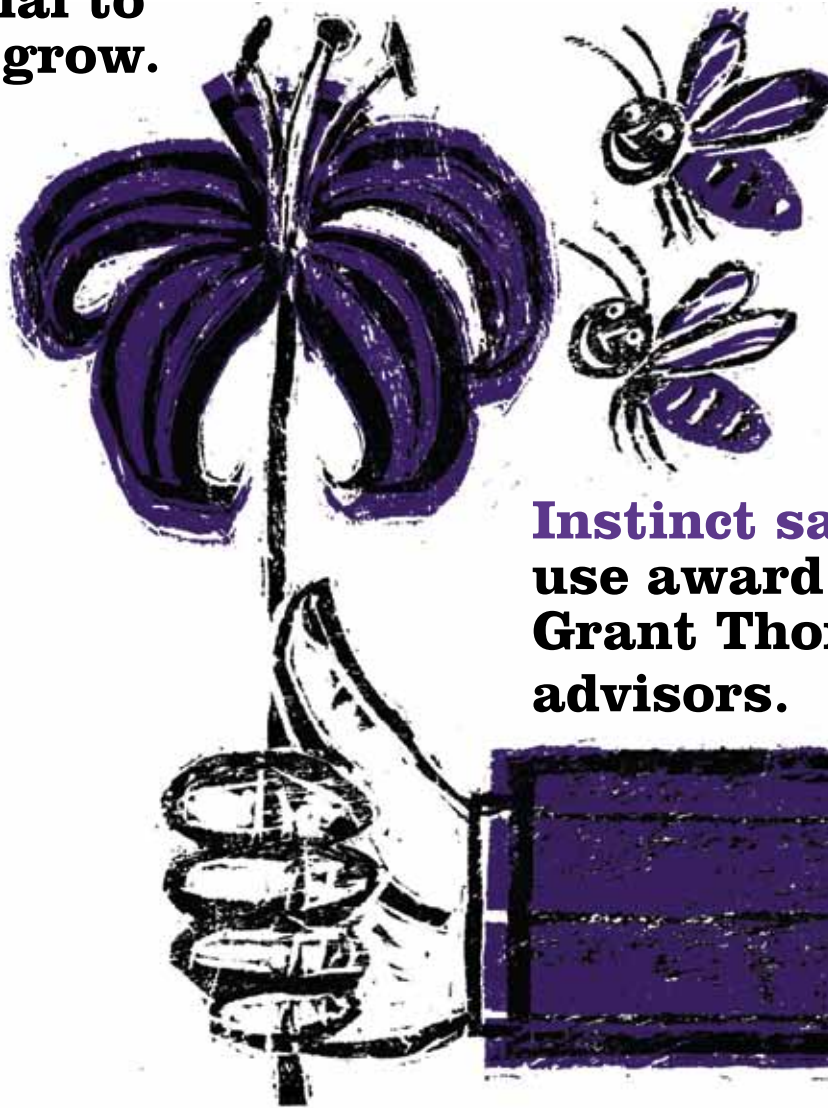
Due to space constraints, only changes that are expected to have significant effect to the majority have been evaluated in this article. Effective dates and other details regarding the issues outlined above can be found in the 2014 Budget Commentary and Tax Information published by the professional bodies.

Note that deductions in respect of minimum wage rate for employees, flexible work arrangements, cost of preparing for implementation of the Goods and Services Tax (GST), tax filing fees and secretarial fees, as well as the special tax relief for the middle-income group, are some of the popular and important tax changes mentioned in the 2014 Budget, but those do not fall within the ambit of this article as they are not part of the Finance Bill. At the time of writing, details of the mechanism and conditions for these tax incentives have not been publicised, but they are expected to be gazetted by way of Ministerial orders in the near future. Surprisingly, the Finance Bill does not propose changes to Schedule 1 of ITA to echo the budget speech and budget appendices on the downward revision of the income tax rates. We hope to see those revisions gazetted soon.

Another important aspect of the Budget is the announcement regarding the implementation of GST. As many articles have attempted to answer questions relating to the purpose of this new tax system, its nature and a comparison with other jurisdictions, we, the chartered accountants, should now be focusing on the more technical and mechanical issues regarding this new tax legislation. Though there are many important aspects of GST, we would like to highlight only two of them at this point in time to clarify the myth created by some oversimplified examples publicised in the mainstream media. First, the 'input tax' is not necessarily limited to GST paid in respect of purchase of raw materials, but is capable of including GST paid on the goods and services such as electricity and rental of the business property. Second, there is a difference between zero rated and exempt from GST which needs to be understood. The latter tends to impose a higher compliance burden on business operators when part of their products or services are exempt from GST. In a nutshell, the Finance Bill (No. 2) 2013 appears to be simpler than the similar bills during the previous years. A significant number of changes in this Bill appear to affect only some specific groups of taxpayers. ■

Richard Thornton is the author of Thornton's Malaysian Tax Commentaries (5th Edition, 2013) (published by CCH) and the 100 ways to save tax in Malaysia series (published by Sweet and Maxwell). Thenesh Kannaa is the managing partner of Thenesh, Renga & Associates, a firm of chartered accountants dedicated to providing tax advisory services. The authors have jointly produced the Manual of Capital Allowances and Charges (2013) (published by CCH). They can be contacted by alricton@gmail.com and thenesh@tratax.my respectively.

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Group relief simply means the current year adjusted loss of a company to be deducted against the aggregate income of another company providing both are members of the same group of companies. In other words, a company with unabsorbed adjusted loss for the current year can either:

- keep and deduct the loss against its future income; or
- deduct the loss against another company's assessable income within the group in the same year under the group relief system.

The company that surrenders its loss items is known as the surrendering com-

pany whereas the company that claims the loss items is known as the claimant company.

With effect from year of assessment (YA) 2000, group relief was first introduced for resident companies involved in approved food production projects and up to YA 2005, only companies that invested in approved food production, forest plantation, biotechnology, nanotechnology, optics and photonics were eligible for group relief on losses incurred by their subsidiary companies undertaking such projects.

Effective from YA 2006 and in order to enhance private sector investment in high-risk projects, group relief [provision under Section 44A¹ of the Income Tax Act



1967 (ITA 1967)] has been extended to all locally incorporated resident companies subject to the following conditions:

- 1) both the surrendering and claimant company each have paid-up ordinary share capital exceeding RM2.5 million at the beginning of the basis period for that YA;
- 2) both the claimant and the surrendering companies must have the same accounting period;
- 3) seventy per cent of the paid-up ordinary share capital, whether directly or indirectly, is owned by the claimant or surrendering companies or vice versa or commonly owned by another resident company;
- 4) the 70 per cent shareholding must be on a continuous basis during the preceding year and the relevant year;
- 5) the claimant company has defined aggregate income² for that YA.

This also means that where there is a foreign-incorporated company in the ownership chain, shareholdings by the foreign-incorporated company will not be considered for the purpose of determining direct or indirect shareholdings. Likewise, any direct or indirect shareholdings by an entity which is not a Malaysia-incorporated company (e.g. a trade association, an individual, etc.) will also be disregarded.

¹ Section 44A(1) of the ITA 1967 provides that a surrendering company may surrender not more than 70 per cent of its adjusted loss in the basis period of a year of assessment to one or more related companies (claimant company) provided both the surrendering and the claimant companies shall be resident in the basis year for that year of assessment and incorporated in Malaysia. Prior to YA2009, the rate of current adjusted loss which is allowed to be surrendered is 50%.

² Defined aggregate income refers to:

Aggregate income	xx
Less : Section 44(1) (a) current year loss	(x)
(b) prospecting/pre-operating business expenditure	(x)
(c) Donations	(x)
(d) Other donations	(x)
Defined aggregate income	xx
Less: group relief surrendered by related company	(x)
Total Income	xx

As provided under subsection 44(A)(7) of the ITA 1967, in addition to the ownership of at least 70% of the ordinary shares³ in the company, holders of ordinary shares must also demonstrate that they are beneficially entitled to at least 70% of:

- any residual profits of the other company, available for distribution to that other company's equity holders⁴; and
- any residual assets of the other company, available for distribution to that other company's equity holders upon winding-up of the company.

For the purpose of group relief, residual profits refer to the profits of the claimant or surrendering company after deducting any fixed dividends on all shares (including any fixed dividends on ordinary shares and before deducting any non-fixed return on non-commercial loans and any non-fixed dividends on ordinary shares). Whereas, residual assets refer to the net assets of the claimant or surrendering company upon a notional winding-up, after distribution to commercial loan creditors and shareholders other than ordinary shareholders.

