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REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC)

Malaysia

ACCOUNTING AND AUDITING

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Contents

Executive Summary

Preface

Acronyms and Abbreviations

Background

Institutional Framework

Accounting Standards as Designed and Practiced

Auditing Standards as Designed and Practiced

Perception of the Quality of Financial Reporting

Policy Recommendations

Annex, Background Information on the Malaysian Economy

Appendices 1-5

Executive Summary

Malaysia has made significant investments in developing efficient and well-regulated capital and financial markets, as well as strengthening the institutional framework for the regulation of the accounting and auditing profession. Good progress has been achieved in improving the quality and consistency of corporate financial reporting and corporate governance for public interest entities over the last 10 years. This report focuses on areas where the country authorities and in-country stakeholders could implement actions to further strengthen the accountancy profession and increase compliance with international standards.

The Malaysian Institute of Accountants (MIA) is the main regulatory body for accountants and is a member of the International Federation of Accountants (IFAC). The MIA has the responsibility for setting auditing and ethical standards in Malaysia. The Malaysian Accounting Standards Board (MASB), established under the Financial Reporting Act (1997), is the accounting standards-setting body in Malaysia. The Audit Oversight Board (AOB), incorporated into the Securities Commission Act (1993) by virtue of the Securities Commission Amendment Act (2010), is responsible for ensuring and enforcing compliance with auditing and ethical standards by public interest entity auditors and can require MIA to amend those standards. MIA is responsible for ensuring and enforcing compliance with the auditing and ethical standards by non-public interest entity auditors.

Overall, the Malaysian accounting and auditing profession is well developed and Malaysian accounting and auditing standards are in line with international standards. Full convergence with International Financial Reporting Standards (IFRS) is likely to be achieved by 2012. The clarified International Standards on Auditing (ISA) have been adopted in full and became effective for periods beginning on or after January 1, 2010, and the adopted International Standard on Quality Control (ISQC1) became effective January 1, 2010. The MIA-issued By-Laws on Professional Ethics, Conduct, and Practice are substantially based on the IFAC Code of Ethics for Professional Accountants and became effective January 1, 2011. Additionally, all entities that enter into Islamic Financial Transactions are required to fully comply with the MASB-issued Financial Reporting Standards.

The institutional framework of corporate financial reporting by public interest entities in Malaysia is well developed with multiple layers of systematic control, review and enforcement. There is also high-level collaboration and co-ordination between the accounting profession and the regulatory enforcement agencies¹. There is a memorandum of understanding between the Securities Commission and Bank Negara Malaysia, and there are regular bilateral meetings among regulators. This results in strong regulatory oversight of public interest entities while minimizing the potential for overlap and duplication by regulators. However, there are a number of key areas for improvement that require further attention, particularly in relation to the regulation and oversight of private entities and the auditors of those entities.

¹ Audit Oversight Board (AOB), Companies Commission of Malaysia (SSM), MIA, MASB, Bursa Malaysia, Securities Commission, and Bank Negara Malaysia (BNM).

Recommendations

The recommendations, including reviewing the required number of statutory audits, improving audit quality for private entities, revision of accounting standards for private entities, developing appropriate structures to address low audit fees, and the strengthening of the MIA aim to build on existing systems and offer the groundwork for the preparation and implementation of a country action plan geared toward further strengthening of the regulatory framework in what is already a strong and cohesive financial reporting and auditing system in Malaysia.

Statutory audits required

Without a statutory audit exemption regime in place in Malaysia, the number of statutory audits required relative to the number of available auditors is very high. While many jurisdictions are facing skill and capacity shortages in accounting and auditing, the situation is exacerbated in Malaysia by the requirement for all registered companies to file audited financial statements. In 2008 the Companies Commission of Malaysia (SSM) published a consultative document, “On Creating a Conducive Legal and Regulatory Framework for Business,” which recommended three criteria be used to determine whether an entity should be considered a small or medium-size entity and be eligible for an exemption from the statutory audit requirement. It was recommended that the Registrar be given the power to exempt companies that meet certain criteria from the statutory audit requirement. This exemption regime is proposed in the new Companies Bill. **A statutory audit exemption regime should be implemented as soon as possible especially given the associated issues discussed below.**

Audit quality for private entities

Audit quality may be well below acceptable standards for non-public interest entity audits as suggested by the evidence collected by MIA with respect to non-public interest entity auditors’ compliance with auditing standards, the relatively high concentration of skilled professionals in the six largest accounting firms, and the relatively low value of audit fees charged. There are many practitioners who are struggling to comply with increasingly complex and prescriptive audit standards (including ISQC1). The status quo of a two-tiered quality standard cannot be allowed to continue, as this will potentially damage the reputation of the audit profession as a whole. **The nature, scope, and quality of the services being provided by the accounting and auditing profession to non-public interest entities should be clarified in conjunction with the introduction of an audit exemption regime.**

Accounting standards for private entities

The accounting standards and reporting framework applicable to private entities are being reviewed by the MASB. The out-dated Private Entity Reporting Standards (PERS) were based on the 2003 version of the IASs. The MASB is placing a high priority on this review. **The changes to the accounting standards and reporting framework should be based primarily on the needs of the users of the financial statements and public interest considerations. Also the changes should be introduced in conjunction with the clarification of the nature, scope and quality of services being provided by the accounting and auditing profession to private entities.**

Level of audit fees

The level of audit fees charged is not only an issue for those undertaking the audits of private entities. Anecdotal evidence suggests that generally the audit fees charged in Malaysia are low when compared with other ASEAN member countries. The reasons for this reflect the price-competitive environment in which the audit profession has been operating in and the relatively low salaries paid to accounting professionals in Malaysia (particularly when compared with Singapore). It is not uncommon for decisions on hiring auditors to be based primarily on the audit fee level. Over time this practice could have a significant impact on audit quality and potentially damage the reputation of the Malaysian audit profession as a whole.

The regulators are aware of this issue, and AOB raised concern about price-based competition at a time when audit firms are incurring additional costs to meet higher-quality standards. The regulators are putting significant efforts into providing education to directors and ensuring the governing bodies (particularly audit committees) properly balance considerations of audit quality with the level of audit fees in appointment decisions. Banks and insurance companies are required to obtain prior approval from BNM on an annual basis for the appointment of auditors. The AOB is working with other stakeholders in enhancing audit quality, including addressing the issue of audit fees. Its importance is linked to the ability of accounting firms to be able to attract and retain talent and pay competitive remuneration. **A review of the legislation and regulations governing changes in auditors should be conducted with the overarching goal of supporting high-quality audits within a framework of free and open market competition.**

Audit expectation gap

The *audit expectation gap* results largely from a lack of understanding by directors and investors of the auditor's role. While this issue is not unique to Malaysia, **the accounting and auditing profession should work with regulators in improving the understanding of the role of the auditor, the importance of independence, and the scope of an audit (what is included or perhaps more importantly what is not).**

Strengthening the MIA

The MIA needs strengthening as an institution in order for it to be able to fully deliver on its mandate as the regulator of the Malaysian accounting and auditing profession. To achieve this, **an independent review of the governance structure of MIA should be conducted.** This review should address the structure and membership of the Council, the practice review process (the MIA is currently conducting an internal review of its practice review framework), the application of investigation and disciplinary processes, membership admission processes, the assessment of quality standards for University accounting degree programmes as well as the monitoring and enforcement of those standards and the level of resources required to enable MIA to effectively deliver its full mandate.

MIA Practice review follow up

A recent practice review performed by MIA to assess the level of compliance with accounting and auditing standards by private entity auditors found a significant proportion of practitioners requiring some level of remedial action. The lack of a risk-based approach to the practice review

process and the fact that limited remedial or disciplinary actions have been taken in response to the findings are significant weaknesses. **For the credibility of the profession as a whole, all practitioners should achieve minimum quality standards consistently.**

MIA admission examination requirements.

MIA currently admits members of specified recognised professional accountancy bodies without any professional examination requirements. **These candidates should be required to write an examination covering Malaysian Taxation and Business & Company Law prior to full admission. In addition where candidates do not have one of the designations recognised under the Accountants Act (1967), they should be required to write a mandatory qualifying examination.**

Review of university accounting degree programmes.

MIA and the Ministry of Higher Education (MOHE) have joint responsibility for establishing the standards by which University accounting degree programmes are evaluated and monitored.

(a) *Publishing standards for assessment.* These standards are supposed to be reassessed by MOHE and MIA every five years. The last reassessment of the standards (Hala Tuju 2, the Reassessment Report on Accounting Programmes at Public Universities in Malaysia) was published in 2006, and MIA and MOHE have recently begun engaging on Hala Tuju 3. Given the significant changes to accounting and auditing profession during the last five years **the publishing of standards in an update for university programmes should be a high priority for MOHE and MIA.**

(b) *Monitoring and evaluation of university accounting degree programmes.* MIA and MOHE have undertaken several initiatives to improve the quality of accounting degree programmes, particularly the strict evaluation of new degree programmes being offered in line with the assessed quality standards. However, there has been little on going monitoring or enforcement of quality standards after the initial evaluation process. **On-going monitoring and enforcement should be conducted to ensure appropriate quality standards are consistently being achieved.**

Review of requirements for an audit license

A review should be made to ensure that there is appropriate recognition of practical experience gained overseas by potential accountants in meeting the three-year practical audit experience requirement. This would facilitate the return of Malaysian nationals who have been working overseas as well as reduce one of the barriers facing non-Malaysian accountants wishing to emigrate and practice in Malaysia.

The recommendations above including reviewing the number of statutory audits required, improving audit quality for private entities, revision of accounting standards for private entities, developing appropriate structures to address low audit fees and the strengthening of the MIA aim to build on existing systems and offer the groundwork for the preparation and implementation of a country action plan geared towards further strengthening of the regulatory framework in what is already a strong and cohesive financial reporting and auditing system.

