



MALAYSIAN INSTITUTE  
OF ACCOUNTANTS

# **ETHICS STANDARDS BOARD**

Annual Report

**2013**

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# About the Ethics Standards Board

The Ethics Standards Board (“ESB”) is a standard setting body designed by and operating independently under auspices of the Council of the Malaysian Institute of Accountants (“MIA”). The objective of ESB is to promote adherence to high quality professional and ethics standards and convergence with international ethics standards.

The objective of the ESB, as outlined in its Terms of Reference, is to serve the public interest by setting high-quality ethics standards for professional accountants and by converging with international ethics standards. This enhances the quality and consistency of services provided by professional accountants throughout Malaysia. In addition, this strengthens public confidence in the accounting profession and in business as well as the capital market in Malaysia.

The ESB's membership consists of eight (8) volunteer board members from the country. The eight members comprise five (5) individuals who are not members or employees of an audit firm and three (3) practitioners. Members are appointed by MIA Council based on recommendations from the MIA Nominating Committee.

The structures and processes that support the operations of the ESB are facilitated and supported financially by MIA. The ESB is a component of the overall MIA reporting entity.

# Report of the ESB Chair

It has been 4 years since the ESB was established to serve the accounting profession in setting and adopting of ethics standards in Malaysia. I am pleased to report on our activities during the year.

In July 2013, the MIA Council approved for adoption of the amendments to the MIA By-Laws (On Professional Ethics, Conduct and Practice) ("MIA By-Laws") upon the recommendation of the ESB. The amendments to the MIA By-Laws include "Conflict of Interest", "Breach of a Requirement of the MIA By-Laws" and definition of "Engagement Team".

To further facilitate effective implementation of the MIA By-Laws, the ESB also reviewed and adopted the IESBA staff questions and answers on implementing the MIA By-Laws which was released to members in June 2013. The FAQs can be accessed at the MIA website, [www.mia.org.my](http://www.mia.org.my).

Moving forward, the ESB will continue to provide the support towards successful implementation of the MIA By-Laws. I trust that our members and stakeholders will be able to contribute and support ESB in our quest to further enhance the professional ethics in Malaysia in tandem with stakeholders' expectations.

I would like to record my appreciation to all ESB members and observers, along with the ESB technical staff, for their unwavering commitment to the ESB works.



**DATO' ZAHRAH ABD WAHAB FENNER**

**Ethics Standards Board Chair**

**01 October 2015**

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*"Moving forward, the ESB will continue to provide the support towards successful implementation of the MIA By-Laws. I trust that our members and stakeholders will be able to contribute and support ESB in our quest to further enhance the professional ethics in Malaysia in tandem with stakeholders' expectations."*

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# Highlights for 2013

## Convergence Efforts

As part of the ESB's convergence efforts, the ESB met during the year to review and discuss the International Ethics Standards Board for Accountants ("IESBA") pronouncements and other local ethics issues as follows:

### Partner Rotation

#### ***Issuance of Circular on "Partner Rotation", 17 April 2013***

Section 290.151 of the MIA By-Laws requires that an individual shall not be a key audit partner for more than 5 years in respect of the audit of any Public Interest Entity ("PIE"). After such time, the individual shall not be a member of the engagement team or be a key audit partner for the said client for 2 years.

In the absence of any guidance on this matter, the ESB had decided, in the situation where a key audit partner, together with his audit client, resigned from one audit firm and joined and engaged another audit firm, the requirement under Section 290.151 still applies, as familiarity threats are created when the same key audit partner is engaged with the same audit client for over a 5 years period. The change in audit firm will not reduce the familiarity threats. In this circumstance, the safeguard for an audit of a PIE is to rotate the key audit partner of the same audit engagement every 5 years. The 5 years period is counted on a continuous basis, including the situation where the individual key audit partner, together with the audit client, changed to another audit firm.

This requirement is applied to an "individual" and not to the firm. The firms are encouraged to apply the above-mentioned requirement diligently to uphold the importance of key audit partner rotation which maintains the independence of an auditor.

### Questions and Answers

#### ***Issuance of "Questions and Answers", 12 June 2013***

To aid consistent application of the MIA By-Laws, the ESB had reviewed the Questions and Answers ("Q&A") produced by the IESBA staff and found it helpful to assist members in implementing the MIA By-Laws and had adapted the Q&A that are applicable and relevant in the Malaysian context for members' reference.

In addition to the above, the ESB is producing another set of FAQs based on the frequency of technical enquiries received. This will be released to members in 2015.

### Breach of a Requirement of the MIA By-Laws

#### ***Adoption of Changes to MIA By-Laws Addressing "Breach of a Requirement of the MIA By-Laws", 28 August 2013***

The IESBA pronouncement requires a professional accountant to take whatever available actions as soon as possible to satisfactorily address the consequences of a breach of a provision of the Code. The ESB agrees with the amendments stated in the IESBA pronouncement, as the ESB believes that the requirements will reduce unscrupulous behaviour and potential abuse by professional accountants in complying with the Code and promoting responsible behaviour by professional accountants. The Council, upon the recommendation of the ESB, approved the adoption of the pronouncement as part of the MIA By-Laws.