Please note that the provisions of Section 44A shall not apply to a company for a basis period for a YA where the period during which period the company enjoys the following incentives:

- pioneer status or investment tax allowance under the Promotion of Investments Act 1986;
- exemption from tax under Section 54A, paragraph 127(3) (b) or subsection 127(3A) of the ITA 1967;
- reinvestment allowance under Schedule 7A;
- has made a claim for deduction in respect of an approved food production project under the Income Tax (Deduction for Investment in an Approved Food Production Project) Rules 2006; the Income Tax (Deduction for Cost of Acquisition of Proprietary Rights) Rules 2002; and the Income Tax (Deduction for Cost of Acquisition of a Foreign Owned Company) Rules 2003; or
- has made a claim for deduction under any rules made under Section 154 of the ITA 1967.

This implies that the existing group relief incentive for companies investing in approved food production, forest plantation, biotechnology, nanotechnology, optics and photonics activities will be discontinued but those which have already been given the incentive under the old rules will be allowed to continue to set-off their income against 100% of the loss incurred by their subsidiaries.

TAX ASPECT

Assume Company A's financial year end is 30 June. It incurred an adjusted year loss of RM400,000 for the financial year ended 30 June 2013 (basis period for YA 2013). Its qualifying donations for YA 2013 amounting to RM15,000. Suppose Company X and Y are both members of the same group which fulfilled the above criteria for group relief where each of the companies has defined aggregate income of RM200,000 and RM100,000 respectively.

Income Tax Computation for YA 2013 (before group relief transfer)

	Company X	Company Y
	RM	RM
Defined Aggregate Income	200,000	100,000
Tax @ 25%	50,000	25,000

For the purpose of group relief, assuming Company A wishes to transfer its qualifying adjusted loss to both Company X and Y, it shall ascertain the order of priority in respect of the adjusted loss to be surrendered [Section 44A (6) of the ITA 1967]. Assume Company A specifies Company X as the first company to which its adjusted loss is to be surrendered. When the transfer takes place, Company A's adjusted loss of RM280,000 (70% of RM400,000) will be transferred, subject to the defined aggregate income of Company X. The same applies to Company Y.

Income Tax Computation for YA 2013 (after group relief transfer)

	Company X	Company Y
	RM	RM
Defined Aggregate Income (DAI)	200,000	100,000
Less:	200,000	80,000
Total Income	Nil	20,000
Tax @ 25%	Nil	5,000
Tax savings/ benefits	50,000	20,000

With the transfer, Company A (or the group) has realised a total tax benefit of RM70,000 (RM50,000 tax savings from Company X and RM20,000 tax savings from Company Y). After the group relief, Company A will still have a remaining unabsorbed loss of RM120,000 available for carry forward to set off against its future taxable income and the donation of RM15,000 is lost permanently.

³ Ordinary shares are any shares issued by a company that carry a right to variable profit participation other than shares that carry only a right to any dividend which is of: (a) a fixed amount or at a fixed rate per cent of the nominal value of the shares or (b) a fixed rate per cent of the profits of the company.

⁴ Equity holders include any holders of ordinary shares (i.e. all shares excluding shares that carry only a right to fixed dividends) in the surrendering or claimant company, as well as any creditors of that company in respect of non-commercial loan.

ACCOUNTING ASPECT

When a group makes use of the group relief, the surrendering companies surrender their current year's adjusted loss to the claimant companies. In return, the claimant companies will normally compensate the surrendering companies.

With reference to the above illustration, the relevant journal entries for the year ended 30 June 2013 will be as follows:



Company A

Dr Amount due from Company X	RM50,000	
Dr Amount due from Company Y	RM20,000	
Cr Tax credit/expense		RM70,000

Company X

Dr Tax expense	RM50,000	
Cr Amount due to Company A		RM50,000

Company Y

Dr Tax expense	RM20,000	
Cr Amount due to Company A		RM20,000

After the group relief transfer, in their respective statements of financial position as at 30 June 2013, Company X will have "Amount due from Company Y" instead of "Deferred tax asset" and Company Y will have "Amount due to Company X" instead of "Tax Payable".

The presentation of the statement of financial position of the respective companies as at 30 June 2013 before and after the group relief will be shown as such:

Company A (Surrendering company)

Before		After	
Non-current assets		Current assets	
Deferred tax asset	RM70,000	Amount due from Company X	RM50,000
		Amount due from Company Y	RM20,000

Company X (Claimant company)

Before		After	
Current liabilities		Current liabilities	
Income tax payable	RM50,000	Amount due to Company A	RM50,000

Company Y (Claimant company)

Before		After	
Current liabilities		Current liabilities	
Income tax payable	RM20,000	Amount due to Company A	RM20,000

For the purpose of group relief, residual profits refer to the profits of the claimant or surrendering company after deducting any fixed dividends on all shares (including any fixed dividends on ordinary shares and before deducting any non-fixed return on non-commercial loans and any non-fixed dividends on ordinary shares).

CONCLUSION

In a nutshell, as the group has made use of the group relief, the group will have neither tax payable to nor receivable from the Inland Revenue Board for YA 2013. At the group level, the intra-group balances will be eliminated during the consolidation process. All in all, the use of group relief not only impacts on the quantum of tax payable but also serves as a good tax planning opportunity. ■

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Corporate insolvency and corporate rehabilitation

THIS ARTICLE HIGHLIGHTS THE MAIN CHANGES TO THE CORPORATE INSOLVENCY AND REHABILITATION PROCEDURES UNDER THE COMPANIES BILL 2013

Lee Shih

The Companies Bill 2013 (Bill), which revamps the Companies Act 1965 (Act), is based on the recommendations made by the Corporate Law Reform Committee ("CLRC") back in 2008. The Companies Commission of Malaysia published a copy of the Bill for public consultation and is presently reviewing the feedback received.

This article will touch on areas of the Bill which help to reform the existing areas of receivership and winding up. In order to better promote a corporate rehabilitation framework, this article will expand on how the Bill also introduces the new mechanisms of the judicial management scheme and the corporate voluntary arrangement.

RECEIVERSHIP

Appointment

The receivership provisions in the Bill substantially expand on the existing provisions in the Act. Clauses 372 and 373 of the Bill set out the manner of appointing a receiver or a receiver and manager ("R&M") under an instrument or by the Court.

Clause 372(2) of the Bill expressly sets out the agency status of a receiver appointed under a power conferred by an instrument (and presumably, the final version will also spell out the corresponding status of an R&M).

The present legal position is that a receiver or R&M becomes an agent of the debtor company by virtue of the inclusion of provisions to that effect in the deben-



ture under which he is appointed. The codification of the agency status of the receiver and R&M helps to remove some of the present ambiguities on the status of the receiver or R&M. It makes clear the ability of the receiver or R&M to contract on behalf of the company or do any act as an agent of the company to enable him to perform his functions.

In the case of a Court appointment, clause 373 of the Bill lists out three specific grounds upon which the Court may

appoint a receiver or R&M, which are essentially where the company has failed to pay a debt due to a debenture holder, or the company proposes to sell the secured property in breach of the charge, or it is necessary to do so to preserve the secured property.

However, the Bill appears to omit other instances under the common law where a Court may appoint a receiver or R&M, such as where there is a management deadlock or oppressive conduct by

the shareholders. It is hoped that these omissions will be clarified in the final version of the Bill so that these common law rights of appointment will not be abrogated.

Personal Liability of the Receiver and R&M

The original recommendation by the CLRC in its Final Report was for the receiver or R&M to be personally liable for debts incurred by him unless there is a specific agreement to the contrary between the contracting parties. However, clause 378 of the Bill does not make this clear and in fact imposes personal liability for such debts incurred by him in the course of receivership “notwithstanding any agreement to the contrary”, thereby not allowing the parties to contract out of this provision.

Further, the wordings which impose personal liability described above appear to conflict with clause 379(2) which purports to give effect to the CLRC’s recommendation that the “terms of a contract ... may exclude or limit the personal liability of the receiver ...”

Powers of Receiver and R&M

Clause 380 of the Bill introduces a welcomed codification of the express powers of a receiver or R&M which are set out in the Seventh Schedule of the Bill. Presently, a receiver or R&M would have to derive his powers solely from the provisions of the debenture under which he was appointed, and it is not uncommon to encounter situations where the powers listed in the debenture are inadequate or ambiguous.

WINDING UP

Presentation of a Petition

Clause 447(1)(a) of the Bill increases the threshold of a debt for the statutory demand from RM500 to RM5,000 in order for a company to be deemed unable to pay its debts for the purposes of a compulsory winding up.

This higher threshold attempts to balance the need to ensure that the amount is not too high as to preclude small

creditors from initiating legitimate claims whilst being high enough to avoid trivial claims.