Preface

Reports on the Observance of Standards and Codes (ROSC) is a joint World Bank and IMF initiative that helps member countries strengthen their financial systems by improving compliance with internationally recognised standards and codes. The ROSC was developed in the wake of the financial crisis of the late 1990s as part of a series of measures to strengthen the international financial architecture. The global financial community considered that the implementation of internationally recognised standards and codes would provide a framework to strengthen domestic institutions, identify potential vulnerabilities, and improve transparency. The Financial Stability Forum and G22 meetings stressed the need for minimum internationally recognized standards for accounting and auditing, because they promote transparency, mitigate the risk of economic and financial instability, and foster market efficiency. Ultimately the ROSC aims to enhance countries' resilience to shocks and to better support their risk assessment and investment decisions. The ROSC involves preparation of reports in 12 key areas.² This ROSC focuses on accounting and auditing standards and practices in the corporate sector, as well as the institutional framework that underpins the corporate financial reporting system in the country. The Malaysia ROSC Accounting and Auditing was prepared in active collaboration with the Malaysian Securities Commission, the Malaysian Audit Oversight Board, the Malaysian Accounting Standards Board, the Malaysian Companies Commission, the Malaysian Institute of Accountants, Bank Negara Malaysia, and accounting and auditing professionals. The review was conducted with these stakeholders through a participatory process, which was led and facilitated by the Malaysian country authorities. The review included facilitated discussions and roundtable meetings with representatives of the profession and other stakeholders. The ROSC team thanks the officials and coordinators of the various institutions for their valuable assistance in facilitating this review. This ROSC was prepared by a task team of World Bank staff comprising Chris Fabling (Senior Financial Management Specialist), Amarith Ou (International Consultant), and Alfred Borgonovo (International Consultant), under the overall supervision of Samia Msadek, Manager, Financial Management, East Asia and Pacific Region. The team benefited from advice of Robert Mednick, former Chairman of the IFAC Compliance Advisory Panel.

² The 12 ROSC areas are data transparency, fiscal transparency, monetary and financial policy transparency, banking supervision, securities, insurance, payments systems, anti-money laundering and combating financial terrorism, corporate governance, accounting, auditing, and insolvency and creditor rights.

Acronyms and Abbreviations

ACCA	Association of Certified Chartered Accountants
AOB	Audit Oversight Board
ASEAN	Association of Southeast Asian Nations
BNM	Bank Negara Malaysia
CMSA	Capital Markets and Services Act (2007)
CPE	Continuing professional education
CSG	Corporate Surveillance and Governance Division
FCSD	Financial and Corporate Surveillance Department
FRSIC	Financial Reporting Standards Implementation Committee
FRS	Financial Reporting Standards (Malaysian)
GDP	Gross Domestic Product
GLC	Government-linked company
GLIC	Government-linked investment company
GTP	Government Transformation Programme
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICAEW	Institute of Chartered Accountants in England and Wales
IES	International Education Standard
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
ISA	International Standard on Auditing
ISQC	International Standard on Quality Control
MASA	Malaysian Approved Standards on Auditing
MASB	Malaysian Accounting Standards Board
MIA	Malaysian Institute of Accountants
MICPA	Malaysian Institute of Certified Public Accountants
MOHE	Ministry of Higher Education
PERS	Private Entity Reporting Standard
ROSC	Reports on the Observance of Standards and Codes
SIC	Standing Interpretations Committee
SME	Small and medium-size enterprise
SSM	Companies Commission of Malaysia

I. Background

1. The ROSC Accounting and Auditing review for Malaysia focuses on the strength and weaknesses of the accounting and auditing environment that influence the quality of corporate financial reporting. It involves both a review of mandatory requirements and actual practices. The benchmark standards used for the preparation of this report are International Financial Reporting Standards (IFRS),³ the clarified International Standards on Auditing (ISA),⁴ the International Federation of Accounts (IFAC) Code of Ethics, and international experience and good practice in the field of accounting and auditing regulation.
2. The methodology used to conduct the analytical work for preparing this report includes application of the ROSC accounting and auditing diagnostic review. Developed by the World Bank, the diagnostic template questions were complemented by a comprehensive due diligence exercise. The World Bank ROSC team met with key stakeholders involved in accounting, auditing, and corporate reporting in Malaysia. Also, several discussion forums were held with groups of preparers and auditors of financial statements, investors, and financial analysts.
3. Since independence in 1957, Malaysia's economic record has been one of Asia's best. Real gross domestic product (GDP) grew by an average of 6.5 percent per year from 1957 to 2005. Performance peaked in 1996 at 10 percent just before the Asian financial crisis (when GDP growth fell to -7.4 percent in 1998), after having recorded high growth rates of around 9 percent annually since 1988. Once heavily dependent on primary products such as rubber and tin, Malaysia today is a middle-income country with a multi-sector economy, primarily agriculture, mining, manufacturing, construction, and services.
4. During the more recent global financial crisis, Malaysia's GDP decreased by 1.7 percent in 2009 compared to 4.6 percent growth in 2008. It has since rebounded with 7.2 percent growth during 2010 and over 4 percent growth in both the first and second quarters of 2011. Bank Negara Malaysia (BNM) has projected 5-6 percent economic growth in 2011.
5. Providing information on the Malaysian economic environment, the Annex to this ROSC report gives an overview of Malaysia's vulnerabilities, economic strategy, regional/international integration efforts, as well its key financial sectors of banking, insurance and the capital market.

³ In context of this report, IFRS, issued by the International Accounting Standards Board (IASB), also includes the International Accounting Standards (IAS) issued by IASB's predecessor, the International Accounting Standards Committee (IASC), and the applicable interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

⁴ ISAs are issued by the International Auditing and Assurance Standards Board (IAASB) of the IFAC.

II. Institutional Framework

A. Statutory Framework

6. The Malaysian legal system is based mainly on the common law legal system.

The supreme law of the land, the Constitution of Malaysia, sets out the legal framework and rights of Malaysian citizens. Federal laws enacted by the Parliament of Malaysia apply throughout the country. There are also state laws enacted by the State Legislative Assemblies, which have jurisdiction in each state.

7. The Companies Act (1965) governs the incorporation of companies. The Act

establishes the rights and duties of directors and shareholders and sets the requirements for companies to prepare financial statements and their audit, as well as the dissolution of companies. The Companies Act was amended through the Companies Amendment Act (2007), which brought about much needed clarification in several key areas such as the definition of conflicts of interest, the duty of care owed by company directors and officers, related party transactions, and shareholder rights (in particular, the ability of shareholders as well as other parties to take action against company directors).

8. All companies incorporated under the Companies Act are required under Section 169 to prepare annual financial statements that include a balance sheet, a profit and loss statement, and a directors' report.

In accordance with Section 166A of the Act, companies are required to prepare their financial statements based on the approved accounting standards that are issued by the Malaysian Accounting Standards Board (MASB) under Section 7 of the Financial Reporting Act (1997). The form and content of the financial statements are specified in the Ninth Schedule of the Companies Act; however, in cases where there is a conflict with the approved accounting standards, the accounting standards prevail.⁵

9. In accordance with Section 15 (1) of the Companies Act, a company may be incorporated as a private company if its memorandum of articles states that the company does the following:

- Restricts the right to transfer its shares;
- Limits its number of members to not more than 50;
- Prohibits any invitation to the public to subscribe for any shares or debentures in the company; and

⁵ Section 26D of the Financial Reporting Act (1997) states that “where financial statements are required to be prepared or lodged under any law administered by the Securities Commission, the Central Bank, or the Registrar of Companies, such financial statements shall be deemed not to have complied with the requirements of such law unless they have been prepared and are kept in accordance with approved accounting standards issued by the MASB”.

- Prohibits any invitation to the public to deposit money with the company for fixed periods or payable at call, whether interest bearing or not.

10. The Companies Commission of Malaysia (Suruhanjaya Syarikat Malaysia or SSM) is responsible for the administration of the Companies Act (1965). Established in April 2002 under the Companies Commission of Malaysia Act (2001), the SSM is a statutory body resulting from a merger between the Registrar of Companies and the Registrar of Businesses in Malaysia. As such, its main activities are to serve as the agency that incorporates companies and registers businesses. It also provides company and business information to the public and is a leader among agencies in an effort to improve corporate governance, particularly among private companies. The Securities Commission on the other hand drives corporate governance relating to the capital market.

11. The SSM Enforcement Office has dedicated divisions that carry out the monitoring and enforcement activities that comprise compliance, investigations, and legal services. The SSM has the power to impose sanctions on companies, their directors, and their auditors. The range of penalties for noncompliance with mandatory accounting, auditing, and financial reporting requirements under the Companies Act includes the revocation of company auditor licenses and the prosecution of noncompliant companies, which can lead to fines up to RM250,000 and prison terms of up to 7 years.⁶ Any penalties authorized under the Companies Act (Section 371[5]) may be imposed by a Sessions Court, notwithstanding that it is a greater punishment than that Court is otherwise empowered to impose.

12. Bank Negara Malaysia is the regulatory authority for commercial banks, Islamic banks, investment banks, insurance companies, and Takaful operators as provided in the Central Bank of Malaysia Act (2009), the Banking and Financial Institutions Act (1989), Islamic Banking Act (1983), the Insurance Act (1996), and the Takaful Act (1984). The BNM sets the supervisory expectations and engages with banking institutions' audit committees when necessary, particularly on their oversight role with respect to the banking institution's financial reporting, risk management, and internal control systems. In addition, supervisory reviews carried out on internal audit functions include an assessment of financial reporting controls, on-site reviews, as well as off-site reviews of financial statements.

