

THE MALAYSIAN INSTITUTE OF ACCOUNTANTS

# accountants today

January / February 2013  
Vol. 26 No. 1



## ACCOUNTING'S CHANGING LANDSCAPE

*Accounting professionals have to adjust to face a landscape that is changing dynamically, especially in terms of regulations and standards.*

**+** Getting Ready  
for Goods and  
Services Tax

**+** Next Steps  
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- 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 any 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.

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# Preparing for a Changing Landscape

**C**hange is definitely in the air, and there is pressure on the profession to prepare for a raft of changes on several dimensions, in terms of regulations, standards and higher expectations, to name just a few.

The frenetic pace of change was clearly communicated to the profession during the recent MIA International Conference 2012, which highlighted changes in the regulatory landscape and public sector accounting. While it's not as good as being there in person, in this issue we bring you coverage of changing legislation and policies which are anticipated to impact business and the profession. Along with that we cover the upcoming adoption of accrual-based accounting which will transform public sector accounting by 2015.

Along with these external changes, the profession remains challenged by the implementation of high-quality IFRSs (International Financial Reporting Standards) and ISAs (International Standards on Auditing). The complexity of these standards is such that members still require intensive training to apply them and the public still needs intensive education to understand and accept these standards. In this issue, we offer some guidelines into how to apply ISA 560 Subsequent Events which clarifies the relevant situations where an audit opinion may no longer be relevant or reliable, being overtaken by subsequent events.

We also feature some coverage relevant to SMPs (small and medium practices). As audit exemption becomes a reality, to help small businesses manage the costs of compliance, SMPs must be prepared to offer non-assurance services. However, SMEs may still require some level of assurance on their financial statements. Read more about this in the article on guidance for review engagements.

In order to keep the profession and business humming smoothly, MIA has identified education as key to building quality and capacity in the profession. The MIA Qualifying Examination or QE is an alternative route championed by MIA to groom future chartered accountants. Read about the QE high achievers and their secrets to success in this issue. These QE high flyers also share their insights into how QE certification has helped them develop their careers.

While education will be a means to enlarging the talent pipeline and creating a larger talent pool, one of the challenges for MIA is to support talent retention within the profession, particularly in audit and assurance firms. MIA strongly believes that the talent retention challenge cannot be resolved without enhancing the perception of audit value among stakeholders. Audit firms must be able to convince stakeholders that their services offer high value in order to secure appropriate fees that will enable them to reinvest in talent development and retention. Read more about this issue in our coverage on talent retention.

Last but not least, the profession must be able to capitalise on innovation in order to benefit from change to fuel performance. Technological change is inherent; firms should be taking advantage of cloud technologies to optimise their IT investments and staff productivity. For those in leadership roles, it is also worthwhile to take a step back and examine your values and purpose, and ensure these are aligned with employee needs and development in order to empower and satisfy talent. Read more about these in our articles on the cloud journey and the RED (role, environment and development) leadership and management framework.

We wish you happy reading and a Happy Chinese New Year to all our Chinese members. ■

EDITOR

## Charting our progress

**W**e are still in the early months of 2013, and it is useful to take stock of what happened in 2012 in order to recalibrate our strategies and actions for the next twelve months and beyond.

To recap, 2012 was hectic but quite a productive year. I would also say that it was a watershed year, because the profession in Malaysia is embracing the reality that the environment today is very different. We can no longer remain stagnant and content with the old ways; we have to break the mould and reengineer our attitudes and behaviours in order to be relevant and useful in the new order of business.

Reform pressures in 2012 arrived in the form of the World Bank's critical Reports on the Observance of Standards and Codes (ROSC) for the accounting and auditing sector, which served as a catalyst for reviewing the accounting profession in Malaysia. Some of the key recommendations from the ROSC report relate to the state of accounting education in Malaysia as well as the need to restructure existing restrictive regulations impeding the profession's growth.

Subsequent to the report, MIA has devised strategies to remedy the shortcomings observed by the ROSC report. We are continuing to refine our strategies and working to resolve outstanding issues in order to achieve the ROSC recommendations and global best practices.

Pertinently, through education reform, we hope to mitigate employer concerns that local accounting qualifications are inadequate and local graduates unemployable. The MIA Council has approved the framework on the Review of Accounting Degree Programmes recognised by MIA for universities listed under Part 1 of the First Schedule of the Accountants Act



*MIA is scheduled to review each university's accounting programme at least once every five years. The review aims to certify that the accredited accounting degree programmes comply with MIA's quality standards, are relevant to business, and comparable to global standards.*

1967. MIA is scheduled to review each university's accounting programme at least once every five years. The review aims to certify that the accredited accounting degree programmes comply with MIA's quality standards, are relevant to business, and comparable to global standards.

Phase 1 of the educational review is scheduled for the period of December 2012 to April 2013 and covers two recognised private universities, while Phase 2, which will start from January 2013 and end in June 2013, will involve the nine recognised public universities respectively.

We have also made some quick wins on the audit practice side, where by we have eased regulations to facili-

tate audit practices in Malaysia. For example, MIA recommended reducing the years required for returning and experienced audit professionals to gain their audit licenses from three years to one year post membership of MIA; the Ministry of Finance Malaysia endorsed this with effect from 1 January 2013. Moves like these will help to assuage the current talent crunch in audit and hopefully have a positive impact on perceptions of audit quality.

The ROSC report also noted that MIA's existing organisational and management structure is an impediment to the profession's progress. In response, we have called for an independent review of our structure by our stakeholders. Subject to regulatory and legislative authority, we are open to adopting recommendations and collaborating with our stakeholders to reform the status quo and improve our effectiveness.

While we wait for the wheels of authority to turn and effect change, I am happy to note that we have made visible improvements in our management practices and corporate culture. By enhancing teamwork and internal collaboration, we will be able to work in a cohesive and unified fashion to achieve our collective goals for the profession.

In summary, 2013 looks set to be a very exciting and challenging year for MIA. Demands on the profession will continue to be tough; we have to ensure that we are continually striving to improve our quality and deliver value in order to meet and surpass expectations. On behalf of MIA, I pledge that we will remain committed to developing the profession into a robust and relevant sector that can help support Malaysia's vision of full development enroute to 2020. ■





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# Accounting's changing landscape

ACCOUNTING PROFESSIONALS HAVE TO ADJUST TO FACE A LANDSCAPE THAT IS CHANGING DYNAMICALLY, ESPECIALLY IN TERMS OF REGULATIONS AND STANDARDS.

Majella Gomes



*From left to right : Abdul Halim Wahab, Dr. Nik Ramlah Mahmood, Nor Azimah Abdul Aziz and Karunajothi Kandasamy.*



# Reforming Regulations

The regulatory landscape is changing irrevocably. How are the raft of reforms being put in place going to help business?

**R**eforms are usually in response to crises. “The 1997 financial crisis spurred us to strengthen our regulations but because of the global crisis, even more measures have been taken,” stated Abdul Halim Wahab, Group Chief Editor and COO of the *Malaysian Reserve* at Plenary 1 on “Evolving the Innovative Landscape for Corporate Malaysia” at the recent MIA International Conference 2012. He cited the Corporate Governance Blueprint, the establishment of the Audit Oversight Board and moves by Bursa Malaysia, among other efforts at reforms.

But is regulation truly effective? “The effectiveness of regulators is being questioned,” said Abdul Halim. “While past and current reforms are giving confi-

dence to the market, there is no hard data to support that the economy is indeed recovering because of this. The global economy has not fully recovered despite the billions that have been pumped into it, so it is obvious that challenges and risks remain.”

the recession of the 1980s that was followed by a rapid rebound in the US – but it has not been the case this time around, he said. “Stock markets generally respond positively when regulations are tightened,” he continued. “The common concerns of business *vis-à-vis* regulatory reforms lie mainly in compliance costs, which could lead to a reduction in competitiveness and higher cost of capital, which impede economic growth. Businesses are wary of changing their business models to comply with regulations because of this.”

## ●●● Recalibrating Regulation

Dr. Nik Ramlah Mahmood, Deputy Chief Executive of the Securities Commission, spoke on what markets can expect by way of mitigating measures in the near future.

dependencies among capital markets globally. Additionally, global markets and the global economy were still adjusting to the longer-term consequences of the Global Financial Crisis while Malaysia was also undergoing significant structural changes. All these had to be taken into consideration when moving to the next stage.”

The focus thus had to change, and with it the regulatory environment. The theme of CMP2 is Growth and Governance, and is premised on continued investor protection, without compromising growth. But will there be less regulation? “An unregulated market is not a good market,” Dr. Nik Ramlah stated. “What we will see is a recalibration of regulation. Investors can expect more effective supervision of markets and higher levels of disclosure by corporations.” Can this be expected to decrease corporate transgressions? It may be a bit premature to expect hard data in support of this, but she added that Malaysia was consistently recognised as a country which provides a high level of investor protection in the Doing Business Reports.

The SC has observed a shift in market dynamics, Dr. Nik Ramlah said. “Market and self-discipline are generally increasing,” she pointed out. “Market partici-

*“The common concerns of business vis-à-vis regulatory reforms lie mainly in compliance costs, which could lead to a reduction in competitiveness and higher cost of capital, which impede economic growth. Businesses are wary of changing their business models to comply with regulations because of this.”*

**ABDUL HALIM WAHAB,**

Group Chief Editor and COO of the *Malaysian Reserve*

*“Market participants are beginning to demand higher standards from companies, and auditing standards are becoming tighter.”*

**DR. NIK RAMLAH MAHMOOD,**

Deputy Chief Executive of the Securities Commission

dence to the market, there is no hard data to support that the economy is indeed recovering because of this. The global economy has not fully recovered despite the billions that have been pumped into it, so it is obvious that challenges and risks remain.”

## ●●● The Business Case for Regulation

Severe recessions have usually been followed by quick recovery, such as

“When the second Capital Market Masterplan 2 (CMP2), was being developed two years ago, the scenario was very different from the environment when the first CMP was developed,” she said. “CMP1 had 152 specific recommendations, and 96% of these were fully implemented. But our market had become much bigger and more complex, and the operating environment was radically different, with higher levels of uncertainty, and more extensive interconnectedness and inter-

pants are beginning to demand higher standards from companies, and auditing standards are becoming tighter.”

## ●●● Risk of Overregulation?

Is there a danger of overregulation? Nor Azimah Abdul Aziz, Director of Corporate Development & Policy Division, Companies Commission of Malaysia (CCM) highlighted that CCM remains steadfast in ensuring that Malaysia’s legal framework facilitates business operations

and stays competitive to the requirements of the ever changing corporate world. To this end, CCM has taken several measures in the form of quick wins or administrative actions which do not require legislative changes by conducting business process reengineering, to simplify CCM's back-end processes, revising the clients' charters as well as the long-term plan to review and revamp outdated laws under CCM's purview.

Under the business process reengineering initiatives, CCM had introduced enhancements to its public services delivery like the introduction of 1-Day Company Incorporation Service, 1 Hour Business Registration Service, the online lodgement through the CCM's e-Lodge-

business review report by directors on corporate responsibility and internal control, guaranteed incorporation concept, declaration of solvency for dividends, dispensation of the memorandum of articles and articles of associations, and other revolutionary changes that will add competitive dimensions in the new corporate legal framework for Malaysia said Nor Azimah. She pointed out that, the Limited Liability Partnerships Act 2012, on the other hand, provides an alternative business vehicle which is much more flexible with more liberalised compliance requirements compared to the existing set up of a company.

Compliance and corporate governance will be spurred by technology, said

these requirements, in addition to running their business. For example, about 77% of the SMEs are microenterprises, i.e. so small that they sometimes lack even basic bookkeeping knowledge to keep proper recording of their transactions.

"The difficulties faced by SMEs have prompted us to review existing data to determine what is impeding their development," she said, adding that the body was putting several mechanisms in place to further assist SMEs because they make up the majority of businesses in the Malaysian economy.

SMEs have been targeted to grow at 8.7 per cent per annum in the next few years until 2020, said Karunajothi; with

*"With MyCoID, which is an acronym for Malaysia Corporate Identity Number, the public can utilise the single number incorporation of companies for simultaneous registration with other key government agencies such as the IRB, EPF, SOCSO, HRDF and SME Corp."*

**NOR AZIMAH ABDUL AZIZ,**

Director of Corporate Development & Policy Division,  
Companies Commission of Malaysia (CCM)

ment services and the MyCoID system.

With MyCoID, which is an acronym for Malaysia Corporate Identity Number, the public can utilise the single number incorporation of companies for simultaneous registration with other key government agencies such as the IRB, EPF, SOCSO, HRDF and SME Corp. On supply of information, the e-Info system has been introduced to provide online electronic search and purchase of company and business information. It is available 24 hours a day, 7 days a week, anywhere, globally by accessing [www.ssm.com.my](http://www.ssm.com.my).

As regards to the long term plan, amongst the major outcomes are the completion of review of the Companies Act 1965 and the introduction of the Limited Liability Partnerships Act 2012. The Companies Bill targeted to be tabled in Parliament in 2013 will bring sweeping changes. Some of its clauses will cover introduction of the no par value regime,

Nor Azimah. One example is the adoption of XBRL in the area of financial reporting. CCM is in the process of developing the taxonomy for this, she added, and once the development of CCM's taxonomy is completed it will be exposed for comment and feedback from stakeholders. This is to ensure buy-in and smooth implementation of the XBRL format of reporting to the Registrar of Companies in 2014.

**●●● Aid for SMEs**

Acknowledging that the current compliance processes are particularly burdensome to SMEs, Karunajothi Kandasamy, SME Corporation's Senior Director of Economics and Policy Planning, said that many small companies lack the resources and expertise to efficiently manage all

*"The difficulties faced by SMEs have prompted us to review existing data to determine what is impeding their development."*

**KARUNAJOTHI KANDASAMY,**

SME Corporation's Senior Director of Economics  
and Policy Planning



technology, innovation, automation and mechanisation, SMEs should become more efficient and productive and be able to move up to the next level. However, she cautioned that the main challenges are mainly internal, for example, lack of resources and know-how for expansion and scaling up. ■



“THE TEST OF TRUE  
**CONSULTANTS LIES NOT IN  
THE REPRESENTATION OF NAMES,**  
BUT IN THE EXCELLENT MARK OF SUSTAINABLE  
VALUE THEY CREATE FOR LONG TERM  
BUSINESS GROWTH.”

- Mohd Aizat Bin Jamil  
Goods and Services Tax (GST)



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# Improving public sector finance



Malaysia is targeting the adoption of International Public Sector Accounting Standards by 1 January 2015. Transparent accrual accounting and linking transactions to outcomes should exert better fiscal discipline and facilitate targeted policy interventions aimed at escalating Malaysia to a high-income developed economy status by 2020.

**Majella Gomes**

**T**he Federal Government of Malaysia is set to adopt full accrual-based accounting for financial reporting by 1 January 2015, so as to converge with the requirements of the International Public Sector Accounting Standards (IPSAS). This shift from cash-based accounting to accrual accounting will enable the public sector to report its financial performance, financial position and cash flow more accurately towards enhancing accountability and transparency in its financial management. The shift is not only positive for fiscal discipline and governance, but will facilitate targeted government efforts to move to a high-income, developed-economy status.

“IPSAS is generally intended to improve public sector accountability and reporting,” said Ken Pushpanathan, Board Member of the Malaysian Accounting Standards Board (MASB) and Honorary Secretary of the Financial Reporting Foundation (FRF). “Accrual-based accounting has many benefits, particularly greater transparency through more comprehensive and precise information on the use of resources and on the status of liabilities,” he said during the MIA International Conference 2012 Plenary 1 on “Transitioning from cash to accrual accounting – Can IPSAS avert Sovereign Debt Crisis?”.

“It also leads to increased accountability and credibility, improved management and planning, as well as harmonisation of financial reports and statements across public institutions. Under IPSAS, there are 32 standards for the public sector; with only three of them having no MFRS (Malaysian Financial Reporting Standards) equivalent. As such, IPSAS requirements are generally comparable to MFRS.”

### ●●● Keeping a lid on debt

Is compliance with IPSAS a means to induce better fiscal discipline and check on the ballooning of government debts, in the wake of the EU's sovereign debt crisis?

Many critics have remarked that the weaknesses of the cash-based accounting system may have aided and abetted the sovereign debt implosions in the “PIIGS” countries (Portugal, Italy, Ireland, Greece and Spain). “The sovereign debt crisis reportedly stems from cash-based accounting practices where the long-term financial obligations on rising



**Koshy Thomas**  
*Head of the Outcome-Based Budgeting Project of the Ministry of Finance Malaysia.*



**Ken Pushpanathan**  
*Board Member of the Malaysian Accounting Standards Board (MASB) and Honorary Secretary of the Financial Reporting Foundation (FRF).*

public debt were being overlooked,” said Pushpanathan.

