MALAYSIAN INSTITUTE
OF ACCOUNTANTS

Driving Quality of Financial Reporting

Financial Statements Review 2021/2022 Annual Report

ABOUT THE MALAYSIAN INSTITUTE OF ACCOUNTANTS

Established under the Accountants Act 1967, Malaysian Institute of Accountants (MIA or the Institute) 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 a wide range of information resources, events, professional development and networking opportunities. Presently, there are more than 37,500 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

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 THE CHAIRMAN FINANCIAL STATEMENTS REVIEW COMMITTEE

Financial reporting provides useful information about the financial position of the company to users of financial statements and facilitates informed decision making. Financial statements should be of sufficient quality to meet the needs of investors and stakeholders.

To ensure investors get high-quality, focused and reliable financial statements, every participant in the financial reporting ecosystem has a distinctive role in the preparation of financial statements. All parties should work together to drive the quality of financial reporting and always commit as professionals to ensure the financial reporting continues to be of high quality and reliable.

The Financial Statements Review Committee (FSRC or the Committee) is entrusted with the responsibility to monitor the quality of financial statements for the purpose of determining compliance with statutory and other requirements, applicable approved accounting standards and approved auditing standards. In line with its function and role in the financial reporting ecosystem, the FSRC provides guidance to companies to meet the financial statements disclosure requirements as prescribed in the relevant standards. Through this report, the Committee continues to share the key review findings and financial reporting best practices which preparers should consider in the preparation of financial statements.

For the period under review, the FSRC focuses on common deficiencies noted in relation to the disclosures in accordance with MFRS 15 *Revenue from Contracts with Customers* and the issues surrounding 'going concern' and the adequacy of related disclosures in the financial statements. We also identified certain findings in other areas which continue to be a challenge in the financial reporting practices. The Committee recommends that entities should include an appropriate level of qualitative disclosures to increase the transparency of financial information and provide a better understanding of the activities undertaken by the entities.

The FSRC will continue to discharge its role to monitor the compliance of financial statements and share financial reporting best practices to uphold the quality of financial reporting. As one of the surveillance functions, the FSRC continues to support the Institute to regulate and develop the accountancy profession, which is in line with the Institute's distinctive vision for nation building.

IRVIN MENEZES
CHAIRMAN
FINANCIAL STATEMENTS REVIEW COMMITTEE

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A

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

To enhance the quality of financial reporting, the FSRC communicates significant findings to members and highlights common deficiencies arising from the review of financial statements of public listed entities for the review period from July 2021 to June 2022. The financial statements under review are those with financial years ended ranging from December 2020 to June 2021.

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

A1. Revenue

MFRS 15 *Revenue from Contracts with Customers* ("MFRS 15") is applicable to companies with annual periods beginning on or after 1 January 2018.

The objective of the disclosure requirements in the standards is to provide sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

To achieve that objective, entities are required to provide disclosures about their contracts with customers, the significant judgements and changes in those judgements, used in applying the standards and assets arising from costs to obtain and/or to fulfil its contracts.

Common issues relating to disclosure requirements of MFRS 15 identified during our review include the following:

Observation A1.1

There was no disclosure on remaining performance obligations in accordance with Paragraph 120 of MFRS 15 *Revenue from Contracts with Customers* when the practical expedient in Paragraph 121 of MFRS 15 was not applied.

When the practical expedient is applied (i.e. not to disclose the information required by Paragraph 120 of MFRS 15), a qualitative statement on applying the said practical expedient in accordance with Paragraph 122 of MFRS 15 was not disclosed.

FSRC's analysis and conclusion

MFRS 15.120 states that an entity shall disclose the following information about its remaining performance obligations:

(a) the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and

(b) an explanation of when the entity expects to recognise as revenue the amount disclosed in accordance with paragraph 120(a), which the entity shall disclose in either of the following ways:

(i) on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations; or

(ii) by using qualitative information.

MFRS 15.121 states that as a practical expedient, an entity need not disclose the information in paragraph 120 for a performance obligation if either of the following conditions is met:

(a) the performance obligation is part of a contract that has an original expected duration of one year or less; or

(b) the entity recognises revenue from the satisfaction of the performance obligation in accordance with paragraph B16.

MFRS 15.122 further states that an entity shall explain qualitatively whether it is applying the practical expedient in paragraph 121 and whether any consideration from contracts with customers is not included in the transaction price and, therefore, not included in the information disclosed in accordance with paragraph 120. For example, an estimate of the transaction price would not include any estimated amounts of variable consideration that are constrained.

In most cases, entities responded to us that the information about the remaining performance obligations was not disclosed because of the adoption of the practical expedient of MFRS 15.121. However, a qualitative statement on the use of the said practical expedient was not disclosed in the financial statements.