Further, clause 447(2) of the Bill states that a winding up petition must be filed within six months from the expiry date of the statutory demand. The aim of this is to reduce the possibility of the statutory demand being abused and to prevent the threat of a winding up petition from continuing to hang over the debtor company for an inordinately long period of time.

Void Dispositions

The void disposition provision as contained in clause 453 of the Bill makes it clear that any disposition of property by the company, other than an exempt disposition, made after the presentation of a winding up petition shall be void, unless the Court orders otherwise. Similar to the equivalent Australian provision, the intent of this amended provision is to list out certain exempt dispositions which would not require a validation order by the Court.

However, the specified exempt dispositions contained in clause 453(2) do not significantly eliminate the need to obtain a validation order as it covers only a disposition by a liquidator or an interim liquidator of the company.

Powers of Liquidators

The powers of the liquidator in a court winding up situation are set out in clause 468 read with the Eleventh Schedule of the Bill. Part I of the Eleventh Schedule lists out the powers that the liquidator may exercise with the authority of the Court or the committee of inspection (“COI”) while Part II of the Eleventh Schedule lists out all the powers that may be exercisable with, or without, the aforesaid authority.

In particular, the Bill permits a liquidator to carry on the company’s business so far as necessary for the beneficial winding up of the company for a period of 180 days after the making of the winding up order. Thereafter, the liquidator is required to obtain the authority of the

Court or the COI to continue with the carrying on of such business. This is a welcomed increase from the present period of only four weeks allowed for under the Act.

Termination of Winding Up

Under the Act, the only way in which a winding up order can be brought to an end is through an order for a stay of winding up under Section 243 (and the provision for a stay of winding up is preserved in clause 476).

The Bill introduces a new clause 477 which allows the Court to also terminate the winding up of a company. In determining whether to terminate a winding up, the Court may consider various factors, such as the satisfaction of the debts, the agreement by both parties, or other facts as it deems appropriate. The termination of winding up, instead of a stay, appears to allow for an easier route to bring to an end the winding up where the debtor company has satisfied the debts owing to the petitioning creditor.

JUDICIAL MANAGEMENT

The judicial management mechanism, modelled after the Singapore model, is a new component under the Bill to provide a further option to rehabilitate a financially distressed company. It allows for an application by a company or a company’s creditors for an order to place the management of a company in the hands of a qualified insolvency practitioner. A moratorium which gives temporary respite to the company from legal proceedings by its creditors is put in place automatically both during the time of the application for a judicial management order until the making or dismissal of such an application and during the period that the judicial management order is in force.

Requirements for the Grant of a Judicial Management Order

The Court is empowered under clause 392 of the Bill to grant a judicial management order if and only if -

- a) it is satisfied that the company is or will be unable to pay its debts; and

- b) it considers that the making of the order would be likely to achieve one or more of the following purposes:
- i) the survival of the company, or the whole or part of its undertaking as a going concern;
 - ii) the approval of a compromise or arrangement between the company and its creditors;
 - iii) a more advantageous realisation of the company's assets would be effected than on a winding up.

The judicial management order shall, unless discharged, remain in force for 180 days and may be extended on the application of the judicial manager for another 180 days.

Protection of Debenture Holder's Rights

The CLRC had made recommendations to protect a debenture holder's right to appoint an R&M in the situation where a judicial management order is sought. Accordingly, clause 395(1)(b) of the Bill requires the notice of a judicial management application to be provided to any person who has appointed, or may be entitled to appoint, an R&M of the whole or a substantial part of the company's property. However, clause 395(1)(b) limits the type of qualifying R&M as one appointed under the terms of a debenture secured by a floating charge or by a floating charge and one or more fixed charges. It does not seem to apply to a situation where the security is by way of a fixed charge only and is unclear as to whether it applies to a receiver as well.

This provision is significant as clause 396 of the Bill effectively provides a veto right to a person who is entitled to appoint a qualifying R&M. Clause 396(1)(b) of the Bill provides that the Court shall dismiss a judicial management application if the making of the order is opposed by a person who has appointed, or is entitled to appoint, such a receiver or R&M.

The reasoning behind such a veto right is that it is thought not necessary to make a judicial management order when an R&M could achieve substantially the



same objectives and clause 396(1)(b) preserves the right of the debenture holder to appoint an R&M.

Approval of Judicial Manager's Proposals

When a judicial manager is appointed, clause 407 of the Bill provides that he has 60 days (or such longer period as the Court may allow) to send to the Registrar, members and creditors of the company a statement of his proposals for achieving the purposes for which the order was made and to lay a copy of this statement before a meeting of the company's creditors.

As a meeting of the creditors must be summoned on not less than 14 days' notice, the judicial manager effectively only has 46 days to come up with the proposal to rehabilitate the company. Therefore, there is the view that the Bill's 60-day period may in reality be too short unless the Court is more flexible in allowing for more time for the preparation of this statement of proposals.

Clause 408(2) of the Bill requires a judicial manager's proposals to be approved by a majority of 75% in value of the creditors present and voting either in person or in proxy whose claims have been accepted by the judicial manager. Once approved by the required major-

ity, the proposals shall be binding on all creditors of the company whether or not they had voted in favour of the proposals.

CORPORATE VOLUNTARY ARRANGEMENT

The corporate voluntary arrangement ("CVA") is modelled after the corresponding provisions under the UK Insolvency Act. The CVA is a procedure which allows a company to put up a proposal to its creditors for a voluntary arrangement. The implementation of the proposal is supervised by an independent insolvency practitioner who would report to the Court on the viability of the proposal. There is minimal Court intervention in the process.

Initiation of CVA

To initiate a CVA, the directors would have to submit to the nominee, being a person who is qualified to be appointed as an approved liquidator, a document setting out the terms of the proposed voluntary arrangement and a statement of the company's affairs.

Under clause 422 of the Bill, the nominee shall then submit to the directors a statement indicating whether or not in his opinion:

- a) the proposed CVA has a reasonable prospect of being approved and implemented;

- b) the company is likely to have sufficient funds available for it during the proposed moratorium to enable the company to carry on its business; and
- c) that meetings of the company and creditors should be summoned to consider the proposed CVA.

Under clause 421 of the Bill, once the directors have received a positive statement from the nominee, they can then file this statement with the Court together with the other necessary documents, such as the nominee's consent to act and the document setting out the terms of the proposed CVA.

Moratorium and Required Majority to Approve the Proposal

Upon the filing of the relevant documents pursuant to clause 421, the Ninth Schedule of the Bill provides that a moratorium commences automatically and shall remain in force for a period of 28 days.

Clause 423 of the Bill also provides

that once the moratorium is in force, the nominee is to summon a meeting of the company and its creditors within the period specified in the Eighth Schedule of the Bill. The reference in clause 423 to the Eighth Schedule appears to be a typographical error and the correct reference should be to the Ninth Schedule of the Bill.

Under the Ninth Schedule, such a meeting of the company and creditors must be called within 28 days of the date of the filing of the documents in Court. At the company's meeting, a simple majority is required to pass a resolution to approve the proposed CVA while at the creditors' meeting, the required majority is 75% of the total value of the creditors present and voting in person or by proxy.

If more time is needed for the stakeholders to decide, and in order to extend the moratorium period beyond the initial 28-day period, a meeting can be summoned to extend the moratorium for not more than 60 days if there is approval of 75% majority in value of the creditors and

with the consent of the nominee and the members of the company.

CONCLUSION

The Bill brings many welcomed changes in revamping the corporate insolvency and rehabilitation framework in Malaysia. It is hoped that the final Bill will reflect the feedback and comments received through the public consultation process.

[This is an edited version of an article which was first published in SKRINE's Legal Insights Issue 3/2013.] ■

Lee Shih is a Partner in the Dispute Resolution Division of SKRINE. He can be reached at ls@skrine.com. He will be speaking in a seminar on THE COMPANIES BILL 2013 - Revamping the Companies Act 1965 on 21 Jan 2014 and CORPORATE RESCUE: Insolvency, Receivership, Judicial Management and the Corporate Voluntary Arrangement on 4 Mar 2014. For more information, email to sp@mia.org.my or contact Izaham at 03-22799358.



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Catalysing SMEs

Through access to finance

The future of SMEs – particularly New Economy SMEs - is bright in Malaysia and there is an uptrend of more and more companies emerging in sectors related to ICT, biotechnology and clean and green technology. Access to funding is key for these companies to expand into regional crossborder markets and to contribute to Malaysia's envisioned transformation into a high income and highly developed nation by 2020. Unfortunately, a mismatch between these SMEs' financial profiles and the funding criteria of financial institutions and development finance institutions hampers the growth of these New Economy SMEs.