Many of today's debt-laden governments had mortgaged their long-term future for short-term benefits prior to imposing unpopular austerity drives. “The true cost of public finance is unsustainable,” said Pushpanathan, quoting a raft of global business and financial leaders. The beauty of accrual accounting versus cash accounting is that it reports the financial status of a government or public entity, more accurately.

Since accrual accounting is regarded as more transparent and puts pressure for good governance, it could also be a tool for restoring fiscal discipline and systemic credibility. “It is worth noting that it has become an issue of restoring trust in the accountability by governments as well,” said Pushpanathan.

Certain members of the “PIIGS” countries have adopted IPSAS. Spain adopted IPSAS in 2011, and Portugal intends to have it in place by 2014. ASEAN countries are also taking the IPSAS route, and most of them are already running at a lower debt to GDP ratio than Malaysia's current 52% debt-to-GDP ratio at the time of writing. China's debt was at an impressive 16% in 2010, and is projected to be at 17% by the end of 2012.

There are exceptions to the rule. Germany, which has yet to adopt IPSAS and still runs on a cash basis, is fiscally the fittest of the EU nations. “Cash-based accounting should not be demonised as the root cause of all problems,” stated Koshy Thomas, Head of the Outcome-Based Budgeting Project of the Ministry of Finance Malaysia. “Not all countries using cash-based accounting have done badly, nor have all countries using accrual accounting done well. Germany still uses cash-based accounting, and it has been successful. We just have to be prudent, disciplined and transparent.”

While it is true that cash accounting tells only part of the financial story, there is no hard evidence in support of accruals as a better measure of fiscal performance. “On an operational or macro-fiscal level, we cannot focus on this alone,” Thomas continued. “There are many aspects related to this issue.” It should also be kept in mind that an accounting and financial reporting system has its limitations and is only as airtight as the competence, ethical mindsets and prudence of the people behind it.



## ●●● Implementation Challenges

Challenges are inevitable wherever change is instituted but Malaysia can learn from best practices and lessons from forerunners who have adopted IPSAS.

“New Zealand was probably ahead of everybody else,” remarked Dr. Chin Yoong Kheong, KPMG Malaysia’s partner in charge of strategy and transformation. “It started to move to accrual-based accounting in 1979, after the first oil crisis.” Will accrual-based accounting improve government reporting? “Yes,” he said. “It will improve understanding of the balance sheet, and how resources are being managed.” Dr. Chin added that practitioners could anticipate improved transparency and accountability, and capture a clear picture of the true costs of consumption.

Global aid agencies have also adopted IPSAS to facilitate their mission. The United Nations Development Programme (UNDP), for example, has set up a financial shared services centre in Malaysia that currently provides assistance to 166 UN agencies worldwide on IPSAS, according to John Kidd, Chief of the UNDP Global Shared Services Centre in Cyberjaya. Kidd noted that IPSAS enables international aid agencies to account for donations received worldwide transparently and more accurately compared to cash-based accounting. “All assets have to be disclosed and recorded accurately,” he said. “There needs to be comparability with the accounts of other agencies, and internally, within the organisation’s own different divisions, wherever they may be.”

## ●●● Significant transitional issues

A major issue that may impede IPSAS is that output-based budgeting is still run on a cash basis. Therefore, said Er Beng Kiong, Deputy Director of Accountancy Development Section, Accountant-General’s Department, the new accounting system also known as “1 GFMAS” has the capability of maintaining two ledgers, namely, the cash ledger and accrual ledger to keep track of both accrual and cash transactions. In this regard, in addition to the accrual financial statements, a cash basis Statement of Budget Performance will be prepared in 2015. In the interim, staff competencies will have to be upgraded as public sector employees have, up to now, been applying cash-based accounting. Retraining will be necessary.



**Dr. Chin Yoong Kheong**  
*KPMG Malaysia’s partner  
in charge of strategy and  
transformation.*



**John Kidd**  
*Chief of the UNDP Global  
Shared Services Centre in  
Cyberjaya.*



**Er Beng Kiong**  
*Deputy Director of  
Accountancy Development  
Section, Accountant-  
General’s Department.*

Other uncertainties remain as well, such as the extent of IPSAS’s contribution to improving the financial management of developing countries, and whether the cost of changing to accrual based accounting will be prohibitive. Kidd clarified that the main cost of IPSAS lay in staff retraining but with present day better communication and technology like e-learning, this could be managed.

“New Zealand took ten years to change, and the UK followed its model,” Dr. Chin said. “However, customisation was necessary because of the different environments. Roles of the respective agencies and authorities have to be clear.” Kidd concurred. “The World Food Programme became IPSAS-compliant in 2008, and the Global Shared Services Centre was created to provide help for UNDP offices worldwide, but this has not meant fewer challenges.” Governments also have to consider what can be divulged under IPSAS, and what has to remain confidential, but the major stumbling block may still be human competency. All staff dealing with consolidated funds, statements of accounts and the various accounting procedures will have to undergo re-education and retraining, to ensure success in IPSAS implementation.

## ●●● The Role of the Profession

The profession plays a pivotal role in the adoption and acceptance of IPSAS. “Accountants have to get ahead of the curve when addressing the issues,” Pushpanathan said. “The accounting profession is in the front line, and it has the opportunity to make a difference. Behavioural change is necessary; governments are making long-term decisions without proper long-term disclosure mechanisms. Public sector accounting systems are often archaic, and an overhaul is needed.”

The International Federation of Accountants has also been vocal in supporting the role of IPSAS in promoting fiscal transparency and accountability and mitigating risk. Recently, the IFAC issued a press release welcoming the International Monetary Fund (IMF)’s paper, *Fiscal Transparency, Accountability, and Risk*. The paper highlights the seriousness and extent of the current inadequacies in governments’ fiscal reporting and accountability. It also underscores the immense risks associated with these shortcomings.

IFAC noted that IPSAS promotes greater transparency and accountability in public sector finances and allows for enhanced monitoring of governments' fiscal positions.

"The current sovereign debt crises have starkly revealed the deficiencies in many governments' reporting practices and consequently their understanding of their actual fiscal positions," said Ian Ball, IFAC CEO, who said that IFAC and IMF share a common aim to strengthen public sector financial reporting and financial management.

"IFAC believes that governments around the world must implement necessary institutional reforms to strengthen governmental financial management, and thereby protect the public, as well as investors in government bonds. This will better allow governments to anticipate and manage fiscal shocks, and also help

reduce the risk of future debt crises."

In support of the key positions in the IMF paper, IFAC recognises the importance of:

- Updating fiscal transparency standards to address gaps in, and inconsistencies between, individual jurisdictions' standards;
- Complying with international standards for public sector financial reporting, including reporting all assets and liabilities by, for example, using IPSASs;
- Including all entities that have fiscal implications for governments (including central banks, public entities, and government-owned corporations) in fiscal forecasting, budgeting, and financial reporting;
- Evaluating countries' compliance with fiscal transparency standards using,

for instance, auditing and assurance as a means for assessing compliance with standards;

- Strengthening incentives for improvements in fiscal transparency practices;
- Strengthening the institutional relationships among international standard-setters;
- Aligning the methodologies and standards for fiscal forecasting, budgeting, and financial reporting to reinforce the links between fiscal transparency and long-term sustainability;
- Building the capacity of professional accountancy organisations and promoting the role they play in improving government financial reporting practices; and
- Strengthening fiscal transparency and public sector financial management in all nations and, in particular, in developing and emerging nations. ■



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# When is the auditor's report not reliable?

## WHAT IMPLICATIONS CAN SUBSEQUENT EVENTS HAVE ON THE WORK OF AUDITORS AND THE RELIABILITY OF THE AUDITOR'S REPORT?

MIA Professional Standards and Practices

**T**he reliability of independent audit opinion on financial statements has over the years attracted much debate.

Nevertheless, auditors, having issued an independent opinion on financial statements, could prevent reliance on such opinion.

Say, an entity has a financial year-end of 31 December 2011. Events occurring from 1 January 2012 to the date the financial statements are authorised for issue may have implications to its 2011 financial statements.

These events can be adjusting or non-adjusting in nature. Adjusting events are those events that provide evidence of conditions that existed at the balance sheet date, for example, the settlement after the year-end date of a court case that confirms that the entity has a present obligation at the balance sheet date.

Subsequent events and its implications on the work of the auditors are governed by the International Standards on Auditing ("ISA") 560 *Subsequent Events*. According to ISA 560, 'subsequent events' refers to events occurring between the date of the financial statements and the date of the auditor's report, and facts discovered after the date of the auditor's report (either before or after the financial statements are

issued). The date the financial statements are issued is the date that the auditor's report and audited financial statements are made available to third parties. In practice, in a case of a listed company in Malaysia, such date usually refers to the date the entity files the audited financial statements with Bursa.

ISA 560 sets out how the auditor deals with subsequent events in three situations:

**Situation A** Events occurring between the date of the financial statements and the date of the auditor's report;

**Situation B** Facts which become known to the auditor after the date of the auditor's report but before the date the financial statements are issued; and

**Situation C** Facts which become known to the auditor after the financial statements have been issued.

For illustration, Company X has a financial year-end of 31 December 2011. Both directors' report and auditor's report are dated 15 March 2012. The Company files the audited financial statements with Bursa on 31 March 2012. Refer to diagram below.

### Situation A

In all respects, auditors are required to perform audit procedures to satisfy that all events (either adjusting or non-adjusting) occurring between the date of the financial statements and the date of the auditor's report be identified (i.e. between 1.1.2012 to 15.3.2012).

The auditor then determines whether such events, if any, are properly accounted for and/or adequately disclosed in the financial statements.





**Situation B**

Based on the illustration, the auditor is not required to perform any audit procedures to search for subsequent events after 15.3.2012. However, post 15.3.2012, if the auditor is aware of any fact that may materially affect the financial statements,

the auditor should do the following:

- Discuss the matter with management (where appropriate, with those charged with governance) ;
- Consider whether the financial statements need amendment; and
- Enquire how management intends

to address the matter in the financial statements.

The auditor's next course of action depends on whether the management amends the financial statements or not as shown below:

<b>MANAGEMENT AMENDS THE FINANCIAL STATEMENTS</b>		
<ul style="list-style-type: none"> <li>• Carry out the audit procedures relevant in the circumstances of the matter.</li> <li>• Extend the procedures as performed under situation A to the date of the new auditor's report and provide a new auditor's report on the amended financial statements.</li> </ul>		
<b>MANAGEMENT DOES NOT AMEND THE FINANCIAL STATEMENTS</b>		
<b>Has the auditor's report been provided to the entity?</b>		
<p style="text-align: center;">▼</p> <p style="text-align: center;"><b>NO</b></p> <p style="text-align: center;">Modify the audit opinion and provide it to the entity.</p>	<p style="text-align: center;">▼</p> <p style="text-align: center;"><b>YES</b></p> <p style="text-align: center;">Have the financial statements been issued to third parties before necessary amendments have been made?</p>	
	<p style="text-align: center;">▼</p> <p style="text-align: center;"><b>YES</b></p> <p style="text-align: center;">Take appropriate action to seek to prevent reliance on the auditor's report</p>	<p style="text-align: center;">▼</p> <p style="text-align: center;"><b>NO</b></p> <p style="text-align: center;">Notify management not to issue the financial statements until necessary amendments have been made</p>

**Situation C**

Similarly, the auditor has no responsibility to perform any audit procedures after the financial statements have been issued (after 31.3.2012). Again, post 31.3.2012, if the auditor is aware of any fact that may have caused the auditor to amend his or her report, the auditor should perform similar procedures as discussed in Situation B.

If management amends the financial statements, the auditor should:

- Carry out the audit procedures relevant in the circumstances of the matter.
- Review the steps taken by management to inform public of the situation.
- Extend procedures performed under situation A to the date of the new auditor's report; and provide a new audi-

tor's report on the amended financial statements. In the new auditor's report, the auditor should include an 'Emphasis of Matter' or 'Other Matter' paragraph referring to a note to the financial statements that extensively discusses the reason of the amendments to the financial statements and the auditor's report.

If management does not take the necessary steps to ensure that anyone in receipt of the previously issued financial statements is informed of the situation and does not amend the financial statements in circumstances where the auditor believes they need to be amended, the auditor shall notify management and those charged with governance, that the auditor will seek to prevent future reli-

ance on the auditor's report. If, despite such notification, management or those charged with governance do not take these necessary steps, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report.

ISA 560 also provides that where the auditor believes that management, or those charged with governance, have failed to take the necessary steps to prevent reliance on the auditor's report on financial statements previously issued by the entity despite the auditor's prior notification that the auditor will take action to seek to prevent such reliance, the auditor's course of action depends upon the auditor's legal rights and obligations and recommendations of the auditor's legal counsel. ■

# QE route to CA success

THE **MIA QE** IS A CHALLENGING ROUTE TO A CHARTERED ACCOUNTANCY QUALIFICATION TAILORED TO THE LOCAL ENVIRONMENT. WE TALK TO THE QE HIGH ACHIEVERS IN THE MOST RECENT GRADUATION CYCLE TO ASSESS THE BENEFITS OF QE AND THEIR SECRETS TO SUCCESS.

Amalina Anuar



*The QE aims to train talents with world-class capabilities, accountants who will become the pillars of growth for the nation's economy and the generators of innovation that will assist Malaysia in competing in the global accounting and financial arena.*

**Datuk Mohd Nasir Ahmad**  
MIA President



John D. Rockefeller once said, "If you want to succeed you should strike out on new paths, rather than travel the worn paths of accepted success." This rang true for 36 successful graduates who took the alternative path to becoming certified chartered accountants (CA) through the Malaysian Institute of Accountants' (MIA) Qualifying Examination (QE).

A total of 36 successful graduates struck out on new paths to success at MIA's 4th graduation ceremony; 14 of the 36 earned distinctions in various papers in the QE. There was a total increase of 12% in the number of graduates for the year 2012, compared to the graduating class in the previous year.

### Adding Value to Accountants

The QE provides an alternative avenue for membership admission to MIA for those who do not currently possess a qualification. Not only is it a route to MIA membership, but in his speech during the graduation ceremony, MIA President Datuk Mohd Nasir Ahmad acknowledged it as "a thorough competency framework to develop highly skilled, knowledgeable and value adding accountants".

The QE equips its graduates with the technical skills and core knowledge that are sought after by employers. With this strong foundation, graduates of the QE are well-placed to excel in their chosen careers and industries.

Furthermore, the QE is a great tool to enrich the pool of talented accountants Malaysia is striving to develop in line with its economic transformation programmes. Nasir notes that it is imperative to train and cultivate a future generation of competent accounting or financial talents "to drive and support Malaysia's economic growth". The QE aims to train talents with world-class capabilities, accountants who will become the pillars of growth for the nation's economy and the generators of innovation that will assist Malaysia in competing in the global accounting and financial arena, he said.

### Benefiting from QE

E-mail interviews conducted with the QE high achievers attested to the strengths and breadth of the QE programme in building a strong knowledge foundation. Patrick Yap Foong Fatt, a manager in accounting and tax-related fields, said that the MIA QE provided him with a better and more in-depth understanding of his role in a firm.



Yap, as well as the other graduates, were quick to compliment the programme's benefits. One of the major advantages of the QE programme is the number of papers sat for in contrast to other examinations such as CPA and ACCA, which can shorten the route to achieving a chartered accountancy qualification. Vincent Tan Chai Teck, another of the six high scorers and an accountant at Klang's Hospital Wanita Metro, said, "I have to complete another six papers in order to qualify as their member (CPA and ACCA), whereas (with the) MIA QE, I just need to complete four papers to qualify as a Chartered Accountant." This also makes the QE a more cost-effective option for those who do not want to break the bank to achieve comparable professional accountancy qualifications.





*Lim Suet Ying*



*Nuraainaa Jamil*



*Patrick Yap Foong Fatt*



*Vincent Tan Chai Teck*



*Vincent Ng Boon Koon*



*Ruzaimawati Marzuki*

Another benefit of the MIA QE programme is the fact that it is custom-made for Malaysian variants in accounting and finance. Considering that it is part of the MIA and a local setup, sitting for the QE will enrich candidates' knowledge on Malaysian standards for taxation, accounting and finance. Whereas other CA qualifications appoint overseas experts and professionals to oversee the examination process, the QE is a wholly Malaysian process.