### Conflict of Interest

#### ***Adoption of Changes to MIA By-Laws Addressing "Conflict of Interest", 28 August 2013***

This IESBA pronouncement provides a more comprehensive guidance to professional accountants in business and in public practice in identifying, evaluating and managing conflicts of interest. The ESB believes that these amendments will assist professional accountants in early identification of a potential conflict of interest.

# Highlights for 2013 *(continued)*

These will also prompt professional accountants to evaluate their ability to be objective in that situation and meet the other fundamental principles under the Code. The Council, upon the recommendation of the ESB, agreed the adoption of the IESBA pronouncement as part of the MIA By-Laws.

## **Definition of “Engagement Team”**

### **Adoption of Change to the Definition of “Engagement Team” in the MIA By-Laws, 28 August 2013**

A revision to the definition of “Engagement Team” was issued by the IESBA because there is perceived inconsistency between the use of internal auditors to perform the external audit procedures and the requirement under the Code for external auditors to be independent of the audit client. The new definition of “Engagement Team” excludes external experts engaged by the firm or by the network firm. The Council upon the recommendation of the ESB agreed to the adoption of this pronouncement as part of the MIA By-Laws.

## Moving Forward

The ESB will continue its efforts to engage with professional accountants via outreach activities to promote adherence to high quality professional and ethics standards as it believes that ethical conduct should be practiced in all situations, at all times.

With an objective to converge with international ethics standards, the ESB will continue to assess the amendments on IESBA Code of Ethics and adopt locally. Furthermore, the ESB will also play its role to actively provide comments on the exposure drafts or consultation papers issued by the IESBA.

The ESB also plans to carry out activities such as roundtable discussion and publication of articles which relate to current ethics issues in the upcoming year.

# Ethics Standards Board

(January 1, 2013 to December 31, 2013)

## ESB Members



Dato' Zahrah Abd Wahab Fenner  
*Chairman*  
Companies Commission Malaysia  
Term ending: 2014



Dr. A Bakar Sarpon  
Institute of Integrity Malaysia  
Term ended: 2013\*



Eugene Wong Weng Soon  
Securities Commission Malaysia  
Term ending: 2014



Loh Kam Hian  
KPMG  
Term ending: 2015



Ravindran Navaratnam  
Minconsult Sdn Bhd  
Term ending: 2015



Simon Kua Choo Kai  
Ernst & Young  
Term ending: 2015\*\*



Stefanie Ng  
Federation of Public Listed Companies Bhd  
Term ending: 2015



Tan Soo Yan  
Ernst & Young  
Term ending: 2015

\* Mohd Nizam Mohd Ali was appointed on 2 December 2013 in replacement of Dr. A Bakar Sarpon (retired in 2013).

\*\* Prof. Dr. Ayoib Che Ahmad was appointed on 1 November 2013 in replacement of Simon Kua Choo Kai (resigned in 2013).

# Ethics Standards Board *(continued)*

(January 1, 2013 to December 31, 2013)

## ESB Observers and Secretariat

NAME	ORGANISATION
<b>Observers</b>	
Datin Paduka Ong Swee Leng	Auditor General Department of Malaysia
Leong Wai Leng	Audit Oversight Board
Selvarany Rasiah	Bursa Malaysia Berhad
<b>ESB Secretariat</b>	
Eddie Wong	MIA Professional Standards and Practices
Chiam Pei Pei	MIA Professional Standards and Practices
Suzana Mohd Hulaimi	MIA Professional Standards and Practices

## **Chartered Accountants Malaysia and MIA**

The Chartered Accountant Malaysia or “C.A.(M)” is a designation conferred by the Malaysian Institute of Accountants (“MIA”) to a professional in accountancy, business and finance with a recognised accountancy qualification and relevant work experience. C.A.(M) are the industry captain, corporate leaders and decision makers that play a significant part in nation building.

MIA was established under the Accountants Act 1967 as the statutory accountancy body that regulates, develops, supports and enhances the integrity and status of the profession while upholding the public interest.

Working closely alongside strategic business partners and stakeholders, MIA connects its members to a wide range of continuous professional development programme, updates and networking opportunities. Presently, there are close to 32,070 members making their strides across all industries in Malaysia and around the world.

### **Vision**

To be a globally recognised and renowned institute of accountants committed to nation building.

### **Mission**

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

### **Objectives**

1. Develop and enhance the competency of accountancy professionals to meet market demand.
2. Advance and enhance the status of members and the accountancy profession in Malaysia.
3. Regulate the practice of the accountancy profession in Malaysia consistent with global standards and best practices.



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