Celia Alphonsus

SMEs play a tremendous role in the ASEAN economies, but their contribution could be upscaled if they had access to more resources and capital.

Currently, SMEs in ASEAN account for more than 96% of all enterprises in ASEAN member states. They generate between 50-95% of domestic employment and contribute about 30-53% to gross domestic product (GDP) and are responsible for 19-31% of exports.

Yet SMEs in ASEAN, including Malaysia, face many challenges, particularly access to finance. To ensure that Malaysian SMEs are able to gain from the benefits of regionalisation and to leverage from a global network of supply chains, there needs to be more concerted effort and initiatives to improve SMEs' access to finance from conventional lending mechanisms as well as other means of financing.

Risk mitigation is key to SME sustainability. Said Dato' Adissadikin Ali, Chief Executive Officer of EXIM Bank of Malaysia: "We recognise the fact that SMEs competing in the global front are posed with greater risks as opposed to domestic-centred SMEs." Therefore, building a working relationship with the agencies that oversee SMEs is a natural collaboration for EXIM Bank to reach out to 'export ready' SMEs, he added. Beside the facilities offered by EXIM Bank which include direct lending, indirect lending and guarantees, "credit

insurance is a risk mitigation tool that should be considered by any SMEs aspiring to venture abroad. With this facility, we underwrite the risk of non-payment by the buyers of our exporters. Hence, this will give them some comfort level in dealing with international business transactions."

FINANCING CRITERIA FOR SMEs

SMEs should also enhance their financial profiles in order to compete for capital. When it comes to financing, all SMEs are not equal. There are certain characteristics that the lender looks for before parting with a loan or grant.

"The domestic capability of the SMEs is definitely one important character. In addition to that, it is equally important for the SMEs to demonstrate the feasibility of their business models," said Adissadikin.

EXIM Bank adds value to SMEs by giving them advice on areas to improve. "More importantly would be guiding SMEs to be able to produce a bankable proposal. Our approach has always been to assess the risks involved and we will look and advise on the avenues to mitigate such risks. With this approach, the bank is able to nurture and educate these SMEs to become more diligent in the preparation of their proposals. Eventually, these SMEs will have a better chance in securing financing to fund their business growth."

BANKING ON GOVERNMENT SUPPORT

Government-driven frameworks and incentives are critical ingredients in catalysing SME growth and preparing them to penetrate export and regional markets. According to Dato' Hafsah Hashim, Chief Executive Officer of SME Corporation, "The government has come up with six High Impact Programmes (HIP) under the SME Masterplan 2012-2020 which are critical towards achieving the Masterplan goals. These HIPs are the drivers of change that would make the difference and take SMEs to the next level of development."

"These initiatives are expected to place SMEs on a higher growth trajectory of 8.7% in the period 2012-2020 compared to the current 6-6.5% average growth," said Hafsah.

They are also aimed at meeting the four goals of the SME Masterplan 2012-2020 which is to increase business formation, expand the number of high growth and innovative firms, and raise the productivity of SMEs as well as to intensify formalisation to promote growth and fair competition.

"All these four goals will be the drivers of growth as we focus our energy in harnessing higher productivity from SMEs as well as expanding the number of high-growth and innovative firms in order to achieve the leap-frog growth needed to become a developed nation," said Hafsah.

ALIGNING NEW ECONOMY SME NEEDS WITH FUNDING CRITERIA

Currently, there appears to be some misalignment between the needs of SMEs and the processes of fund managers and SME financing institutions primarily because of the type of SMEs which are emerging that require funding. These are SMEs of the New Economy in the fields of ICT, biotech and green/clean technology. Many such SMEs are finding it difficult to gain access to financing to advance their businesses because of the funding criteria which require financial sustainability.

According to Renuka Sena, Chief Executive Officer of Proficeo, "one of the key reasons creating this divide between SMEs and lending institutions is the fact that these New Economy tech companies have a higher volatility in terms of revenue sustainability whereas traditional financial institutions like Banks and developmental financial institutions (DFIs) require solid and sustainable revenue projections which these companies are unable to provide. These New Economy tech companies need the financing to scale up their operations in order to obtain this sustainability but are unable to access these funds because they are unable to show the early revenues that the institutions require. Many of these companies also require large sums of money especially those in the biotech and green/clean tech industries and cannot provide sufficient collateral or personal guarantees to successfully access the funds. This is a perennial catch 22 situation." Proficeo works with government agencies, academia, public and private funding institutions and Entrepreneur Development Organisations to select, develop and nurture high-quality entrepreneurs. In the past five years, Proficeo has worked with over 500 New Economy tech companies.

COLLATERALISING INTELLECTUAL PROPERTY

Renuka, who holds a masters degree in Intellectual Property from Kings College in London, suggested that IP collateralisation is a mechanism that should be ingrained into financing policies to enable better access to funding for these New Economy Companies. She applauds the efforts currently underway from the Malaysian IP Office (MyIPO) that is looking into enhancing IP valuation skills in Malaysia to assist with this process. Agencies like Malaysian Debt Ventures have long recognised IP collateralisation as a viable avenue to provide funding to New Economy Companies. They have developed best practices and have experienced personnel to review and make decisions on funding applications. These best practices could perhaps be shared and emulated by the institutions that have obtained government mandates to provide funding to New Economy SMEs so that access to funding is fast-tracked.



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The six HIP areas that are designed to help SMEs become more desirable are:

HIP 1

Integration of registration and licensing of business establishments

Create a single registration point through interfacing of the current National Business Registration System i.e. MyCoLD and the National Business Licensing System i.e. BLESS.

HIP 2

Technology Commercialisation Platform (TCP)

Establish a national network of privately-managed platforms to promote innovative ideas from proof of concept to commercialisation stage.

HIP 3

SME Investment Programme (SIP)

Provide early stage financing through the establishment of investment companies to invest in potential SMEs in the form of debt, equity or a hybrid of both.

HIP 4

Going Export (GoEx) Programme

Offer customised assistance to new exporters and SMEs venturing into new markets. Export-ready SMEs can avail themselves of comprehensive support assistance.

HIP 5

Catalyst Programme

Create home-grown champions through a targeted approach with support in the area of financing, market access and human capital development.

HIP 6

Inclusive Innovation

Empower the bottom 40% of the income group to leverage on innovation through transformation of the rural community using the hand holding approach.

“The middle ground that needs to be achieved in order to help innovation-based companies is to allow them to leverage on and collateralise their intellectual property which is the most valuable asset that these types of companies own,” said Sena.

BUILDING EXPERTISE

One of the challenges faced by SMEs in the high technology sector is the fact that there is a lack of expertise in financial institutions and DFIs to understand the technology being developed, the market requirements and the industry nuances that these companies are faced with in commercialising their technology.

Dr. V. Sivapalan, Chairman of the Policy Institute, Technopreneurs Association of Malaysia said, “The Government recognises that these New Economy companies require customised financial assistance and has from a policy perspective been very supportive of the

needs of these companies and mandated selected financial institutions to provide such funding. However, the mismatch lies in the implementation of these policies because these financial institutions and DFIs cannot be expected to upskill the knowledge and expertise of their personnel to cater to these companies.” To overcome this and stimulate the process of upskilling, Sivapalan suggests that mandated financial institutions and DFIs engage and partner with industry-based organisations like TeAM (Technopreneurs Association of Malaysia) and academics from institutions of higher learning.

“The evaluation panel for such funding applications can include four independent evaluators who are not part of the bank’s personnel or team— where two members would be independent technical evaluators who should be ideally from the industry or academia and evaluate the project based on its technical merit.

Another two independent evaluators should be commercial evaluators who will evaluate the loan on the basis of potential commercial value and the potential for commercial returns,” added Sivapalan.

This would be an acceptable interim solution to deploy to allow these companies access to funding whilst the financial institutions and DFIs recruit and train skilled in-house personnel in the longer term.

The future for New Economy SMEs is bright in Malaysia and there is a visible up-trend of more and more companies emerging in these tech sectors. Access to funding is key for these companies to accelerate growth and expand into regional markets, especially with impending ASEAN integration. It is therefore imperative that interim and long term measures be put in place immediately to ensure that customised financing assistance can be provided to these 21st-century SMEs. ■

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SMEs

The way forward

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ALTHOUGH SMEs ARE ACKNOWLEDGED AS THE BACKBONE OF MANY ECONOMIES, NUMEROUS CHALLENGES STAND IN THE WAY OF THEIR FURTHER GROWTH.

The small and medium enterprise (SME) sector is a global force as it accounts for the majority of the business enterprises around the world. It is vital in creating a sustainable flow of trade and investment as well as boosting economic development by creating employment opportunities.