This is a definite plus for accountants who wish to further their careers in Malaysia, as the QE tuition keeps its candidates up to date with the latest changes and amendments to financial legislation, tax issues, accounting standards, and public rulings to Malaysia's accounting and financial industries. Ruzaimawati Marzuki, an employee in the finance industry, related, "The QE has kept me abreast with and exposed me to new Malaysian standards, regulation, laws and practices."

### Secrets to success

Though many regard the MIA QE as a harder examination when compared to other comparable qualifications, the low passing rate was not a deterrent for the high achievers. Nuraainaa Jamil, a credit controller at Ericsson Malaysia, said that the low passing rate is "part of the challenge which appeals to me". High distinction scorer in both the Business and Audit papers, Lim Suet Ying, explained that she had to convince herself to register for the QE because the low passing rate was intimidating.

Asked which paper was the most difficult, a number of graduates chose the Advanced Financial Accounting and Reporting (AFAR) paper, followed by the Audit and Taxation papers. However, Lim, who is currently the General Manager in Finance and Accounting at Saujana Marine Sdn Bhd, mentioned that the papers "were not easy but doable with discipline and hard work".

The need for hard work is a point that the high scorers stressed upon when giving advice to future candidates. Another factor that was fundamental to their success was their time management skills. As many of the graduates worked and studied at the same time, there was a constant struggle to balance and juggle spending time with family, work and their studies. Fortunately, they enjoyed strong moral support from family, friends, and colleagues, which also ranked as a key success factor.

Discipline is also one of the secrets of success. Vincent Ng Boon Koon, one of the six high scorers and Finance Manager at Jade Homes Sdn Bhd, a subsidiary of Gamuda Berhad, said that it was crucial to have strong determination and self-discipline in crafting and sticking to a study plan; he allocated "two hours per day consistently before bedtime to study, research and practise past examination questions".

# Lua & Co

(AF 1178)

## Improving the QE

Regardless of the MIA QE's challenges, the graduates fully encourage others that are interested in becoming qualified CAs to follow in their footsteps, citing the QE as an exceptional programme that has helped them achieve new milestones in their accounting careers.

When asked how the QE could be improved, the responses were underwhelming, a testament to the effectiveness and success of the programme. In fact, the needed improvement most commented upon was the MIA QE's lack of advertising: to recruit future accountants from Gen Y, there must be more initiative to sell and raise awareness of this programme at colleges and other educational institutions. Besides that, the QE should open its doors to non-accounting graduates as well; Nuraainaa pointed out that "there are a number of non-accounting graduates who would like to attempt [the] QE".

By marketing and promoting the MIA QE more broadly and opening it up to non-accountants, it is likely that MIA QE might attract more high-calibre candidates in future. This is essential if MIA QE is to fulfil its aim of helping to create a world-class pool of chartered accountants who can add value to the Malaysian economy and beyond. ■

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*Inspiring Your Business Growth*

# A word about Islamic Finance: *Part I*



In this first of a two-part article, **MASB staff** explain what is Islamic finance, and share the behind-the-scenes thinking that led the MASB to subject Islamic financial institutions (IFIs) to Malaysian Financial Reporting Standards (MFRS) - a verbatim adoption of International Financial Reporting Standards (IFRS).

## ● IN THE BEGINNING

In the mid-20th century, nationalism was palpable throughout lands under Western colonial rule. But unique to Muslim-majority countries, the quest for independence was often couched in religious terms. Hence, rejection of the colonialists' political, social and economic systems was accompanied with a desire for perceived Islamic substitutes. It was under these circumstances that the idea of establishing economic practices that would comply with Islamic law, or *Shariah*, was born.

One early experiment with *Shariah*-compliant economic practices was the Mit Ghamr Savings Bank. Established in 1963 in the small town of Mit Ghamr in Egypt, the bank primarily accepted savings and deposits, which were invested in local businesses with profits channelled back to depositors. Interestingly, during its life the endeavour was merely called interest-free banking as the government of the day was wary of 'Islamic fundamentalism' and overt mention of Islamic tenets was carefully avoided.

In the ensuing decades, however, a newly affluent populace, enriched by oil-wealth and economic growth, became bolder in demanding financial alternatives that would satisfy their heightened religious sentiments. Consequently, financial institutions and their regulatory bodies began to develop a multitude of products that would comply with *Shariah*.

From simple savings and loans, Islamic finance - as the industry came to be known - developed alternatives for many other modern financial products. To address the need for security and protection, an alternative to insurance called "takaful" was developed and offered by the General United Insurance Company of Sudan in 1968. The year 1975 saw the establishment of the first commercial Islamic bank, Dubai Islamic Bank, as well as the supranational Islamic Development Bank. In 1990, the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) was established and registered in Bahrain the following year. Also in 1990, Shell Malaysia issued the first corporate *Sukuk*, the *Shariah*-compliant answer to bonds.

Today there is an Islamic alternative for most conventional financial instruments, whether simple or sophisticated. Where there is none, it is usually due to a *Shariah* prohibition. However, proponents believe that far from being handicapped by *Shariah*, its rules serve to put Islamic finance in good stead and have largely shielded Islamic finance from the worst economic crisis since the Great Depression.

## ● PROSPERING AND MULTIPLYING

Islamic finance grew steadily through to the new millennium. Undoubtedly, Islamic financial institutions are dwarfed by conventional banks; *Shariah*-compliant banking assets total about USD1 trillion, compared to USD96 trillion for the 1,000 largest banks in the world. However,



they have been experiencing much higher growth rates. While many banks are still suffering the adverse effects of the 2007 subprime mortgage crisis and the 2008 global financial crisis, Islamic banks are comparatively insulated (though, admittedly, not immune) from the after-shocks. Some attribute this to *Shariah* rules which prevented involvement with the repackaged toxic assets responsible for the crises. Regardless, the Islamic finance industry continues to prosper, with the top 500 global Islamic financial institutions growing at 21% per year.

In recent years, there have been calls for Islamic finance to move into new areas - both that have already been explored by conventional counterparts, such as hedg-

ing and liquidity management, as well as uncharted territory which would require not just replicating existing conventional products but innovating new modes of finance that are 'purely' based on *Shariah*. Many of the latter proposals seem to involve moving away from debt financing to equity financing, and away from deposit-taking to investment management.

Government economic policies also seem to encourage Islamic finance, as it allows access to untapped capital and creates new economic opportunities. In Malaysia, the Securities Commission (SC) and the central bank, Bank Negara Malaysia (BNM) have included the Islamic finance sector as one of their targeted growth areas. BNM plans for

Islamic finance to account for 40% of total financing by 2020 from the current 22%; and the SC's Capital Market Masterplan 2 (CMP2) noted that in addition to growing primary capital market products, the SC will also identify potential opportunities in middle and back-office functions related to the Islamic capital market.

#### ● NOT BEING A MONEYLENDER, AND CHARGING NO INTEREST

Though many are aware of the existence of Islamic finance, few outside the industry are able to describe with certainty how it works and to what extent it is similar or different to conventional finance.

**> PROPONENTS BELIEVE THAT** far from being handicapped by *Shariah*, its rules serve to put Islamic finance in good stead and have largely shielded Islamic finance from the worst economic crisis since the Great Depression.



Firstly, Islamic financing is characterised by the use of trade contracts instead of loans. Charging interest on a loan principal is anathema, as lending is an act of benevolence in Islam. It is, however, perfectly acceptable to make gains on trading. In the Mit Ghamr example, the bank invested in local businesses, it did not give them loans. Returns to savers and depositors were accordingly share of profits, not interest. Other than direct investment, sales (*bai'*) and leases (*ijarah*) are also commonly used to achieve financing. An Islamic bank does not give out housing loans. The bank either buys the house then sells to the customer at a profit (a practice known as *Murabaha*), or the bank leases the house to the customer over the period of financing, with either gradual sales over the lease or a sale at the end of the lease.

As for customer deposits, some are amounts entrusted for safe-keeping, *Wadiah*, and the bank may give a gift, *Hibah*, to the customer for letting it use the money. Others may be based on an agency principle, *Wakalah*, where the bank appropriates an agency fee from the profit. *Mudarabah* splits profits between the bank and the customer according to a pre-agreed ratio, but classically any loss is borne by the customer. Strictly going by this rule, a *Mudarabah* deposit may not be a deposit at all; some consider *Mudarabah* necessarily in the realm of investment management and not deposit-taking.

Secondly, the subject of trade must usually be a tangible item or a permitted intangible. Permitted, however, means different things to different *Shariah* scholars. Land and buildings are a universal favourite, possibly overexposing Islamic finance to the real estate sector. *Usufruct*, or the right-of-use, in a lease is also popular. Other intangibles such as patents, trademarks and copyrights can fall into a grey area depending on what underlies the intangible. Trading in debt, or *Bai' al dayn*, though routine in the conventional sphere (e.g. in factoring, collateralised debt obligations), is a point of contention amongst *Shariah* scholars; exceptions do exist and in Malaysia a



..... ❁ ❁ ❁ .....

**> THE AVERAGE ISLAMIC BANK** would have a panel of *Shariah* experts to vet through the structure of its products and a *Shariah* board to endorse them and attest in its annual report to what extent the bank has complied with *Shariah*.

sale of debt may be allowed, for example, in the sale of home loans to the national mortgage corporation. And, obviously, trade related to a prohibited item (e.g. alcohol, tobacco, gaming) would not be permitted.

This leads to the third point of difference: the level of religious supervision. While most major religions have something to say about money, none of their adherents have developed faith-based finance to the extent that Muslims have. This is largely attributable to the Muslim mind-set which must consider the religious implication of every aspect of their lives, even those that seem profane to others, such as banking. Hence, the average Islamic bank would have a panel of *Shariah* experts to vet through the

structure of its products and a *Shariah* board to endorse them and attest in its annual report to what extent the bank has complied with *Shariah*. In well-regulated markets, bank regulators or supervisors would also have their own *Shariah* councils.

Although Islamic and conventional finance greatly differ in philosophy and in legal form, the former is often structured to provide the same economic effect as the latter. Hence, an Islamic bank customer is likely to incur roughly the same cash flows as someone with an otherwise similar conventional loan. This is especially true in jurisdictions where there is an incentive or compulsion to maintain parity with conventional banking.



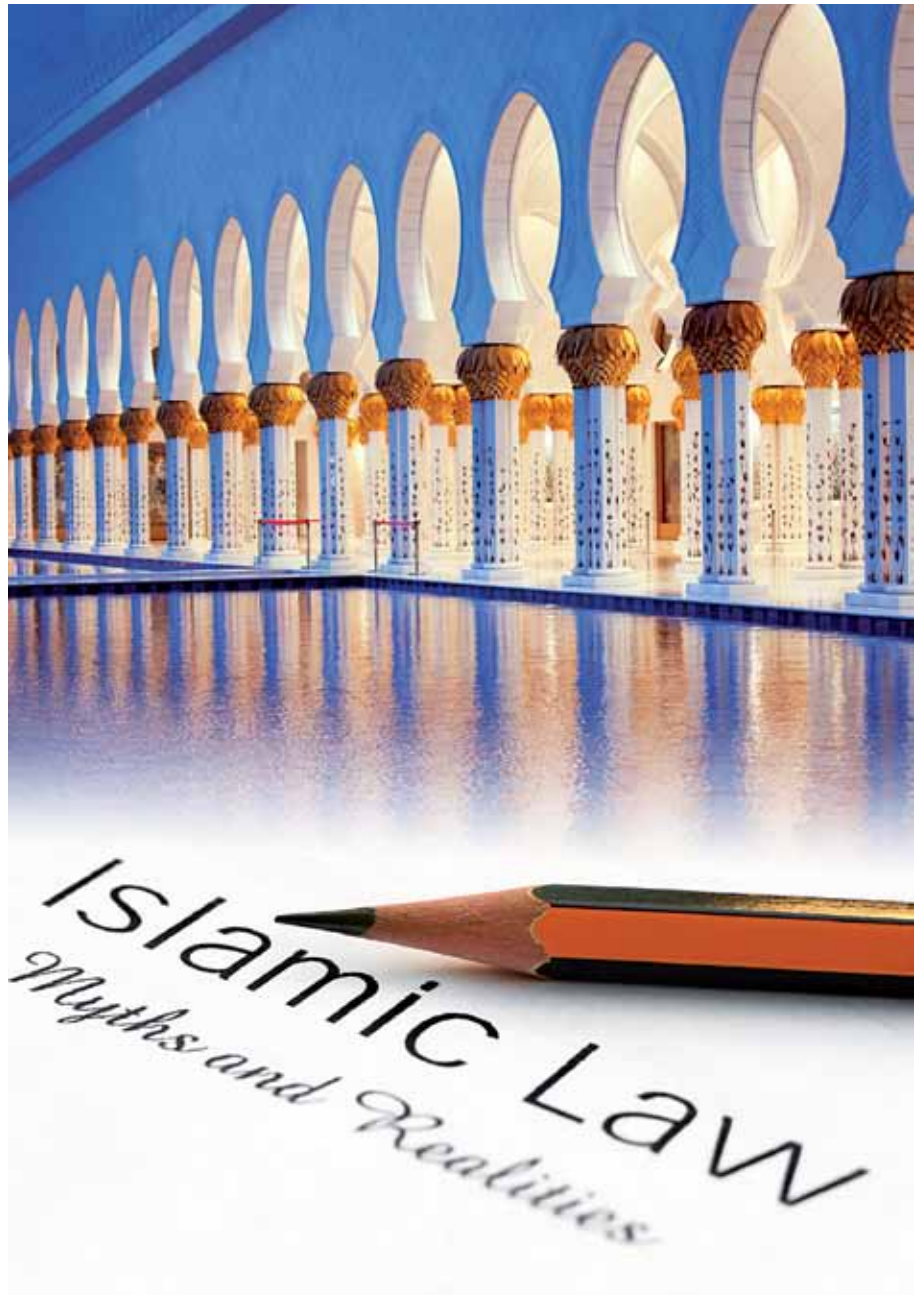
### ● SPEAKING THE TRUTH

Because Islamic finance takes on contractual forms that are different from conventional finance, there are those who believe different accounting standards would be required; for only then can the legal reality be conveyed to the reader of the financial statement. AAOIFI is the foremost advocate of separate Islamic accounting standards. Its stated approach is to accept generally accepted accounting principles except where it believes there is a conflict with *Shariah*. For the most part, this means that AAOIFI readily embraces innocuous concepts such as timeliness, reliability and understandability. But, historically, AAOIFI has been less welcoming to two key concepts in IFRS: substance over form and time value of money.

Accordingly, a financial statement prepared in accordance with AAOIFI standards can yield vastly different results from an IFRS-compliant one. Take, for example, the sale of a house by a bank to a customer. Let us say in 2001 a bank buys a house at RM500,000 and sells it to the customer at RM696,650. The customer will pay in monthly instalments over a period of 10 years. If the overall economic objective was ignored and only the legal contract considered, it could be said that this is a sale of goods where the gross profit is RM196,650. However, it would be most unusual for a bank to immediately report a RM196,650 profit.

AAOIFI appears to agree that recognition of profit is related to the repayment period, and under its Financial Accounting Standard (FAS) No. 2, *Murabaha* and *Murabaha* to the Purchase Orderer, the profit of RM196,650 would either be recognised proportionately over the repayment period or, in a departure from the accruals concept, as and when instalments are received.

Crucially, AAOIFI does not seem to acknowledge that the profit represents a financing element that is related to a principal disbursement. AAOIFI's requirement for proportionate allocation is often taken by stakeholders to mean a simple arithmetic division of total profit over the



number of instalments during the repayment period. This is because FAS 2 was prepared in accordance with AAOIFI's original conceptual framework, which propounded that "money does not have a time-value". Hence, AAOIFI does not require the pattern of profit recognition to be related to the amount of principal outstanding.

The concept of time value of money is, conversely, central to IFRS requirements for recognition of a financing

element. Under IAS 18, Revenue, when there is a difference between the fair value (i.e. RM500,000) and the nominal amount of consideration (i.e. RM696,650) the difference (i.e. RM196,650) is recognised as interest revenue (or 'financing' revenue, for the squeamish) using the effective interest method under IAS 39, Financial Instruments : Recognition & Measurement. The effective interest method amortises the cost of the financial asset (i.e. RM500,000) and allocates the



> **BNM's SHARIAH ADVISORY COUNCIL**, with SCM representatives in attendance, ruled that it was permissible to apply generally accepted accounting principles to Islamic transactions, which included the principles of accruals, substance over form, time value of money, and recognition based on the probability of a transaction occurring.



interest income (i.e. RM196,650) over the relevant period (i.e. 10 years), based on the effective interest rate (which, using a calculator, comes to about 7%).

