



MALAYSIAN INSTITUTE  
OF ACCOUNTANTS

# **DRIVING QUALITY OF FINANCIAL REPORTING**

**Financial Statements Review  
2024/2025 Annual Report**

## ABOUT THE MALAYSIAN INSTITUTE OF ACCOUNTANTS

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

In Malaysia, only MIA members are permitted to practise as accountants. MIA accords the Chartered Accountant Malaysia or C.A. (M) designation to a professional in accountancy, business and finance with a recognised accountancy qualification and relevant working experience.

Presently, there are more than 40,000 MIA members who are sought after in the market for their financial expertise and business acumen. MIA members are versatile, agile, resilient and command diverse roles in the four main membership segments of Commerce & Industry, Public Practice, Public Sector and Academia.




To ensure the continuing relevance and value of members in today's disruptive business landscape, MIA prioritises member development and upskilling through the provision of key services to members, embedded with the profession's core values of accountability, integrity and trust.

Member development is essential to support MIA's approach to Balanced Enforcement, which entails setting a robust foundation for ethical, informed compliance and good behaviour by educating and upskilling members on the relevant laws, rules, standards, ethics and professional practices.

Effective regulation must be steered by updated laws and regulations to suit the current times. Therefore, MIA is engaging vigorously with the Ministry of Finance (MOF) in the process of amending the existing Accountants Act 1967, in order to enhance the competency framework, enforcement structure and principles of good governance in safeguarding public interest.

MIA leverages strategic engagement and collaboration with a remarkably diverse network of stakeholders to strengthen its reputation and recognition as the voice of the profession. Locally, MIA advocates for the profession's interests through close collaboration with MOF and other related Ministries, the Accountant General's Department (JANM), the National Audit Department (JAN) as well as regulators in business, corporate affairs and the financial and capital markets among others.

MIA's international outlook and connections are reflected in its membership of regional and international professional organisations such as the ASEAN Federation of Accountants (AFA) and the International Federation of Accountants (IFAC), and its dynamic engagement with global standard-setting bodies to share MIA's perspectives.

 PURPOSE	 VISION	 VALUES
<p>To regulate and develop the accountancy profession to support economic growth and nation building</p>	<p>To be a globally recognised Professional Accountancy Organisation (PAO) in regulating and developing the profession for nation building</p>	<p>Integrity, Mutual Trust &amp; Respect, Professionalism, Accountability, Commitment, Teamwork, Sustainability</p>

### Strategic Objectives (SOs)

MIA's value creation is steered by the following SOs:

<p><b>SO 1</b></p> <p>Develop and enhance the competency of accountancy professionals to stay relevant to business and market demand</p>	<p><b>SO 2</b></p> <p>Nurture professional values and ethics of members to uphold a strong accountancy profession</p>
<p><b>SO 3</b></p> <p>Regulate and develop the practice of the accountancy profession consistent with global standards and best practices</p>	<p><b>SO 4</b></p> <p>Promote the value proposition of the accountancy profession and continuously uplift global recognition</p>

### MIA's Functions

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 the 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.

## **FOREWORD FROM CHAIRMAN FINANCIAL STATEMENTS REVIEW COMMITTEE**

Financial statements remain a fundamental element for any organisation, offering a comprehensive snapshot of its financial position and operational performance. These documents are essential for stakeholders, enabling informed decision-making regarding the organisation's strategic direction and future planning.

The Financial Statements Review Committee (FSRC or the Committee) plays an instrumental role in upholding the quality and integrity of financial reporting. It ensures that financial statements comply with statutory requirements, approved accounting standards, and auditing standards. Under its mandate within the financial reporting framework, the FSRC also provides guidance to entities to support their adherence to relevant disclosure requirements.

This report outlines the Committee's key review observations and highlights best practices aimed at helping preparers enhance the quality of their financial statements.

In this year's review, the FSRC shares findings relating to service concession arrangements, going concern disclosures and capitalisation of construction work-in-progress, among other common issues identified in the financial statements under review.

Beyond merely meeting minimum disclosure requirements, the Committee urges entities to improve transparency by including meaningful and robust qualitative disclosures. Such disclosures can enhance users' understanding of the nature and context of an entity's operations.

Looking ahead, the FSRC remains steadfast in its commitment to monitoring compliance with financial reporting standards and advocating best practices. Through its oversight and thought leadership, the Committee will continue to reinforce the Institute's initiatives to uphold quality, strengthen trust in the accountancy profession, and contribute meaningfully to nation building in line with its long-term vision.

**IRVIN MENEZES  
CHAIRMAN  
FINANCIAL STATEMENTS REVIEW COMMITTEE**



# Table of Contents

## FINANCIAL STATEMENTS REVIEW 2024/2025 ANNUAL REPORT

<b>A</b>	<b>Key Observations from Review of Financial Statements</b>	<b>6</b>
	<b>A1: Service concession arrangements</b>	<b>7</b>
	<b>A2: Going concern disclosures</b>	<b>14</b>
	<b>A3: Capitalisation of Construction Work-in-Progress</b>	<b>18</b>
<b>B</b>	<b>Common Findings</b>	<b>21</b>
<b>C</b>	<b>Conclusion</b>	<b>24</b>
	<b>APPENDIX – About FSRC</b>	<b>26</b>



## **Key Observations from Review of Financial Statements**

*The Financial Statements Review Committee (FSRC or the Committee) of the Institute was set up with the aim of upholding the quality of financial reporting of entities listed on Bursa Malaysia and public interest entities. The Committee reviews audited financial statements and audit reports that are prepared by or are the responsibility of members of MIA, for the purpose of determining compliance with statutory and other requirements, applicable approved accounting standards and approved auditing standards in Malaysia.*

# A

## Key Observations from Review of Financial Statements

### Background

To enhance the quality of financial reporting, the FSRC communicates significant findings to members and highlights common deficiencies arising from the review of the financial statements of public listed entities conducted from July 2024 to June 2025. The financial statements under review are those with financial years ended ranging from December 2023 to June 2024.

