



MALAYSIAN INSTITUTE
OF ACCOUNTANTS

ETHICS STANDARDS BOARD

ANNUAL REPORT

2018

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ACRONYMS

The following acronyms are used throughout this report:

| | |
|-------------|--|
| AASB | Auditing and Assurance Standards Board |
| AOB | Audit Oversight Board |
| CP | Consultation Paper |
| EPs | Engagement Partners |
| ESB | Ethics Standards Board |
| EQCR | Engagement Quality Control Review |
| FAQs | Frequently Asked Questions |
| IESBA | International Ethics Standards Board for Accountants |
| IFAC | International Federation of Accountants |
| ISA | International Standards on Auditing |
| KAPs | Key Audit Partners |
| MIA | Malaysian Institute of Accountants |
| MIA By-Laws | MIA By-Laws (on Professional Ethics, Conduct and Practice) |
| PAIB | Professional Accountants in Business |
| PIEs | Public Interest Entities |
| PIOB | Public Interest Oversight Board |
| PPT | Professional Practices and Technical |
| PS | Professional Scepticism |

Ethics Standards Board

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

In addition, the ESB also reviews exposure drafts issued by IESBA and submits comments thereon. The ESB will take into consideration any final pronouncements issued by IESBA and issue guidance or clarification to assist the implementation of Sections 100 to 300 of the MIA By-Laws.

High quality professional and ethics standards will enhance the quality and consistency of services provided by professional accountants in Malaysia. This will in turn strengthen public confidence in the accounting profession.

As at 31 December 2018, the ESB consists of six (6) members whereby three (3) members are practitioners and three (3) members are non-practitioners. ESB members are appointed by the MIA Council based on recommendations by the MIA Nominating Committee.

The structure and processes that support the operations of the ESB are facilitated and supported by the MIA.

Chairman's Message



I am pleased to present the ESB's Annual Report for the 2018 operating year. This report provides our stakeholders with a summary of the activities that we have conducted throughout the year..

Overview of Key Achievements

Revised and Restructured Code

In April 2018, the IESBA released a revised and restructured Code, which is titled, *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) which comes into effect on 15 June 2019.

The ESB recognises the importance of support for adoption and implementation of the Code. Accordingly, key initiatives organised to facilitate adoption and implementation of the Code are as follows:

- Outreach session, *MIA Ethics Seminar on Code of Ethics – A Key to Public Trust* (July 2018).
- Accountants Today Article, *Global Ethics Code Revamped, Bringing Malaysian Code Up to Mark* (July/August 2018).
- *Questions and Answers on Audit Partner Rotation Requirements in Malaysia* (September 2018).

- Adoption of long association provisions as MIA By-Laws (November 2018).

The ESB is currently reviewing the professional ethics provisions of the MIA By-Laws in view of the revised and restructured Code. The ESB will focus on executing a robust outreach to promote awareness of, as well as adoption and implementation of the revisions to the MIA By-Laws in 2019.

Submission of Comments on Consultation Documents and Participation in Survey

During the year, the ESB reviewed and submitted comments on the following consultation documents:

- Monitoring Group's CP, *Strengthening the Governance and Oversight of the International Audit-related Standard-Setting Boards in the Public Interest* (February 2018).
- IESBA's CP, *Professional Skepticism – Meeting Public Expectations* (August 2018).

Also, the ESB responded to the *Fees Questionnaire Survey* by IESBA on matters relating to fees charged by firms.

Appreciation

In closing, I would like to thank the members and observers of ESB for their valuable contribution of knowledge and insights and the MIA Technical staff for their continuing support to ESB. My thanks also go to the MIA members, who have keenly participated and responded to the consultation documents and to those who have participated in the outreach session.

RAVI NAVARATNAM

Chairman

25 July 2019

ESB Members, Observers and Technical Staff

1 January 2018 - 31 December 2018

| NAME | DESIGNATION AND ORGANISATION | NOTE |
|----------------------------------|--|---------------------------------|
| Board Members | | |
| Ravi Navaratnam (Chairman) | Executive Vice President, Minconsult Sdn Bhd | Reappointed on 22 November 2018 |
| Assoc. Prof. Dr. Zuraeda Ibrahim | Deputy Dean, Universiti Teknologi MARA | Retired on 25 October 2018 |
| Khaw Hock Hoe, Alex | Audit Partner and Head of Technology, Media and Telecommunications, KPMG | Reappointed on 25 October 2018 |
| Leong Kah Mun | Managing Partner, Ngage Advisory PLT | Appointed on 25 October 2018 |
| Mohd Nizam Mohd Ali | Senior Director & Chief Coordinator for The Centre of Knowledge and Consultancy on Integrity, Malaysian Institute of Integrity | Reappointed on 22 November 2018 |
| Ong Chee Wai | Partner, Ernst & Young | Retired on 25 October 2018 |
| Tan Khoon Yeow | Partner, BDO | Reappointed on 22 November 2018 |
| Teo Swee Chua, Stanley | Partner, Deloitte | Reappointed on 22 November 2018 |
| Observers | | |
| Lim Sok Kiang | National Audit Department | Reappointed on 22 November 2018 |
| Alex Ooi Thiam Poh | Audit Oversight Board | Reappointed on 22 November 2018 |
| Tan Lay Khoon | Bursa Malaysia Berhad | Reappointed on 22 November 2018 |
| Technical Staff | | |
| Simon Tay Pit Eu | Executive Director, PPT | |
| Chiam Pei Pei | Head, Capital Market and PAIB, PPT | |
| Ong Wei Zun | Manager, Capital Market and PAIB, PPT | |
| Shalini Balakrishnan | Head, Assurance and Digital Transformation, PPT | |
| See Yang Ning | Assistant Manager, Assurance and Digital Transformation, PPT | |