13. The Capital Markets and Services Act (2007) (CMSA) governs the conduct and responsibilities of capital market participants and public listed companies. The CMSA consolidates several pieces of legislation, namely the Securities Industry Act, the Futures Industry Act, and Part IV of the Securities Commission Act (1993) into a single piece of legislation. The CMSA enables the Securities Commission to intervene in the affairs of a licensed intermediary when the interests of its clients are prejudiced. Section 360 of the CMSA enables the Securities Commission to make an application to the court for various orders, which can include barring a person from becoming a director of a public

⁶ Even though significant penalties have been imposed by the SSM as a result of breaches of the Companies Act, the vast majority of recent cases are related to failure by companies to lodge an annual return and/or failure to table financial statements at the annual general meeting.

company or removing a director when that person is no longer considered to be fit to be involved in the corporate governance of a public company.

14. The Capital Markets and Services Amendment Act (2010) introduced two new provisions empowering the Securities Commission. The provision (317A and 320A) respectively enable the Securities Commission to:

- Prosecute directors and officers of listed corporations for causing wrongful loss to a company; *and*
- Prosecute anyone who coerces or influences the person responsible for preparing the financial statements of listed corporations causing them to be materially misstated.

The latter provision is directed at those who prepare financial statements; however, that does not preclude the Securities Commission from taking action against the auditors themselves if they are found to have, for example, been involved in the submission or preparation of false or misleading statements to the regulators. Both provisions carry a maximum imprisonment term of 10 years and a fine not exceeding RM10 million.

15. The Capital Markets and Services (Amendment) Bill (2011) was passed by both Houses of Parliament in July 2011. The Bill, set to go into force in the fourth quarter of 2011, includes provisions to:

- Clarify and extend the regulatory functions of the Securities Commission;
- Introduce new provisions on derivatives;
- Ensure that the licensing framework under securities laws remains effective and efficient;
- Enable the Securities Commission to carry out regulatory functions for the monitoring and managing of systemic risk in the capital market; *and*
- Provide for a new regulatory framework on the Private Retirement Scheme Industry and its participants.

16. The Securities Commission Amendment Act (2010) was enacted in December 2009 and was incorporated into Part 3A of the Securities Commission Act (1993). Part 3A of the Securities Commission Amendment Act provides for the establishment of the Audit Oversight Board (AOB), which was established on April 1, 2010.⁷ Through the AOB, the Securities Commission is responsible for the independent oversight of auditors of public interest entities.⁸ The key areas of responsibility for the AOB are:

- Registering individuals and firms that wish to audit the financial statements of public interest entities,

⁷ The AOB was accepted as a member of the International Forum of Independent Audit Regulators in September 2010.

⁸ Public interest entities include companies listed on the Bursa Malaysia Stock Exchange and institutions that are subject to prudential supervision by BNM and the Securities Commission.

- Undertaking inspections of registered auditors to assess their compliance with relevant auditing and ethical standards,
- Taking action against registered auditors for noncompliance with those auditing and ethical standards, *and*
- Establishing new or adopting existing auditing and ethical standards.

The AOB can impose sanctions on registered auditors for noncompliance with these standards. These sanctions include reprimanding the registered auditor, assigning a reviewer to oversee the audit(s) undertaken by the registered auditor, prohibiting the registered auditor from accepting any new public interest entity clients, imposing a monetary penalty not exceeding RM500,000, or revoking or suspending the registration of an auditor with the AOB.

- 17. The applicable accounting standards for non-private entities are the (Malaysian) Financial Reporting Standards (FRS) and for private entities the applicable accounting standards are Private Entity Reporting Standards (PERS) — although private entities do have the option of applying FRS in their entirety. Section 26B of the Financial Reporting Act (1997) allows foreign companies listed on the Stock Exchange to use acceptable internationally recognised accounting standards.⁹**

- FRS are a word-for-word duplication of the respective IFRS with the exception of IAS 41, *Agriculture*, and IFRS 9, *Financial Instruments*, which have not been adopted. The effective date and additional transitional provisions/disclosures provided in certain FRS also differ.
- PERS are essentially selected IAS that were adopted prior to the IASB clarifications in 2003 and are therefore out-dated. The MASB has given high priority to considering what accounting standards are most appropriate in the Malaysian context for private entities.¹⁰

A private entity is defined as a private company incorporated under the Companies Act that (a) is not itself required to prepare or lodge any financial statements under any law administered by the Securities Commission or BNM; and (b) is not a subsidiary or associate of, or jointly controlled by, an entity which is required to prepare or lodge any financial statements under any law administered by the Securities Commission or BNM.

⁹ In addition to the standards issued by the IASB, this definition encompasses standards issued by the Financial Accounting Standard Board (USA), the Accounting Standards Board (UK), and the Australian Accounting Standards Board in lieu of the MASB-approved standards.

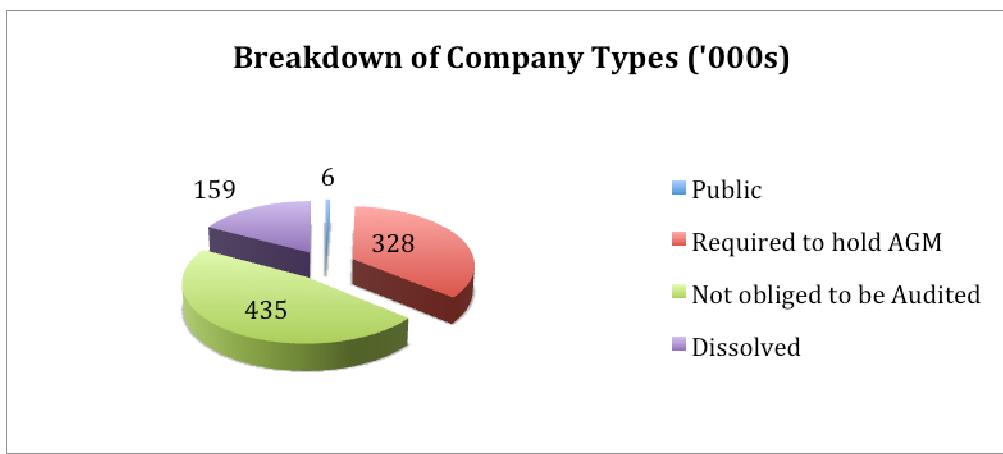
¹⁰ IFRS for SMEs are being considered as part of these deliberations, but there is a concern that the complexity of IFRS for SMEs (especially in terms of the need to apply the fair value concept) means that the relevance and cost of implementation would significantly outweigh the benefits to both the entities and the users of the financial statements. A differential reporting regime option may be considered which could include reduced financial reporting disclosure requirements for subsidiaries, associates, or jointly controlled entities that are either dormant or immaterial and that individually do not have public accountability.

18. All businesses registered under the Registration of Businesses Act (1956) are exempted from the preparation of statutory financial statements and statutory audits. There are 4.3 million businesses registered under the Registration of Businesses Act that are either sole proprietorships or partnerships.

19. There are approximately 6,000 public companies and over 920,000 private companies incorporated in Malaysia, of which 763,000 companies are active companies (see figure below with company breakdown). Of these 763,000 companies, only 328,000 companies are required to have their financial statements audited and hold annual general meetings. The remaining 435,000 companies are not obliged to have their financial statements audited due to the following reasons:

- Companies that are newly incorporated and are not yet required to hold an annual general meeting or have an audit of their accounts under sections 143(1) and 169(1) of the Registration of Businesses Act – [65,910 companies];
- Companies that are in the process of being struck-off the register pursuant to section 308(1) of the Registration of Businesses Act – [336,320 companies]; and
- Companies that are in the process of being closed down – [32,770 companies].

20. The SSM considers companies that have failed to comply with the requirement to have their financial statements audited and hold annual general meetings as dormant companies. As at December 31, 2010, there were approximately 40,000 dormant companies in the register. The SSM has been actively encouraging owners of dormant companies to have their companies struck off the register. These initiatives have led to a reduction in the number of registered dormant companies, and SSM is exploring other ways of reducing this number further to ensure that only active companies are contained in its database.



21. All public and private companies have a mandatory statutory audit requirement regardless of their size, ownership structure or whether they are actively operating. The Corporate Law Reform Committee, established by SSM, published its conclusions of extensive research into creating a Conducive Legal and Regulatory Framework in 2008. One of the changes considered by the Committee was removing the mandatory statutory audit requirement for small and medium-size enterprises (SME).

Taking into account the requirements in other jurisdictions (United Kingdom, Australia, New Zealand, and Singapore) and a survey of Malaysian company directors, the Committee concluded that the benefits of the mandatory statutory audit requirement outweighed its costs.¹¹ The Committee established that in Malaysia, the audit fee for a basic audit of financial statements ranged from a minimum of RM300 to a few hundred thousand Ringgits. With audit fees at such low levels, it is questionable whether quality audits, conducted in compliance with ISQC1, can be performed. This raises serious questions about the quality of some of the audits provided, especially when directors surveyed stated the most significant benefit of the audit was “providing assurance to banks and financial institutions”.