The reviews have identified the following findings on disclosure omissions and deficiencies.

### Scope

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

Additionally, careful consideration and judgment should be applied to each individual facts and circumstances as Malaysian Financial Reporting Standards (MFRS) are principles-based. Circumstances may appear similar but different in substance.

## A1 Service concession arrangements

Service concession arrangements are a key feature in the infrastructure and public service sectors, whereby private entities engage in public-private partnerships (PPPs) to participate in developing, financing, operation, and maintenance of public infrastructure.

IC Interpretation 12 *Service Concession Arrangements* (IC Interpretation 12) and IC Interpretation 129 *Service Concession Arrangements: Disclosures* (IC Interpretation 129), issued by the Malaysian Accounting Standards Board (MASB) provides comprehensive guidance on the accounting treatments for public-to-private service concession arrangements as well as the disclosure requirements in financial statements. Nevertheless, IC Interpretation 12 applies to some, but not all, public-to-private service concession arrangements.

Service concession arrangements are contractual agreements whereby private sector entities (operators) participate in the development, financing, operation, and maintenance of public infrastructure, such as roads, hospitals, airports, and water treatment/ distribution facilities.

These arrangements are typically structured under models such as “build-operate-transfer” or “rehabilitate-operate-transfer.”

**Key features** of these arrangements include:

- The public service nature of the obligation. The operator is contractually obligated to provide public services on behalf of the grantor, ensuring continuity of public access regardless of who operates the infrastructure.
- The grantor - the party that awards the service arrangement, is typically a public sector entity, such as a governmental body, or a private sector entity that has been delegated the responsibility to provide the public service.
- The grantor (usually a public sector entity) controls or regulates the services provided with the infrastructure, to whom the services should be provided to, pricing, and any significant residual interest in the infrastructure.
- The operator manages the infrastructure and related services, but does not act merely as an agent.
- The operator must hand over the infrastructure to the grantor in a specified condition at the end of the concession term.

### Scope

IC Interpretation 12 applies to public-to-private service concession arrangements whereby:

- The grantor controls or regulates the services provided, the recipients, and the pricing mechanisms.
- The grantor retains the significant residual interest in the infrastructure at the end of the arrangement.

Infrastructure used in a public to private service concession arrangement for its entire useful life (whole of life assets) is within the scope of this Interpretation, if the grantor controls or regulates the services, as mentioned above.

The Interpretation also covers infrastructure constructed or acquired by the operator for the arrangement, as well as the existing infrastructure provided by the grantor. It does not address the accounting for infrastructure recognised as property, plant, and equipment by the operator prior to the arrangement. However, the derecognition requirements of MFRS 116 *Property, plant and equipment* apply to such infrastructure.



## Key Accounting Principles of IC Interpretation 12

### 1. Operator's Rights Over Infrastructure

Infrastructure within the scope of IC Interpretation 12 is not recognised as property, plant, and equipment by the operator as the operator does not control the asset. Instead, the operator is given a right to operate the infrastructure to provide public services on behalf of the grantor.

### 2. Revenue Recognition

Operators are considered as service providers. Revenue from constructing or upgrading the infrastructure and operating it over the concession period is recognised in accordance with MFRS 15 *Revenue from Contracts with Customers*.

### 3. Consideration Received By the Operator

The contractual terms and applicable laws and regulations determine the accounting model that is to be used:

- Financial Asset Model: When the operator has an unconditional contractual right to receive cash or another financial asset from the grantor.
- Intangible Asset Model: When the operator receives a right to charge users of the public service.
- Partly Financial Asset and Partly Intangible Asset (Bifurcated Model): When the operator receives consideration partly in the form of cash/a financial asset and partly in the form of an intangible asset.

### 4. Operation Services

Revenue from operation, upgrade and maintenance services is recognised in accordance with MFRS 15.

### 5. Borrowing Costs

Recognised as an expense unless the operator has a contractual right to receive an intangible asset, in which case borrowing costs are capitalised during the construction phase in accordance with MFRS 123 *Borrowing Costs*.

### 6. Contractual Obligations

Obligations to maintain or restore the infrastructure, except for any upgrade element are recognised and measured in accordance with MFRS 137 *Provisions, Contingent Liabilities, and Contingent Assets*.

## Disclosure Requirements of IC Interpretation 129

Paragraphs 6 and 6A of IC Interpretation 129 outline the mandatory disclosures in the financial statements for both the operator and the grantor. These disclosures include:

- (a) A **description of the arrangement**;
- (b) **Significant terms** of the arrangement that may affect the amount, timing and certainty of future cash flows (eg the period of the concession, re-pricing dates and the basis upon which re-pricing or re-negotiation is determined);
- (c) The **nature and extent** (eg quantity, time period or amount as appropriate) of:
  - (i) rights to use specified assets;
  - (ii) obligations to provide or rights to expect provision of services;
  - (iii) obligations to acquire or build items of property, plant and equipment;
  - (iv) obligations to deliver or rights to receive specified assets at the end of the concession period;
  - (v) renewal and termination options; and
  - (vi) other rights and obligations (eg major overhauls);
- (d) **Changes in the arrangement** occurring during the period; and
- (e) **How** the service arrangement has been **classified**.
- (f) **Revenue and profits or losses**: operator shall disclose the amount of revenue and profits or losses recognised in the period on exchanging construction services for a financial asset or an intangible asset.