Key Activities

In 2018, major focus of ESB's activities have been on adoption and implementation activities following the release of IESBA's revised and restructured Code.

Revised and Restructured Code

In April 2018, the IESBA released a revised and restructured Code, which is titled, *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code). The Code is completely re-written, and includes:

- Revised "safeguards" provisions better aligned to threats to compliance with the fundamental principles;
- Stronger independence provisions regarding long association of personnel with audit clients;
- New and revised sections dedicated to PAIBs relating to:
 - o preparing and presenting information; and
 - o pressure to breach the fundamental principles.
- Clearer guidance for accountants in public practice that explains how provisions of the Code applicable to PAIB, apply to them;
- New guidance to emphasise the importance of understanding facts and circumstances when exercising professional judgement; and
- New guidance that explains how compliance with the fundamental principles of the Code supports the exercise of professional scepticism in an audit or other assurance engagements.

The effective dates of the Code are as follows:

Parts 1-3

Parts 1, 2 and 3 will be effective as of 15 June 2019

International Independence Standards (Parts 4A and 4B)

Part 4A relating to independence for audit and review engagements will be effective for audits and reviews of financial statements for periods beginning on or after 15 June 2019.

Part 4B relating to independence for assurance engagements with respect to subject matter covering periods will be effective for periods beginning on or after 15 June 2019; otherwise, it will be effective as of 15 June 2019.

Early adoption is permitted.

Long Association Provisions

The effective date of the restructured Code does not override the effective date of the revised Long Association provisions in extant Paragraph 290 which is as follows:

- (a) Subject to the transitional provision in (b) below, paragraphs 290.515 to 290.535 are effective for audits of financial statements for periods beginning on or after 15 December 2018.
- (b) Paragraph 290.530 shall have effect only for audits of financial statements for periods beginning prior to 15 December 2023. This will facilitate the transition to the required cooling-off period of five consecutive years for engagement partners in those jurisdictions where the legislative body or regulator (or organization authorized or recognized by such legislative body or regulator) has specified a cooling-off period of less than five consecutive years.

Key Activities (continued)

In July 2018, the ESB organised an outreach session, *MIA Ethics Seminar on Code of Ethics – A Key to Public Trust*, featuring invited speakers Mr Gary Hannaford, former IESBA member and Chair of its Safeguards Task Force and Ms Diane Jules, Deputy Director of IESBA to promote awareness of the Code. The half-day session was attended by 124 members of the Institute. The session started with a presentation by the representatives from IESBA and was followed by a presentation by an ESB member, Tan Khoo Yeow, who provided an overview of key challenges facing implementation in Malaysia. The session ended with a Q&A session moderated by ESB Chairman, Ravi Navaratnam. The session was featured in the July/August 2018 issue of the Institute's Accountants Today magazine titled *Global Ethics Code Revamped, Bringing Malaysian Code Up to Mark*. According to the ESB Chairman, the extensive revamp of the Code and the widening of the situational examples were advantageous to the profession.

In view that the long association provisions are effective 15 December 2018 onwards, the ESB reviewed and adopted these provisions as MIA By-Laws in November 2018. Additionally, recognising the importance of implementation material to assist in the application of the long association provisions, in particular audit partner rotation requirements, the ESB in September 2018, issued *Questions and Answers on Audit Partner Rotation Requirements in Malaysia* as guidance to members. The FAQs are intended to explain and facilitate proper application of the revised partner rotation regime.

The changes in audit partner rotation requirements will affect KAPs of PIEs. There will be an increase in the time allowed for an audit partner of a PIE to serve in the same role for a maximum of seven years. The change will also see an increase in the time required for an audit partner of a PIE to cool-off if they are either an EP or the EQCR Partner.

| Role | Current | | Transition Period (15 December 2018 to pre 15 December 2023) | | Full Provisions (from 15 December 2023) | |
|--------------|--------------------|------------------------|--|------------------------|--|------------------------|
| | Time-on (years) | Cooling-off (years) | Time-on (years) | Cooling-off (years) | Time-on (years) | Cooling-off (years) |
| EP | 5 | 2 | 7 | 3 | 7 | 5 |
| EQCR Partner | 5 | 2 | 7 | 3 | 7 | 3 |
| Other KAPs | 5 | 2 | 7 | 2 | 7 | 2 |

Note:

1. Cooling-off period is the minimum number of consecutive years that a KAP must cool-off from the engagement.
2. Time-on period is the maximum number of cumulative (but not necessary consecutive) years that a partner can perform a KAP role on an engagement.

