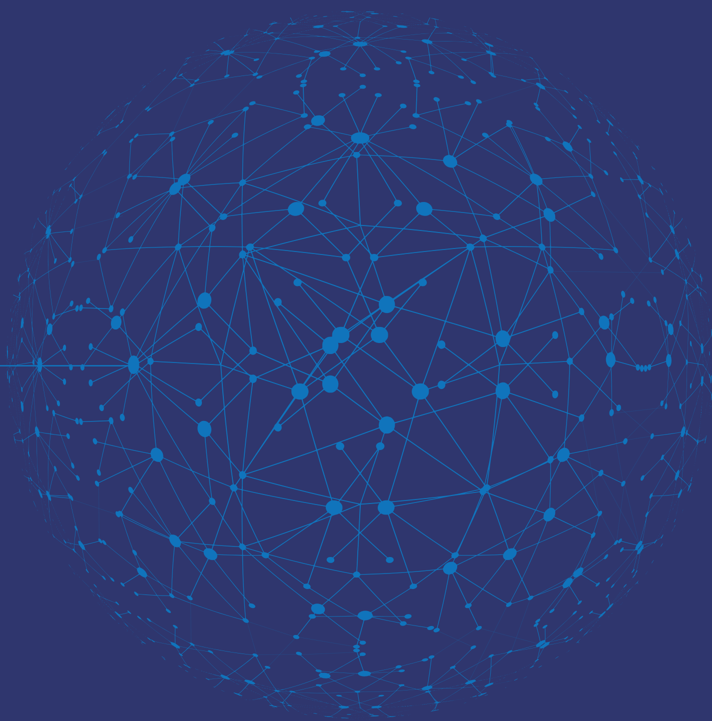
MALAYSIAN INSTITUTE
OF ACCOUNTANTS

Driving Quality of Financial Reporting



Financial Statements Review
2022/2023 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 38,000 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 statements are an essential component of any entity. They provide a comprehensive overview of the organisation's financial health and performance, allowing stakeholders to make informed decisions about its future.

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 current issue of the annual report, the FSRC highlighted common deficiencies noted in relation to the disclosures in accordance with MFRS 107 *Statement of Cash Flows* and specific disclosure relating to market risk as per MFRS 7 *Financial Instruments: Disclosures*. We also identified common findings in other areas of the financial statements reviewed.

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 vision for nation building.

IRVIN MENEZES
CHAIRMAN
FINANCIAL STATEMENTS REVIEW COMMITTEE

Table of Contents

FINANCIAL STATEMENTS REVIEW
2022/2023 ANNUAL REPORT

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

Background

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 2022 to June 2023. The financial statements under review are those with financial years ended ranging from December 2021 to June 2022.

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

Scope

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

Additionally, careful consideration and judgment should be applied accordingly for individual facts and circumstances as MFRSs is principles-based. Circumstances may appear similar but be different in substance.

A1 Statement of Cash Flows

Entities that prepare financial statements in conformity with the Malaysian Financial Reporting Standards (MFRS) are required to present a Statement of Cash Flows in accordance with the requirements of MFRS 107 *Statement of Cash Flows* (MFRS 107).

The objective of a Statement of Cash Flows is to enable users of financial statements to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows.

The Statement of Cash Flows analyses changes in cash and cash equivalents during a reporting period. Cash flows must be analysed between operating, investing and financing activities.

Common issues relating to disclosure requirements of MFRS 107 identified during our review, amongst others, include the following:

☐ **Observation A1.1**

Cash flow movements arising from the amount due from/ to subsidiary companies, the amount due from an associate and the amount due to directors, which are non-trade in nature, were classified as cash flows from operating activities as part of changes in working capital.

The Committee further noted that there are no related party transactions disclosed in respect of purchases or sales of goods and services from/ to associates, subsidiaries or directors during the financial period.

Response from PLC

The PLC explained that the cash flow movements for the amount due from/to subsidiaries and the amount due from an associate are related to revenue producing activities and other activities that are not investing or financing activities of the PLC.