The above disclosure requirements can be presented individually for each arrangement or aggregated by classes of arrangements involving similar services, such as toll operations or water treatment services.

### Observation A1.1

The Statement of Financial Position disclosed line items for both concession assets and intangible assets, which are related to service concession arrangements.

However, the Committee noted that the financial statements did not provide a clear explanation of the accounting policy applied by the Group in relation to the concession assets. Clarification was sought on whether the arrangement falls within the scope of IC Interpretation 12.

### ≡ Response from PLC

The PLC clarified that their concession assets are not within the scope of IC Interpretation 12, citing Paragraph 8 of IC Interpretation 12, which excludes assets owned by the operator before entering into a service arrangement.

The PLC also clarified that the Group entered into the Power Purchase Agreement (PPA) prior to the construction of the concession assets, which were subsequently built after the PPA was signed; that the Group retains both ownership and operational rights over these assets throughout their useful lives; and that there is no contractual obligation to transfer the assets to the grantor upon the expiry of the concession period.

The PLC clarified that the Group recognised the concession assets in accordance with MFRS 116 *Property, plant and equipment*.

### ≡ FSRC's comments

The Committee emphasises that the applicability of IC Interpretation 12 must be carefully considered in determining the appropriate accounting treatment for concession assets. Specifically, the presence of operator ownership alone does not preclude the application of IC 12.

In arrangements such as Build-Operate-Own (BOO) models, it is generally expected that infrastructure is constructed as part of a service arrangement. Therefore, the exclusion under Paragraph 8 of IC 12, which applies only to infrastructure held and recognised prior to entering into a service arrangement, may not be applicable.

Furthermore, where infrastructure is used entirely during the concession period, and the arrangement involves the provision of public services, the arrangement may fall within the scope of IC 12 if the grantor controls or regulates:

- The services to be provided;
- The recipients of those services; and
- The pricing of the services (as set out in Paragraph 5(a) of IC 12).

Entities must therefore assess all relevant facts and circumstances, including the nature of the agreement, the timing of asset construction, and the degree of grantor control, to determine whether the concession arrangement falls within the scope of IC Interpretation 12, regardless of asset ownership.

#### Observation A1.2

The PLC has recognised the concession assets as property, plant and equipment in accordance with MFRS 116. However, it was noted that concession assets are amortised upon the commencement of the concession period on a straight-line method over the concession period of 15 - 21 years. This gives the impression that the useful lives of the assets are similar to the concession period.

### ≡ Response from PLC

The PLC has maintained its position of classifying the concession assets as property, plant and equipment in accordance with MFRS 116.

### ≡ FSRC's comments

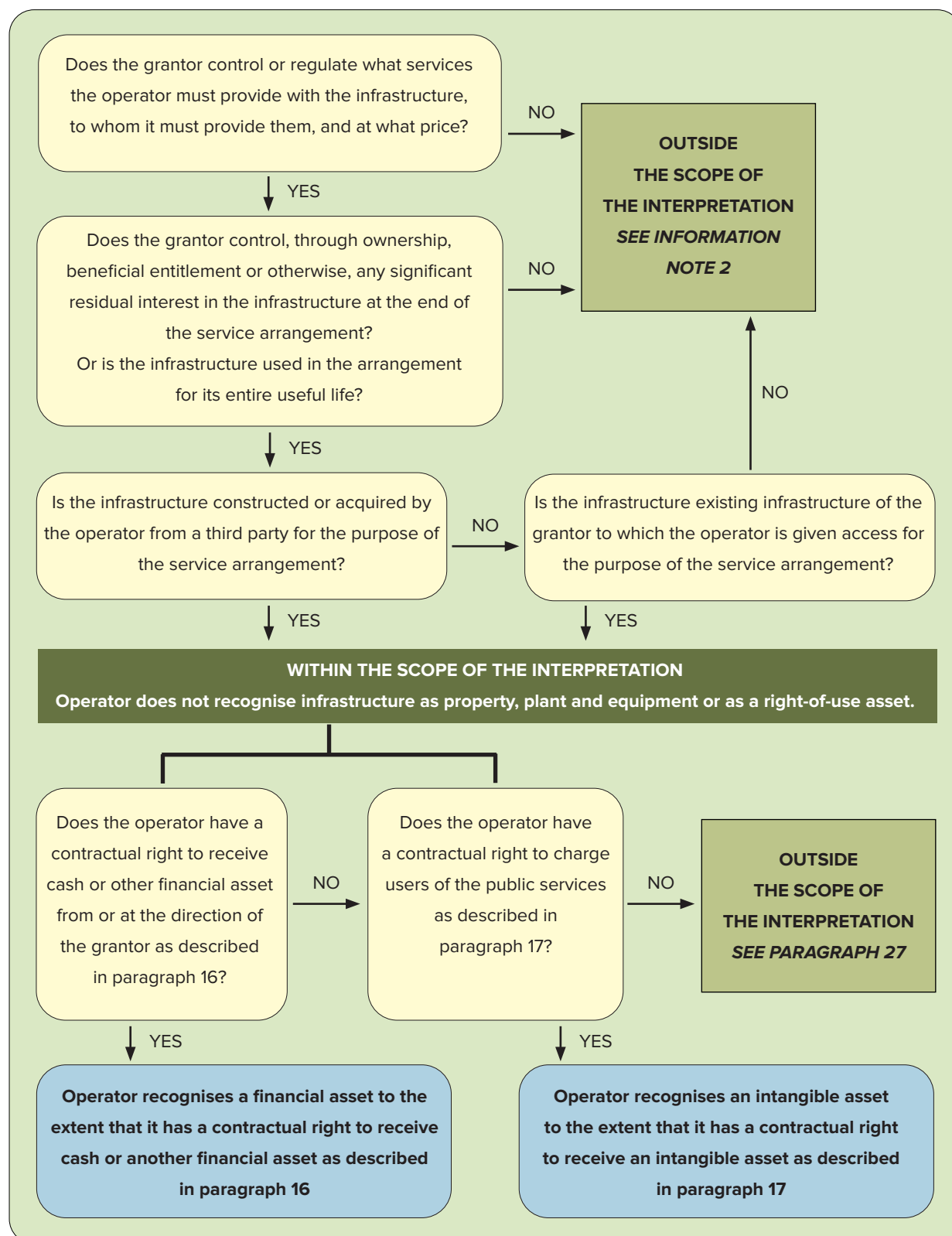
The PLC should carefully assess the applicability of the relevant accounting standards in determining the appropriate treatment for concession assets, whether under MFRS 116, IC Interpretation 12, or any other applicable accounting standards.