Key Activities *(continued)*

Submission of Comments on Consultation Documents and Participation in Survey

Again in 2018, the ESB provided timely and robust input to the following consultation documents:

(a) Monitoring Group's CP, *Strengthening the Governance and Oversight of the International Audit-related Standard-Setting Boards in the Public Interest*

The Monitoring Group is a collaboration of a number of international financial institutions and regulatory bodies. The Monitoring Group is responsible for the overall governance of the process used to set international auditing standards and international ethics standards for accountants, and the overall governance of setting international accounting education standards.

In November 2017, the MG issued the CP to elicit the views of stakeholders on how best to safeguard the independence of the standard-setting process and its responsiveness to the public interest.

As the ESB and AASB have a mutual interest in responding to the CP, a coordinated response was developed for submission to the Monitoring Group.

A summary of key comments raised to the Monitoring Group are as follows:

- The Institute supported efforts to enhance and increase transparency and reduce the perception that the accountancy profession exerts undue influence in standard setting.
- The main driver in reforming the standard-setting process should be to serve public interest.

- The concept of public interest should be defined and a public interest framework be developed as a matter of priority.
- The Institute was not in favour of the establishment of a single board responsible for setting both audit standards and ethics standards for auditors; and to split ethical standards for auditors and PAIBs and to expand the role of PIOB.
- Development and adoption of educational standards and the IFAC compliance programme should remain a responsibility of IFAC together with continued engagement with relevant stakeholders.
- The Institute supported the suggestion to remunerate members of standard-setting boards. However, this needs to be balanced against the productivity of the boards in ensuring the cost-effective principle in developing options for reform is maintained.
- A more sustainable broad-based funding model involving contributions by all key stakeholders is needed for the funding of the standard-setting board to prevent perceived undue influence by any one stakeholder group.
- Associated risk and impact assessment and cost versus benefits need to be thoroughly considered before implementing any reforms.

Key Activities (continued)

Submission of Comments on Consultation Documents and Participation in Survey (continued)

(b) IESBA's CP, Professional Skepticism – Meeting Public Expectations

In May 2018, the IESBA issued the CP which explores the behavioural characteristics comprised in PS, and whether all professional accountants should be required to apply them. The CP also set out options to clarify the behaviour expected of all professional accountants.

A summary of the key comments raised to the IESBA are as follows:

- PS should apply to all professional accountants.
- The ESB agreed with the behaviour associated with public expectations of PAs – impartial and diligent mindset.
- PS as defined in the ISAs represents a good starting point but suffers from the premise that it is designed by auditors for auditors.
- The term 'PS' should be retained, but there should be consideration to explain what PS means to the different roles of professional accountants (professional accountants in public practice and professional accountants in business).
- Additional material, in the Code or otherwise, highlighting the importance of exercising PS and relevant professional skills would be appreciated.
- Application material to increase awareness of biases, pressures and other impediments to approaching professional activities

with an impartial and diligent mindset and exercising appropriate PS in the circumstances would be helpful.

In addition to submitting comments on consultation documents, the ESB also responded to the *Fees Questionnaire Survey* by IESBA released in November 2017. A number of matters related to the fees charged by firms is explored with a view to determine whether there is a need for further enhancement to the Code or the commissioning of staff guidance.

These inputs reflect the ESB's advocacy role in governance and the international standard setting process.

Key Activities *(continued)*



Panel speakers at the MIA Ethics Seminar on Code of Ethics – A Key to Public Trust on 18 July 2018.
(L-R) Moderator - Ravi Navaratnam, ESB Chairman, MIA. Panellists - Diane Jules, Deputy Director, IESBA;
Gary Hannaford, former member and Chair of Safeguards Task Force, IESBA and Tan Khoon Yeow, ESB
Member, MIA.

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About the Malaysian Institute of Accountants

Established under the Accountants Act 1967, MIA is the national accountancy body that regulates, develops, supports and enhances the integrity, status and interests of the profession in Malaysia. MIA accords the Chartered Accountant Malaysia or “C.A. (M)” designation to a professional in accountancy, business and finance with a recognised qualification and relevant work experience.

Working closely alongside businesses, MIA connects its membership to an unmatched range of information resources, events, professional development and networking opportunities. Presently, there are more than 35,500 members making their strides in businesses across all industries in Malaysia and around the world.

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).

Purpose

To regulate and develop the accountancy profession to support economic growth and nation building.

Vision

To be a globally recognised Professional Accountancy Organisation (PAO) in regulating and developing the profession for nation building.

Values

Integrity, Mutual Trust & Respect, Professionalism, Accountability, Commitment, Teamwork, Sustainability.

Strategic Objectives

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



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