22. **The SSM is currently reviewing the decision to retain the mandatory statutory audit requirement for all companies.** Consideration is being given to whether some companies should be exempted from a statutory audit requirement particularly when they are dormant or have a closely held ownership structure. Under the new Companies Bill, it is proposed that the Registrar will be empowered to exempt certain categories of companies from the statutory audit requirement. If this is approved, SSM will consult selected stakeholders to determine the appropriate categories that are to be exempted.
23. **The Minister of Finance, through the Audit License Committee, is responsible for licensing statutory auditors.** In addition to being a member of the MIA as a registered “chartered accountant”, a statutory auditor is required to (a) be a resident of Malaysia, (b) have attended the Public Practice Programme organised by the MIA, (c) have 3 years of continuous audit experience (post-membership of the MIA) during the 4 years prior to submission of the application, and (d) attend and pass the Audit License Committee interview. The statutory auditor license is required to be renewed every 2 years based on consideration of the license application by the Audit License Committee. The Audit License Committee interview panel consists of 5 people and assesses the experience (competency) and maturity of individuals applying for an audit license. The panel is chaired by the Deputy Accountant General and comprises representatives from the Securities Commission, BNM, SSM, and the MIA. Holders of audit licenses are obliged to comply at all times with compliance with (a) MIA’s continuous professional education requirement, (b) professional indemnity insurance requirements,¹² (c) ISQC1, and (d) practice review requirements.
24. **The process for licensing statutory auditors should be revised in light of changes in the profession and the economic environment since it was introduced.** One of the concerns voiced by the profession included the lack of a transparent evaluation process. There is also a perception among professionals that the focus of the interview should place more emphasis on the competencies required rather than narrow technical questions. Feedback should be provided to candidates who are unsuccessful in the interview process in order to assist them to understand why they were unsuccessful and

¹¹ The main benefits mentioned by the directors interviewed were providing assurance to banks and financial institutions, improving record-keeping and internal controls, and providing assurance to suppliers.

¹² In practice, this means meeting the *minimum* RM100,000 indemnity insurance requirement contained in the MIA By-Laws.

enable them to properly prepare for their next interview process. One of the conditions to renew a statutory auditor's license is to be in compliance with ISQC1, yet the MIA practice inspections have revealed a significant number of members are not fully compliant. The relicensing process should require the MIA (or the AOB for auditors of public interest entities) to provide a certificate of compliance with ISQC1 in order for a license to be renewed.

25. **A concern voiced by some practitioners is the length of time required to obtain a license.** There is an official objective of ensuring applicants are able to obtain their license within four months of lodging their application. Anecdotal evidence suggests that some candidates have waited up to six months or more for their license to be granted.
26. **A number of stakeholders mentioned that there is shortage of qualified accountants in Malaysia.** Foreign students in Malaysia face severe restrictions on their ability to work during and after completion of their approved period of study in Malaysia. They are also unable to pursue the accounting designations available to Malaysians. For example, they are unable to enter into the "training contract" that is required to achieve membership in the MICPA and ICAEW in Malaysia. Also, the three-year audit experience requirement to obtain a statutory auditor's license can only be fulfilled after becoming a MIA member, which prevents auditors moving or returning to Malaysia from being able to sign audit opinions for at least three years after arriving in Malaysia (and joining the MIA). Addressing these concerns would potentially assist in increasing the number of qualified accountants available in Malaysia.
27. **Section 9(1) of the Companies Act lists conflicts of interest that preclude a person from acting as company auditor.** These include being an officer, employee, or shareholder of the company or the partner of someone who is, or being indebted to the company for an amount exceeding RM2,500. A fine of RM30,000 is incurred for being appointed auditor in contravention of these rules. In accordance with Section 172 (1) of the Companies Act, the power to appoint auditors rests initially with the company directors prior to the company's first annual general meeting, or by the shareholders during the first and subsequent annual general meetings. If a company does not appoint an auditor as required by Section 172, the SSM may upon application in writing of any member of the company, make the appointment. The auditor is appointed until the conclusion of the following annual general meeting on which occasion subsequent appointments of auditors are made. If an auditor is not formally reappointed, their appointment is deemed to have been terminated. Alternatively, an auditor can be removed by way of a resolution at a general meeting for which a special notice has been given. An auditor may also resign at a general meeting. The cessation of an auditor's appointment must be notified to the SSM (and Bursa Malaysia for public listed companies).
28. **Paragraph 290.151 of the MIA By-Laws stipulates that for public interest entities, an individual shall not be a key audit partner for more than five years. After such time, the individual shall not be a member of the engagement team or be a key audit partner for the client for two years.** This is more stringent than the requirements of the IFAC Code of Ethics for Professional Accountants (2010), which sets a limit of seven

years rather than five. The cooling off period of two years mandated by the MIA is identical to the IFAC requirement and has been extended to five years for banks and other financial institutions by BNM. Auditors are entitled to attend annual general meetings, but this is not a mandatory legal requirement. Given the expectation gap and the generally low level of understanding of what the scope of an audit includes (and does not include) mandatory attendance by the auditor at the meetings would be beneficial.

29. **As at December 31, 2010, there were 1,514 professional accountants in public practice licensed to conduct statutory audits, practicing in 1,475 audit firms (these numbers include sole practitioners).** Foreign-qualified accountants are not eligible to apply for a statutory auditor's license on the basis of their existing qualifications alone; the MIA must also recognize their qualifications for admission as members.
30. **The MIA By-Laws provide that every member in public practice is required to ensure that his or her firm carries and maintains a policy of professional indemnity insurance.** Statutory auditor liability and civil responsibility is established by the Companies Act and common law principles and cannot be capped or restricted through the audit engagement letter. Liability is borne by both the individual auditor and the audit firm. Audit firms are established as unlimited liability sole proprietorships or partnerships with no minimum capital requirement. Every member in public practice must maintain a policy of professional indemnity insurance with a minimum coverage of RM100,000 upon commencement of public practice. The MIA had considered raising the minimum level of indemnity insurance but ultimately concluded that auditors should be able to assess their individual risk levels and obtain/maintain indemnity insurance accordingly. The required minimum level of professional indemnity insurance appears to be very low and should be reviewed.

B. The Profession

31. **The MIA is the statutory body established under the Accountants Act (1967) to regulate and develop the accountancy profession.** The Accountants (Amendment) Act (2001) brought some changes to the disciplinary process and the qualifying examinations. The Accountants Act requires that no person shall practice or declare themselves an accountant unless registered as a chartered accountant with the MIA. There are two other categories of membership: associate members and licensed accountants.¹³
32. **The MIA has over 27,000 registered members.** There are four qualifying paths open to candidates who wish to become registered chartered accountants with the MIA (diagrammed in Appendices 1 and 2):
 - Pass any of the final examinations specified in Part I of the First Schedule of the Accountants Act (listed in Appendix 3) and gain 3 years of practical working

¹³ Associate members are academics who meet the professional experience requirement by teaching accountancy or accountancy related subjects at an institution of higher learning. Licensed accountants are former members of the Malaysian Society of Accountants who were "grandfathered" into the MIA in 1967. As of June 2010, there were less than 150 associate members and less than 10 licensed accountants.

experience in the service of a chartered accountant or in a government department; bank; insurance company; local authority; or other commercial, financial, industrial, or professional organisation; and/or

- Be a member of any of the recognised bodies specified in Part II of the First Schedule of the Accountants Act (listed in Appendix 4); and/or
- Be eligible to sit for and pass the MIA qualifying examination and gain 3 years of working experience in the service of a chartered accountant or in a government department; bank; insurance company; local authority; or other commercial, financial, industrial, or professional organisation;¹⁴ and/or
- Be a company auditor per S8 (2) and (6) of the Companies Act without limitations or conditions.¹⁵

33. **The MIA is a member of the International Federation of Accountants (IFAC).** It has a developed governance structure and is involved in setting professional standards, as well as conducting surveillance and enforcement activities. Beyond its own audit standard-setting activities, it is represented on the Financial Reporting Foundation and has an influential role in the accounting standard adoption process. It also plays a significant role in the formulation of the curriculum for accounting degree programmes in conjunction with the Ministry of Higher Education (MOHE) and is responsible for accrediting any new degree programmes under Part I of the First Schedule of the Accountants Act. Despite regular income and membership growth during the last few years, MIA does not have sufficient resources to fully discharge its responsibilities.¹⁶

34. **In spite of being the official regulator of the accounting profession in Malaysia, the MIA initially faced considerable challenges to establish its relevance.** The Malaysian Institute of Certified Public Accountants (MICPA) and several foreign accounting bodies had a well-established local presence in Malaysia that predated the creation of the MIA. In the first two decades of its existence, MIA put emphasis on its statutory function of registering accountants practicing in the country, whereas MICPA was the organisation actively involved in developing standards of accounting practice, training of students, and conducting the professional accountancy examination.¹⁷ The MIA has invested considerable resources in meeting its IFAC membership obligations, including the introduction of a competency-based practical experience programme,¹⁸ the

¹⁴ The Qualifying Examination is open to students with qualifications relating to accounting, business or finance not recognised under the Accountants Act 1967 but recognised by the Malaysian Public Services Department, or other qualifications approved by the MIA. Those qualifications should not be lower than a first degree and must contain at least 60 percent of accounting content.

¹⁵ This allowed practicing company auditors at the time the Companies Act was enacted to be “grandfathered” into the profession under the new regulations. None of the existing licensed auditors were admitted under this clause.

¹⁶ During the year 2009/2010, MIA admitted over 1,200 Chartered Accountants and over 50 Associate Members.

¹⁷ “Malaysian Institute of Accountants 1967-2007, National Aspirations, Global Ambitions”, ISBN 978-983-40841-2-7, page 15.

¹⁸ The “Chartered Accountant Relevant Experience” programme (known as CARE) was designed to comply with IFAC International Education Standard (IES) 5, *Practical Experience Requirements*, and was introduced in November 2009. The minimum duration to complete the CARE programme is 36 months. It must be completed within a rolling 60-month period or any period approved by MIA.

development of a standard curriculum for university accounting degree programmes (in conjunction with the MOHE), as well as supporting the adoption of international accounting and auditing standards.