The PLC further explained that the amount due to directors is because the directors were indirectly contributing their efforts that are related to revenue-producing activities of the PLC.

However, the above explanation provided by PLC is inconsistent with the disclosures in the financial statements as there were no related party transactions disclosed.

FSRC's comments

Paragraph 6 of MFRS 107 defined the following:

- *Operating activities* are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.
- *Investing activities* are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
- *Financing activities* are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Paragraph 14 of MFRS 107 states that cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity and generally result from the transactions and other events that enter into the determination of profit or loss.

As such, in Observation A1.1, the cash flow movements arising from the amount due from/ to subsidiary companies, the amount due from an associate and the amount due to directors, which are non-trade in nature and not directly related to revenue-generating activities, should not be classified as cash flows from operating activities.

Entities will need to assess the nature of transactions to determine the classification of cash flows. MFRS 107 defines cash flows from operating activities as the principal revenue producing activities and other activities that are not investing or financing.

Hence, for other activities which are not revenue producing activities, the entity will need to assess whether these cash flows are financing or investing activities in nature, to determine the correct classification in the statement of cash flows based on the definition in Paragraph 6 of MFRS 107. For example, for the observation above, the entity should assess whether the cash advanced to associates that is non-trade in nature, meets the definition of investing activities or financing activities. If it meets the definition, the entity should classify the related cash flows under investing activities or financing activities accordingly rather than operating activities.

☐ Observation A1.2

The PLC has presented interest paid under both the operating and financing activities.

Response from PLC

The PLC explained that the interest paid relates to banking facilities and stated that the said interest paid should have been presented as financing activities.

FSRC's comments

Paragraph 33 of MFRS 107 states that interest paid, and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. Alternatively, interest paid, and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

Paragraph 11 of MFRS 107 requires an entity to present its cash flows from operating, investing and financing activities which is most appropriate to its business.

MFRS 107 does not specify the classification of cash flows from interest paid and interest and dividends received, hence an entity may choose to present these cash flows in the most appropriate manner to its business.

In Observation A1.2, based on the PLC's response, the policy adopted is for interest paid relating to banking facilities to be classified as financing activities. Hence, in accordance with Paragraph 31 of MFRS 107, all interest paid relating to banking facilities shall be classified in a consistent manner from period to period, based on the policy adopted, as cash flows from financing activities.

☐ Observation A1.3

Government grants received have been classified as cash flows from financing activities.

It was noted that the PLC is involved in the businesses of providing express bus and city bus services, sale of express and used buses as well as repair and maintenance services.

Response from PLC

The PLC clarified that the government grant was granted to a subsidiary company for the maintenance of city buses, managing the bus hub and payroll support.

FSRC's comments

There is no specific guidance in MFRS 107 on how to present cash flows from the receipt of a government grant.

Paragraph 11 of MFRS 107 states that an entity presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its business.

Paragraph 6 of MFRS 107 has defined the following:

- *Operating activities* are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.
- *Investing activities* are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
- *Financing activities* are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Accordingly, in determining the appropriate classification of cash flows, an entity would need to consider the nature of its business and the nature of the government grant received. This would require judgement and classification to be made based on the entity's circumstances and transaction's substance. In addition, there should be consistency of treatment between the cash flow statement and the other primary statements, and consistency of classification from period to period.

In this case, the receipt of a government grant should be classified according to its substance. Grants given as a contribution towards expenditures used to generate period revenues should be classified as cash flows from operating activities, to match their treatment in the statement of comprehensive income.

As such, in Observation A1.3, the grant received represents compensation for operating expenses incurred. Therefore, the cash inflows from the grant received shall be classified as cash flows from operating activities, to match the treatment in the PLC's income statement.

☐ Observation A1.4

In January 2016, MFRS 107 was amended by Disclosure Initiative (Amendments to MFRS 107). These amendments require entities to provide disclosures about changes in liabilities arising from financing activities.

It was noted that there are entities which did not disclose the above required disclosure on the changes in liabilities arising from financing activities as required by MFRS 107.