**Table 1** provides an example of how different the pattern of income recognition can be under AAOIFI and IFRS. To further illustrate how even within AAOIFI standards there may be differing outcomes, the table shows both AAOIFI recognition based on proportionate allocation and recognition based on actual receipts, given the scenario that the customer misses an instalment in 2003 but pays up in 2004.

So, which is the true and fair representation of such an income stream? Like the story of the blind men touching different parts of an elephant, how the

elephant truly looks like depends on whom you ask. AAOIFI advocates would argue that its measurement requirement is true to the trading nature of *Murabaha*. The pro-IFRS camp would counter-argue that measurement based on the effective interest rate reflects the true substance of the sale, which is financing.

Faced with such a conundrum, MASB sought the opinions of the *Shariah* advisory councils of both the central bank, Bank Negara Malaysia (BNM) and the Securities Commission of Malaysia (SCM). In a meeting in October 2007, BNM's Shariah Advisory Council, with SCM representatives in attendance, ruled that it was permissible to apply generally accepted accounting principles to Islamic transactions, which included the princi-

ples of accruals, substance over form, time value of money, and recognition based on the probability of a transaction occurring. In short, there is generally no *Shariah* restriction to applying MASB approved accounting standards to Islamic financial transactions. Consequently, in September 2009, MASB issued a statement of principles (SOP) entitled SOP i-1, Financial Reporting from an Islamic Perspective to confirm that MASB approved accounting standards shall apply to *Shariah* compliant transactions, unless there is a *Shariah* prohibition.

The MASB respects AAOIFI's point of view, but does not share it. In MASB's opinion, information on the economic effect is as valuable as, if not more than, information on the legal contractual form.

Despite their contractual differences, many Islamic finance products are meant to replicate the economic effect of conventional products. Thus the MASB is more congenial to IFRS recognition and measurement bases which emphasise the economic substance of transactions. The MASB understands that the form of contract is also important from an Islamic perspective, and hence also encourages appropriate disclosures (which may include disclosures recommended by AAOIFI) to highlight adherence or departure from *Shariah* and to differentiate between *Shariah*-compliant and conventional contracts that are recognised and measured in a similar manner.

Additionally, the MASB found that the Islamic accounting standards available, namely those issued by AAOIFI, were designed for specific uses of limited types of contracts. They were not broad enough to deal with Malaysian products which used an amalgam of contracts to achieve

a single economic objective, and which sometimes used controversial contracts. For example, in the early 2000s Malaysian Islamic banks often used *Bai inah*, a form of sale-and-buy back, to structure various products such as personal financing and credit cards; despite its common use in Malaysia, AAOIFI accounting standards ignore *Bai inah* because its *Shariah* board deems it an impermissible transaction.

It also became evident that having separate Islamic standards could create undesirable opportunities for arbitrage and abuse. AAOIFI standards allow ample leeway for pushing items off balance sheet. For example, a lessee that would otherwise have to recognise lease obligations because it met the criteria for a finance lease under IFRS could conceivably understate its liabilities by availing itself to AAOIFI FAS No.8, *Ijarah* and *Ijarah Muntahia Bittamleek*, which requires all *Ijarah* to be treated as operating leases and not recognise a lease

liability.

Thus, it is for these reasons that when the IFRS-compliant Malaysian Financial Reporting Standards (MFRS) came into effect on 1 January 2012, no exemption was made for Islamic financial institutions. ■

*Disclaimer : The views and opinions expressed in the article do not necessarily represent the official views of the MASB. Official position of the MASB on accounting matters are determined only after extensive deliberations and due process. Thus, the article is intended to convey the general information only and they should not necessarily be taken as the official view of MASB.*

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**TABLE 1 : RECOGNITION AND MEASUREMENT OF INCOME FOR MURABAHA HOME FINANCING**

In 2001, a bank buys a house at RM500,000 and sells it to the customer at RM696,650. The customer pays in monthly instalments over a period of 10 years. In 2003, the customer misses an instalment but pays the amount in 2004. Below are the possible ways that the bank could recognise and measure income over the 10 years.

Under AAOIFI standards		Under IFRS	
Relevant paragraph(s) Requirement	FAS 2, paragraph 2/4/2 (a) Proportionate allocation of profits over period of credit	FAS 2, paragraph 2/4/2 (b) Profits recognised as and when instalments are received	IAS 18, paragraphs 11, 29, 30 IAS 39, paragraphs 9, AG5-AG8 Difference between fair value and nominal amount of consideration recognised as inter- est revenue ... in accordance with IAS 39
	RM	RM	RM
2001	19,665	19,665	33,866
2002	19,665	19,665	31,278
2003	19,665	18,026	28,503
2004	19,665	21,304	25,527
2005	19,665	19,665	22,337
2006	19,665	19,665	18,915
2007	19,665	19,665	15,247
2008	19,665	19,665	11,313
2009	19,665	19,665	7,094
2010	19,665	19,665	2,571
<b>Total profit / interest income</b>	<b>196,650</b>	<b>196,650</b>	<b>196,650</b>

# The standard for limited assurance review engagements

SMALL AND MEDIUM-SIZED ACCOUNTING PRACTICES ARE IDEALLY PLACED TO HELP THEIR SME CLIENTS DETERMINE WHAT LEVEL OF ASSURANCE OVER THEIR FINANCIAL STATEMENTS CAN BEST MEET THEIR NEEDS, AND NEED TO BE PREPARED TO RESPOND ACCORDINGLY.

## ADDRESSING THE NEEDS OF SMEs

**T**he global marketplace for assurance services for small and medium-sized entities (SMEs) is changing. As audit exemption for SMEs becomes more prevalent, the demand for non-audit assurance and related services is increasing. Small and medium-sized accounting practices are ideally placed to help their SME clients determine what level of assurance over their financial statements can best meet their needs, and need to be prepared to respond accordingly.

The International Auditing and Assurance Standards Board (IAASB)'s International Standard on Review Engagements (ISRE) 2400 (Revised), Engagements to Review Historical Financial Statements, issued in September 2012, can help.<sup>1</sup> Effective for periods ending on or after 31 December 2013, the revised standard includes strengthened requirements and additional guidance, and promotes a clearer understanding of the nature of a review engagement.



*SMEs that do not require a statutory audit may still want some degree of independent assurance to increase the credibility of their statements, in which case a review can be an ideal solution. Additionally, since the work effort involved in performing a review engagement is generally less than that in conducting an audit, a review should be a more cost-effective option.*

1. ISRE 2400 (Revised) follows the release earlier in 2012 of International Standards on Related Services (ISRS) 4410 (Revised) Compilation Engagements, a standard that also addresses services that meet the unique needs of SMEs.





### MERITS OF A REVIEW ENGAGEMENT

A review is a limited assurance engagement, which means it provides a level of assurance between that of an audit (a reasonable assurance engagement) and a compilation engagement (an engagement providing no assurance). ISRE 2400 (Revised) is designed not only to provide an effective and consistent level of limited assurance on financial statements, but

also to allow for efficient delivery of the service proportionate to the complexity of the statements reviewed.

SMEs that do not require a statutory audit may still want some degree of independent assurance to increase the credibility of their statements, in which case a review can be an ideal solution. Additionally, since the work effort involved in performing a review

engagement is generally less than that in conducting an audit, a review should be a more cost-effective option.

### WHEN TO CONDUCT A REVIEW ENGAGEMENT

Under the standard, a practitioner can only perform a review when there is both a rational purpose and when a review engagement is appropriate in the circumstances. What constitutes a rational purpose? A common example would be when a review, as opposed to an audit, will satisfy legal or regulatory reporting purposes. An engagement without a rational purpose, for example, is one in which there is a significant limitation in the scope of the practitioner's work when management unreasonably restricts the practitioner's inquiries to specified individuals.

When would a review engagement be considered "appropriate in the circumstances"? When a practitioner believes engagement risk can be reduced to an acceptable level. A review may not be appropriate, for example, for complex entities, such as banks or insurance companies, when inquiry and analytical procedures alone may not reduce engagement risk sufficiently. In these cases, an audit engagement may be more appropriate.

### REQUIREMENTS

Since a review engagement is intended to provide only limited assurance, how will practitioners know when they have enough evidence to support a conclusion? First, let's look at the conclusion itself, which in its unmodified form states: "Based on our review, nothing has come to our attention that causes us to believe that these financial statements do not present fairly, in all material respects..." Someone with no understanding of the standard might think a practitioner could express that conclusion having done nothing, i.e., nothing was found but nothing was done. This is the antithesis of what is required by the standard. Specifically, the standard requires that:

- every practitioner performing a review must comply with ethical requirements at least as demanding as those

*The standard requires a practitioner to design inquiry and analytical procedures to address all material items in the financial statements and to focus on areas where material misstatements are likely to occur.*

- practitioner does not become aware of a possible material misstatement, then performing inquiry, analytics, and procedures addressing specified circumstances may be sufficient. There is no requirement to do more work.

Note, however, that the practitioner can perform procedures other than inquiries and analytics, for example, observation or confirmation, at any point in the engagement. This is a matter of professional judgement. Performing these procedures does not turn the engagement into an audit – an audit is based on a different structure altogether – one of risk assessment, response to risks identified, and more comprehensive specified procedures – whereas the objective of a review engagement is to provide limited assurance on the financial statements as a whole.

The standard requires a practitioner to design inquiry and analytical procedures to address all material items in the financial statements and to focus on areas where material misstatements are likely to occur. There are also conditional requirements a practitioner must be aware of regarding related parties, going concern, fraud, and non-compliance with laws or regulations. The depth of inquiry and analytics is that required by a skilled practitioner with an understanding of the entity. The procedures must generate sufficient appropriate evidence to form the conclusion required by the report. The standard is designed so that if the

It may be that, in the practitioner's professional judgement, inquiries and analytical procedures either do not provide sufficient evidence to conclude on the financial statements, or something has come to the attention of the practitioner that would indicate the financial statements may be materially misstated.

In these instances, additional procedures must be performed to resolve the issue. Again, professional judgement in selecting these procedures is critical.

- concluding that the matter is not likely to cause the financial statements to be materially misstated; or
- concluding that the matter does cause the financial statements as a whole to be materially misstated, in which case the misstatement must be referred to in the practitioner's report; or
- being unable to draw a conclusion about the likelihood of a material misstatement, in which case, a scope limitation must be referred to in the practitioner's report.

A review engagement is an important service that provides a meaningful level of assurance, increases the credibility of financial statements, and helps meet the needs of a changing market. ISRE 2400 (Revised) is designed to be a globally accepted benchmark for undertaking such engagements. If you read it, you will understand why. ■

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# Audit Value key to talent retention

TRANSFORMING THE PERCEPTION OF AUDIT VALUE IS THE KEY TO OPTIMISING ACCOUNTING TALENT IN AUDIT FIRMS, SAYS THE MALAYSIAN INSTITUTE OF ACCOUNTANTS.

**A**udit firms operating in Malaysia today claim that the profession is suffering from a severe shortage of talent. To shed light on this issue, the Audit Oversight Board (AOB) and the Association of Chartered Certified Accountants (ACCA) Malaysia recently released a joint survey on 'Optimising Talent in Accounting Firms'.

Unsurprisingly, the survey found that factors like opportunities to gain diversified experience, high future earning potential, job security, competitive compensation, career development support, and optimum work-life balance are pivotal to talent attraction and retention.

"MIA is well aware of these expectations from many years of engagement with its members and stakeholders. Nevertheless, we welcome these findings which reaffirm the challenges and shortcomings facing the profession in the Malaysian environment," remarked MIA's Chief Executive Officer, Ho Foong Moi.

## Overcoming the Talent Retention Challenge

There is no shortcut to solving the problem and the talent challenge cannot be addressed in isolation disregarding other factors. In MIA's opinion, the issue of attracting and retaining talent in accounting firms cannot be resolved without concurrently addressing the perception of audit value among stakeholders, particularly audit clients.

"It is vital to communicate the true value of audit and assurance services. Closing the audit expectations gap that



*"Value, not volume, is the key to erasing this mismatch between auditors and clients."*

**HO FOONG MOI**  
MIA's Chief Executive Officer

separates clients and audit firms is the key to resolving the ongoing talent retention challenge for the accountancy profession," said Foong Moi.

However, the talent challenge cannot be addressed in isolation. In MIA's opinion, the issue of attracting and retaining talent in accounting firms cannot be resolved without concurrently addressing the perception of audit value among stakeholders, particularly audit clients.

"Industries are typically reluctant to pay competitive fees for audit and assurance services. In the experience of local audit firms, companies usually negotiate to bring down audit fees, treating audit

and assurance like a commodity rather than a value-added service. Indeed, it is commonly believed that the level of audit fees in Malaysia is the lowest audit fee structure among ASEAN and Asia-Pacific markets."

The low fee structure imposes extreme strain on audit firms and the profession. "Inadequate fees are one reason that audit firms are constrained from investing in talent and are unable to pay competitive salaries to retain staff. This results in inequitable distribution of work. In the long run, audit quality may decline," she explained.

The profession too is partly to blame for perpetuating the low-fee and low-value audit model, thereby shooting itself in the foot.

"Audit firms should refrain from undercutting one another to win market share. They should also refrain from accepting low-fee low-value compliance assignments to educate the market that audit and assurance services are high-value services which deserve competitive fees," said Foong Moi.

"Value, not volume, is the key to erasing this mismatch between auditors and clients," she concluded.

At the end of the day, mindset change and a whole new paradigm shift will be necessary to solve the talent retention conundrum. "MIA firmly believes that the solution to talent sustainability boils down to transforming the perception of the value of audit and communicating the value of audit in order to close the expectation gap between clients and audit firms," stressed Foong Moi.

"If audit firms and the profession as a whole are able to convince corporations about the value of the audit proposition, the entire audit eco-system will be able to move up the economic value chain," she said.

### Rebranding Audit Services as High Value Added

Promoting audit and assurance services as high-value and high-quality premium services should generate higher revenues and enable firms to invest more resources in competitive compensation and defined career development paths, two of the 'wants on the bucket list' in the AOB-ACCA report.

This would spur a virtuous cycle whereby more talent can be recruited and retained to increase the audit talent pool, said Foong Moi. Augmenting audit talent would enable more equitable distribution of work and thus, a better

work-life balance, another key factor for talent retention highlighted in the report.

Currently, MIA has embarked on key initiatives to rebrand and differentiate audit and assurance services. Internally MIA has set up a special task force which is responsible for creating awareness and communicating the true value and benefits of audits in order to raise the market perception of audit and assurance services.

"At the same time, MIA is actively collaborating with our stakeholders such as fellow regulators, institutions of higher learning, professional accountancy bodies and firms to develop a sustainable talent pool. One key focus area is uplifting accounting education in order to produce higher numbers of qualified and competent accountants through programmes such as CARE (Chartered Accountants' Relevant Experience), the

Bridging programme, and the Review of Accounting Degree Programmes," added Foong Moi.

"This is critical because the demand for qualified accountants remains buoyant and is anticipated to increase over the next few years. The Government and the economy are in need of highly competent accountants and financial talents to support Malaysia's economic transformation programme (ETP) towards becoming a high-income and developed nation by 2020," said Foong Moi.

At present, more than 29,000 MIA members are working in a wide spectrum of businesses and industries, both in Malaysia and cross-border. This is proof that "Our country is not short of young talents. What is needed is a concerted effort by all quarters to nurture and develop these talents into a competitive professional workforce," she concluded. ■

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# Audit vital for 21st century reporting

INDEPENDENT ASSURANCE IS KEY TO ENHANCING THE INTEGRITY OF SUSTAINABILITY REPORTING.

Amir Ghandar

**W**hile audit is sometimes taken for granted in the context of financial reporting, emerging types of corporate reporting are highlighting its fundamental value. The globally increasing practice of sustainability reporting has drawn attention to the importance of independent assurance, which would be further magnified by integrated reporting.

KPMG's International Survey of Corporate Responsibility Reporting 2011 showed marked growth in such reporting globally, doubling to nearly two-thirds of major corporates during the period from 1999 to 2011. The Global Reporting Initiative, which issues what is perhaps the most globally employed sustainability reporting framework, the G3.1 Guidelines, has also reported an upward trend in the number of such reports subjected to assurance.

Sustainability reports contain a broader range of subject matter than traditional financial statements. They include disclosures on the social, governance and environmental aspects of organisational performance and impact, as well as economic measures such as profit and equity that are found in financial statements.

Integrated reporting, as envisaged by the International Integrated Reporting Council (IIRC), seeks to bring together financial, sustainabil-



ity and other relevant reporting into a cohesive picture for stakeholders. This could conceivably also lead to further significance being placed on a wider spectrum of information, as covered in sustainability reporting.