As such, entities should be mindful and provide the necessary disclosures in accordance with MFRS 15 as stated above, when the practical expedient of MFRS 15.121 is being adopted.

Illustrative A1.1- Disclosure of remaining performance obligations as per MFRS 15.120

Transaction price allocated to remaining performance obligations

The following table shows revenue to be recognised from performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date. The disclosure is only providing information for contracts that have a duration of more than one year.

Group	2020 RM'000	2021 RM'000	2022 RM'000	Total RM'000 m
Sale of Product A	xxx	xxx	xxx	xxx
Sale of Product B	xxx	xxx	xxx	xxx
Sale of Product C	xxx	xxx	xxx	xxx
	xxx	xxx	xxx	xxx

Illustrative A1.1 – Application of practical expedient as per MFRS 15.121 and the qualitative disclosure as per MFRS 15.122

Transaction price allocated to remaining performance obligations

The Company had elected to apply for the practical expedient in MFRS 15.121(a) by not disclosing the remaining performance obligation as the original expected duration of the contract is less than one year.

Observation A1.2

For performance obligations satisfied at a point in time, no disclosure of the significant judgements made in evaluating when the customer obtains control of promised goods or services in accordance with Paragraph 125 of MFRS 15.

FSRC's analysis and conclusion

MFRS 15.125 states that for performance obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when a customer obtains control of promised goods or services.

Illustrative A1.2

For the sale of goods to retail customers, revenue is recognised when control of the goods has been transferred, being at the point the customer purchases the goods at the retail outlet. Payment of the transaction price is due immediately at the point the customer purchases the goods.

For online sales, revenue is recognised when control of the goods has transferred to the customer, being at the point the goods are delivered to the customer. Delivery occurs when the goods have been shipped to the customer's specific location. When the customer initially purchases the goods online, the transaction price received by the group is recognised as a contract liability until the goods have been delivered to the customer.

A2. Going concern

One of the key areas commonly reviewed by FSRC is on the application of the "going concern" assumption in the preparation of financial statements and the adequacy of the related disclosures in the financial statements.

In the current stressed economic environment arising from Covid-19 pandemic, many businesses were affected by and are facing a significant downturn in revenue, profitability and liquidity issues. This may raise concerns about an entity's ability to continue as a going concern.

The going concern assumption is a fundamental principle in the preparation of financial statements. The assessment of an entity's ability to continue as a going concern is the responsibility of the entity's management. The management shall satisfy themselves that the going concern assumption used is appropriate in the preparation of the financial statements; and the appropriateness of management's assessment is a matter for the auditor to consider on the audit of the financial statements.

Observation A2

Entities disclosed 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. However, there is a lack of qualitative disclosure that enables users to understand the going concern issue. Detail explanation/information surrounding the events or conditions that give rise to the material uncertainties as well as the significant judgement made in concluding the material uncertainties are encouraged for better clarity.

For example, disclosures observed state that the material uncertainties related to going concern are from the net current liabilities and loss-making position, and the disclosures also indicated that Covid-19 has brought uncertainties. However, the disclosure does not explain how the Covid-19 uncertainties affect the ability of the entity/group to continue as a going concern.

FSRC's analysis

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. [MFRS 101.25].

If the management concludes that the going concern basis is appropriate, but material uncertainties exist in relation to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, it should disclose:

- The material uncertainties related to the principal events or conditions that give rise to significant doubt on the entity's ability to continue as a going concern;
- Management's plans to deal with these events or conditions; and
- State 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, it might be unable to realise its assets and discharge its liabilities in the normal course of business.

Disclosure in the financial statements is expected when material uncertainty exists related to events or conditions that, alone or in aggregate, may cast significant doubt on the entity's ability to continue as a going concern.

Entities should also consider the overarching disclosure requirements in MFRS101 which may include:

- Disclosure on significant judgements that the management has made in concluding there are no material uncertainties/ going concern assumption is appropriate. [MFRS101.122]
- Disclosures on the information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. [MFRS101.125]

In making the disclosure, entities should give a clear explanation of the triggering events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and the material uncertainties. Also, it is encouraged to disclose additional qualitative information in relation to how the uncertainties occur and the management's plans to deal with these events or conditions. The disclosures should be as specific as possible about how the entity is affected. Boilerplate disclosures should be avoided.

In evaluating the adequacy of such disclosures, International Standards of Auditing (ISA) 570 (Revised) Going Concern indicates that the auditor shall consider whether the financial statements:

a. Adequately describe 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. 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.

In addition to specific disclosures that may be required regarding a material uncertainty about the entity's ability to continue as a going concern, disclosures of risks may assist users of the financial statements to better understand the entity's financial position, financial performance and cash flows.