Like their counterparts in other regions, SMEs in Malaysia are faced with a number of challenges – access to finance, access and the utilisation of technology, entering global markets, and the dearth of support services.

SMEs IN MALAYSIA

According to SME Corporation Malaysia, based on the Economic Census 2011 - Profile of Small and Medium Enterprises, SMEs in Malaysia constitute 97.3% of total business establishments. In recent years,

SMEs have performed favourably due to pro-growth policies with the establishment of the National SME Development Council.

The revised time series data from the Department of Statistics Malaysia (DOSM) based on GDP at 2005 prices showed that SME GDP grew at an average annual growth rate of 6.3% in the period of 2005-2011, higher than the average growth rate of the overall economy at 4.5%.

This analysis is consistent with the earlier time series based on GDP at 2000 prices that showed the same trend - whereby the GDP growth of SMEs had consistently outperformed the overall economic growth since 2004. Hence, the contribution of SMEs to the economy increased from 29.4% in 2005 to 32.5% in 2011.

Going forward, SMEs are expected to serve as an important economic agent

in achieving a high-income nation status. The role of SMEs will become increasingly critical, not only as an enabler of growth by providing support to large firms but also as a driver of economic growth.

Malaysia's integration with the global production network also involves upgrading of SMEs from second and third-tier suppliers to first-tier suppliers who directly serve the anchor companies in the value chain, namely large firms and multinational companies.

At the same time, SMEs will be at the forefront as the government focuses on growing these entities to become large homegrown champions that can compete internationally. SME development is also important in achieving a more balanced and inclusive growth by addressing the bottom 40% of the income pyramid, which includes microenterprises.

CHALLENGES FOR SMEs

Although prospects are bright, numerous challenges remain. SME Corporation Malaysia illustrates key issues that Malaysian SMEs are specifically grappling with:

Innovation and technology adoption;

- SMEs have limited dilution of technological innovations due to lack of participation in the national innovation system;
- Most SMEs do not engage in R&D activities (R&D expenditure of SMEs only accounted for 0.05% of GDP in 2006) as the capital investment is usually beyond the means of SMEs; and
- The access to unskilled labour has created disincentives for SMEs to adopt new technologies and move into higher value-added activities.
- Human capital development;
- In essence, the labour supply available lacks job readiness, hence resulting in mismatch between supply and demand;
- SMEs are generally reluctant to send their employees for training due to fear of disruption in work activity and staff pinching by other firms; and
- Most SMEs face difficulty in attracting and retaining workers due to perceived low remuneration and non-competitive rewards and benefits.

Access to financing;

- SMEs, particularly microenterprises, also face challenges in obtaining bank financing. They are constrained either by poor creditworthiness, weak recording of financial accounts or lack of business viability; and
- Limited financing from non-banking avenues.

Market access;

- In the domestic market, SMEs have limited access to procurement by government and large companies. This is due to the perception that products and services by SMEs are of low quality;
- SMEs also have limited focus on marketing and branding activities, thus making it difficult for their products and services to successfully reach consumers at large; and
- SMEs lack adequate knowledge and resources. The low capacity volume of SMEs limits their bargaining power in the supply chain. Individual SMEs often have difficulties in achieving economies of scale in the purchase of raw materials and for access to consulting services.

Legal and regulatory environment

- Challenges still remain in the area of business registration and obtaining licenses;
- Permits difficulty in complying with certain regulations due to their poor understanding and high compliance cost; and
- There are certain legislations that disincentives business formation, formalisation and growth of SMEs such as the Bankruptcy Law and also the tax regime.

Infrastructure

- Lack of specialised facilities and logistics service providers that are able to cater to the special needs of SMEs; and
- An efficient trade clearance and facilitation system is also important to SMEs as it affects the cost of doing business. Firms are still required to submit trade clearance documents online as well as through manual submission to the various authorities.

By addressing these challenges, SME Corp is optimistic that opportunities abound for SMEs to flourish. A strong and vibrant SME base can benefit from and contribute to the growth in domestic demand. Demand for SME products and services will be supported by rising consumer affluence in the region. Given that SMEs account for 97.3% of all businesses in the country, they will form the bedrock of the economy as the focus moves to private sector-led growth.

Furthermore, SMEs also represent an important source of innovation to spearhead frontier technology and growth of new industries and services. It is vital to build a strong base of vibrant and competitive SMEs that are resilient to challenges arising from liberalisation of mar-

kets. Importantly, the liberalisation of the services sector - where there is a strong presence of SMEs - will require domestic capacity building to avoid hollowing-out of existing players due to competitive pressures and facilitate the shift towards a services based economy.

Impending regional liberalisation and integration should also benefit SMEs. According to the ASEAN Policy Blueprint for SME Development 2004-2014, by 2015 ASEAN SMEs will be world-class enterprises, capable of integration into the regional and global supply chains, able to leverage on the benefits of ASEAN economic community building and operating in a policy environment that is conducive to SME development, exports and innovation. ■

A strong and vibrant SME base can benefit from and contribute to the growth in domestic demand. Demand for SME products and services will be supported by rising consumer affluence in the region. Given that SMEs account for 97.3% of all businesses in the country, they will form the bedrock of the economy as the focus moves to private sector-led growth.

From Manager to Leader

MORE AND MORE ACCOUNTANTS ARE CLIMBING THE CAREER LADDER TO BECOME MANAGERS. HOWEVER, WHAT 21ST CENTURY CORPORATIONS REQUIRE ARE LEADERS, NOT MERE MANAGERS. HOW CAN ACCOUNTANTS BE TRAINED TO BECOME FINANCE AND BUSINESS LEADERS OF A NEW ERA?

Patricia Francis

An accounting professional's role has evolved and expanded over time. From being a preparer of financial statements and steward of assets, accountants are now taking on more challenging roles. They are business and financial analysts, corporate planners and cost controllers. Eventually, they will ascend to various managerial functions in their organisations.

However, most of these professionals have assumed managerial roles based on job progression instead of their leadership skills and readiness to take on such leadership roles. As a result, there are more managers instead of leaders in the accounting and finance fraternity. But in today's volatile environment, managers urgently need to become leaders to help their organisation operate more effectively.



What's the significant difference between leadership and management? Leaders have followers who follow them by choice. Managers have been assigned subordinates based on their roles and responsibilities. While leaders lead by influence, managers manage based on the power entrusted or delegated to them. Leaders normally have followers who subscribe to their beliefs while managers have subordinates based on control systems and procedures.

LEADERSHIP VS. MANAGEMENT

In order to properly educate and groom accountants to become leaders, it is vital to ingrain a sound understanding on the difference between leadership and management in order to help them balance and carry out their roles and responsibilities more effectively and qualitatively.

Leadership is a relationship of influence among leaders and followers who intend real changes and outcomes that reflect their shared purposes.

Management can be defined as the attainment of organisational goals in an effective and efficient manner through planning, organising, staffing, directing, and controlling organisational resources.

In 'The Leadership Experience', Richard L. Daft said that managers and leaders are not inherently different types of people; many managers already possess the abilities and qualities needed to be good leaders. Both leadership and management are essential in organisations and both need to be integrated effectively to lead to high performance.

Meanwhile, Peter Drucker said in 'Essential Drucker: Management, the Individual and Society' that management is doing things right while leadership is doing the right things.



Comparison between Leadership and Management		
	LEADERSHIP	MANAGEMENT
Direction	Creating vision and strategy	Planning and budgeting
	Keeping an eye on the horizon	Keeping an eye on bottom line
Communication	Excellent communicators	Poor communicators
	Great interpersonal skills	Lack interpersonal skills and empathy
Alignment	Creating shared culture and values	Organising and staffing
	Helping others grow	Directing and controlling
	Reducing boundaries	Creating boundaries
Relationships	Focusing on people – inspiring and motivating followers	Focusing on objects – producing/selling goods and services
	Based on personal power	Based on positional power
	Acting as coach, facilitator, servant	Acting as boss
Personal Qualities	Emotional connections (Heart)	Emotional distance
	Open mind (Mindfulness)	Expert mind
	Listening (Communication)	Talking
	Non-conformity (Courage)	Conformity
Outcomes	Insight into self (Character)	Insight into organisation
	Creates change and a culture of integrity	Maintains stability, creates a culture of efficiency



WHY BEING A MANAGER DOESN'T WORK ANYMORE

One of the most glaring reasons why being a manager doesn't really work anymore is because the preferences of the new generations (Generation Y and Z, digital natives) have changed. These new generations value open communication, teamwork and collaboration as opposed to the previous management style that was based on bosses giving directions and expecting subordinates to simply follow just because they are in charge. They seek to understand their bosses and peers' perspective and do not perform well in a controlled environment.