Information that demands a broader range of areas of expertise, with more room for subjectivity in many of the disclosures included, means that sustainability reports come with a raft of challenges for the assurance practitioner. Precisely the same factors highlight the importance of assurance on sustainability reports. The judgement of an independent assurance professional, capable of bringing together a multi-disciplinary team, brings a level of integrity to sustainability reporting that is crucial in mitigating the risk of actual or perceived bias.

Overcoming the challenges of providing meaningful assurance across the gamut of disclosures in sustainability reporting requires revisiting assurance frameworks and pronouncements, as well as significant education and business capability

building across professions. A relevant development is the International Auditing and Assurance Standards Board's current project to update ISAE 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.

CPA Australia Chief Executive Alex Malley is a member of the IIRC, and has stated "Business leaders that don't encourage reporting on sustainability performance in an honest and transparent manner are doing themselves and the community a major disservice". In addition to adopting the principles of integrated reporting in its own annual report which carries independent assurance, CPA Australia has led a number of relevant initiatives including funding research, developing educational programmes from undergraduate to professional level and guidance material to support firms providing assurance on sustainability reports.

His Royal Highness the Prince of Wales has championed the Prince's Accounting For Sustainability Network, a recognised forerunner in the development and propagation of sustainability reporting. He states that accounting needs to move on from using "20th Century tools to solve 21st Century problems". It is clear that the audit and assurance fraternity have a vital role to play in this shift. ■

.....  
*Amir Ghandar is the Policy Adviser, Audit and Assurance in CPA Australia.*



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# Updates on tax reliefs for individuals

## What are the tax deductions or reliefs available for the year 2012?

MIA Professional Standards and Practices

**W**ell, the filing timeline is around the corner. For individual taxpayers, it's time to gather all your receipts and statements of income for purposes of completing your income tax returns for the year of assessment (YA) 2012

i.e. income received for calendar year ended 31 December 2012.

The due date to submit the income tax return forms, Form BE (individuals with employment income and other income) and Form B (individuals who are having business source

income) to the Inland Revenue Board (IRB) by manual will be due on 30 April 2013 and 30 June 2013 respectively. However, submission via online will be granted an extension of 15 days after the manual due date.

Except for some of the preliminary changes announced during the 2013 budget announcement in October 2012, the personal tax reliefs for YA 2012 are essentially similar with that of the year 2011. A comprehensive detail of the deductions had been published in the April 2011 issue of *Accountants Today*.

### THE CHANGES INTRODUCED IN THE 2013 BUDGET ANNOUNCEMENT ARE AS FOLLOWS:

- ① tax relief for Skim Simpanan Pendidikan Nasional (SSPN) increased from RM3,000 to RM6,000 (applies to YA 2012 – YA 2017)
- ② 1% reduction in income tax rate for each band below RM50,000 \*
- ③ tax relief on children's higher education increased from RM4,000 to RM6,000 \*
- ④ taxation on withdrawals of contributions made to Private Retirement Scheme (PRS) \*

\* The changes only take effect from YA 2013

The table below outlines the deductions or types of reliefs available to individual taxpayers in arriving at the chargeable (taxable) income for the year 2012:

TYPES OF INDIVIDUAL RELIEF	AMOUNT (RM)
Self and dependent	9,000
Medical treatment, special needs and caring expenses for parents	5,000 (Limited)
Basic supporting equipment	5,000 (Limited)
Disabled individual	6,000
Education fees (individual)	5,000 (Limited)
Medical expenses for serious diseases	} <b>Max 5,000</b>
Complete medical check-up	
Purchase of books, journals, magazines and similar publications	1,000 (Limited)
Purchase of personal computer (every three years)	3,000 (Limited)
Net saving in SSPN's scheme	6,000 (Limited)
Purchase of sports equipment for sports activities	300 (Limited)
Subscription fees for broadband registered in the name of individual (up to YA 2012 only)	500 (Limited)

TYPES OF INDIVIDUAL RELIEF	AMOUNT (RM)
Interest on housing loan Interest expended to finance purchase of residential property. Relief of up to RM10,000 a year for three consecutive years from the first year the interest is paid and subject to the following conditions: i. The taxpayer is a Malaysian citizen and resident; ii. Limited to one residential unit; iii. The sale and purchase agreement is signed between 10 March 2009 and 31 December 2010; and iv. The residential property must not be let out.	10,000 per year
Where: a. 2 or more individuals are eligible to claim relief for the same property; and b. Total interest expended by those individuals exceeds the allowable amount for that year. Each individual is allowed an amount of relief for each year based on the following formula: $A \times \frac{B}{C}$ Where; A : total interest allowable in the relevant year; B : total interest expended by the relevant individual in the relevant year; and C : total interest expended by all the individuals in the relevant year.	10,000 per year
Husband/ Wife/ Alimony payments	3,000 (Limited)
Disabled wife/ husband	3,500
Ordinary child relief	1,000
Each unmarried child age 18 years old and above	
• who is receiving full-time education; or	1,000
• who is receiving further education in Malaysia to an award of diploma or higher (excluding matriculation/preparatory courses); or receiving further education outside Malaysia in respect of an award of degree or its equivalent (including Master or Doctorate), at the Higher Education establishment, accredited by the Government authorities	4,000
Disabled child	5,000
Additional exemption for disabled child age 18 years old and above, not married and pursuing further education in Malaysia to an award of diploma or higher (excluding matriculation/preparatory courses); or receiving further education outside Malaysia in respect of an award of degree or its equivalent (including Master or Doctorate), at the Higher Education establishment, accredited by the Government authorities	4,000
Life insurance and Provident Fund	6,000 (Limited)
Private Retirement Scheme <sup>1</sup> and Deferred annuity	3,000 (Limited)
Insurance premium for education or medical benefit	3,000 (Limited)

## RECORDS KEEPING

Please note that under the self-assessment system, taxpayers are not required to submit the relevant receipts or invoices to the IRB when submitting their income tax return form. However, the individual taxpayers are required to keep and retain those documents for 7 years in case they are required by the IRB in any tax audit, tax clearance or tax refund purposes.

1. Applicable for YA 2012 to YA 2021 only.





# Getting ready for Goods and Services Tax

AFTER A SERIES OF POSTPONEMENTS, THE IMPLEMENTATION OF GOODS AND SERVICES TAX (GST) IS IMMINENT. THE FOLLOWING ARTICLE SERVES AS A REFRESHER FOR MEMBERS.

MIA Professional Standards and Practices



First announced in the 2005 Budget, the then Prime Minister Dato' Seri Abdullah Haji Ahmad Badawi said:

*"....The Government proposes to replace both taxes (Sales Tax and Service Tax) with a single consumption tax, based on the value-added concept. The new tax, known as the Goods and Services Tax (GST), will be more comprehensive, efficient, transparent and effective, thereby enhancing tax compliance...."*

## ● OVERVIEW OF MALAYSIA GST

Goods and Services Tax (GST) is also known as Value Added Tax or VAT in many jurisdictions. The Royal Malaysian Customs (RMC) acts as agent of the Government and administers, assesses, collects and enforces payment of GST. The GST is to replace the existing single-stage sales tax (10%) and service tax (6%) imposed under the Sales Tax Act 1972 and the Service Tax Act 1975

respectively. It has been seen as a means to lower personal and corporate tax rates while widening the revenue base of the Government *vis-à-vis* maintaining a steady stream of revenue for the Government.

Despite that there have been numerous postponements subsequent to the announcement (as the Government needs more time to gather comments and feedback from the public to ensure

the laws and regulations relating to the implementation of the GST are all in place and well-received), GST implementation is imminent. Hence, businesses and organisations need to be prepared for GST implementation. This is to avoid any failure in complying with or meeting the GST requirements (as and when implemented) which would result in unpleasant consequences or penalties.

The article aims to shed some light on the understanding of and approaches towards GST planning in preparation for the upcoming GST implementation.

Under the proposed GST model in Malaysia, GST shall be charged and levied on any supply<sup>1</sup> of goods or services in Malaysia (except for designated areas such as Langkawi, Labuan and Tioman), if it is a taxable supply<sup>2</sup> made by a taxable person<sup>3</sup> in the course or furtherance of any business<sup>4</sup> carried on by him, and any importation of goods/services into Malaysia.

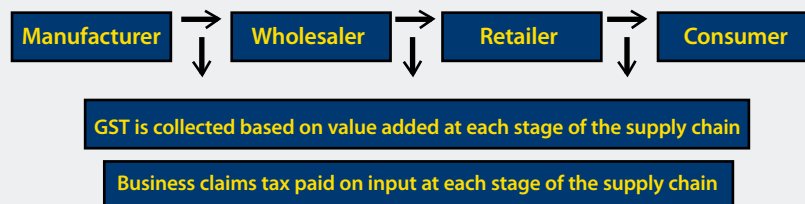
GST is an indirect tax which is levied at the selling price of the goods and services (expressed as a percentage) provided by GST-registered business entities/organisations. The Government has indicated that the proposed rate of GST, when it is implemented, will be at the rate of 4%. GST is charged to the end-consumer and the business supplying the goods and services merely acts as collecting agent on behalf of the Government and thus, it will not become a cost to the taxable person.

### ● WHAT IS GST PLANNING?

The objective of tax planning is to arrange one's financial affairs in such a manner within the legitimate purview of the law, with the view to eliminate or reduce payment of taxes. As GST is a relatively new form of tax and as it is forthcoming, GST planning is essentially important to ensure that businesses and organisations adopt a pro-active attitude and make full use of the time available to organise the business to be GST-ready. GST planning is also important to ensure that every aspect of business transactions is well-managed and businesses have a full appreciation of the GST rules.

#### GENERAL CONCEPT – SCOPE OF CHARGE

GST is a multi-stage consumption tax levied on the supply of goods and services at each stage of the supply chain from the supplier up to the retail stage of the distribution as illustrated below:



#### WHAT DOES GST PLANNING ACHIEVE?

In order to avoid any unnecessary liabilities, understanding of GST rules and practices are pertinent. The purpose of GST planning is to have proper procedures in place to ensure good compliance. Some of the areas of concern in GST planning, *inter alia*, are:

COMPLIANCE ISSUES	AREAS TO TAKE NOTE OF:
a. GST registration	<ul style="list-style-type: none"> <li>Whether or not to register (compulsory or voluntary registration and/or group registration<sup>5</sup>) or deregister.</li> <li>the general guide on GST issued by the RMC prescribes compulsory registration if taxable turnover exceeds RM500,000 over a twelve-month period.</li> <li>the taxable turnover for a period of 12 months can be determined either on the historical<sup>6</sup> or future method<sup>7</sup>.</li> <li>the effective date for mandatory registration is on the first day of the month following the month in which the registered person is required to register.</li> <li>Registration and cancellation</li> <li>for registration, the prescribed Form GST-01 "Application for Goods and Services Tax Registration" is used together with the required documents.</li> <li>for group registration, the prescribed Form of GST-02 is to be submitted manually or electronically to the nearest RMC office.</li> <li>cancellation can be made within 30 days from the date of cessation of business or intention to cease making taxable supplies using Form GST-Adm4.</li> </ul>

- <sup>1</sup> 'Supply' is defined under Section 4 of the GST Bill as 'all forms of supply, including supply of imported services, done for a consideration and anything which is not a supply of goods but is done for a consideration is a supply of services'.
- <sup>2</sup> Taxable supply means a supply of goods and services, other than an exempt supply but includes a zero-rated supply.
- <sup>3</sup> Taxable person refers to any person who is or is liable to be registered under the GST Bill. Person includes individual, corporation, Federal Government, State Government, statutory body, local authority, society, trade union, co-operative society, joint venture, trust, partnership and any other body, organisation, association or group of persons, whether corporate or unincorporated.
- <sup>4</sup> Business includes any trade, commerce, profession, vocation or any other similar activity, whether or not it is for a pecuniary profit. A club, association, society, management corporation, joint management body or organisation (for a subscription or other consideration) is deemed to be carrying on a business for GST purposes.
- <sup>5</sup> Allows two or more related companies to register as a group and the prerequisite conditions are required to be complied with.
- <sup>6</sup> Based on the value of the taxable supplies in any month plus the value of the taxable supplies for the 11 months immediately before that month.
- <sup>7</sup> The taxable turnover is based on the value of taxable supplies in any month plus the expected value of taxable supplies for the 11 months immediately after that month.

COMPLIANCE ISSUES	AREAS TO TAKE NOTE OF:
b. Classification of supply which entails understanding of the business transaction	<b>A. PLACE OF SUPPLY</b> <ul style="list-style-type: none"> <li>It is important to ascertain the place of supply as GST is charged on a supply of goods or services made in Malaysia<sup>8</sup>.</li> <li>Supply of goods <ul style="list-style-type: none"> <li>Goods are supplied in Malaysia <ul style="list-style-type: none"> <li>supply of any goods that involves removal from a place in Malaysia to another place within Malaysia or to a place outside Malaysia.</li> </ul> </li> <li>Goods are supplied outside Malaysia <ul style="list-style-type: none"> <li>supply of goods which involves removal from a place outside Malaysia to a place inside Malaysia or to another place outside Malaysia.</li> </ul> </li> </ul> </li> <li>Supply of services <ul style="list-style-type: none"> <li>the supplier (supply) of services is deemed to be made in Malaysia if: <ul style="list-style-type: none"> <li>he (the supplier) has a business establishment or fixed establishment only in Malaysia; or</li> <li>he does not have any business establishment but his usual place of residence is in Malaysia<sup>9</sup>.</li> </ul> </li> </ul> </li> </ul>
	<b>B. VALUE OF SUPPLY</b> <p>The value of supply of goods or services may be:</p> <ul style="list-style-type: none"> <li>for a consideration in money (~ to value + GST); or</li> <li>for a consideration not in money or partly in money and partly in kind or the supply is made for no consideration (~ open market value).</li> </ul>
	<b>C. TIME OF SUPPLY</b> <ul style="list-style-type: none"> <li>The time of supply is the time when GST must be levied on a taxable supply.</li> <li>The time when a supply of goods or services is treated as having taken place is the earliest of: <ul style="list-style-type: none"> <li>removal of goods;</li> <li>time the goods were made available to the buyer and, in the case of services, the time the services were performed;</li> <li>time of payment; or</li> <li>time of issue of tax invoice<sup>10</sup>.</li> </ul> </li> <li>"21 days rule" – if the tax invoice is issued within 21 days from the time when goods/ the performance of the services are removed or made available, the time of supply is when the tax invoice is issued.</li> </ul>
c. Accounting period for GST reporting	<ul style="list-style-type: none"> <li>The taxable period will be determined at the time when the GST registration is approved i.e. monthly basis, quarterly basis and six months' basis.</li> </ul>
d. Filing obligations	<ul style="list-style-type: none"> <li>Every taxable person is required to account for tax in a GST return using Form GST-03.</li> <li>GST-03 form is required to be furnished to the RMC not later than the last day of the month following the end of the taxable period.</li> <li>The submission (regardless of whether or not there is tax to be paid) can be done: <ul style="list-style-type: none"> <li>submitted electronically;</li> <li>posted to the GST Processing Centre; or</li> <li>furnished to the nearest GST station.</li> </ul> </li> </ul>

8. Malaysia in this context includes the territories of the Federation of Malaysia, its territorial waters and the sea-bed and sub-soil of the territorial waters.

9. Where the supplier of services has establishments in more than one country, he belongs in the country in which the establishment most directly concerned with the supply of services is located.

10. A tax invoice is a document containing the prescribed particulars of the supply that has been made which must be issued within 21 days from the time of supply or any longer period as the Director General may allow. It is an essential evidence to support a customer's claim for the deduction of input tax which can be a full tax invoice, simplified or self-billed invoice.



COMPLIANCE ISSUES	AREAS TO TAKE NOTE OF:
	<ul style="list-style-type: none"> <li>Any amendment to GST return (Form GST-04) can only be submitted if the amendment is made not later than the last date to furnish the GST return. After which, any declaration to rectify the amendment should be made through voluntary disclosure.</li> </ul>
e. Timely payment of tax	<ul style="list-style-type: none"> <li>Any tax due as shown on a GST-03 form must be paid to the RMC at the same time when the return is submitted using Form GST-06.</li> </ul>
f. Accounting software/ Specialist	<ul style="list-style-type: none"> <li>A good accounting and finance software package would be an advantageous tool to ensure the correct GST calculation.</li> </ul>
g. Record-keeping	<ul style="list-style-type: none"> <li>Retain adequate records of business transactions relating to GST in the national or English language for seven years.</li> </ul>

#### ● CONCLUSION

As a registered person, he is responsible to comply with all the following requirements under the GST legislation:

- account for GST on taxable supplies made and received;
- submit GST return and pay tax by the due date;
- issue tax invoice on any taxable supply made unless as allowed by the Director General;
- inform RMC of the cessation of business within 30 days from the date of business cessation; and
- inform RMC on any changes of address, taxable activity, accounting basis and taxable period.