For those entities that are significantly affected by the current economic conditions (e.g. global economic slowdown, inflation, labour shortage and other conditions arising from the Covid-19 pandemic), management needs to consider how to address the risks arising from the current economic conditions in their financial statements (e.g. liquidity risks) and provide sufficient disclosures to enable users to understand the effects of material transactions and events on the information conveyed in the financial statements.

If management fails to make a proper assessment of the entity's ability to continue as a going concern, or did not disclose the material uncertainties that may cast doubt upon the entity's ability to continue as a going concern, the financial statements would not reflect the actual circumstances that are being encountered by the entity.

Illustrative/ Guidance A2

What should management look out for in the assessment of the status of going concern of an entity?

Examples of events or conditions that, individually or collectively may cast significant doubt on the entity's ability to continue as a going concern are set out below. This listing is not all-inclusive nor does the existence of one or more of the items always signify that a material uncertainty exists.

Financial

- Net liability or net current liability position.
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
- Indications of withdrawal of financial support by creditors.
- Negative operating cash flows indicated by historical or prospective financial statements.
- Adverse key financial ratios.
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
- Arrears or discontinuance of dividends.
- Inability to pay creditors on due dates.
- Inability to comply with the terms of loan agreements.
- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain financing for essential new product development or other essential investments.

Operating

- Management intentions to liquidate the entity or cease operations.
- Loss of key management without replacement.
- Loss of a major market, key customer(s), franchise, license, or principal supplier(s).
- Labour difficulties.
- Shortages of important supplies.
- Emergence of a highly successful competitor.

Others

- Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions.
- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that are unlikely to be satisfied.
- Changes in law or regulation or government policy that are expected to adversely affect the entity.
- Uninsured or underinsured catastrophes when occur.

The significance of such events or conditions often can be mitigated by other factors. For example, the effect of an entity being unable to make its normal debt repayments may be counter-balanced by management's plans to maintain adequate cash flows by alternative means, such as by disposal of assets, rescheduling of loan repayments, or obtaining additional capital. Similarly, the loss of a principal supplier may be mitigated by the availability of a suitable alternative source of supply.[Paragraph A3 of ISA 570 (Revised)]

It is crucial to note that what constitutes a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern is a matter of judgement involving:

- An assessment on the magnitude of the potential impact of the unfavourable events or conditions and the likelihood of occurrence; and
- The ability of the entity to adopt realistic strategies that might mitigate that uncertainty.

Implications on financial statements

The possible scenario from management's assessment of going concern and the implication 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 no material uncertainties. [MFRS101.122]	• Disclose material uncertainties related to events or conditions that may cast significant doubt on entity's ability to continue as going concern. • Explain why going concern basis is being adopted and the management's plan to deal with these. • 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 • Disclose the significant judgements made by management in concluding going concern assumption is appropriate. [MFRS101.25]	• Disclose that financial statements are not prepared on a going concern basis. • Explain the basis of conclusion why entity is not a going concern and the basis on which financial statements are prepared. [MFRS101.25]

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)].
- 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 implication 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 exists		Events or conditions identified and material uncertainty exists		Events or conditions identified and material uncertainties exists	
		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 re-lating 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 applies 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]

Key message

- The going concern assumption is a fundamental principle in the preparation of financial statements.
- The assessment of an entity's ability to continue as a going concern is the responsibility of the entity's management.
- The appropriateness of the use of the going concern assumption is a matter for the auditor to consider and report accordingly on every audit engagement.
- ISA 570 (Revised) establishes the relevant requirements and guidance with regard to the auditor's consideration of the appropriateness of management's use of the going concern assumption and auditor reporting.
- The extent of disclosures in the financial statements is driven by management's assessment of an entity's ability to continue as a going concern and in accordance with the disclosure requirements of relevant MFRS.

[The above disclosures are for illustration purpose only. The information disclosed in the financial statements should be based on the specific facts and circumstances surrounding the transaction and in accordance with the accounting policies adopted by the company]

B 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 2021 to June 2022.