Once determined, the PLC must ensure that its disclosures are consistent with the Group's chosen accounting treatment, accurately reflect the principles of the applicable MFRS, and are applied consistently in future financial statements.

## GUIDANCE

## Accounting framework for public-to-private service arrangements

The diagram<sup>1</sup> below summarises the accounting for service arrangements established by International Financial Reporting Interpretations Committee (IFRIC) 12.



<sup>1</sup>Extracted from IFRIC's Implementation Guidance on implementing IFRIC 12 *Service Concession Arrangements*



## Information note 2<sup>2</sup>

The table sets out the typical types of arrangements for private sector participation in the provision of public sector services and provides references to International Financial Reporting Standards (IFRS) that apply to those arrangements. The list of arrangements types is not exhaustive. The purpose of the table is to highlight the continuum of arrangements. It is not the IFRIC's intention to convey the impression that bright lines exist between the accounting requirements for public-to-private arrangements.

Category	Lessee	Service Provider			Owner	
<b>Typical arrangement type</b>	Lease (eg Operator leases assets from grantor)	Service and/or maintenance contract (specific tasks eg debt collection)	Rehabilitate-operate-transfer	Build-operate-transfer	Build-own-operate	100% Divestment/ Privatisation/ Corporation
<b>Asset ownership</b>	Grantor				Operator	
<b>Capital investment</b>	Grantor		Operator			
<b>Demand risk</b>	Shared	Grantor	Operator and/or Grantor		Operator	
<b>Typical duration</b>	8-20 years	1-5 years	25-30 years			Indefinite (or may be limited by license)
<b>Residual interest</b>	Grantor				Operator	
<b>Relevant IFRSs</b>	IFRS 16	IFRS 15	IFRIC 12		IAS 16	

<sup>2</sup> Extracted from IFRIC's Implementation Guidance on implementing IFRIC 12 *Service Concession Arrangements*

## A2 Going concern disclosures

The going concern assumption is a core principle in the preparation of financial statements. It is the responsibility of an entity's management to assess the entity's ability to continue operating as a going concern. Management must ensure that the use of this assumption is appropriate when preparing the financial statements. The auditor, in turn, is required to evaluate the validity of management's assessment as part of the audit process.

Paragraph 19 of ISA 570 (Revised) *Going Concern* states that if the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements: (Ref: Para. A22-A23):

- (a) Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and
- (b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

### Observation A2

A note in the financial statements disclosed material uncertainty related to events or conditions that may cast significant doubt on the the Group's and the Company's abilities to continue as a going concern and management's plans to deal with these events or conditions.

However, the note did not mention that the Group and the Company may be unable to realise their assets and discharge their liabilities in the normal course of business in the event that the Group's plans/activities to continue as a going concern are not achieved.

### ≡ Response from the auditor

The auditor responded that the disclosure regarding material uncertainty related to events or conditions that may raise significant doubt about the Group's and the Company's abilities to continue as a going concern has been clearly presented in the financial statements. This would have indicated indirectly that the Group and the Company may be unable to realise their assets and discharge their liabilities in the normal course of business.

The absence of the specific disclosure mentioned above does not negate the existence of going concern issues. These concerns may extend beyond the Group's ability to realise its assets and settle its liabilities in the normal course of business and could potentially have broader implications.

## ≡ FSRC's comments

Paragraph 19 of ISA 570 (Revised) *Going Concern* states that if the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:

- (a) Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and
- (b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The above requires the auditor to determine whether the financial statement disclosures address the matters set forth in that paragraph. This determination is in addition to the auditor determining whether disclosures about a material uncertainty, required by the applicable financial reporting framework, are adequate. Disclosures required by some financial reporting frameworks that are in addition to matters set forth in Paragraph 19 may include disclosures about:

- Management's evaluation of the significance of the events or conditions relating to the entity's ability to meet its obligations; or
- Significant judgments made by management as part of its assessment of the entity's ability to continue as a going concern.

Some financial reporting frameworks may provide additional guidance regarding management's consideration of disclosures about the magnitude of the potential impact of the principal events or conditions, and the likelihood and timing of their occurrence.