- 35. The current MIA governance structure and lack of resources are posing some challenges.** The MIA derives almost twice as much income from its professional development programmes than it collects from annual membership fees. The annual membership fees stand at RM250 per annum, and two recent attempts to increase annual fees were voted down. The MIA's governing body (the Council) is composed of 30 members, 10 of whom are elected. All the members of the investigation, disciplinary, and disciplinary appeals committees are required to be members of the Council, which limits the volume of cases these committees are able to process. The MIA's ability to investigate and discipline members in a timely and cost-effective manner is sometimes compromised by the insistence of some respondent's legal counsel appearing before the disciplinary process for the observance of strict court procedures and the submission of legalistic objections to the disciplinary process. This legalistic approach is inappropriate for disciplinary processes that are intended to focus on the substance of the issues at hand.
- 36. Foreign-based professional accountancy bodies have a strong presence in Malaysia.** The presence of British accountants in Malaysia, as well as Malaysian accountants trained in the United Kingdom before World War II, led to the establishment of local branches of the English Institute of Chartered Accountants as early as 1910. In 1936, the Association of Chartered Certified Accountants (ACCA) also established a branch in Malaysia. In 1957, the Malayan (later Malaysian) Association of Certified Public Accountants was incorporated (this later became MICPA). MICPA introduced its own examination system in 1961 and, for all intents and purposes, acted as if it was the regulatory body for accountants in Malaysia until the establishment of MIA. In 2009, the MICPA entered into a memorandum of understanding with the Institute of Chartered Accountants in Australia (ICAA), which provides reciprocal membership. Internationally recognised accounting bodies with an established presence in Malaysia include the ACCA, ICAEW, and CPA Australia.¹⁹
- 37. A small number of accounting firms in Malaysia conduct the audits of companies that represent a vast majority of market capitalisation in Malaysia.** The top six accounting firms in Malaysia are responsible for the audits of companies that represent 94 percent of market capitalisation on the Bursa Malaysia Stock Exchange. Three of those 6 firms are auditors of 99 percent of banks and 98 percent of insurance companies (based on market capitalisation). These firms will usually also audit the subsidiaries of their clients. The vast majority of non-public interest entities (approximately 328,000 of which are required to audit their financial statements) are audited by small and medium-size practices (with the possible exception of those which are subsidiaries of public interest entities). The fees they derive from these mandatory statutory audits have traditionally been the main source of income of the smaller audit firms.

¹⁹ CPA Australia has around 8,000 students and members in Malaysia and has experienced a compound annual growth rate of around 5 percent per annum. ACCA counts 22,000 students and almost 10,000 members in Malaysia. As of January 2011, ICAEW has 350 students and 900 members in Malaysia.

- 38.** **The adoption of ISA as well as the ISQC1 has raised concerns over the ability of smaller audit firms to comply with these requirements and maintain audit quality.** Clients are reluctant to accept the associated increase in audit fees that compliance with these standards require and this situation is compounded by the very competitive audit market in Malaysia where changing auditors for a lower audit fee is common practice. The MIA has issued guidelines on audit fees but currently does not require its members to abide by them.²⁰
- 39.** **The concern around low audit fees in Malaysia is not restricted to small firms.**²¹ For the larger audit firms, the problem is compounded by high staff turnover. These firms invest considerable resources in training accountants and auditors who will have usually acquired an internationally recognised accounting designation in the process. After two to three years of post-graduation experience, they are able to command significantly higher wages in foreign markets, including Singapore and China, as well as outside of the accounting industry.
- 40.** **In its efforts to become a high-income economy, Malaysia will need to develop, attract, and retain talent in the accounting and auditing field.** Identifying the factors that drive people to migrate is the first step toward formulating policy responses. Among the factors in Malaysia are differences in potential earnings, career prospects, and the quality of education and quality of life, relative to overseas locations. The Minister of Finance, through the Audit Licensing Committee, can take some targeted initiatives (such as recognition of pre-MIA practical experience for registration of statutory auditors) to further facilitate the flow of talent into the country.

C. Professional Education and Training

- 41.** **Education is a critical driver for transforming Malaysia from a middle-income to high-income economy due its impact on productivity and human capital development.**²² The sector contributed approximately RM27 billion or 4 percent of Gross National Income in 2009. The Government is hoping to see this contribution rise to RM61 billion by 2020. Malaysia's Economic Transformation Programme envisions a rebranding of the country from a stopover location for education to a major education centre of choice and a pivotal hub in the global education network. One goal is to triple the number of international students to 200,000 by 2020.

²⁰ The MIA-issued Recommended Practice Guide 7, A Guide to Charging for Professional Assurance Services, does not suggest any actual rates, but provides practitioners with alternative billing methodologies and recommendations on how to deal with fee disputes. It draws practitioners' attention to the greater compliance costs they need to absorb as a result of the "higher auditing standards requirements".

²¹ Anecdotally, the lowest in the ASEAN region. According to Recommended Practice Guide 7, - *A Guide to Charging for Professional Assurance Services*, (RPG 7) "issued by the MIA, professional fees of less than RM800 for audit services of dormant company shall be considered as an unrealistically low professional fee".

²² Economic Transformation Programme – A Roadmap for Malaysia; Chapter 14: Transforming Education as an Engine of Growth, page 476.

- 42.** **The Government recognises that in order to achieve its goals will require raising its overall education standards.** This can be achieved by fostering greater self-regulation, industry-led quality standards, and harmonised regulations across both public and private institutions. Building an Islamic finance and business education discipline cluster is one of the Entry Point Projects included in the Government's Economic Transformation Programme.
- 43.** **The quality and consistency of teaching and learning standards are on-going concerns for the education sector and is recognised in Malaysia's Economic Transformation Programme.** It points out that in 2009, "only one Malaysian university was among the top 200 institutions listed in the Times Global Higher Education Ranking; at present only 7 are in the top 200 universities in Asia." In its attempt to raise the profile of Malaysian universities and in order to attract more international students, some universities have elected to place a greater emphasis on research in order to meet their international recognition goals. While this is a commendable goal, it has resulted in a reduction in the quota of accounting graduates produced by one of the leading public universities.
- 44.** **All accounting degree programmes are delivered over 4 years and represent a minimum of 134 credit hours (based on Hala Tuju 2, the Reassessment Report on Accounting Programmes at Public Universities in Malaysia published in 2006).** Public universities are producing around 3,000 graduates with accounting degrees per annum, whereas private universities are producing 2,000 per annum. Teachers at the bachelor degree level are required to hold either a PhD or a Masters Degree. This sets a high academic standard but excludes highly competent professionals with practical accounting and auditing experience who could play an important role in providing accounting students the competencies required to compete in the marketplace.
- 45.** **In an effort to improve the quality of education in Malaysia, the MOHE enacted the Malaysian Qualifications Agency Act (2007) and established the Malaysian Qualifications Agency to enforce the Act.** This Malaysian Qualifications Agency is responsible for quality assurance of higher education for both the public and the private sectors. Its main role is to implement the Malaysian Qualifications Framework as a basis for quality assurance of higher education, and as the reference point for the criteria and standards for national qualifications. The Qualifications Agency is responsible for monitoring and overseeing the quality assurance practices and accreditation of national higher education. Accreditation is a formal recognition that the certificates, diplomas, and degrees awarded by higher education institutions are in accordance with the set standards.
- 46.** **The Malaysian Qualifications Agency is the facilitator, but the MIA is responsible for accreditation of the accounting degree programmes.** The bachelor degree programmes offered by universities listed under Part I of the First Schedule of the Accountants Act are recognised by the MIA as meeting the education requirements for certification (the accredited degrees are listed in Appendix 3). The MIA has developed guidelines on accreditation of accounting courses, which include a comprehensive list of criteria aimed at ensuring that the courses meet the objectives and needs of employers and encourage the development of students' skills and motivation to engage in lifelong

learning, and that graduates are able to meet the challenges faced by the accounting profession. In addition to collecting information on the courses offered, as part of the evaluation process, the MIA will obtain information on teaching staff, facilities, management, quality assurance, and examination papers. The MIA will also conduct site inspections; review the evaluation conducted by other professional bodies, and review quality assurance processes. The MOHE ensures any new accounting degree programme offered meets its own set of guidelines, including an assessment of market needs, prior to accrediting the programme. While considerable progress has been achieved in evaluating any new accounting degree programmes offered and setting standards for all programmes, the monitoring and enforcement activities for existing programmes have not been effective.

- 47.** **In order to ensure the quality and relevance of accounting degree programmes offered in Malaysia, the MOHE in 2000 established the Hala Tuju Committee of Accounting Programme at Public Universities.** The MIA, leading university administrators, and industry representatives were represented on the Hala Tuju Committee. The Hala Tuju 1 report was broadly accepted as providing the minimum standards for accounting programmes in Malaysia. It contained a detailed curriculum that incorporated all IFAC International Education Standards. The report is subject to revision every five years. The Hala Tuju 2 report was published in 2006.²³
- 48.** **The MIA participated in a panel established to assess public universities that deliver accounting degrees programmes.** The Quality Assurance Division of MOHE established the panel in 2006. The panel's objectives were to determine whether institutions and programmes are in compliance with the standards set by MOHE and to assist institutions in complying. No results were published and no monitoring process established to ensure corrective measures were taken by the universities where required. A follow-up review has been planned, and the MOHE is also developing a monitoring system that would be used to alert the MIA of potential problems with the quality of university programmes.
- 49.** **One of the alternatives to holding a professional qualification recognised under the Accountants Act includes passing the MIA Qualifying Examination and gaining 3 years of practical working experience.** Introduced in March 2003, this route to MIA membership was open to Malaysian accountants who had completed a degree in accounting, finance, or business²⁴ but which was not recognised under the Part I (local or overseas graduates) and Part II of the First Schedule of the Accountants Act. There are an increasing number of foreign universities establishing campuses to offer their degree programmes in Malaysia. This will provide the MIA growth opportunities for its membership in light of interest in these qualifications being shown by Malaysian students.
- 50.** **The MIA Qualifying Examination consists of four parts: (a) taxation, (b) business and company law, (c) advanced financial accounting and reporting, and (d) auditing and assurance services.** Because the MIA recognises foreign accounting designations as an alternative to writing these examinations, it is possible to become a

²³ MIA is in the process of engaging the MOHE to initiate work on Hala Tuju 3.