GST is not just about collecting and paying taxes. As such, it is important for businesses and organisations not to ignore the need for planning when considering how the GST would impact every aspect of business transactions such as information technology, finance and administration, sales and marketing etc. It will also involve cash flow issues as the nature of the tax itself for any incorrect application towards GST rules could result in unnecessary tax liabilities and costs.

Further, GST requires good and proper record-keeping by registered businesses and organisations. This can lead to improvements in the maintenance of proper accounts and financial records. ■



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# Going Dutch

The Netherlands is banking on its highly competitive tax infrastructure to attract foreign investments, especially Asian business.

Celia Alphonsus



**A**mong European countries, the Netherlands' highly competitive tax infrastructure is a magnet for entrepreneurship and foreign direct investment (FDI).

According to the FDI Report 2012, the number of foreign investment projects in Europe declined by 3%. However, the Netherlands is amongst one of the few small and medium-sized economies that showed significant inward growth of FDI by approximately 29%. The top investment destination in the European Union in 2011 was the United Kingdom followed by Germany while the Netherlands ranked 8th with 185 projects. The investment in the Netherlands amounted to 1,472 million Euros. More than half of the investments came from Asia, followed by North America and the balance from Europe, the Middle East, Australia, Africa and South America.

Today, the Netherlands' trade and investment policy is among the most open in the world, with combined merchandise exports and imports exceeding its GDP. The government of the Netherlands maintains liberal policies toward foreign direct investment and adheres to OECD investment codes.

A key incentive for Dutch FDI is the country's tax rate. The Netherlands offers one of the lowest corporate tax rates in the region. Currently, companies are taxed at rates between 20 - 25%; the rate depends on whether taxable profits exceed the threshold of 200,000 Euros or fall below. The corporate income tax rate was reduced from 25.5% in 2012 to be more competitive.

Plus, there are several features of the Netherlands tax infrastructure that have proven attractive for foreign companies to invest or set up their European HQ in the country. These include:

## **A far-reaching tax treaty network: avoidance of double taxation**

Netherlands is a signatory to a Treaty for the Prevention of Double Taxation with many countries all over the world including Malaysia. A Double Taxation Prevention Treaty facilitates offsetting tax paid in one of two countries against the tax payable in the other, thus preventing double taxation.

The Netherlands has concluded more tax treaties than most other countries in the international treaty network. This is coupled with EU membership, whereby corresponding access to EU treaties ensures minimal taxation on payments to the EU grouping.

## **A system of bonded warehouses ensures duty is only paid on re-export**

As foreign trade and investments is a major contributor to the Dutch economy,



the Dutch government is focused on creating an attractive business climate for foreign companies. One key factor is enhancing cash flow advantages through customs bonded warehouses.

Usually, customs duties are due when goods are imported into the European Union (EU). But the Netherlands allows the payment of these duties to be deferred through the storage of the goods in a customs bonded warehouse. The company pays the import duties only when the goods are shipped out of the warehouse.

The Netherlands has put in place a system that provides for the deferment of VAT (value-added tax or goods and services tax) at the time of import. Instead of paying VAT when the goods are imported, the payment can be deferred to a periodic VAT return. Under this system, the VAT at import should be declared but the amount can be deducted on the same return. Essentially there is no actual payment of VAT at the import stage; this enables companies to realise cash flow and interest earning benefits.

#### **Advanced pricing agreements (APA)**

Another traditional benefit of the Netherlands tax regime is the open attitude of the Dutch tax authorities. Unlike many other countries, the Netherlands offers the possibility to discuss tax positions in advance with the Dutch tax authorities. These discussions can be formalised in agreements with the Dutch tax authorities that offer optimum certainty in advance.

#### **Advance tax ruling (ATR) whereby a company's future tax liability is settled**

An ATR provides investors certainty in advance regarding the tax consequences of certain international structures and/or transactions. Companies can request an ATR for:

- Participation exemption for intermediate holding companies or top holding companies.
- International structures in which hybrid financing forms or hybrid legal forms are involved.
- The (non)existence of a permanent establishment in the Netherlands.

The Dutch participation exemption has been a major attractor of companies to the Netherlands. This benefit allows the receipt of dividends and capital gains from subsidiaries free of tax in the Netherlands. This has no doubt made the Netherlands very attractive for expansion into Europe and the rest of the world.

## **IMPACT OF THE DUTCH BUDGET 2013 ON FDI**

The Dutch Budget 2013 held no major changes for foreign investors. The Netherlands is still attractive due to:

- Participation exemption
- Fiscal unity
- Innovation box (5%)
- No withholding tax on interest and royalties
- 30%-ruling for qualifying employees
- Corporate Income Tax rate of 25% (20% on first EUR200,000)
- Loss compensation
- Double Taxation Agreements

## **FLEX BV**

In 2000, the European Council announced that Europe should be the most competitive market in the world by 2010. In line with this objective, several member states amended and simplified their company laws. In the Netherlands, the Private Company Law (Simplification and Flexibilisation) Act or the 'Flex BV' entered into force on 1 October 2012. Meanwhile, the One-Tier Board Act entered into force on 1 January 2013.

### **Benefits of the Flex BV**

The BV's rules on capital and capital protection (including protection for creditors) are more flexible. Highlights include:

- Distribution of dividends and reserves are subject to a distribution test to be applied in advance;
- Financial assistance rules abolished;
- Rules on decision-making relaxed; private character of the BV less strict.

### **Capital and Capital Protection**

- Minimum required paid up share capital of EUR18,000 abolished;
- No mandatory control that issued shares upon incorporation BV are paid up;
- Contribution in kind no longer requires an auditors' statement;
- Having an authorised capital is no longer mandatory but optional.

*Information sourced from: VoskampLawyers*



### **Innovation Box tax rate of 5% to stimulate Research & Development**

One of the priorities of the Dutch government is to attract more investment in innovation by making research costs tax deductible. Besides tax benefits for wage costs involving research and development (R&D), investments in innovation are corporation tax deductible from 2012.

### **Corporate and Individual Tax Benefits**

The general Dutch corporate income tax rate is 25%, which is more competitive compared to other countries in the region. Also, the taxes on income distributed are in general much lower than in other countries.

To further attract foreign investment, the Netherlands also has a special tax regime for expatriates, the so-called 30% ruling, which provides a substantial income-tax exemption (up to 30%) on their salaries. This is viewed as a reimbursement of the extra costs involved in living abroad, making it more attractive for expats to live in the Netherlands. This is a benefit that is advantageous to the employer in negotiating (net) salaries.

When a company considers establishing itself in a foreign country, it will consider that country's tax system. The simpler and more attractive the tax system, the more likely it is that this country will attract new businesses.

The Netherlands has successfully attracted more than 6,300 foreign companies to establish over 8,800 operations in the country. Among the many prominent international companies that have taken advantage of the Netherlands' Foreign Investment Agency's (NFIA) services as they located their operations in the Netherlands are North American companies like Abbott Laboratories, Boeing, Bombardier, Cisco Systems, Dow, Eastman Chemical, Heinz, Medtronic, NCR Corporation and Reebok, along with European companies such as Bosch, Danone, Siemens and RWE. In addition, NFIA assisted a large number of companies from Asia and the Middle East - such as Astellas, BenQ, Daewoo,

## **NUMBERS TELL THE STORY**

How does the Netherlands rank in international business surveys?

- It is the 2nd best country to do business after Hong Kong according to Bloomberg's Best Countries for Business 2012.
- The World Economic Forum (WEF) Global Competitiveness Index places the Netherlands in 7th position among the world's most competitive economies.
- The Economist Intelligence Unit (EIU) has consistently ranked the Netherlands 7th in its global business environment survey for the period from 2008 up to 2012.
- Amsterdam is ranked 4th by Cushman and Wakefield in the European Cities Monitor survey on best cities in which to locate a business.
- FDI magazine ranks Amsterdam as the 2nd best large European city with regards to infrastructure and human capital, and 3rd as "best city of the future" after Edinburgh and Glasgow in its survey of the best European cities and regions of the future in 2012.



Fujifilm, Giant, Hitachi, Huawei, ICBC, LG Electronics, SABIC, Samsung, Saudi Aramco and Tata Consultancy.

### **Services, Teijin and Yakult - with their Dutch investments.**

Although many large, global businesses do have headquarters in the Netherlands, it is also a great place for smaller businesses to locate their European headquarters as well. The same benefits - pro-business tax structure, plentiful labour, developed infrastructures and quality of life - hold true for businesses of all sizes. Besides, there are no restrictions on foreign ownership of the shares of a company, and the tax benefits are applicable to local and foreign-owned companies alike. These benefits bode well for Malaysian SMEs who are bullish on

international expansion.

According to Agnes Seah, Project Manager for NFIA Malaysia, many Malaysian NFIA clients are happy with the Dutch's pro-business stance and minimal bureaucracy, "Malaysian companies based in the Netherlands are satisfied with the current tax system and find it to be straightforward and the Dutch tax authorities approachable." She encouraged interested local companies to approach the Netherlands Foreign Investment Agency ([www.nfia-malaysia.com](http://www.nfia-malaysia.com)) for free assistance on how to expand their business to Europe. Apart from providing a business edge, the competitive Netherlands tax infrastructure is advantageous for investors seeking a gateway into the European market.

## SNAPSHOT OF DUTCH TAX INCENTIVES

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In general, incentives in the EU are rather limited. However, the Netherlands has introduced incentives which are more focused on value creation and R&D via private-public partnerships (PPP), the promotion of green energy, and the ease of settling and working in the Netherlands for expatriates. To gain an edge in the competition for FDIs, the Netherlands has introduced the following incentives in the past few years.

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Innovation Box results in an effective tax rate of only 5% for R&D income from self-developed patented intangible assets and also from self-developed unpatented intangible assets which qualify for the so-called WBSO.

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- WBSO is a contribution towards the wage costs of employees carrying out R&D. The tax benefit consists of a reduction in wage tax and social security contributions paid for these R&D employees.
- RDA is a tax allowance for investments in R&D. While the wage component is supported by the WBSO, the RDA focuses on the other cost components. You may deduct a percentage of your investments from the corporate income tax.
- Innovation Box results in an effective tax rate of only 5% for R&D income from self-developed patented intangible assets and also from self-developed unpatented intangible assets which qualify for the so-called WBSO.
- Energy Investment Allowance (EIA) is for companies that invest in energy-saving installations, or that make use of sustainable energy. They can deduct 41.5 % of the invested sum from their taxable profits for the year in which the goods are purchased.



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The Netherlands has a special tax regime for expatriates, the so-called 30% ruling, which provides a substantial income tax exemption of up to 30%, for a period of up to 96 months. This is viewed as a reimbursement for the extra costs involved in living abroad.

- **MIA/Vamil:** The MIA scheme allows you to deduct up to 36% of the cost of an environmentally friendly investment from your fiscal profit over the calendar year in which the equipment was purchased. The Vamil scheme lets you decide for yourself when to write off your investment costs.
- **Subsidy scheme sustainable energy production (SDE+).** You can apply for a subsidy for the production of sustainable electricity, sustainable heat or combined generation of sustainable heat and electricity or green gas.
- **Fast-track permits** for highly skilled migrants from outside of the EU. Employers wishing to employ highly skilled migrants are no longer required to also apply for work permits. They will only have to submit an application for an MVV and/or a residence permit for the employee and his or her family.
- **30% ruling for expats:** The Netherlands has a special tax regime for expatriates, the so-called 30% ruling, which provides a substantial income tax exemption of up to 30%, for a period of up to 96 months. This is viewed as a reimbursement for the extra costs involved in living abroad.
- **The Business loan guarantee scheme** makes it easier for large and medium-sized companies in the Netherlands to borrow substantial amounts of money. Capital providers receive a 50% guarantee from the government.
- **The Growth Facility Scheme** makes it easier for SMEs to raise capital. Under the scheme, financiers who provide venture capital to SMEs receive a guarantee: if the bank or venture capital company incurs a loss on the investment, 50% can be reclaimed from the Ministry of Economic Affairs.
- **Work-related costs scheme.** You, as an employer, may use 1.4% of the total taxable pay (discretionary margin) for tax-free expense allowances and benefits for your personnel.
- **Employee education and training tax rebate.** The overall aim is to increase job opportunities and work participation by offering financial benefits to employers. In the Netherlands, employers withhold taxes on wages for all their employees. The schemes' reductions allow the employer to transfer less money to the government.
- **RDA is a tax allowance for investments in Research & Development (R&D).** Whereas the wage component is supported by the WBSO, the RDA focuses on the other cost components. You may deduct a percentage of your investments from corporate income tax. It concerns investments in, among other things, rental of equipment, purchase of materials and investments in a laboratory.



- **Percentage of 54%.** The RDA-percentage for 2013 is determined to be 54%, which will create a tax advantage to corporate income tax payers of 13.5% (i.e. 54% of the corporate income tax rate of 25%) of the costs and expenses that are directly attributable to R&D.

### Conditions

- You use the WBSO scheme (you can combine your RDA & WBSO application).
- You incurred R&D expenses. For example, for equipment and materials.

### Examples of costs

- Consumer goods, materials and raw materials regarding experiments or the production of trial batches;
- Materials and parts regarding the manufacturing of prototypes by the taxpayer itself or by third parties;
- Acquisition of licenses for specific software packages or ICT tools;
- Carrying out measurements or testing of prototypes; renting of equipment from third parties.

### Examples of expenses

- (Parts of) buildings (for example, the part where a laboratory is situated);
- Specific ICT assets for R&D, equipment or instruments for R&D or for the manufacturing of models, trial batches or prototypes. ■



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Pioneering Change

# Boosting SMPs through supporting SMEs?

Malaysian small and medium practices (SMPs) at a crossroads? Providing a rich range of business advisory services to SMEs, beyond traditional compliance, can enrich the growth of SMPs. But the inherent challenges have to be addressed through capacity building, strategic development, two-way communication, mindset changes, and networking among other initiatives.

**Salihin Abang**

**C**urrently, small and medium enterprises (SMEs) constitute an overwhelming majority of private sector enterprises in developed and developing economies. In the context of the Malaysian economic climate, SME has become an integral component to national economic growth particularly in creating employment opportunities and broadening the nation's export base. According to the Economic Report 2010/2011 from the Ministry of Finance Malaysia, SMEs contribute 31.9% of Gross Domestic Product (GDP), constitute 99.2% of business establishment and contribute 56.4% to total employment.

One of the important contributors to the development of SMEs in Malaysia is the strong presence of small and medium practices (SMPs). SMP definition varies from one jurisdiction to another. According to the International Federation of Accountants (IFAC) (2006), SMP is an accounting practice/firm that exhibits the following characteristics: its clients are mostly small and medium-sized entities; external sources are used to supplement limited in-house technical resources; the majority of client work may be non-assurance services; it employs a limited number of professional staff and it executes less formal quality control procedures. According to Suruhanjaya Syarikat Malaysia (SSM), in Malaysia as at 31 December 2010, there were 1,514 professional accountants in public practice licensed to conduct statutory audits



and practicing in 1,475 audit firms, including sole practitioners.

SMPs' roles of establishing contracts and gaining trust by virtue of their professional standing and through their compliance and audit work have expedited the progression of SMEs. Furthermore, SMPs are gradually becoming the main source of advice, especially in matters relating to regulation and compliance due to SMEs' limited in-house capacity and expertise. Therefore, SMEs value SMPs as one of the trusted sources of business advice for improving their competence and integrity. As such, SMPs are becoming an important catalyst to SMEs to help them perform in a more effective and efficient way, assist in compliance with the rules and regulations, provide business support services and play a pivotal role in SMEs' financing needs.

## ● Changing Role of SMPs

Evidence suggests that as the number and variety of SMEs expand, their needs for business regulatory requirement are growing and changing from traditional statutory compliance towards a much wider continuum of business advisory-type services. As a consequence, SMPs need to review their level of knowledge, training and management strategies in meeting these demands since now they are acknowledged as finance managers rather than compliance officers.

In Malaysia, while the diversification of the role of accountants presents a great opportunity to SMPs, it also brings new challenges for them in term of becoming more technically specialised and strategic to business performance. These challenges can be categorised into three categories: SMEs' perception of SMPs, cost concerns and lack of resources.