In relation to applicable financial reporting framework, Paragraph 25 of MFRS 101 *Presentation of Financial Statements* states that when preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

## GUIDANCE

## Implications on financial statements

The possible scenario from management's assessment of going concern and the implications on the financial statements are illustrated as follows:

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Scenario	No significant doubts about going concern (i.e. no material uncertainties)	Significant doubts about going concern but mitigating actions judged sufficient to make going concern appropriate. Entity determines no material uncertainties.	Significant doubts about going concern but mitigating actions judged sufficient to make going concern appropriate. Material uncertainties about going concern remain after considering mitigating actions	Intends to liquidate or to cease trading, or no realistic alternative but to do so (i.e. not a going concern).
Basis of preparation	Going Concern			Alternate basis (not going concern)
Disclosure	No specific disclosures required with regards to going concern	Disclosure requirements apply to the significant judgements made in concluding that there are no material uncertainties. [MFRS101.122]	<ul style="list-style-type: none"> <li>• Disclose material uncertainties related to events or conditions that may cast significant doubt on entity's ability to continue as going concern.</li> <li>• Explain why going concern basis is being adopted and the management's plan to deal with these.</li> <li>• State clearly that there is a material uncertainty related to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business</li> <li>• Disclose the significant judgements made by management in concluding the going concern assumption is appropriate. [MFRS101.25]</li> </ul>	<ul style="list-style-type: none"> <li>• Disclose that financial statements are not prepared on a going concern basis.</li> <li>• Explain the basis for concluding why entity is not a going concern and the basis on which financial statements are prepared. [MFRS101.25]</li> </ul>

Management should consider the disclosures of risks and other disclosure requirements that may be relevant to the going concern assessment, including:

- Major sources of estimation uncertainty about the carrying amount of assets and liabilities [MFRS 101.125-133]



- Defaults and covenant breaches [MFRS 7.18-19]
- Risks arising from financial instruments, including liquidity risk [MFRS 7.31-42]
- Undrawn borrowing facilities and any restrictions on the use of those facilities such as covenant requirements [MFRS 107.50(a)].

### Implication on auditors' report

The possible scenario and the implications on the auditors' report are illustrated as follows:

	Scenario 1	Scenario 2		Scenario 3		Scenario 4	
	Financial statements prepared on going concern basis	Use of going concern basis of accounting is appropriate				Use of going concern basis of accounting is inappropriate	
		Events or conditions identified but no material uncertainties exist		Events or conditions identified and material uncertainty exists		Events or conditions identified and material uncertainties exist	
		Adequate disclosure on events or conditions identified is made	Adequate disclosure on events or conditions identified is not made	Adequate disclosure of material uncertainty is made	Adequate disclosure of a material uncertainty is not made	Financial statements prepared using going concern basis; in auditor’s judgement, the use of going concern basis is inappropriate	Financial statements prepared on another basis (other than going concern basis). Auditor determines that the other basis of accounting is acceptable and adequate disclosure is made
Auditors’ report	Unmodified opinion	Unmodified opinion and may determine one or more matters relating to the conclusion on going concern are key audit matters* [ISA 570.20 and A25; ISA 701.A41]	Modification to the opinion [ISA 705 (Revised)]	Unmodified opinion and include separate section under the heading “Material Uncertainty Related to Going Concern” [ISA 570.22]	Qualified opinion or adverse opinion, as appropriate. [ISA 570.23]	Adverse opinion [ISA 570.21 and A26]	Emphasis of Matter [ISA 570.21 and A27]

\*Key audit matters apply to audits of complete sets of general purpose financial statements of listed entities and also when the auditor is required by law or regulation to communicate key audit matters in the auditor's report [ISA701.5]

## A3 Capitalisation of Construction Work-in-Progress

The capitalisation of construction work in progress as property, plant and equipment is guided by the recognition principles set out in MFRS 116 *Property, Plant and Equipment*.

The applicable requirements under MFRS 116 include:

- Paragraph 6 of MFRS 116 defines property, plant and equipment as tangible items that:
  - (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
  - (b) are expected to be used during more than one period
- Paragraph 7 of MFRS 116 further states that the cost of an item of property, plant and equipment shall be recognised as an asset if, and only if the following criteria are met:

(a) **Probable Future Economic Benefits**

It must be probable that the item will generate future economic benefits for the entity, either through use in the production or supply of goods and services, rental to others, or administrative purposes.

(b) **Reliable Measurement of Cost**

The cost of the item must be measured reliably, including directly attributable costs necessary to bring the asset to working condition for its intended use.

Additionally, MFRS 116 requires that the asset must be in the location and condition necessary for it to be capable of operating in the manner intended by management. Once the asset is ready for its intended use, capitalisation of further construction or development costs should cease, and the asset should be transferred out of construction work-in-progress and to be depreciated over its useful life.

### Observation A3

The Group disclosed a significant amount of refurbishment costs has been capitalised as construction work-in-progress, classified under property, plant and equipment, despite not having ownership or legal title/rights over the property at the reporting date.

### ≡ Response from PLC

The PLC explained that building refurbishment work was carried out in order for the PLC to run its businesses after the completion of the acquisition of the property. The PLC entered into agreement to purchase the property, which clearly indicates its intention to own the property. Accordingly, management considers the capitalisation of the building refurbishment cost as “construction work-in-progress”, classified as property, plant and equipment was appropriate.

## FSRC's comments

The Committee observed that the agreement occurred subsequent to the financial year end, and was terminated subsequently. As a result, the PLC did not pose the legal ownership or enforceable rights of use over the property as at the end of the reporting period. The fact that PLC has no legal ownership, combined with the absence of a purchase agreement at year-end and the subsequent termination of the agreement entered into after year-end, indicates that the PLC does not have control over the property.