Response from PLCs

Upon request, PLC 1 has furnished the required disclosure of the changes in liabilities arising from financing activities to the Committee. The items disclosed include the following:

- Payment of lease liabilities
- Drawdown of hire purchase payables
- Repayment of hire purchase payables
- Drawdown of term loans
- Repayment of term loans

PLC 2 has lease liabilities through an acquisition of a new subsidiary. PLC 2 replied that the required disclosure has been made in the note of "cash flows arising from the acquisition of a subsidiary". PLC 2 further explained that the required disclosure was disclosed as a note in the Cash Flow Statement of the Company's subsidiary's financial statements. Further, PLC 2 provides the reconciliation for which movement during the year relating to lease payables balance from acquisition of the subsidiary was wrongly described as the opening balance of the Group.

FSRC's comments

Paragraph 44A of MFRS 107 states that an entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Paragraph 44B further states that to satisfy the requirement in paragraph 44A, an entity shall disclose the following changes in liabilities arising from financing activities:

(a) changes from financing cash flows;
(b) changes arising from obtaining or losing control of subsidiaries or other businesses;
(c) the effect of changes in foreign exchange rates;
(d) changes in fair values; and
(e) other changes.

Paragraph 44D of MFRS 107 states that one way to fulfil the disclosure requirement in Paragraph 44A is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including the changes identified in Paragraph 44B. Where an entity discloses such a reconciliation, it shall provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the statement of financial position and the statement of cash flows.

The requirements mentioned above clearly state how the disclosure relating to changes in liabilities arising from financing activities shall be made.

For PLC 2, it was noted that PLC 2 has lease liabilities as one of the items in its statement of financial position. As such, the reconciliation should consist of a reconciliation between the opening and closing balances in the statement of financial position (for the Group and the Company) for liabilities arising from financing activities. In addition, apart from the Company's subsidiary's financial statements, the reconciliation should also be disclosed in the Consolidated Financial Statements.

Further, as the interest expense and interest payments are part of changes of the liabilities arising from financing activities, the interest expense and interest payments respectively (if any) should be disclosed separately in the reconciliation [Paragraph 44B(e) of MFRS 107] and the amount should be able to be linked to the statement of cash flows.

Illustrative/Guidance

<*the illustrative only covers those required by Paragraph 44A and 44D of MFRS 107>

Reconciliation of liabilities arising from financing activities

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	Short-term borrowings RM'000	Long-term borrowings RM'000	Lease liabilities RM'000	Total RM'000
1 January 2021	**XXX**	**XXX**	**XXX**	**XXX**
Cash-flows:				
- Repayments	(XXX)	(XXX)	(XXX)	(XXX)
- Proceeds	XXX	XXX	XXX	XXX
Non-cash:				
- Exchange difference	XXX	XXX	XXX	XXX
- Fair value	XXX	XXX	XXX	XXX
31 December 2021/ 1 January 2022	XXX	XXX	XXX	XXX
Cash-flows:				
- Repayments	(XXX)	(XXX)	(XXX)	(XXX)
- Proceeds	XXX	XXX	XXX	XXX
Non-cash:				
- Exchange difference	XXX	XXX	XXX	XXX
- Fair value	XXX	XXX	XXX	XXX
31 December 2022	XXX	XXX	XXX	XXX

Quick Guide on Classification of Cash Flows

The following table summarised the classification of commonly seen transactions in statement of cash flows. The list of transactions are not intended to be exhaustive.

Transactions	Classification in Statement of Cash Flows			Comments
	Operating	Investing	Financing	
Related party transactions (trade in nature)	√			Derived from principal revenue-producing activities of the entity and generally result from the transactions and other events that enter into the determination of profit or loss.
Related party transactions (non-trade in nature)		√	√	For other activities which are not revenue producing activities, the entity will need to assess whether these cash flows are financing or investing activities in nature, to determine the correct classification.
Interest paid & interest and dividends received (Financial Institutions)	√			Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution because of the nature of the entity's business.
Interest paid (Entities Other than financial institutions)	√		√	MFRS 107 does not specify the classification of cash flows from interest paid and interest and dividends received, hence for entities other than financial institution, an accounting policy choice needs to be made. The entity may choose to present these cash flows in the most appropriate manner to its business and shall be classified in a consistent manner from period to period, based on the policy adopted.