## ●● Challenges

The first challenge is the difficulty of cracking established tradition in the past. There are a considerable number of SMEs that have difficulty accepting advice from SMPs, but rather prefer to carry on with traditional practices or customs which probably have become irrelevant in the context of modern practice. For instance, they seem to be oblivious to the changes in fundamental law requirements that have now become essential to their business operations. Moreover, some SMEs simply hire non-professional staff and later bring in SMPs to clean up their 'dirty work'. Last but not least, some SMEs perceive SMPs as legal officers rather than advisors as they believe that SMPs only concentrate on the compliance part rather than understanding their real needs and expectations.

Nevertheless, SMEs in big cities like Kuala Lumpur or Johor Bahru are gradually becoming more open minded since they are experiencing firsthand service expansion provided by today's SMPs. They are beginning to recognise the importance of SMPs as business partners or consultants.

The second challenge faced by the SMPs is the unwillingness of SMEs to pay for the services rendered. Usually, SMEs only pay for the basic compliance, and assume other related services are free of charge. For instance, SMEs believe that the charges for compliance services are inclusive of other services such as tax, advisory, accounting and audit services. Besides, they frequently mooch for extra out of payment services like asking for advice over a cup of coffee. There are also SMEs who could not afford to pay even if they are interested to obtain the additional services offered by SMPs.

Consequently, numerous SMPs chose not to expand their services to SMEs. Since most SMEs are only willing to pay for compliance services, there is no point for SMPs to equip themselves with the growing knowledge and skill demands in the new areas. Sometimes,

they have to suspend future services when the settlement of a completed job is delayed for quite some time. Unless there are larger client payments to compensate for the smaller one, it is difficult for SMPs to survive. This will also lead to SMPs becoming financially weak and being unable to hire more professional and high quality staff.

The third challenge is staffing. According to SSM, the number of auditors in Malaysia is rather small compared to the number of companies which require auditing at a ratio of 1:216. There are several explanations to why SMPs find difficulty to attract and retain talent. One is due to their limited financial capacity relative to big firms. Although new graduates can be groomed into professional accountants and consultants, but with the lack of skills and experience at the SMP level, the task seems to be difficult. External training may be a possible but costly solution, especially when SMPs have to pay professional trainers.

Furthermore, SMPs are wary to train younger staff as they believe that these staff may not intend to stay within the practices due to the professional restrictions requiring them to earn professional certificates while handling hefty workloads. They may even be enticed by big firms with better pay and perks. Also, the new generation prefers to work overseas because of higher pay, better career advancement and promised work-life balance.

## ●● Recommendations

Today, SMPs are seen as a competent and trustworthy source of advisory services for SMEs. Hence, SMPs need to equip themselves with the necessary skills and knowledge to satisfy the growing need of SMEs for business advice. SMPs need to develop capacity and overcome the challenges lying ahead due to the changes in market and regulatory dynamics. They need to develop more effective communication networks, involve themselves in strategic decision-making and focus on sharpening the analytical skills of their

staff. There are several ways to achieve these objectives.

First, the International Federation of Accountants (IFAC) is collaborating with its member organisation, the Malaysian Institute of Accountants (MIA) in the case of Malaysia, to assist SMPs globally through resources, tools and advice aimed at improving the ability of SMPs to provide high quality professional services. It is proven that a continuous support system will ensure SMPs' expansion in accommodating SME operations. It is highly recommended for SMPs to participate in this kind of programme.

Second, these goals can be achieved through the establishment of networking where the improvement in the quality of work by SMPs can be brought about by sharing of knowledge and experience across the world. As the SMEs grow domestically and internationally, there is an increasing need for a wider spectrum of business advisory services. In this way, SMPs can overcome their knowledge and skill limitations to provide trusted referrals and meet the specialised needs of clients. This will also facilitate the growth of smaller SMPs into larger entities and aid the growth of multi-disciplinary professional practices.

Third is via relationship building. It is suggested that once relationships are built based on rapport, trust and comfort, SMPs can assuredly gain and retain the SME customer base.

In conclusion, it is crucial to communicate the importance of the SMEs and their expectations to SMPs. The ability of SMPs to provide high quality and relevant professional services to SMEs should also be promoted. Last but not least, the government and all the relevant authorities must recognise the importance of SMEs and SMPs in materialising the vision to become a high-income nation by the year 2020. ■

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*Salihin Abang (salihinabang@yahoo.com) is the Managing Partner of Salihin Consulting Group Sdn Bhd.*



# Principles for effective business reporting processes

HIGH-QUALITY INTERNAL AND EXTERNAL REPORTING IS CRITICAL FOR ALL ORGANISATIONS. HIGH-QUALITY REPORTS PROMOTE BETTER INTERNAL DECISION-MAKING AND HIGH-QUALITY INFORMATION IS ALSO INTEGRAL TO THE SUCCESSFUL MANAGEMENT OF ANY ORGANISATION.

Vincent Tophoff

**T**herefore, it is clearly in organisations' best interest, for their internal decisions and management issues as well as external stakeholder needs, to provide stakeholders with high-quality business reports. The most effective way to accomplish this is to implement effective reporting processes throughout an organisation. When done correctly, effective reporting processes ensure that all internal and external stakeholders receive appropriate high-quality business reports in a timely manner.

Principles for Effective Business Reporting Processes, new International Good Practice Guidance from the Professional Accountants in Business (PAIB) Committee of the International Federation of Accountants (IFAC), helps organisations enhance their reporting processes. This guidance was written for all organisations, regardless of their size or structure, private or public, to address the need for effective reporting processes to produce high-quality reports.

Professional accountants in business are often involved in the implementation – including design, planning, execution, audit, evaluation, and improvement – of their organisations' reporting processes. The key issues professional accountants in business need to address when implementing effective reporting processes in their organisation are discussed in the guidance.

At the heart of the new guidance are 11 key principles for evaluating and improving business reporting processes (see **Figure 1**). These principles are complemented by practical guidance that outlines the critical arrangements that

need to be in place for effective business reporting.

The guidance also includes a limited list of relevant resources from IFAC, its member bodies, and other relevant organisations. It can be downloaded free of charge from [www.ifac.org/paib](http://www.ifac.org/paib).

## Key Principles for Effective Business Reporting Processes

These principles do not prescribe a specific approach but highlight a number of areas for consideration when imple-

menting or improving business reporting processes.

**A.** Senior management should assume leadership for high-quality reports through effective reporting processes. The governing body should demonstrate commitment to high-quality reports and provide strategic input into, and oversight over, the organisation's reporting processes.

**B.** The organisation should determine the various roles, responsibilities, and consequential capabilities in the

The figure below illustrates how the various principles relate to each other

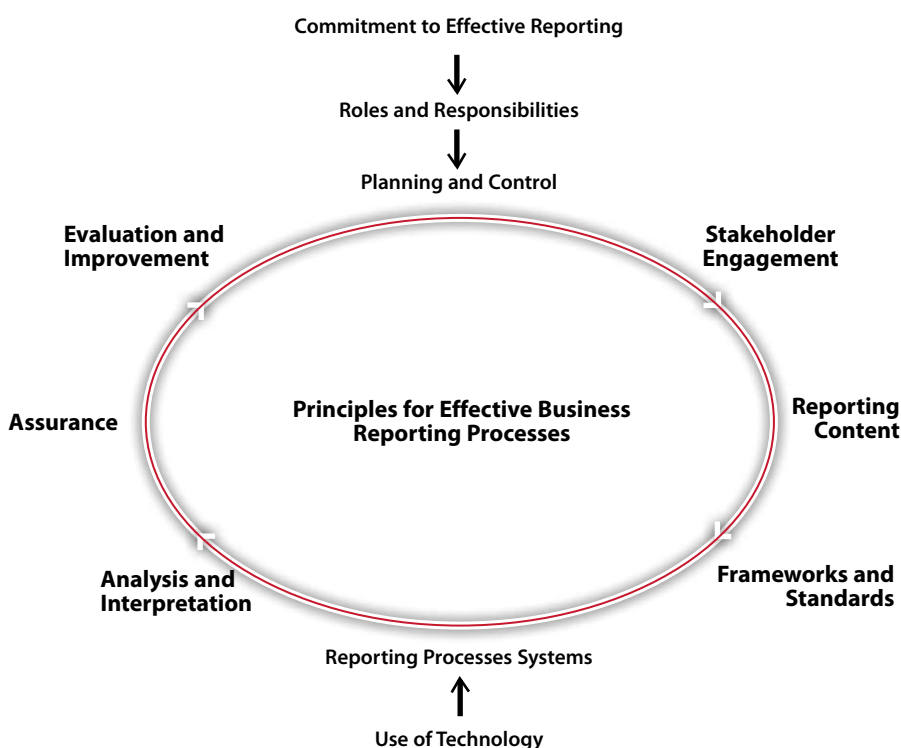


Figure 1: Relation of Reporting Principles

reporting process, appoint the appropriate personnel, and coordinate collaboration among those involved in the reporting process.

- C.** The organisation should develop and implement an effective planning and control cycle for its reporting processes in the context of, and in alignment with, its wider planning and control cycles.
- D.** To ensure the provision of high-quality information, the organisation should regularly engage with its internal and external stakeholders and understand their information needs with regard to past, present, and future activities and results of the organisation.
- E.** Based on the outcomes of its stakeholder engagement, and taking cost-benefit considerations into account, the organisation should define the content to be included in its reports

and also decide on the audience, layout, and timing of its reports.

- F.** The organisation should have a process in place to ensure that the most appropriate reporting frameworks and standards are selected and that the requirements of those frameworks and standards are aligned with stakeholder information needs.
- G.** The organisation should determine what information needs to be captured, processed, analysed, and reported, and how to organise the information processes and related systems for effective reporting.
- H.** The organisation should (a) identify, analyse, and select appropriate communications tools and (b) decide how to optimise distribution of the organisation's reporting information via the various communication channels.
- I.** The organisation should ensure that

reported information is sufficiently analysed and interpreted before it is provided to internal and external stakeholders.

- J.** When obtaining internal or external assurance is not a matter of compliance, the organisation should consider voluntary internal or external assurance on its reports and reporting processes.
- K.** The organisation should regularly evaluate its reporting processes and systems in order to identify and carry out further improvements required for maintaining reporting effectiveness. ■

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*Classified*



The Malaysian Accounting Standards Board (MASB) was established under the Financial Reporting Act 1997 to develop and promote high quality accounting and reporting standards that are consistent with international best practices for the benefit of users, preparers and auditors. We are seeking resourceful professionals with strong technical and communication skills to fill the following vacancies:

### **SENIOR MANAGER – Islamic Research**

The Senior Manager is expected to conceptualise, direct, engage and develop the technical team of the MASB in the research, analysis, review and interpretation of technical accounting conventions that impact Islamic finance.

The role requires an experienced professional to provide specialist financial and/or commercial advice and guidance across the organisation. Advice will be based on a sound understanding of the Islamic finance concepts and issues and how these impact accounting standards. The candidate must be able to work effectively with a specialist technical research team as well as be able to work independently where deep specialist knowledge is required. The Senior Manager will be an advocate for MASB's views and is expected to become a leading technical expert in Islamic finance.

### **MANAGER – Islamic Research**

The Manager is expected to research, analyse, review and interpret the impact of accounting standards and pronouncements on Islamic finance. The role will also involve developing views and recommendations for financial reporting practices.

For both the above mentioned positions, relevant experience and expertise in the financial sector, Islamic finance/takaful or capital market will be an advantage. These are mid-management roles in a project driven environment. Interested candidates are to write in with a detailed resume, expected salary together with a recent passport size photograph to:

The Technical Director

**Malaysian Accounting Standards Board**

Suite 5.02, Level 5, Wisma UOA Pantai, No. 11, Jalan Pantai Jaya, 59200 Kuala Lumpur. Tel : 603-2240 9200 or e-mail at [hr@masb.org.my](mailto:hr@masb.org.my)

# Next steps on the cloud journey



CLOUD COMPUTING HAS CHANGED THE WAY PEOPLE WORK AND DO BUSINESS USING INTERNET TECHNOLOGIES AND WILL DRAMATICALLY CHANGE IT ORGANISATIONAL MISSIONS, STRUCTURES, ROLES, SKILLS AND OPERATIONS WITHIN THE NEXT 10 YEARS.

Patricia Francis

**S**imilar to the super low cost desktop softwares that enabled the adoption of technology in business globally in the 1980s, businesses today are moving to the cloud for increased business effectiveness and efficiency as it provides a way to add capabilities or increase capacity on the fly without investing in new infrastructure, licensing new software or training new personnel.

Cloud has the potential to remove the constraints associated with traditional IT services which takes months or even years to build-up and implement as cloud computing services can simply be provisioned to support the business need when and in the quantity required. Therefore, there is an increasing consensus among IT decision-makers, analysts, suppliers and business leaders that cloud computing represents a fundamental change in the way that IT is sourced, delivered and managed.

## UNDERSTANDING THE CLOUD

Cloud comes from the use of a cloud-shaped symbol used to conceptualise the complex infrastructure it contains in system diagrams.

- "Cloud computing" presents organisations with the opportunity to rent or subscribe to infrastructure, systems, platforms, data, services and even business processes on a pay-per-use and outsourced basis,

similar to any other utility services, that can be scaled up and down as rapidly as needed without having to buy and maintain equipment and software needed to store it themselves.

- Organisations can access their data over the internet through a web browser or a mobile app while the business software and user's data are stored on servers at remote locations. The data could be hosted by the cloud service provided from one or more large centres - near or away from the organisation.
- Organisations can join the "Cloud" to access everything from data backup to customer relationship management systems. Most online email services are cloud-based. If you have Gmail, Yahoo or Hotmail, you are already using a cloud service.

## ●● BENEFITS OF CLOUD

The benefits and business value with cloud are far-reaching. These include:

### 1. Time saving (improved efficiency) and removing complexity

Everything on cloud is accessible via the Internet. Hence, it's time saving and improves efficiency by eliminating or reducing paperwork. Instead of the weeks or months that IT purchasing and installations typically require, equipment in the cloud can be ready within hours. IT departments can use

the time freed up from shorter installation periods to train and develop other IT skills.

### 2. Reducing cost and matching that cost to business demand

Cloud not only increases the speed and efficiency of an IT organisation but crucially it eliminates the risk of committing significant capital expenditure and IT resources for business projects. Cloud computing has the potential to restructure the IT budget by eliminating up-front spend on IT via a pay-per-use basis and moving key applications and services to multi-tenancy architectures.

### 3. Allowing IT to provide the agility and responsiveness that business is demanding

The cloud model, with its flexible infrastructures, provides IT departments the opportunity to be enablers of business agility rather than an inhibitor of business change. Cloud allows organisations to easily scale up their IT operations to support business goals; be it expansion into new markets, attracting and retaining new customers or speeding time-to-market for new products and services.

### 4. Creates an environment enabling innovation

Cloud also enables rapid innovation as it helps reduce the risk and cost of entering new markets, experimenting with and testing new products and services and the barriers to enhanced collaboration.



## ●● MAKING THE SHIFT

When making the shift to cloud, organisations will need to make the right choice of cloud to maximise the value derived. Cloud choices should be based on the criteria pictured below:

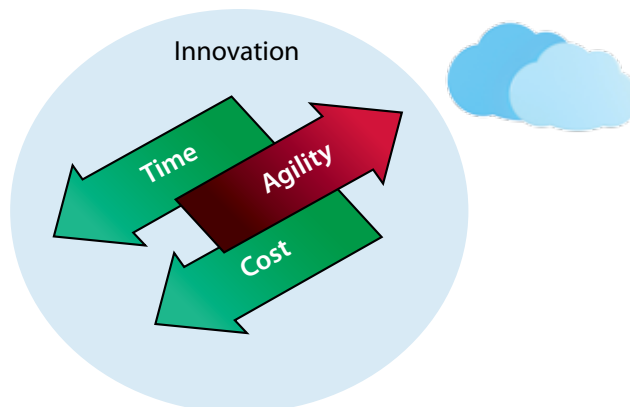
### 1. Triggers - Identifying your triggers

Triggers are external and internal changes, including business and IT drivers, which require you to re-evaluate your business environment. Among the business drivers are reaching new markets and new customers; delivering business value in new ways; improving customer satisfaction; creating new collaborations with new propositions; competition; contract changes and economic drivers. Its drivers could include EOL (end-of-life) decision-making, new service implementation, extending existing services, and cataloguing business assets.

### 2. Workload - Cataloguing your business assets

Understanding your business services or processes and how they need to be delivered and consumed to meet the organisation's opportunities and challenges in the future. These include desktop productivity applications, enterprise applications, business applications, industry applications and bespoke applications.