²⁴ Subject to the accounting content of the qualifications being not less than 60 percent.

chartered accountant, and then a registered auditor in Malaysia, without actually writing any examinations that cover Malaysian taxation rules and company law. Practicing accountants and auditors who have completed a degree and gained a foreign accounting designation prior to joining the MIA would likely have become familiar with concepts of taxation and securities legislation in jurisdictions whose legal framework was inspired by the British common law system, and therefore would be similar to that of Malaysia. It would however be advisable to introduce a requirement for members of recognised foreign accountancy bodies to be required to demonstrate sufficient knowledge and competence in Malaysian taxation rules, as well as local business and company law.

- 51. The different paths available to achieve membership in the MIA have enabled the profession to broaden its membership and meet the country needs.** In order for MIA membership to be considered equivalent to the accounting designations it recognises, it needs to strengthen the qualifying examination programme that is mandatory for candidates who have not achieved one of those designations recognised under Parts I and II of the First Schedule of the Accountants Act. A professional-level qualifying examination should include topics such as Issues in Professional Practice, Strategic Financial Management, Ethics and Governance, Global Strategy and Leadership, as well as some advanced elective courses in the areas of taxation, auditing, management accounting, and information technology.
- 52. The MIA has improved its monitoring system for graduates' experience requirements for admission as chartered accountants through the programme Chartered Accountant's Relevant Experience (CARE).** CARE, effective November 1, 2009, monitors the level of competencies of its participants for three years beginning the day they register as CARE participants. It requires documentation of the various experience requirements that its participants gain over the three-year period in auditing, taxation, financial reporting, business planning, finance, management accounting, and information technology. There are four core topics and various electives. Applicants are required to achieve a certain level of competency in all core areas, and additional competencies in the elective topics. CARE requires a mentor for each participant. The MIA will provide a mentor for those candidates unable to identify one themselves. By end-December 2010, 1,218 graduates had registered in CARE.
- 53. The MIA Council has approved the issuance of a new by-law, Section 410 on Continuing Professional Education (CPE), which is in compliance with IFAC-issued IES 7, *Continuing Professional Development: A Programme of Lifelong Learning and Continuing Development of Professional Competence*.** As a result, CPE requirements for all members of the MIA were changed to comprise 60 CPE credit hours of structured and verifiable learning and 60 CPE credit hours of unstructured learning for each three-year, on-going CPE cycle, regardless of the category of membership or nature of their practice. The completed CPE credits logged by members are subject to random audits. The MIA has introduced a 100 percent audit of all CPE credits over each three-year cycle.

D. Setting Accounting and Auditing Standards

- 54.** **MASB's standard-setting process includes the development and publication of a discussion paper, where relevant, and then an exposure draft with a comment period prior to adoption of a standard.** The MASB due process aligns its timeline in concert with the IASB as it puts new or amended standards in place for adoption and application in a timely manner. This is to ensure that the effective date of (Malaysian) FRS will be the same as that of IFRS. The MASB approved accounting standards are based on the IFRS framework and endorse the substance-over-form principle.²⁵
- 55.** **Since 2006, the MASB has been actively narrowing the gap between FRS and IFRS with the stated objective of achieving full convergence by 2012.** It has adopted all IFRS for application in Malaysia except for IAS 41, *Agriculture*, and IFRS 9, *Financial Instruments*. The following locally developed standards are still in force:
- FRS 201, *Property Development Activities*, issued in 2003. IC Interpretation 15 *Agreements for Construction of Real Estate*, will supersede it in January 2012. This is a word-for-word copy of IFRIC 15 with the exception of the effective date.
 - FRS 204, *Aquaculture*, issued in 1998, will be superseded when the MASB decides to adopt IAS 41.
- 56.** **On November 19, 2011, the MASB issued the word-for-word equivalent of all IFRS (as issued by the IASB since October 19, 2011) as (Malaysian) Financial Reporting Standards.** The (Malaysian) FRS are word for word in agreement with IFRS. The FRS framework is applicable to annual periods beginning on or after January 1, 2012.
- 57.** **The MASB has actively voiced the concerns of its stakeholders on certain IFRS standards that do not adequately address local conditions.** This has prevented the MASB from achieving convergence at an earlier date. Local factors such as different models for real estate development, the absence of a deep and liquid market for bearer biological assets, and some financial instruments in Malaysia contribute to making the application of some IFRS challenging.²⁶
- 58.** **Section 8 of the Financial Reporting Act (1997) sets out the composition of the MASB.** The Board comprises a chairman, the Accountant General, 6 members with knowledge and experience in matters of financial accounting and reporting in one or more of the fields of accountancy, law, business, and finance; and 3 advisors, with 1 from each of the Securities Commission, BNM, and SSM. The Minister of Finance makes all appointments to the MASB.
- 59.** **As a trustee body, the Financial Reporting Foundation has responsibility for the oversight of the MASB performance, financial and funding arrangements.** However, it has no direct responsibility in relation to standard-setting. The Financial Reporting Foundation received an initial grant of RM30 million from the Government, as

²⁵ In accordance with section 166A(4) of the Companies Act, entities are allowed to override the approved accounting standards if the Board of Directors considers that they would not give a true and fair view of the results of the business and state of affairs of the entity. This option has never been used.

²⁶ The main areas of concern are IAS 41, *Agriculture*, IFRIC 15, *Agreements for the Construction of Real Estate*, and IFRIC12, *Service Concession Arrangements*.

well as contributions from the Ministry of Finance, Bursa Malaysia, and the Securities Commission. It is currently in the process of applying for additional funding from the Capital Market Development Fund to cover the costs of the accounting standards convergence process and the implementation of IFRS.

- 60. The MASB has been an active participant in the debate on the application of IFRS in the context of Islamic finance.** The MASB published a Statement of Principles (SOP i-1), *Financial Reporting from an Islamic Perspective*, in 2009. This document included an extensive analysis of the IASB framework from the perspective of Islamic precepts and law. The MASB promotes the view that a separate accounting framework is unnecessary and would potentially increase the risk of arbitrage created when financial statement preparers have an incentive to compare the outcomes produced by applying alternative sets of standards. The MASB is working closely with the IASB and others to better understand the issues raised by Shariah-compliant transactions in an IFRS context and consider how appropriate financial reporting standards and guidance may be provided for dealing with Islamic finance transactions and instruments under the IFRS framework.
- 61. The MASB issues accounting standards and interpretations but does not issue implementation guidance.** However, to assist MASB constituents, the MIA set up a Financial Reporting Standards Implementation Committee (FRSIC) in 2007 to facilitate the implementation of (Malaysian) FRS. The FRSIC provides professional counsel to the preparers of financial statements and the investment community through issuance of implementation guidance of the approved accounting standards in Malaysia. The FRSIC is a project supported by the Capital Market Development Fund. An MASB representative attends FRSIC meetings as an observer. Since its creation, the FRSIC has published 15 different consensus views.²⁷
- 62. The MIA Auditing and Assurance Division provides secretariat and technical support to the Auditing and Assurance Standards Board (AASB).** The AASB was established in June 2009 and carries out the audit standard-setting function of the MIA.
- 63. The Companies Act does not specify the auditing standards that are applicable.** The auditing standards to be complied with are provided for under the MIA By-Laws. Compliance with the MIA By-Laws is mandated by the Accountants Act (1967) and is mandatory for all registered members of the MIA.
- 64. The national auditing standards are known as Malaysian Approved Standards on Auditing (MASA).** The clarified ISAs have been adopted in full without modification and are mandatory for statutory audits of financial statements for periods beginning on or after January 1, 2010. Some references have been adapted to suit the local context as follows:
- References to the IFAC Code of Ethics for Professional Accountants are replaced by reference to the MIA-issued By-Laws on Professional Ethics, Conduct and

²⁷ A complete list of published consensus views is included in Appendix 3. They can be found on the MIA website. (http://frsic.mia.org.my/consensus_consensus.asp)

Practice (December 2010). These By-Laws are substantially based on the revised IFAC-issued Code of Ethics for Professional Accountants.

- The minimum retention period for audit engagement documentation as mandated by MASA is six years (as opposed to five as per ISA 230).

65. The Securities Commission Act (Section 31U) provides the legislative authority for the AOB right to set auditing standards in relation to the audit of public interest entities. It also empowers the AOB to direct the MIA to establish or amend the auditing and ethical standards to be complied with by an auditor. The AOB has been working cooperatively with the MIA and has indicated that it would only exercise this power as a last resort. Bursa Malaysia's Listing Requirements allow an audit of a foreign corporation to be conducted in accordance with ISA.²⁸

E. Ensuring Compliance with Accounting and Auditing Standards

66. The various stakeholders involved in monitoring compliance with accounting and auditing standards are genuinely cooperating to meet their respective goals in the improvement of compliance with accounting and auditing standards. This is a significant challenge in an advanced and growing economy with many regulators. Regular dialogue has taken place between regulators to ensure both the consistency and complementarities of their activities; and since its establishment, the AOB has contributed to the on-going discussions on ways to move toward the common goal of achieving high-quality financial reporting practices. The Securities Commission and BNM have signed a memorandum of understanding and hold annual bilateral discussions to share the latest developments and agree on other joint initiatives. Also, the Securities Commission, BNM, SSM, and MIA have representatives on the MASB.