Transactions	Classification in Statement of Cash Flows			Comments
	Operating	Investing	Financing	
Interest and dividends received (Entities Other than financial institutions)	√	√		Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.
Government grants for operating expenses in which the grant is intended to compensate	√			Government grant should be classified according to its substance. An entity would need to consider the nature of its business and the nature of the grant received. Grants given as a contribution towards expenditures used to generate period revenues should be classified as operating cash flows, to match their treatment in the statement of comprehensive income. Whereas grants received for purchase of property, plant and equipment should be classified as investing cash flows.
Government grants for acquisition of long-term assets		√		

A2 Market risk – Sensitivity analysis

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market conditions. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Disclosure in market risk include a sensitivity analysis of each type of market risk to which the entity is exposed to. Changes in market conditions that give rise to market risk include changes in an observed (benchmark) interest rate, commodity price, foreign exchange rate or index of prices or rates.

Paragraph 40(a) of MFRS 7 *Financial Instruments: Disclosures* requires the sensitivity analysis to show the effect on profit or loss and equity of reasonably possible changes in the relevant risk variable (e.g. prevailing market interest rates, currency rates, equity prices or commodity prices).

☐ Observation A2.1

It was noted that there were no disclosures on the effect on equity 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.

Response from PLCs

Some PLCs responded that there is no impact to equity. Others responded that the effect on equity is not material. Some did provide feedback on the disclosures as required by Paragraph 40(a) of MFRS 7.

FSRC's comments

Paragraph 40(a) of MFRS 7 states that unless an entity complies with paragraph 41, it shall disclose a sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date.

This means that a sensitivity analysis is required for each type of market risk that an entity is exposed to at the reporting date. The sensitivity analysis should show the effect on the profit or loss and equity of a reasonably possible changes in the relevant risk variable (e.g. prevailing market interest rates, currency rates or commodity prices).

Typically, it was noted that entities would disclose the effect on profit or loss affected by the change in the exchange rates against the functional currency and the change in interest rate in the respective sensitivity analysis. However, disclosures in respect of effect on equity is often omitted.

As stated in IG34 of MFRS 7, for interest rate risk, the sensitivity analysis might show separately the effect of a change in market interest rates on:

(a) interest income and expense;
(b) other line items of profit or loss (such as trading gains and losses); and
(c) when applicable, equity.

An entity might disclose a sensitivity analysis for interest rate risk for each currency in which the entity has material exposures to interest rate risk.

Illustrative/Guidance

*<*the illustrative only covers those required by Paragraph 7.40(a) of MFRS 7>*

<u>Foreign currency risk*</u>

Currency risk sensitivity analysis

The following table demonstrates the sensitivity analysis on the outstanding foreign currency denominated monetary items of the Group's and of the Company's to a reasonably possible change in the USD and AUD exchange rates against the Ringgit Malaysia (RM), with all other variables held constant.

Group	Change in rate	2022		2021	
		Equity	Profit or loss	Equity	Profit or loss
		RM'000	RM'000	RM'000	RM'000
USD	+X%	XXX	XXX	XXX	XXX
USD	-X%	XXX	XXX	XXX	XXX
AUD	+X%	XXX	XXX	XXX	XXX
AUD	-X%	XXX	XXX	XXX	XXX

Company	Change in rate	2022		2021	
		Equity	Profit or loss	Equity	Profit or loss
		RM'000	RM'000	RM'000	RM'000
USD	+X%	XXX	XXX	XXX	XXX
USD	-X%	XXX	XXX	XXX	XXX
AUD	+X%	XXX	XXX	XXX	XXX
AUD	-X%	XXX	XXX	XXX	XXX