In this case, the PLC does not have control over the property where the construction work-in-progress was incurred, nor did it have the legal or constructive right to derive future economic benefits from the renovation expenditure. As such, the capitalisation of construction work-in-progress fails to meet the recognition requirements under MFRS 116 based on the following:

- The probability of future economic benefits could not be established with sufficient certainty, particularly given the uncertainty surrounding the completion of the acquisition.
- The recoverable amount of the construction work-in-progress could not be reliably measured, as no expected future cash inflows or usage rights were attached to the asset at the reporting date.

Accordingly, the building refurbishment cost does not qualify for recognition as property, plant and equipment. Instead, the expenditure should be evaluated for treatment under other applicable accounting standards, depending on the nature and recoverability of the amounts involved.

## GUIDANCE

### Capitalisation of Refurbishment Costs (without Legal Ownership or Enforceable Rights)

Paragraph 7 of MFRS 116 states that the cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

- it is probable that future economic benefits associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

If an entity incurs refurbishment or construction costs on a property it does not legally own or have enforceable rights over, the expenditure generally does not meet the definition of asset and the recognition criteria of MFRS 116. An entity shall consider the following:

#### 1. Control Over the Asset

- Is there legal title, lease agreement, or other binding arrangement that gives the entity control over the asset?
- Whether there is sufficient basis to conclude a conditional agreement that has not been completed has confer control to the buyer?

## 2. Future Economic Benefits – Probability

- Are future economic benefits from the refurbished property probable?
- If the agreement to acquire or lease the asset is uncertain or unfinalised, future benefits are not assured.

## 3. Reliable Measurement

- Can the cost be matched with future economic inflows?
- If recoverability or usage rights are unclear, MFRS 116.7(b) is not satisfied.

If the recognition criteria under MFRS 116 are not met, entities should assess other appropriate treatments under other applicable accounting standards.

## Disclosure and Documentation

Paragraph 122 of MFRS 101 *Presentation of Financial Statements* states that An entity shall disclose, along with material accounting policy information or other notes, the judgements, apart from those involving estimations (see Paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Hence, an entity shall:

- Clearly disclose judgments made in determining the classification and treatment of such costs.
- Explain the nature, timing, and uncertainties of any associated contractual arrangements (e.g. pending acquisitions).
- Maintain documentation showing the assessment of control, probability, and measurement reliability.





## **Common Findings**

## B Common Findings

The following common findings on non-compliances with the applicable accounting standards were compiled from the reviews of the financial statements conducted by the FSRC from July 2024 to June 2025.

No.	Areas for improvement	FSRC's findings
1.	Share capital	No disclosure of a statement that the share capital does not have a <b>par value</b> [MFRS 101.79(a)(iii)].
2.	Financial guarantee contracts (FGCs)	Incomplete or no disclosures on the <b>nature and extent of risks</b> arising from FGCs especially the risks arising from liquidity risk and credit risk [MFRS 7.31-42].
3.	Impairment of non-financial assets (e.g investment in subsidiaries, goodwill)	<p>No disclosures of the following:</p> <ul style="list-style-type: none"> <li>The <b>events and circumstances</b> that led to the recognition of the impairment loss [MFRS 136.130(a)].</li> <li>Whether the <b>recoverable amount</b> of the asset is its fair value less costs of disposal or its value in use [MFRS 136.130(e)].</li> <li>If the recoverable amount is <b>fair value less costs of disposal</b>, the <b>basis used</b> to determine fair value less costs of disposal (such as whether fair value was determined by reference to an active market) [MFRS 136. 130(f)].</li> <li>If the recoverable amount is <b>value in use</b>, the <b>discount rate(s)</b> used in the current estimate and previous estimate (if any) of value in use [MFRS 136. 130(g)].</li> </ul>
4.	Sensitivity analysis	No disclosure on the <b>effect on equity</b> affected by the change in the exchange rates against the functional currency in the foreign currency sensitivity analysis and the change in interest rate in the interest rate sensitivity analysis [MFRS 7.40(a)].

No.	Areas for improvement	FSRC's findings
5.	Credit risk management practices	<p>No disclosures of the following:</p> <ul style="list-style-type: none"> <li>• The entity's <b>definitions of default</b>, including the reasons for selecting those definitions [MFRS 7.35F(b)].</li> <li>• How the instruments were <b>grouped if</b> expected credit losses (<b>ECL</b>) were measured on a <b>collective basis</b> [MFRS 7.35F(c)].</li> <li>• The <b>methods, assumptions and information used to measure ECL</b> [MFRS 7.35B(a)].</li> <li>• How <b>forward-looking information</b> has been incorporated into the measurement of ECL [MFRS 7.35G(b)].</li> <li>• How <b>significant changes</b> in the gross carrying amount of financial instruments during the period contributed to changes in the loss allowance [MFRS 7.35I].</li> </ul>
6.	Fair value measurements	<p>No disclosures of the following:</p> <ul style="list-style-type: none"> <li>• <b>Valuation technique(s) and inputs</b> used in fair value measurement. If there are changes in the valuation technique, the nature of the change and the reasons for it (for Level 2 and Level 3 fair value measurements) [MFRS 13.93(d)].</li> <li>• <b>Quantitative</b> information on significant unobservable inputs (for Level 3 fair value measurement) [MFRS 13.93(d)].</li> <li>• <b>Reconciliation</b> from opening to closing balances disclosing (for Level 3 fair value measurement) [MFRS 13.93(e)]: <ul style="list-style-type: none"> <li>(i) gains or losses recognised in profit and loss (including the line item in profit or loss).</li> <li>(ii) gains and losses recognised in other comprehensive income ("OCI") (including the line item in OCI).</li> <li>(iii) purchases, sales, issues and settlements (each of those types of changes disclosed separately).</li> <li>(iv) transfers into Level 3. Transfers into and out of Level 3 is to be disclosed and discussed separately. Disclosures include reasons for transfer and the entity's policy on transfers.</li> </ul> </li> </ul>





## **Conclusion**

## Conclusion

Financial statements are intended to provide clear and reliable financial information about an organisation, supporting stakeholders in making informed economic decisions. The effective communication of such information hinges on the accuracy, relevance, and timeliness of disclosures.