67. The BNM is the regulatory authority for banks and insurance companies. In addition to the MASB-issued (Malaysian) FRS, these financial institutions are required to follow the Guidelines on Financial Reporting for Banking Institutions (GP8),²⁹ Guidelines on Financial Reporting for Licensed Islamic Banks (GP8-i), Guidelines on Financial Reporting for Insurers (GPI-15), and Guidelines on Financial Reporting for Takaful Operators.³⁰ Listed banks and insurance companies are also bound by the Bursa Malaysia disclosure requirements.

²⁸ Chapter 9 of the Bursa Listing Requirements detail the continuing disclosure requirements for listed companies, including the timeframe for presentation of financial statements and the requirement for these to be audited. A full copy of the listing requirements can be found on the Bursa Malaysia website: www.bursamalaysia.com/website/bm/regulation/rules/listing_requirements/

²⁹ The Guidelines address requirements on the application of (Malaysian) FRS and information to be disclosed in the financial statements of banking institutions. They build on the *Guidelines on Financial Reporting for Licensed Institutions (BNM/GP8)* issued by the World Bank in October 2004 and will bring financial reporting requirements for banking institutions further in line with (Malaysian) FRS requirements. They provide the most suitable approaches to meet the financial reporting objectives under (Malaysian) FRS and the objectives of prudential supervision, which focuses on financial institutions' financial soundness and the overall stability of the financial system.

³⁰ Takaful is an Islamic insurance concept. The principles of Takaful are as follows: (a) policyholders cooperate among themselves for their common good; (b) every policyholder pays his subscription to help those who need

- 68.** **The BNM plays an important role in the auditor appointment process for banks and insurance companies.** Financial institutions are required to obtain prior approval from BNM on an annual basis for the appointment of statutory auditors. The BNM is in regular contact with the audit committees of the institutions it supervises. In addition to ensuring audit committees have conducted an appropriate level of due diligence prior to making a recommendation for an auditor appointment, BNM monitors whether audit quality, independence, and audit scope considerations have been properly addressed prior to approving the appointment of an external auditor. This process is useful given that BNM relies on the audit opinion for its on-going supervisory assessments. Expanding the audit scope to address certain supervisory concerns does not impair the independence, or reduce the responsibilities of the auditor or audit committee.
- 69.** **In 2009, BNM conducted engagement sessions with all audit firms employed by the financial institutions it supervises.** These sessions focused on the audit firms' governance arrangements, particularly on the approaches taken by the firms to ensure proper segregation of functions between assurance and other engagements within the firm. This focus was meant to ensure continued independence and objectivity of the audits of the financial institutions prior to the transition to FRS 139, *Financial Instruments: Presentation*. This exercise was undertaken because of the involvement of several auditors as consultants for financial institutions in preparation for the transition to FRS 139. Based on the engagement, BNM was of the view that the governance framework adopted by audit firms provided sufficient separation between the audit and consultancy business and thus did not necessitate change of auditor for affected financial institutions. Auditors are required to disclose non-audit services provided to financial institutions. The BNM has intervened to avoid the potential for conflicts of interest as a result of audit firms providing both audit and non-audit services to financial institutions.
- 70.** **The cooling-off period for the purposes of auditor rotation is extended to five years for financial institutions,** which recognizes the significant learning curve that auditors of financial institutions face. The rotation requirement applies to the auditor but not to the audit firm.³¹ This is consistent with both Malaysian and international standards, and also takes into account the high level of concentration of audit firms of financial and insurance companies in Malaysia.³²
- 71.** **The BNM takes a risk-based approach to supervision.** This approach takes into consideration the significant areas of activity of the different institutions and assesses six

assistance; (c) losses are divided and liabilities spread according to the community pooling system; and (d) uncertainty is eliminated concerning subscription and compensation. In practice, it is similar to cooperative or mutual insurance.

³¹ It should be noted that the Public Company Audit Oversight Board (PCAOB) in the United States, where there is no rotation requirement, is considering introducing mandatory rotation at the audit firm level. There is no consensus internationally in this area, and it is likely that the relative merits of this approach will continue to be debated for some time to come.

³² The audit of the banking institutions and insurance companies in Malaysia is concentrated in 5 audit firms due to the specialized nature and complexity involved in auditing these institutions (3 major international audit firms audit 56 banking institutions and 5 audit firms audit 59 insurance companies and Takaful operators).

key control areas: Board of Directors, Senior Management, Risk Management, Internal Audit, Compliance, and Information and Communication.

72. **The Banking and Financial Institutions Act (1989) and the Insurance Act (1996) also empowers BNM to enlarge or extend the audit scope, and direct the statutory auditor to conduct specific examinations or procedures that it believes are necessary.** In practice BNM works closely with both the audit committees and external auditors. As the work of the external auditor is used as input to BNM supervisory plans under its risk-based approach to supervision, BNM may, when necessary, expand the audit scope to address areas of supervisory concerns. This does not affect the expectation on external auditors to perform all necessary procedures in line with the requirements of the MASA.
73. **Regular meetings are conducted between BNM and the external auditors to exchange views.** This communication keeps the channels open on the scope of audit assignments and problems arising from an audit, and on issues related to the application of the accounting standards. The BNM is represented on the Financial Reporting Foundation and the MASB working groups and is an advisor to the MASB. The BNM works closely with MASB on specific accounting standard issues impacting the financial sector.³³
74. **During its first year of operations, the AOB has not had any impact on the oversight activities of BNM.** It was mutually agreed that the AOB would not focus on audits of financial institutions during its first year of operation, primarily to allow the AOB time to build its expertise in this area. Both institutions plan a high level of cooperation in the future.
75. **As of November 30, 2011, there were 76 audit firms and 302 individual auditors registered with the AOB.** The AOB has taken an approach aimed at fostering compliance rather than denying registration in cases where it deemed compliance was achievable. As a result, 11 audit firms and 16 individual auditors were registered “with conditions” and 5 auditors were granted registration for a period of less than 12 months. Noncompliance with the auditor rotation rules, as well as with the Engagement Quality Control Review requirements has led the AOB to issue reminder letters to several audit firms and sole practitioners. The AOB monitors the audit opinions of all public interest entities to identify any significant issues. It has taken a risk-based approach to establishing its inspection programme. Since its establishment in April 2010, it has conducted inspections of the 6 major audit firms (whose clients represent 93 percent of the market capitalisation in Malaysia) covering a comprehensive review of 55 individual audit engagements.

³³ For example in relation to the implementation of IAS 39 (or FRS139) BNM allowed Banks to apply the transitional provision in the determination of collective impairment provisions. (The guidelines on Classification and Impairment Provisions for Loans/Financing were amended in November 2011 to remove the use of this transitional provision in the preparation of financial statements beginning in FY2012 in line with Malaysia’s convergence with IFRS). Similarly BNM requires insurance companies to record life insurance contracts as liabilities rather than equity as permitted by FRS 4 and that acquisition costs for life insurers be accounted for as and when they are incurred. The BNM and the MASB regularly provide views on proposed standards, including through comments on exposure drafts and involvement in international working groups.

76. **The AOB concluded that, in general, the audit firms inspected have in place the policies, procedures, systems, and infrastructure required to implement audit and quality assurance standards.** It believes as well that the challenges facing audit firms in Malaysia are not very different from those faced by audit firms in other markets such as Australia, Singapore, and the United Kingdom. Issues observed by the AOB related mainly to the application of professional scepticism in challenging management assumptions and estimates in areas that require professional judgment. Another key concern is ensuring proper documentation of audit work, especially in relation to audit evidence obtained and the process for reaching conclusions based on professional judgment. The AOB has also witnessed the challenges faced by audit firms in two critical areas: (a) price-based competition at a time when audit firms are incurring additional costs to meet higher audit-quality standards and (b) human resource issues as firms deal with large workloads and struggle to attract and retain talented and qualified audit staff.³⁴ The AOB also concluded that audit firms could improve their compliance with auditing standards in the following areas:

- Partners providing leadership in emphasizing the importance of audit quality;
- Compliance with relevant ethics-based requirements and documentation, in particular in the areas of independence (specifically partner rotation) and independence testing;
- Timeliness of acceptance and continuance of client relationships and specific engagements;
- Documentation and monitoring of engagement performance; and
- Human resource management, in particular continued professional development requirements and workload management.

77. **Generally, the audit firms outside the top six are facing challenges to cope with the audit quality and rotation requirements imposed by the MIA By-Laws.** The AOB cooperates with other oversight bodies such as BNM, MIA, SSM, and the Securities Commission. Of the 22 audit engagements conducted by the AOB during FY2010, none were for financial institutions as it was agreed with the BNM that the AOB would not focus on these in its first year of operation. Of the 55 audit engagements selected for review during the FY2011, 4 were audit engagements of financial institutions.

78. **The AOB engagement review process will be expanded in 2012 to cover more firms in addition to the annual inspection of the major firms.** With the benefit of additional resources it has received to recruit additional staff, the AOB will undertake these activities with continued focus on areas that require higher levels of professional judgment and those that are assessed as having a higher level of risk such as fair value accounting, going concern assumptions, impairment assessments, revenue recognition, and accounting estimates.