Interest rate risk*

Interest rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

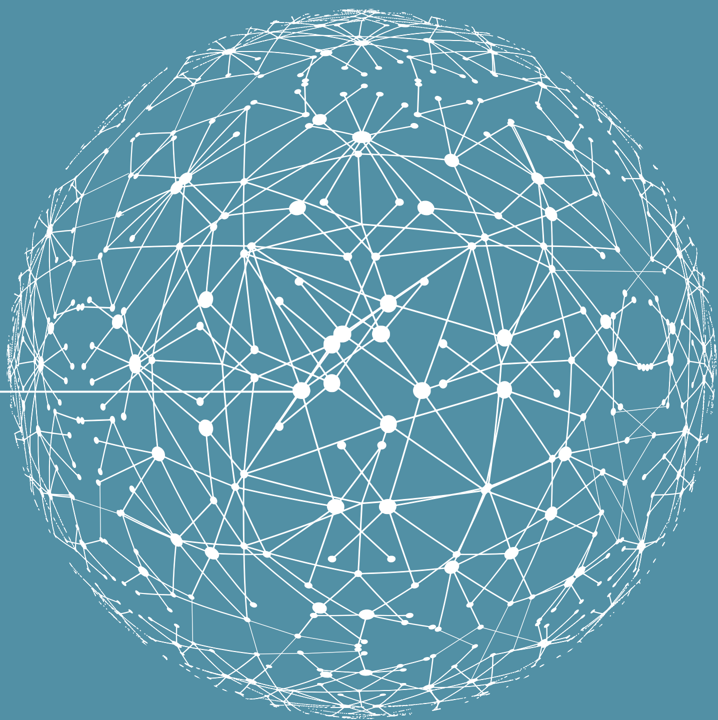
The following table demonstrates the sensitivity analysis if interest rates increase or decrease by one-hundred (100) basis points with all other variables held constant.

Group	Change in interest rate	2022		2021	
		Equity	Profit or loss	Equity	Profit or loss
		RM'000	RM'000	RM'000	RM'000
Floating rate instruments	+X% -X%	XXX XXX	XXX XXX	XXX XXX	XXX XXX
Floating rate instruments	+X% -X%	XXX XXX	XXX XXX	XXX XXX	XXX XXX

Company	Change in interest rate	2022		2021	
		Equity	Profit or loss	Equity	Profit or loss
		RM'000	RM'000	RM'000	RM'000
Floating rate instruments	+X% -X%	XXX XXX	XXX XXX	XXX XXX	XXX XXX
Floating rate instruments	+X% -X%	XXX XXX	XXX XXX	XXX XXX	XXX XXX

[The above disclosures are specific to the observations shared and for illustration purposes 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 2022 to June 2023.

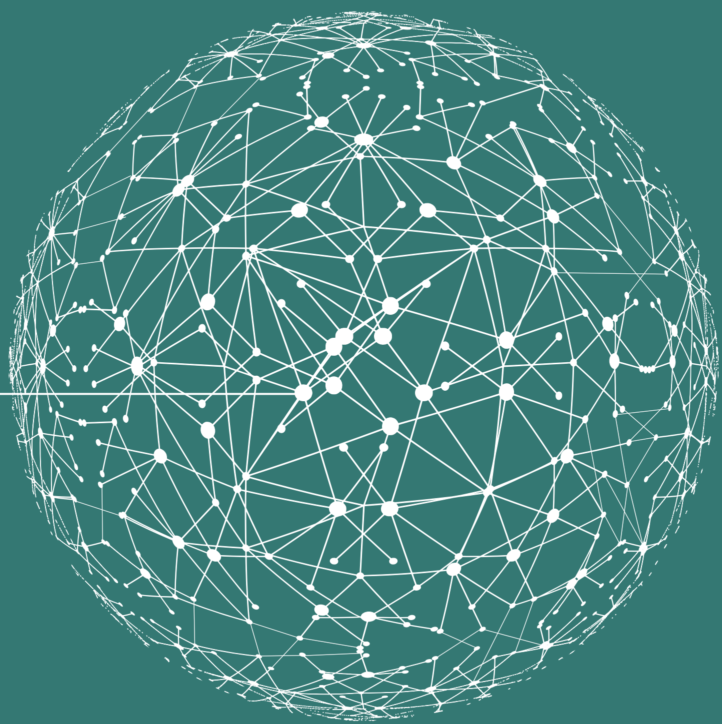
Table A: Common findings of FSRC for the Review Period from July 2022 to June 2023