This generation is defined by the internet and believe that anything is possible. They no longer place an emphasis on academic qualifications but seek a more holistic approach to life and career. Hence, more time is spent building relationships with their teams rather than merely sitting at their desks to complete tasks.

This new breed is also more social, optimistic and has high expectations to excel with a focus on making a difference. They tend to look for more challenging and meaningful careers which are more qualitative in nature. They expect to be led by leaders who have similar

traits rather than managers who merely emphasise on getting things done. They also value their personal and family time and are willing to work hard and more productively by leveraging on technology in order to leave work early and enjoy a better work/life balance. They expect their managers or leaders to be conscious of their working styles and needs.

This new generation of professionals would follow a leader who has good interpersonal skills and who has a heart or empathy, as opposed to managers who do not possess such qualities.

CHANGE OR PERISH

However, Gen Y which predominates in the current entry level or mid-level workforce is being managed by Baby Boomers or Generation X who typically possess different working styles. Logic says that to succeed, leaders and managers need to change the way they lead and manage their team.

Managers and leaders are the main catalysts and motivators of change in any organisation. They will need to take the lead in order to facilitate the change in this new era rather than trying to maintain the status quo. They will need to articulate values that promote adaptability and demon-

strate courage to recognise and learn from their own mistakes and make changes in order to satisfy the new generations who will become future leaders.

In response to generational change, corporate culture is becoming less rigid. The most successful organisations and icons of the 21st century – think Google and Apple – are relaxed and fun, stimulating creativity and innovation. It might be worthwhile for a manager with a young team to delegate more autonomy and refrain from frequent monitoring because the digital generation values independence.

The new esprit of organisations is also changing job specs. Based on the current job advertisements in the accounting and finance fraternity, many potential employers of accounting professionals, locally or globally, seek qualitative skills in addition to technical competency. It is clear that on top of academics and relevant work experience, employers are looking for accounting professionals with leadership and excellent communication skills in order to groom more leaders among the new generation.

IN PURSUIT OF CHANGE

Although change does not happen quickly or easily, good leaders can help their organisations adapt to changing trends in terms of management and leadership styles to cater to the needs of the new breed of professionals who form the bulk of the workforce. Change need not happen from the top; neither does it take the one at the top to be a change leader. Change can happen if more finance managers decide to take ownership of their own leadership styles in order to become more effective finance leaders, and to ensure sustainable value creation. ■

Patricia Francis is a Financial Consultant at CustomCodes (a subsidiary of Mesiniaga Berhad). She can be contacted at patricia.francis@customcodes.com.my or patri-ciafrancis11@yahoo.com. Opinions and views expressed here do not necessarily represent the views of CustomCodes or Mesiniaga Group of Companies.



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Taken for a ride no more

SINCE MALAYSIA RANKS AS ONE OF THE WORLD'S MOST COSTLY PLACES TO BUY A CAR, IT PAYS TO MINIMISE COSTLY VEHICLE HIRE PURCHASE LOANS WITH HEFTY EFFECTIVE INTEREST RATES. DOING SO CAN ALSO REDUCE THE AMOUNT OF HOUSEHOLD DEBT BEING CARRIED, WHICH IS HIGH ON BANK NEGARA MALAYSIA'S AGENDA. HOW CAN MALAYSIAN CONSUMERS GET THE BEST DEALS ON AUTO HIRE PURCHASE FINANCING?

Preetha Nadarajah

Buying a car in Malaysia is most unfortunately an expensive affair. Popular American automobile website *Jalopnik* recently ranked Malaysia as the world's second most expensive place to buy a car. A brand new 2013 Toyota Camry 2.5-litre in the United States ranges from USD22,000 -25,000 (RM69,443 – 78,912 at the time of writing) but costs about RM181,000 in Malaysia. An average US-based graduate on an income of USD51,000 (RM160,981) per annum could feasibly afford a Camry with his one year's salary while a Malaysian on an average graduate salary of RM36,000 per annum would require five years' salary to own the same car, dollar-to-dollar.

This inevitably means that in Malaysia, it is common to use hire purchase (HP) loans to finance passenger vehicle purchases, rather than do outright cash purchases. Based on an analysis of Bank Negara Malaysia's loan classifications over the past eight years, the second largest component of total household spending - at 13% of total household debt - is for financing passenger vehicle loans. The largest component is loans for property purchases at 30% of total household debt.



BETTER MANAGEMENT

How then can we better manage this second largest component of household debt? At car dealers, we are typically quoted low and very enticing interest rates of about 2.4% per annum for a car loan. How does this compare to a 3.6% per annum for a fixed deposit? Right off the bat, it does sound like the cost of financing for a car loan is lower than what we could get for putting the savings in a fixed deposit, i.e. cost of debt of 2.4% is lower than 3.6% income generation, doesn't it? Beware though - we're not comparing apples with apples here!

The quoted 2.4% is a flat interest rate. In Malaysia, HP financing loans and personal loans are typically quoted on a flat rate basis. Although quotes in flat interest rates are illegal in many developed countries, it continues to be commonplace in developing countries given the ease of computation and consumer comprehension. The flat interest rate is charged on the full principal over the loan tenure, not based on a reducing balance as for home loans. For example, a HP loan amount of RM50,000 over five years (60 monthly payments) at a 2.4% flat rate per annum translates to total interest payments of $2.4\% \times RM50,000 \times 5$, i.e. RM6,000. Which means that the repayment of the principal RM50,000 and interest of RM6,000 over a period of 60 months, amounts to a monthly total payment of RM933.33, i.e. $(RM50,000 + RM6,000)/60$. In contrast, for the calculation of home loans, the interest rate is applied on the outstanding loan amount, which reduces over time.

In order to be able to compare the rates meaningfully, a flat interest rate needs to be converted to an effective interest rate (EIR). A simple rule of thumb on how to do this is to multiply the flat interest rate by 1.8-1.9, i.e. a 2.4% flat interest rate translates to an EIR of about 4.4%. The higher cost of a 4.4% EIR for HP, which started off being marketed as a low 2.4% flat interest rate, now doesn't look very attractive in comparison to a 3.6% fixed deposit savings rate, does it? Interestingly enough, the current home loan interest rates are in the same ball-



park, ranging from 4.4%-4.7%. Yet the perception is that the car loan costs less than the home loan based on the low flat interest rate quoted by car dealers! Be wary of enticing flat interest rates offered by car dealers or financial institutions and ask for the effective interest rate instead so that you can understand the actual cost of debt being discussed!

How then does a 4.4% EIR for a traditional HP loan compare against a 4.4% EIR for a fully flexi home loan? Traditional HP loans differ from home loans in numerous ways, with the keys differentiators being prepayments and early settlements. Prepayments for a fully flexi home loan typically incur no penalties and result in a reduced outstanding loan amount, which means a lower portion of subsequent monthly payments go towards interest payments. However, for the traditional HP financing that most of us would be familiar with, there is absolutely no impact to outstanding HP amount in doing prepayments. Therefore, if you had spare cash and wanted to reduce your outstanding debt, making extra payments towards a traditional HP loan would be ineffective. Your money may be best invested or spent elsewhere.

For early settlements of fully flexi home loans, only the outstanding loan amount - without the interest charges

- would be payable at the point of early settlement or loan termination. However, with traditional HP financing, this is not the case. A rebate is provided for early settlement of HP loans, but the rebate is against the total loan amount including the interest charges calculated. As per the Hire Purchase Act 1967, the rebate calculation as based on the rule of 78 applies for early settlements.

The rule of 78 (also known as the sum-of-digits method):

Rebate on term charges

$$= \{PMT * (1+2+3+...n)\} / (1+2+3+...k)$$

$$= \{PMT * (n)(n+1) / ((k)(k+1))\}$$

where:

PMT = total interest payable

n = remaining repayment period
(in months)

k = original repayment period
(in months)

Let's use an example of a HP loan of RM52,400 with a tenure of seven years (84 months) at a flat interest rate of 2.47%. Total interest payable is $2.47\% \times RM52,400 \times 7$, i.e. RM9,059.96. The total amount to be paid over 84 months would be the loan amount + total interest payable, i.e. $RM52,400 + RM9,059.96 = RM61,459.96$, resulting in monthly payments of $RM61,459.96/84$, i.e. RM731.67.