Preparers are encouraged to evaluate carefully which information delivers the most value to users. Beyond complying with mandatory financial reporting standards, the inclusion of clear, meaningful, and contextually relevant disclosures significantly enhances the usefulness of financial statements. Well-prepared financial reports enable stakeholders to gain a thorough understanding of an organisation's financial position and performance, forming a strong foundation for strategic decision-making.

The FSRC remains committed to its oversight role in maintaining the quality of financial reporting. It will continue to promote high standards and best practices in financial disclosures through its guidance and publications, which are available on the Institute's website <https://mia.org.my/regulatory-public-interest/surveillance/financial-statements-review/>.





# **APPENDIX** / ABOUT FSRC

## APPENDIX / ABOUT FSRC

### FINANCIAL STATEMENTS REVIEW COMMITTEE

#### Objective & Scope

The Financial Statements Review (FSR) function is one of the surveillance functions of the Institute. The primary objective of FSR is to monitor and regulate the practice and strengthen the credibility of the accountancy profession in Malaysia.

The Financial Statements Review Committee (FSRC or the Committee) of the Institute was set up with the aim of upholding the quality of financial reporting of public interest entities. The Committee reviews audited financial statements and auditors reports that are prepared by or are the responsibility of members of the Institute, for the purpose of determining compliance with applicable approved accounting standards and approved auditing standards in Malaysia and other statutory requirements.

The FSRC assess the quality of financial reporting through:

#### Random Reviews

Review financial statements of companies incorporated under the Companies Act, 2016 that are prepared by or within the responsibility of members of MIA. This includes public listed companies and public interest entities

#### Hot Pursuit

**Public Interest** - Review financial statements of companies on matters of public interest which have been reported in the financial press and/or in the press releases issued by the regulators/other relevant parties. Issues may relate to financial reporting of companies or conduct of the auditors

**Referral** - Review cases referred by other Regulators such as Bursa Malaysia, Securities Commission Malaysia, Audit Oversight Board or Suruhanjaya Syarikat Malaysia

#### Enhance Quality of Financial Reporting

The FSRC seeks to enhance quality and promote excellence in financial reporting by sharing on good financial reporting practices based on common findings identified during the review process.

## How FSRC conducts the reviews

### Review process of FSRC

#### Desktop review

- Conducts desktop reviews of the selected financial statements.
- Focuses on compliance with approved accounting and auditing standards.

#### Enquiry letters

- Address enquiries to the person responsible for the financial management of the entity (Preparer) when a desktop review of financial statements indicates potential significant non-compliance with approved accounting standards.
- Consider appropriateness of audit opinion issued by auditor if significant issues are identified. Enquiries are made to the auditors where necessary.

#### Replies

- Preparer/auditor to provide explanation and justification to the enquiries within the stipulated deadline. All explanations are received in writing.
- Preparer/auditor to address all enquiries with consistent facts and explanation.
- Preparer/auditor to be clear and transparent in explaining the entity's circumstances and the substance of transactions.

#### FSRC's Deliberation

- Deliberates replies received.
- Focuses on compliance with applicable approved accounting standards, approved auditing standards and other statutory requirements, taking into consideration both quantitative and qualitative factors.
- Repeats enquiry process until a decision is reached on each review.