Table A:
FSRC findings for the Review Period from July 2021 to June 2022

No.	Areas for improvement	FSRC's findings
1.	Market risk – sensitivity analysis – equity effect	Non-disclosure of the **effect of equity** that will be affected by a possible change in the relevant risk variable for each type of market risk to which the entity is exposed at the end of the reporting period [MFRS 7.40(a)].
2.	Financial guarantee contracts (FGCs)	Weak or non-existent disclosures on the **nature and extent of risks** arising from FGCs especially the risks arising from liquidity risk and credit risk [MFRS 7.31-42].
3.	Investment in subsidiaries, Goodwill, Property, plant and equipment	No disclosure of **events and circumstances** that led to the recognition of impairment loss [MFRS 136.130(a)].
4.	Leases	• No disclosure of **total cash outflow** for leases (including low value and short-term leases) [MFRS 16.53(g)]. • No disclosures as required by paragraphs 53 to 58. • No disclosure of additional **qualitative and quantitative** information about its leasing activities [MFRS 16.59].
5.	Tax expense/ (income) and/or deferred tax	Non-disclosure of deductible temporary differences, unutilised tax losses and unutilised tax credits of which no deferred assets are being recognised [MFRS 112.81(e)]. In addition, one should also be wary of the need to disclose the expiry date (if any) of the aforementioned items. The disclosures should also be made available for the comparative period.
6.	Diluted earnings per share ("DEPS")	Non-disclosure of **DEPS on the face** of Statement of Comprehensive Income [MFRS 133.66]. There is no exemption for the presentation of DEPS on the grounds of anti-dilution. However, to simplify the presentation, (i.e. when basic earnings per share ("BEPS") equals to DEPS), BEPS and DEPS can be presented in the same line [MFRS 133.67].
7.	Fair value measurements	• No disclosure of **fair value hierarchy** [MFRS 13.93(b)]. • No disclosure of **valuation technique(s) and the key inputs used** in the fair value measurement [MFRS 13.93(d)].
8.	Investment in subsidiaries, associates and joint ventures	Non-disclosure of the **principal place of business** (and country of incorporation, if different) of those investees [MFRS 127.17(b)(ii)]. Typically, most entities disclosed the country of incorporation and not the principal place of business. MFRS requires the disclosure of the principal place of business. The country of incorporation shall be disclosed only if it is different from the principal place of business.
9.	Statement of cash flows	No disclosure of **changes in liabilities arising from financing activities** [MFRS 107.44A & 44B].

Observations and reminders

The FSRC wishes to share its observations on some of the pertinent areas noted during the review of financial statements:

- In some cases, disclosures in the financial statements were insufficient such that the FSRC had to probe further through query letters to seek more clarification/ detailed information on certain matters disclosed (or not disclosed). In most cases, clarifications provided by entities thereafter were sufficient for the FSRC to close the matters raised. Preparers of financial statements should strive to ensure the fair presentation of the financial statements which present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information. This includes providing additional disclosures when compliance with the specific requirements in MFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance [MFRS 101.17(b) & (c)].

- The summary of common findings in Table A lays out the deficiencies related to presentation and disclosures. However, the information disclosed (or not disclosed) in the financial statements is not merely an issue of non-compliance with disclosure requirements. It may also reveal whether entities have applied appropriate accounting treatment on transactions that have occurred. In some cases, the FSRC noted that companies have not been using appropriate accounting treatment upon probing into the disclosures in the financial statements.

- Companies must consider how the accounting treatment of an item in the financial statements is correlated to the accounting treatment of another item in the financial statements. For example, when material uncertainties on going concern issues were identified in subsidiaries, other areas should be looked into such as considering whether the cost of investment in subsidiaries is impaired.

C Conclusion

C CONCLUSION

Disclosure of adequate and relevant information is important to help users of financial statements to understand the financial statements better. Presenting a proper picture of a company's performance and financial health is a fundamental duty that directors owe to shareholders; and financial statements are a tool to assist directors in discharging this duty.

In line with their respective responsibilities, those involved in the financial reporting process should work hand in hand to improve the quality of financial reporting and to provide the users with comprehensive and credible information on the financials of an entity.

The FSRC wishes to reiterate that the Board of Directors owns the responsibility in the preparation of financial statements under the Companies Act, 2016, whilst the Audit Committee plays an important role in the financial reporting process. The Audit Committee should strive to achieve optimal governance through monitoring the compliance of financial reporting and other regulations. Meanwhile, the auditors' role is important to enhance the credibility of financial statements. An auditor will conduct an audit in accordance with the approved standards on auditing and should be able to obtain reasonable assurance that the financial statements are free of material misstatement.

In this regard, the FSRC will continue to focus on its entrusted responsibility to monitor the quality of financial statements and share with members on good financial reporting practices through its publication. The previous FSRC's publications can be accessed via 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	Hot Pursuit	Enhance Quality of Financial Reporting
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	**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	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:

Penalty Tariff

Category 1	Category 2	Category 3
• **Minimum Action -** house keeping issues which require tidying up the financial statements	• **Warning Letter -** substantial numbers of non-compliances. The financial statements will be under surveillance for up to 2 consecutive years	• **Disciplinary Action -** major non-compliances. Members could be referred to Investigation Committee of the Institute and/or other regulatory bodies. The financial statements will be under surveillance for up to 4 consecutive years

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.

Disclaimer

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