If early settlement happened halfway through the tenure after the 42nd month, then the rebate calculation on the term charges using the rule of 78 is $\{RM9,059.96 \times 42 \times 43\} / (84 \times 85) = RM2,291.64$ where $PMT = RM9,059.96$, $n = 7 \times 12 - 42 = 42$ and $k = 84$. Note how the rebate calculation on early settlement halfway through the HP tenure gives only about 25% of the original total interest payable, which means that about 75% of the interest due has already been paid in the first half of the loan tenure. Quite dismal indeed as it means that the later during the loan tenure that you do the early settlement, the more pointless an early settlement becomes. Begging the question of whether there are smarter ways of investing the remaining amount than to be paid as early settlement!

By this stage, since we're halfway through the monthly payments, the total amount that would have already been paid thus far is 42 months \times RM731.67, i.e. RM30,729.98. At this point, the remaining HP amount to be paid is RM30,729.98, i.e. the total HP amount (including interest) minus the amount already paid thus far, i.e. RM61,459.96 - RM30,729.98.

Given the rule of 78 for early settlement of HP loans after the 42nd month, the amount to be paid to settle the HP loan is RM28,438.34, i.e. RM30,729.98 - RM2,291.64, the total outstanding loan amount minus the rebate upon early settlement. Various online calculators are available to calculate early settlement amounts such as <http://www.loanstreet.com.my/calculator/78settlecalc.html>.

With no prepayment support for the traditional HP financing and reasonably poor early settlement incentives evidenced with the rule of 78, historically, it has made little financial sense to pay off a HP loan sooner than necessary if other household debts are lower hanging fruits instead. This means that when choosing a HP loan, it is prudent to wisely choose the tenure and initial HP amount carefully in contrast to that for a home loan as the ability to subsequently minimise the impact of the ongoing costs is severely limited with traditional HP loans. The primary reason to consider doing an early settlement for HP loans should be to reduce the debt to income ratio prior to making commitments for future debt.

For the longest time, fixed flat HP

interest rates have been common in Malaysia. The HP flat interest rates, with maximum tenure of nine years, range from 2.3% to 4.1%, depending on the type of car purchased whether it is a new national or non-national or a reconditioned car. Used cars tend to have a higher interest rate ranging from 3.6% to 4.1%. As a reminder, these are quoted as flat interest rates and need to be almost doubled to be compared against fixed deposit or home loan rates. The variable hire purchase interest rates have hardly been heard of given that these are pegged against the base lending rate (BLR) and very few financial institutions offer them. These variable interest rates have been quoted ranging from BLR+0 to BLR+1.38.

Recently however, innovative offers for HP financing have been made available along the similar structure of flexi home loan interest rates facilitating prepayment, albeit with some limitations on prepayments. With the recent innovations and more competitive HP loan products available in the market, it would be useful to keep an eye on how this offer structure evolves if you're in the market for a passenger vehicle, plan to finance it and could perhaps afford in the future, if not currently, additional payments above and beyond the monthly payments. In addition to obtaining HP financing details from car dealers, it would also be prudent to review sites such as <http://www.imoney.my/car-loan> that provide quick car loan comparisons.

The other obvious yet minor area of concern to minimise the total cost of this category of household debt is to minimise late payment charges. For conventional HP loans, financial institutions will charge an 8% p.a. penalty on the amount in arrears calculated daily; for Islamic financing, 1% p.a. compensation fee will be charged. ■

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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KKLIJ 1510/2013

DECISION OF THE DISCIPLINARY COMMITTEE MALAYSIAN INSTITUTE OF ACCOUNTANTS

The Council of the Malaysian Institute of Accountants hereby gives notice that on 28 August 2013, after due inquiry by the Disciplinary Committee of the Institute, **Yap Seng Puay (Mem. No.: 11150)** 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 to adhere to the Institute's By-Laws (On Professional Ethics, Conduct and Practice) by failing to renew and maintain a policy of Professional Indemnity Insurance (PII).

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

- (a) to pay a fine of RM1,500.00; and
- (b) to pay the Institute the sum of RM2,000.00 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 4 October 2013.

SUDIRMAN BIN MASDUKI

Registrar

On behalf of the Council of the Malaysian Institute of Accountants

DECISION OF THE DISCIPLINARY COMMITTEE MALAYSIAN INSTITUTE OF ACCOUNTANTS

The Council of the Malaysian Institute of Accountants hereby gives notice that on 28 August 2013, after due inquiry by the Disciplinary Committee of the Institute, **Sivananthan a/l Thillaichidambaram (Mem. No.: 15919)** 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 to adhere to the Institute's By-Laws (On Professional Ethics, Conduct and Practice) by failing to renew and maintain a policy of Professional Indemnity Insurance (PII).

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

- (1) to pay a fine of RM1,500.00; and
- (2) to pay the Institute the sum of RM2,000.00 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 3 October 2013.

SUDIRMAN BIN MASDUKI

Registrar

On behalf of the Council of the Malaysian Institute of Accountants

DECISION OF THE DISCIPLINARY COMMITTEE MALAYSIAN INSTITUTE OF ACCOUNTANTS

The Council of the Malaysian Institute of Accountants hereby gives notice that on 24 September 2013, after due inquiry by the Disciplinary Committee of the Institute, **Noor' Azita binti Ibrahim (Mem. No.: 13752)** 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 evidence adduced by the Investigation Committee before the Disciplinary Committee that she had failed to adhere to the Institute's By-Laws (On Professional Ethics, Conduct and Practice) by failing to renew and maintain a policy of Professional Indemnity Insurance (PII).

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

- (1) to pay a fine of RM2,000.00; and
- (2) to pay the Institute the sum of RM2,000.00 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 24 October 2013.

SUDIRMAN BIN MASDUKI

Registrar

On behalf of the Council of the Malaysian Institute of Accountants

DECISION OF THE DISCIPLINARY COMMITTEE MALAYSIAN INSTITUTE OF ACCOUNTANTS

The Council of the Malaysian Institute of Accountants hereby gives notice that on 24 September 2013, after due inquiry by the Disciplinary Committee of the Institute, **Looi Ken En (Mem. No.: 9869)** 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"].

Upon hearing the evidence adduced by the Investigation Committee, the Disciplinary Committee's decision was based on the following grounds :

- (a) that the member was fully aware of the complaint made against him when he appeared and presented his facts before the Investigation Committee on 6 January 2010 ;
- (b) that though the matter before the Investigation Committee was still pending, he could not be contacted and was not traceable immediately after that and despite repeated attempts made by the Institute to contact the member which includes contacting the Malaysian Consulate in Guangdong, China and via advertisement in the newspapers, the member had failed to come forth and defend himself; and
- (c) that the member has not been paying his annual subscription to the Institute since July 2010 and has not made any possible attempts to contact the Institute in order to maintain his professional membership with the Institute.

The Disciplinary Committee in exercise of its powers under Rule 18(3) of the MIA (Disciplinary) Rules has ordered that the member be removed from the register and he shall cease to be a member of the Institute.

The decision of the Disciplinary Committee is effective from 28 October 2013.

SUDIRMAN BIN MASDUKI

Registrar

On behalf of the Council of the Malaysian Institute of Accountants

**DECISION OF THE DISCIPLINARY COMMITTEE
MALAYSIAN INSTITUTE OF ACCOUNTANTS**

The Council of the Malaysian Institute of Accountants hereby gives notice that on 28 August 2013, after due inquiry by the Disciplinary Committee of the Institute, **Lakshmi Ganthan a/l S Kanasan (Mem. No.: 16716)** 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 to adhere to the Institute's By-Laws (On Professional Ethics, Conduct and Practice) by failing to renew and maintain a policy of Professional Indemnity Insurance (PII).

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

- (a) to pay a fine of RM1,500.00; and
- (b) to pay the Institute the sum of RM2,000.00 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 3 October 2013.

SUDIRMAN BIN MASDUKI

Registrar

On behalf of the Council of the Malaysian Institute of Accountants

**DECISION OF THE DISCIPLINARY COMMITTEE
MALAYSIAN INSTITUTE OF ACCOUNTANTS**

The Council of the Malaysian Institute of Accountants hereby gives notice that on 28 August 2013, after due inquiry by the Disciplinary Committee of the Institute, **Lim Ah Ket (Mem. No.: 20496)** 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 she had failed to adhere to the Institute's By-Laws (On Professional Ethics, Conduct and Practice) by failing to renew and maintain a policy of Professional Indemnity Insurance (PII).

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

- (a) to pay a fine of RM1,500.00; and
- (b) to pay the Institute the sum of RM2,000.00 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 3 October 2013.