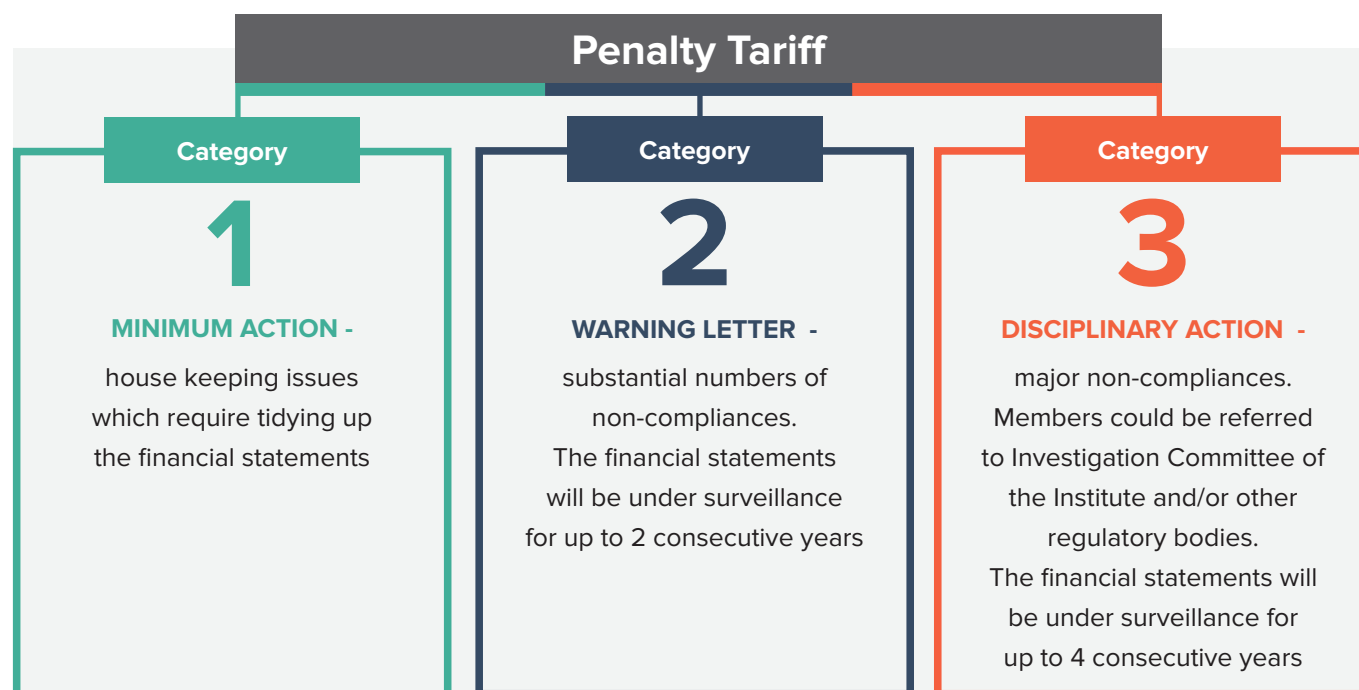
#### Closure

- Concludes the case based on the degree of non-compliance and determine the penalty tariff accordingly.

## Regulatory Outcome on The Reviews Conducted

All reviews are deliberated by FRSC and instances of non-compliance to applicable approved accounting standards are assessed by taking into consideration both quantitative and qualitative factors. Where judgement is required in the application of accounting standards, preparer/auditor need to demonstrate that they have made the judgement fairly.

In concluding the reviews, FSRC applies the following penalty tariff, depending on the severity and degree of non-compliances:



**Category 1** prescribes the minimum action. This category relates to housekeeping issues, which require tidying up of the financial statements. It requires members who are responsible for the preparation of the financial statements to take necessary action on the financial statements and members who are responsible for reporting on them to be informed of the action.

**Category 2** applies when there are substantial numbers of non-compliances with disclosure requirements of the applicable approved accounting standards. It requires members who are responsible for the preparation of the financial statements or for reporting on the financial statements to take the necessary corrective action. Members will be given a warning letter and will be informed that the financial statements of the company could be put under surveillance for up to two (2) consecutive years.

**Category 3** applies when there are major non-compliances with the requirements of the applicable approved accounting standards and auditing standards involving material reporting discrepancies and/or deficiencies, caused by the member's failure to discharge his/her professional responsibilities with diligence and due care and/or the company's/firm's weaknesses in the system of quality control.

Under category 3, action to be taken on members, who are responsible for the financial reporting and preparation of the financial statements, could include referring the member(s) to the Investigation Committee or Practice Review Committee of the Institute and/or other regulatory bodies for appropriate action or serving the members with warning letters or reprimands, or other appropriate measures. The financial statements of the company concerned could be put under surveillance for up to four (4) consecutive years.



**Copyright © September 2025 by the Malaysian Institute of Accountants (MIA).**

**All rights reserved.**

The Malaysian Institute of Accountants' logo appearing on/in this publication is a registered trademark of MIA. No part of this publication either in whole or in part may be copied, reproduced, recorded, distributed, republished, downloaded, displayed, posted, stored or transmitted in any form (tangible or intangible) or by any means, including but not limited to electronic, mechanical, photocopying, scanning or audio/video recording, information storage or retrieval system for any purpose whatsoever without prior express written permission of MIA. Such request can be emailed to the Strategic Communication & Branding Department at: [communications@mia.org.my](mailto:communications@mia.org.my).

Permission is however granted to any person to make copies of this publication provided that such copies are strictly for personal use or fair use in the academic classrooms. Such copies shall not be sold or disseminated and each copy shall bear the following credit line – "Used with the permission of the Malaysian Institute of Accountants".

Any unauthorised use of this publication and/or any creation of a derivative work therefrom in any form or by any means is strictly prohibited and may violate the relevant intellectual property laws. In the event of any violation or infringement of MIA's copyright and/or logo, MIA will not hesitate to take legal action for such violation and/or infringement.

#### **Disclaimer**

This publication contains general information only and MIA shall not, by means of this publication be construed as rendering any professional advice in relation to any matter contained in this publication. This document shall not be used as a basis for any decision or action that may or may not affect your business. Before making any decision or taking any action that may or may not affect your business, you are advised to consult an independent professional advisor.

Whilst every reasonable care has been taken in preparing/compiling this document, MIA makes no representations or warranties of whatsoever nature (either expressly or impliedly) in respect of this publication including but not limited to the accuracy, suitability, reliability or completeness of the information contained in this publication.

Please take notice that under no circumstances will MIA, its Council members, directors and employees be liable to any person or business entity for any direct or indirect losses, costs or damages howsoever arising including due to the use of and reliance of any information contained in this publication.



Dewan Akauntan  
Unit 33-01, Level 33, Tower A  
The Vertical, Avenue 3  
Bangsar South City, No. 8 Jalan Kerinchi  
59200 Kuala Lumpur, Malaysia  
+603-2722 9000  
+603-2722 9100

**[www.mia.org.my](http://www.mia.org.my)**