## BUT WHAT ARE THE REAL BENEFITS OF CLOUD?



### 3. How you want it delivered - Determine the right cloud capability

Cloud could be consumed directly based on an organisation's specific business needs and strategy via the following methods:

- SaaS or Software as a Service: Software services.
- PaaS or Platform as a Service: Tools to develop and manage applications.
- IaaS or Infrastructure as a Service: Infrastructure for computing, storage and networks.

#### 3.1 How you want it delivered - How do you want it deployed?

- Cloud can be delivered via private cloud to be commissioned and owned by an organisation via a public cloud service hosted on a common infra-

structure, shared by different users or via a hybrid cloud which is a combination of on-premise and cloud choices, determined by:

- **Location:** Geographical and physical location of servers and data
- **Features:** Performance, security and characteristics of cloud environment

### 4. Cloud Choice - Match the right cloud to your requirements

By clearly understanding your requirements you would be able to match your needs to an exact cloud service. This will enable you to maximise the shift to cloud. ■

Patricia Francis can be contacted at [patriciafrancis11@yahoo.com](mailto:patriciafrancis11@yahoo.com).

Cloud choice should be based on triggers, ICT workloads and how cloud needs to be delivered.



## TABLE/GRAPHICS

Fujitsu's Cloud offering. Below are some of Fujitsu's success stories in the world of cloud:

Customer	Trigger	Workload	Delivery	Benefit
<b>The Legislative Yuan of the Republic of China</b>	<ul style="list-style-type: none"> <li>Data centre space constraints</li> <li>Reducing Carbon Footprint</li> </ul>	<ul style="list-style-type: none"> <li>Standardised and virtualised IT infrastructure</li> </ul>	IaaS	<ul style="list-style-type: none"> <li>90% reduction in energy <b>costs</b></li> <li><b>Flexibility</b> for future growth</li> </ul>
<b>Her Majesty's Revenue and Customs (UK)</b>	<ul style="list-style-type: none"> <li>Government austerity measures</li> <li>Pressure on data centre space</li> </ul>	<ul style="list-style-type: none"> <li>9 data centres consolidated to 6</li> <li>Largest private cloud in UK government</li> </ul>	IaaS	<ul style="list-style-type: none"> <li>Significant savings in <b>costs</b> and reduction in project <b>timescales</b></li> <li><b>Greener IT</b> with lower carbon footprint</li> </ul>
<b>Metawater (Japan)</b>	<ul style="list-style-type: none"> <li>Launch new water business services for local government and sub-contractors</li> </ul>	<ul style="list-style-type: none"> <li>3 new cloud services</li> </ul>	IaaS	<ul style="list-style-type: none"> <li>Expect 30% reduction in lifestyle <b>costs</b></li> <li><b>Innovation</b> of new services</li> </ul>
<b>Centrica (UK)</b>	<ul style="list-style-type: none"> <li>More flexible and mobile working</li> <li>Transform desktop experience for users</li> </ul>	<ul style="list-style-type: none"> <li>25,000 desktop and mobile users</li> </ul>	VCS and IaaS	<ul style="list-style-type: none"> <li>Improved service</li> <li>Significant reduction in operational <b>costs</b> and <b>Greener IT</b></li> </ul>
<b>VBH (Germany)</b>	<ul style="list-style-type: none"> <li>Support global growth efficiently</li> <li>Avoid major IT overhaul</li> </ul>	<ul style="list-style-type: none"> <li>Standardised IT infrastructure for mission critical systems</li> </ul>	IaaS	<ul style="list-style-type: none"> <li>25% <b>cost</b> saving</li> <li><b>Flexibility</b> for future growth</li> </ul>
<b>Mitchells and Butlers (UK)</b>	<ul style="list-style-type: none"> <li>Agility around Mergers and Acquisitions and business growth</li> </ul>	<ul style="list-style-type: none"> <li>Retail applications and supporting network</li> </ul>	IaaS and network	<ul style="list-style-type: none"> <li>Reduced operational <b>costs</b></li> <li><b>Flexibility</b> for future growth</li> </ul>
<b>Surf Life Saving (Australia)</b>	<ul style="list-style-type: none"> <li>ICT system overhaul</li> <li>Improve service</li> <li>Facilitate commercial expansion</li> </ul>	<ul style="list-style-type: none"> <li>Business applications</li> </ul>	IaaS	<ul style="list-style-type: none"> <li>Significant savings on infrastructure <b>costs</b></li> <li>Costs reflect <b>seasonal</b> demand</li> <li><b>Innovative</b> services</li> </ul>
<b>BBBL - software house (Germany)</b>	<ul style="list-style-type: none"> <li>Move their retail applications to SaaS and addressing security concerns</li> </ul>	<ul style="list-style-type: none"> <li>Retail application</li> </ul>	IaaS/Business Solution Store	<ul style="list-style-type: none"> <li>Innovation of offering</li> <li>Significantly reduced product launch <b>timescales</b></li> </ul>
<b>International Personal Finance (UK)</b>	<ul style="list-style-type: none"> <li>Support international growth efficiently</li> <li>Launch new products quickly</li> </ul>	<ul style="list-style-type: none"> <li>IT infrastructure for mission critical systems</li> </ul>	IaaS	<ul style="list-style-type: none"> <li>25% saving on infrastructure <b>costs</b></li> <li><b>Flexibility</b> for future growth from agile IT</li> <li>High levels of <b>security</b> deployed</li> </ul>
<b>SingPost (Singapore)</b>	<ul style="list-style-type: none"> <li>Reduce ICT costs for SAP environment</li> <li>Maintain high service levels</li> </ul>	<ul style="list-style-type: none"> <li>Fujitsu's SAP on IaaS - the first IaaS in the Southeast Asia market</li> </ul>	SAP on IaaS	<ul style="list-style-type: none"> <li>30% saving in SAP operational <b>costs</b></li> <li>High levels of data integrity and <b>security</b></li> </ul>

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# Leading across borders? Use the **RED** Framework

DESPITE CULTURE AND GEOGRAPHIC LOCATION, THE THREE EMPLOYEE NEEDS: ROLE, ENVIRONMENT AND DEVELOPMENT (RED) REMAIN UNIVERSAL.

Patricia Francis

**L**eading in different parts of the world doesn't change a thing! I have found that regardless of context or geography, at the core, what people expect from their bosses in order to be fully energised and motivated, is innately human and universal," said Rajeev Peshawaria, Chief Executive Officer, The Iclif Leadership & Governance Centre.

Peshawaria said that there are two basics to leadership: attracting followers and retaining followers.

## ATTRACTING FOLLOWERS

Leaders attract followers by finding and harnessing the energy required to create a better future. Followers are attracted by the power of a leader's purpose and values. He strongly believes that leadership cannot be learnt in a classroom, but comes from "deep energy" created by clarity of purpose and values.

He affirmed, "If you cannot articulate your purpose and values with clarity and conviction, you have not begun your leadership journey yet. Leadership is about creating a better future, and doing so requires tremendous energy."

Peshawaria shared his "6 question" formula, in helping individuals find their leadership energy with clarity of purpose and values.



DEFINITION	PESHAWARIA'S "6 Question" FORMULA
<b>PURPOSE</b> – the better future/ results they want to create	<ol style="list-style-type: none"> <li>1. What few things are most important to me?</li> <li>2. Do I want to: <ul style="list-style-type: none"> <li>- lead a simple life rich with everyday small pleasures?</li> <li>- achieve great success in an individual endeavour? Or,</li> <li>- lead others towards a better future?</li> </ul> </li> <li>3. What results do I want to create?</li> </ol>
<b>VALUES</b> – the deeply held beliefs they never compromise, no matter what/ the principles that will guide you when tested.	<ol style="list-style-type: none"> <li>4. How do I want people to experience me?</li> <li>5. What situations cause me to feel strong emotions?</li> <li>6. What values will guide my behaviour?</li> </ol>



*“If you cannot articulate your purpose and values with clarity and conviction, you have not begun your leadership journey yet. Leadership is about creating a better future, and doing so requires tremendous energy.”*

## RETAINING FOLLOWERS

Once leaders have attracted followers by the power of their purpose and values, leaders retain followers by meeting employee’s expectations surrounding their Role, Environment and Development (RED), using the RED Framework:

- What is my Role?
- What is my work Environment like?
- How will I grow and Develop?

ROLE	
What People Want:	What Leaders Need To Do:
Work that matches their personal purpose	Align overall vision and strategy with individual aspirations
Clarity on how to be successful	Define outcomes, not steps
Work that leverages their strengths	Delegate and empower
Work that is important and adds value	Match (finding the right fit)
Freedom and empowerment to make a difference	
ENVIRONMENT	
What People Want:	What Leaders Need To Do:
An environment that matches their personal values	Make ‘environment’ a top agenda item
Their views and opinions to be heard	Ask (survey-feedback-action)
A sense of community, friendship and affiliation	Link leadership behaviours with reward system
A collaborative team to work with	
To be treated with respect and dignity	
DEVELOPMENT	
What People Want:	What Leaders Need To Do:
Adequate challenge and meaningful work to learn from	Assess strengths and weaknesses
Timely coaching and feedback to improve and excel	Provide opportunities to develop strengths further
Time and resources to develop and renew themselves	Deal with critical weaknesses
Emphasis on developing strengths further	70:20:10 Development Plans <ul style="list-style-type: none"> <li>• 70% of learning through challenging assignments and on-the-job experiences.</li> <li>• 20% of learning through relationships, networks, and feedback.</li> <li>• 10% of the learning via formal training processes.</li> </ul>
Ability to learn from mistakes and failure	

**Peshawaria offered three examples of leaders from the east to the west, who have demonstrated clarity in purpose and values along with the successful usage of the RED Framework.**



**RATAN TATA - TATA Group**

The Core Belief of the Tata Group - "In a free enterprise, the community is not just another stakeholder in business, but is in fact the very purpose of its existence."

The Tata Group is the first Indian company to make it to the best companies for leadership list because of the "Tata values" that have been passed down from the founder, Jamshetji Tata.



**HOWARD SCHULTZ - Starbucks**

The Starbucks purpose-driven vision - "We are not in the coffee business serving people, we are in the people business serving coffee."

At Starbucks, Schultz created a culture based on two principles - respect and inclusion. Even part-time workers get full healthcare benefits, above the minimum wage salary, tuition reimbursement, stock options and vacation plans. "We are not giving these benefits to our people because we are successful. We are successful because we give to our people. We believe it's a fundamental way to run our business."



**NELSON MANDELA**

Mandela's primary goal - Eliminate the apartheid in South Africa and build an inclusive rainbow nation; and his values of non-violence, mutual respect, and hard work.

After 27 years in prison, the first thing he did when he was finally freed was to forgive his captors. He later ran for President and created the first democratic government. Nelson believed in treating people with fairness regardless of the colour of their skin. He created a culture of equality to empower and motivate people.

Ultimately, clarity, purpose and values are what give people the energy to be leaders. "The "Why" and What" of leadership never changes. The Why will always remain to create a better future and the What will be to pursue meaningful purpose while acting in accordance with deeply held values. However, the "How" of leadership may change somewhat based on cultural differences. The How would be to address employees' RED needs and make sure they align with the organisational purpose and values.

In conclusion, he said, "Wherever you are: Lead with Purpose and Values and seek to understand and address employees' RED needs as far as possible." ■







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- Offers copious examples of footnote disclosures and financial statement formats from many of the world's IFRS-compliant reporting entities, including BAE Systems, Lufthansa Group, Aviva, BP, Samsung Electronics, Adecco, and more
- Includes IFRS compliance checklists

With a topical arrangement that follows the blueprint of all international accounting standards products, *International Trends in Financial Reporting Under IFRS* deftly bridges the gap in IFRS literature with a rare look at actual IFRS financial statement disclosures from internationally operational companies.

Get the practical insights you need into IFRS application with the easy-to-navigate guidance found in *International Trends in Financial Reporting Under IFRS*. ■

### **ASIA-PACIFIC TRANSFER PRICING HANDBOOK**

*An overarching look at transfer pricing regimes in Asia-Pacific countries and what they mean for foreign businesses*

A comprehensive guide for companies doing business globally, *Asia-Pacific Transfer Pricing Handbook* explains the policies and practices that Asia-Pacific countries employ with regards to taxing foreign businesses. The only book that analyses and guides companies through the often complex transfer pricing rules in place in Asia-Pacific nations, the book explains how authorities in 15 countries, including ASEAN, India, New Zealand, Japan, and South Korea, tax any company doing business within their borders.

Helping foreign companies to properly price their goods and services for global markets, providing defences for transfer pricing audits, explaining standards for creating comparables that multi-jurisdictional tax administrations will accept, explaining documentation requirements and timing issues, and creating awareness about inadvertently becoming a permanent establishment, *Asia-Pacific Transfer Pricing Handbook* is an essential resource for doing business abroad.

- Provides comprehensive, accessible information on transfer pricing in Asia-Pacific countries
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A complete and comprehensive guide to transfer pricing and its implications for firms and accountants operating in the Asia-Pacific region, *Asia-Pacific Transfer Pricing Handbook* explains everything foreign companies need to know about doing business abroad. ■

### **CHINA'S SUPERBANK: Debt, Oil and Influence - How China Development Bank is Rewriting the Rules of Finance**

China's rise as a global economic superpower, the success of its top companies, and its continuing domestic boom is intricately tied to China Development Bank (CDB). This less-than-transparent institution, which is wholly owned by the Chinese government, has become the financial enabler of this nation's growth and is arguably the most powerful bank in the world.

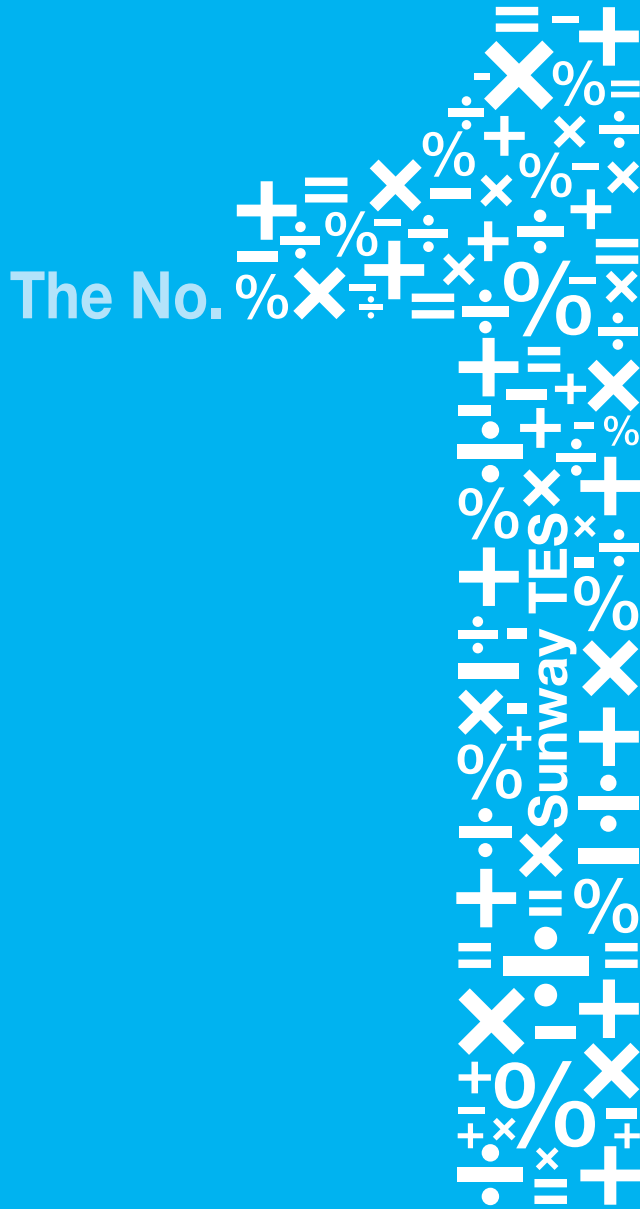
While development banks have long existed to finance political projects, infrastructure, and other initiatives, nothing comes close to CDB in scope.

In *China's Superbank*, authors Henry Sanderson and Michael Forsythe – both *Bloomberg* journalists working in Beijing – combine on-the-scene reporting and interviews from across the world with numbers crunched from Chinese bond prospectuses to put CDB in perspective, and help you understand the economic phenomenon that is China.

Along the way, you'll not only become familiar with the growing accomplishments and influence of CDB, but you'll also gain valuable insights into the darker side of this political-financial institution – one that has never had to answer to anyone apart from its state shareholders. You'll also discover how China's seemingly unstoppable banking system could potentially be saddled with bad debt from trillions of yuan invested in projects with questionable economic value both at home and abroad. ■

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