SUDIRMAN BIN MASDUKI

Registrar

On behalf of the Council of the Malaysian Institute of Accountants

**DECISION OF THE DISCIPLINARY COMMITTEE
MALAYSIAN INSTITUTE OF ACCOUNTANTS**

The Council of the Malaysian Institute of Accountants hereby gives notice that on 28 August 2013, after due inquiry by the Disciplinary Committee of the Institute, **Kamarudin Azhar bin Ujang (Mem. No.: 15538)** 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 to adhere to the Institute's By-Laws (On Professional Ethics, Conduct and Practice) by failing to renew and maintain a policy of Professional Indemnity Insurance (PII).

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

- (a) to pay a fine of RM1,500.00; and
- (b) to pay the Institute the sum of RM2,000.00 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 3 October 2013.

SUDIRMAN BIN MASDUKI

Registrar

On behalf of the Council of the Malaysian Institute of Accountants

**DECISION OF THE DISCIPLINARY COMMITTEE
MALAYSIAN INSTITUTE OF ACCOUNTANTS**

The Council of the Malaysian Institute of Accountants hereby gives notice that on 28 August 2013, after due inquiry by the Disciplinary Committee of the Institute, **Isma Amri bin Ab Manan (Mem. No.: 22240)** 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 to adhere to the Institute's By-Laws (On Professional Ethics, Conduct and Practice) by failing to renew and maintain a policy of Professional Indemnity Insurance (PII).

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

- (a) to pay a fine of RM1,500.00; and
- (b) to pay the Institute the sum of RM2,000.00 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 3 October 2013.

SUDIRMAN BIN MASDUKI

Registrar

On behalf of the Council of the Malaysian Institute of Accountants

**DECISION OF THE DISCIPLINARY COMMITTEE
MALAYSIAN INSTITUTE OF ACCOUNTANTS**

The Council of the Malaysian Institute of Accountants hereby gives notice that on 28 August 2013, after due inquiry by the Disciplinary Committee of the Institute, **Ahmad Hazrishah bin Hamzah (Mem. No.: 26231)** 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 to adhere to the Institute's By-Laws (On Professional Ethics, Conduct and Practice) by failing to renew and maintain a policy of Professional Indemnity Insurance (PII).

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

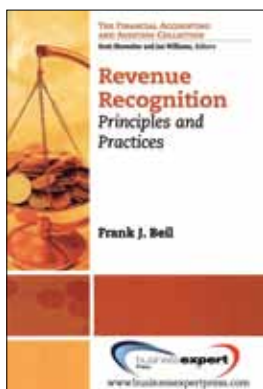
- (a) to pay a fine of RM1,500.00; and
- (b) to pay the Institute the sum of RM2,000.00 in respect of costs and expenses of and incidental to the disciplinary hearing before the Disciplinary Committee and the investigation conducted by the Investigation Committee.

The decision of the Disciplinary Committee is effective from 3 October 2013.

SUDIRMAN BIN MASDUKI

Registrar

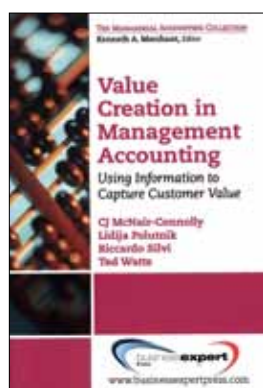
On behalf of the Council of the Malaysian Institute of Accountants



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CUSTOMER-DRIVEN BUDGETING

by: Floyd Talbot

REVENUE RECOGNITION

Revenue is the 'top' line on the income statement and is the fundamental driver of business success. It is essential that managers and executives understand the complexities involved with recognising revenue under Generally Accepted Accounting Principles in the U.S. *Revenue Recognition* is primarily concerned with two things; 1) the timing aspect (the when issue) and 2) the amount to be recorded (the how much issue).

This book is principally designed for managers and executives who have organisational responsibility for delivering results in the form of 'profits' for their organisations. The book will be a comprehensive yet readable examination of the existing rules of revenue recognition for corporate entities. After reading the book the manager or executive will have a thorough understanding of how accountants measure and record revenue. This 'skill-set' will prove invaluable in understanding the impact that their business decisions will have on the Financial Statements with an emphasis on the Income Statement and the Statement of Cash Flow. ■

VALUE CREATION IN MANAGEMENT ACCOUNTING

Value creation is at the heart of an economic enterprise, defining its capability to serve customers and generate profits and growth. This fact has led to an ever-increasing set of tools and techniques that start with customers, focusing on serving their preferences from the very inception of a product until its disposal. To date, most of these techniques have been only partially adopted in management accounting. This is unfortunate, because much of the data required to adequately implement a value creation approach has its roots in the Management Accounting System (MAS). The resulting model is called the Value Creation Model (VCM).

This book is principally designed for managers who want to take the lessons learned in product development, process management, and marketing and extend it to their MAS. It seeks to make this transformation of the MAS both logical and easy to implement, with a focus on the new types of information that can be garnered when the MAS is modified to fit the value creation approach. After reading this book, a manager or executive will be equipped with the tools and techniques to both implement and use the VCM. The resulting information will allow the company to align its efforts by creating a common language which

uses the transformed accounting language to compare, evaluate, and choose the best strategic and tactical options available. After making these choices, the VCM also allows managers to subsequently track how closely actual results come to the projected outcomes.

The results and recommendations in this book are based on action field research, where the authors have personally supported the analysis and subsequent use of the data generated. The authors of the book will provide, upon request, a simplified automated data collection template that will ease the implementation process. In total, then, this book provides a unique perspective on the organisation and creates an actionable common language that allows the unification of the continuous improvement efforts of managers across an organisation. ■

CUSTOMER-DRIVEN BUDGETING

This comprehensive budgeting book emphasises that the customer drives the business organisation and processes and becomes the overriding purpose for a company's existence and success. *Customer-Driven Budgeting* offers a complete guide that covers every step in the budgeting cycle from the basics of organisation, processes, and funding to budget execution and monitoring. It emphasises that the budget is the starting point and catalyst for gaining customers. The budget prepares the company to supply the sales and marketing team reinforcements for giving a compelling reason for customers to buy from it.

The customer is the object of every effort and dollar and drives the business, its goals, practices, processes, and activities. The market-focused, customer-driven principle takes budgeting out of the Finance organisation and pushes it into Production, Shipping and Receiving, Purchasing, Inventory Management, IT, and outside the doors to vendors, bankers, investors, and other business partners. This book explains the treatment of these constituents in the budget. This book is one that can be used immediately in business budgeting. Its modular format permits the reader to start at the beginning of the budget process and work through it entirely or select a budget area most challenging to the business and work from there to other areas of priority. Given that this book covers the entire budget process, the author recommends following the format as presented to coalesce around the budget team. ■

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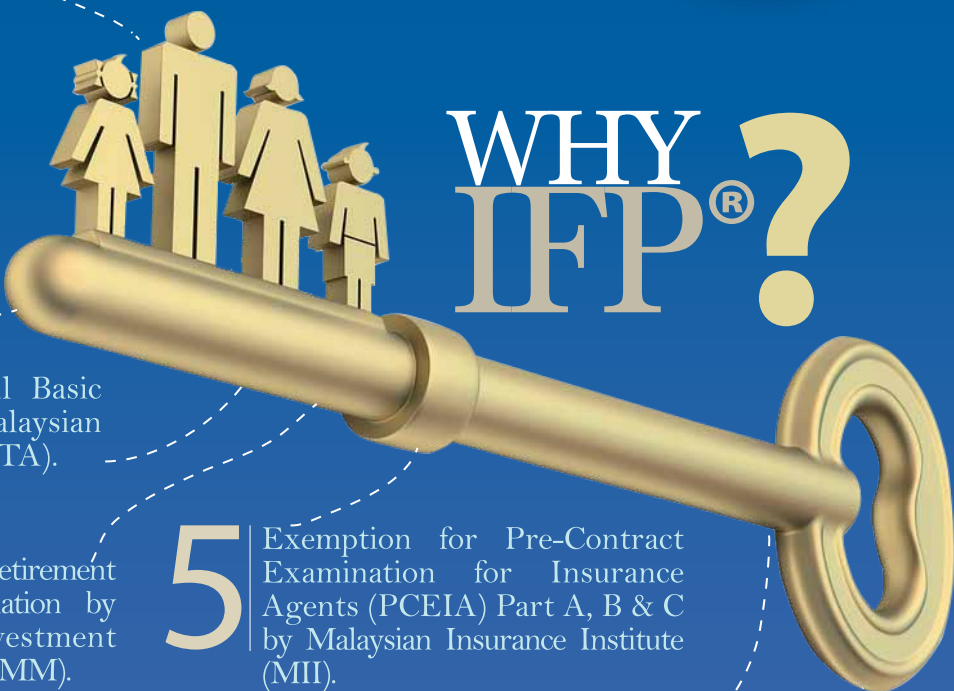
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