No.	Areas for improvement	FSRC's findings
1	**Revenue**	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.
2	**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.
3	**Presentation of financial statements**	(i) Non-disclosure of the **recognition or reversal of the impairment losses or impairment gains** (determined in accordance with Section 5.5 of MFRS9) **in the profit or loss section** or the statement of profit or loss [MFRS 101.82(ba)]. (ii) Inadequate disclosure of the **capital risk management** [MFRS 101.134 and 135]. (iii) **Inappropriate classification of retention sums** as current or non-current assets [MFRS 101.61].
4	**Credit risk exposure**	To enable users of financial statements to assess an entity's credit risk exposure and understand its significant credit risk concentrations, an entity shall disclose, by **credit risk rating grades**, the gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts [MFRS 7.35M]. Typically, the above requirement was not disclosed for "amounts due from subsidiaries and holding company" and "contract assets".
5	**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].

Table A: Common findings of FSRC for the Review Period from July 2022 to June 2023

No.	Areas for improvement	FSRC's findings
6	**Investment in subsidiaries**	No disclosure of **events and circumstances** that led to the recognition of impairment loss [MFRS 136.130(a)].
7	**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.
8	**Fair value measurements**	No disclosure of **valuation technique(s) and the key inputs used** in the fair value measurement [MFRS 13.93(d)].

C | Conclusion



C Conclusion

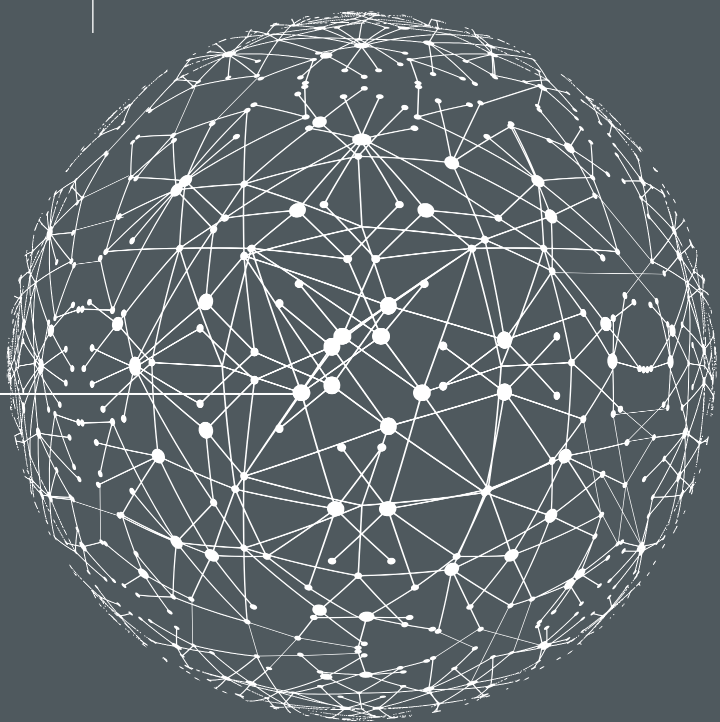
Financial statements are intended to provide financial information about an entity that is useful to various stakeholders in making economic decisions. Disclosure of accurate, adequate and timely information is critical in order to achieve effective communication of quality financial information.

In communicating their story, preparers of financial statements are encouraged to critically consider what information is useful to users of financial statements. In addition to complying with the applicable approved financial reporting requirements, the disclosure of adequate, meaningful and useful information is important to help users understand the financial statements better. A well communicated financial statements will aid users in terms of providing a comprehensive overview of an entity's financial health and performance, allowing them to make informed decisions about its future.

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

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.

MALAYSIAN INSTITUTE
OF ACCOUNTANTS

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