³⁴ <http://www.sc.com.my/paper.asp?pageid=1038&year=2010>

- 79.** **The MIA is also responsible for surveillance and enforcement of auditors carrying out audits of non-public interest entities.** The MIA practice review programme was first established in 2004. Section 550 of the MIA By-Laws on Professional Ethics, Conduct and Practice issued in January 2007 provides the regulatory basis for the audit firm review process. All member firms will be selected for review on a random basis in a 5-year review cycle, although this may be difficult to achieve considering the current shortage of staff to conduct these reviews. Since the MIA began conducting practice reviews in 2005, 34 percent of audit firms registered with the MIA have been subjected to a practice review. The basis of selection is random rather than risk based. Forty-eight percent of the audit firms reviewed were found to be deficient and were assessed as needing a follow-up review. The major area of weakness relates to documentation of audit procedures. Audited firms are charged for the cost of the MIA-conducted review, but no penalties are imposed for noncompliance. Of the current 6 managers appointed to conduct quality reviews, 3 are based in Kuala Lumpur. All practice review managers are highly qualified with a minimum of 10 years' relevant work experience and hold an internationally recognized accounting designation. The MIA believes a significant number of additional managers would be required to ensure all firms are audited during the course of a review cycle. However, the MIA is reviewing its practice review framework and the number of managers required will depend on the type of new framework adopted.
- 80.** **There have been only two instances recently where audit firms were identified for referral to the Investigation Committee as a result of these MIA reviews.³⁵** The MIA has taken an approach aimed at improving the compliance of firms with auditing standards through education and training, in particular by organising events and member engagement sessions for continuing professional development. This is to be commended but, having provided audit firms in Malaysia with the time and the support needed to achieve compliance, a different approach is now required. The MIA needs to follow through on its commitment to IAQC standards by giving enforcement and disciplinary actions a central role in its efforts to achieve a far higher level of compliance. One of the issues that will need to be addressed is that the MIA does not have the authority to suspend the registration of audit firms, only of individual auditors, on a temporary basis.
- 81.** **The MIA also conducts investigations in response to complaints it receives.** Complaints can be referred to the Disciplinary Committee. A practitioner may be sanctioned through the disciplinary proceeding. There have been instances where the Ministry of Finance has suspended licenses, which has resulted in licenses being restricted to non-public interest entities. The MIA cannot suspend a practitioner during the course of an investigation.
- 82.** **The Securities Commission has a well-developed market supervision section, which includes the Financial and Corporate Surveillance Department (FCSD), along with units for Institution Supervision, Intermediary Supervision, Investment Management Supervision, Market Surveillance, Licensing, and Bond Market.** The mission of the FCSD is to ensure public listed companies comply with the substance and

³⁵ A proposal has been submitted to the Government (Proposed Amendments to the Accounting Act) to enable the MIA to create multiple subcommittees to deal with investigations.

form of approved (Malaysian) FRS.³⁶ It conducts proactive surveillance activities in order to pre-empt any noncompliance issues. Where necessary, it refers any adverse findings to the appropriate department or other regulatory authorities. The Capital Market and Services Act (2007) provides the legal foundation for its activities. Section 320 (3) of the Act allows the Securities Commission to impose additional requirements with regards to an audit of a company under its jurisdiction.

- 83. The FCSD undertook a comprehensive review of all listed companies at the beginning of 2011.** The objective was to complete a review of the 186 public listed companies representing 90 percent of listed companies (based on market capitalisation) within 18 months, and the other 768 public listed companies within 36 months.³⁷ The reviews looked at corporate governance, the board of directors and senior management, financial and operational performance, and corporate development. In addition to these reviews, the FCSD proactive surveillance activities include a number of triggering factors that can result in an immediate review being launched for any public listed company. Surveillance includes reviewing the unaudited quarterly financial statements; monitoring company announcements, circulars, and prospectuses; and reviewing complaint letters and other publicly available information. Triggering factors include a qualified audit report or emphasis of matter, a referral from management, a significant change in directors without a corresponding change in shareholdings, a change of auditor, and late submission of financial statements.

- 84. The FCSD has taken some enforcement actions.** Examples of enforcement actions include the rectification and re-issuance of financial statements, private or public reprimands and fines, as well as referrals to other departments of the Securities Commission and to other regulatory authorities. The FCSD has also shared its findings with the audit profession, directors, and the broader business community by participating at various training events and conferences. The FCSD liaises with other regulators when necessary (for example to amend Bursa Malaysia Listing Requirements, or to address any accounting standards issues with the MASB and the International Organisation of Securities Commissions). The Securities Commission is represented on the Financial Reporting Foundation, is an advisor to the MASB, and is an observer at meetings of the FRSIC.

- 85. To enhance its regulatory effectiveness, Bursa Malaysia has established a Corporate Surveillance and Governance (CSG) Division.**³⁸ This CSG Division works closely with the Securities Commission's FCSD. The CSG Division's key functions include:

³⁶ The FCSD has a highly qualified, experienced staff of 19. All members of the department have completed an undergraduate degree, 11 have acquired an internationally recognised accounting designation, and 5 hold a postgraduate qualification. Eight staff members are in the process of pursuing a professional qualification or a postgraduate degree.

³⁷ Based on public listed companies (excluding public listed companies supervised by BNM, Exchange Traded Funds, and Close End Fund) and market capitalisation values as of December 31, 2010.

³⁸ Comprising of 15 professional and/or tertiary qualified staff.

- Adopting a risk-based approach to detect possible corporate transgressions through financial and non-financial “red flags” and tracking corporate developments.
- Engaging with the directors, auditors, and advisors of public listed companies and other intermediaries to address concerns and enhance governance culture.
- Undertaking thematic studies to detect emerging trends and issues, and considering appropriate actions to address or mitigate these concerns, including the issuance of directives or changes to the regulatory framework. (For example, in 2010 a directive was issued to compel certain public listed companies to take the necessary steps to recover their long-outstanding receivables arising from related party transactions. A total of RM2.3 billion was recovered out of the total RM3.1 billion outstanding).
- Collaborating with the AOB, industry organisations, fund managers, and professional bodies to focus each entity on their respective roles and to enhance corporate governance practices of the public listed companies.

86. **The deadline for submitting audited financial statements is currently 4 months after the end of the financial year.** Bursa Malaysia wants to have this shortened to 2 months and is currently conducting a consultation process with other stakeholders. This will prove to be a challenge for companies with many subsidiaries since — based on a strict interpretation of the current legislation — the auditor of the holding company must obtain audit reports for all subsidiaries before issuing the audit report for the holding company. The AOB has undertaken the lead on a discussion with stakeholders to clarify this legislative requirement.

87. **As the regulatory body responsible for enforcing the Companies Act (1965) as well as the Registration of Businesses Act (1956) and the Trust Companies Act (1949), the SSM has established a Corporate Surveillance and Governance Division to monitor compliance for non-public interest entities.³⁹** This division includes a Corporate Accounts Monitoring Section focused on monitoring corporate reporting and audit activities.⁴⁰ On-going responsibilities of the Corporate Accounts Monitoring Section include registration of audit firms; monitoring of changes in audit firms and auditors, including the resignation and removal of auditors; monitoring the qualification of auditors; monitoring the quality of financial statements lodged; and inspecting company financial statements and auditors. An auditor who resigns is required to submit an explanation to the SSM. If a company removes an auditor, the auditor can provide the SSM with a written rebuttal as to why the removal should not be allowed. The SSM has noticed a marginal increase in the annual number of auditor removals or resignations from 1,500 (in 2009) to 2,000 (in 2010). Approximately 94 percent of auditor changes are voluntary, for example, due to dissolution of an audit firm, internal restructuring of an audit firm, and clients’ wishes to appoint another auditor.

³⁹ AOB is responsible for the monitoring of compliance of auditing and ethical standards of auditors of public interest entities.

⁴⁰ It has a staff of 14 who are all degree-qualified, 6 of whom hold an internationally recognised accounting designation.

- 88.** As monitored by SSM, examples of breaches to the Companies Act include failure to hold annual general meetings and failure to submit audited accounts. In 2010, there were 1,487 cases of failure to hold annual general meetings, and 3,578 cases of failure to submit audited accounts. Of the 1,892 auditors registered with the SSM, 20 percent were found to be inactive. In addition to the whistle-blower provisions, auditors are obliged to report any irregularities noticed.⁴¹ The SSM works closely with other regulators, including the MIA Investigation and Disciplinary Committees, to which it refers cases. This makes it all the more important to address the shortcomings in the MIA disciplinary process identified earlier.
- 89.** The SSM established the Corporate Law Reform Committee with responsibility for the publication of the Consultative Document on Creating a Conducive Legal and Regulatory Framework for Business. The document recommended maintaining the statutory audit requirement for all companies. The SSM has been actively encouraging deregistration of dormant companies, in particular, by waiving applicable penalties for failure to lodge financial statements. As a result, 200,000 companies were removed from the register. The SSM has also been promoting the establishment of a new form of entity, “LLP” for partnerships.⁴²

III. Accounting Standards as Designed and Practiced

- 90.** As stated earlier, Malaysia has two separate sets of accounting standards. These are (a) Accounting Standards for Private Entities (PERS) and (b) Accounting Standards for Entities Other than Private Entities⁴³
- 91.** The Accounting Standards for Entities Other than Private Entities are already in line with IFRS with some small exceptions. Specifically these exceptions are IAS 41, *Agriculture*, and IFRS 9, *Financial Instruments*, which have not been adopted, some additional transitional provisions, which were added in IAS 39, *Financial Instruments: Recognition and Measurements*, and IAS 17, *Leases*. Full convergence is planned for 2012.⁴⁴
- 92.** While there are no significant concerns over the current version of PERS (which are based on the 2003 versions of IAS prior to the IASB Improvement Project), they have not been updated since they were adopted in 2006. They are, therefore, out-

⁴¹ Section 174(8A) of the Companies Act (1965) provides that “if an auditor in the course of performance of his duties as an auditor of a public company or a company controlled by a public company, is of the opinion that a serious offence involving fraud or dishonesty is being or has been committed against the company or this Act by officers of the company, he shall forthwith report the matter in writing to the Registrar”. The maximum penalty for noncompliance is imprisonment for up to seven years or RM250,000 or both.

⁴² The law to establish this new legal entity is pending approval by Parliament. An annual declaration of solvency would be required, but an audit of the annual financial statements would not be required. It is anticipated that this entity type will be more popular than a company structure for small to medium-size businesses.

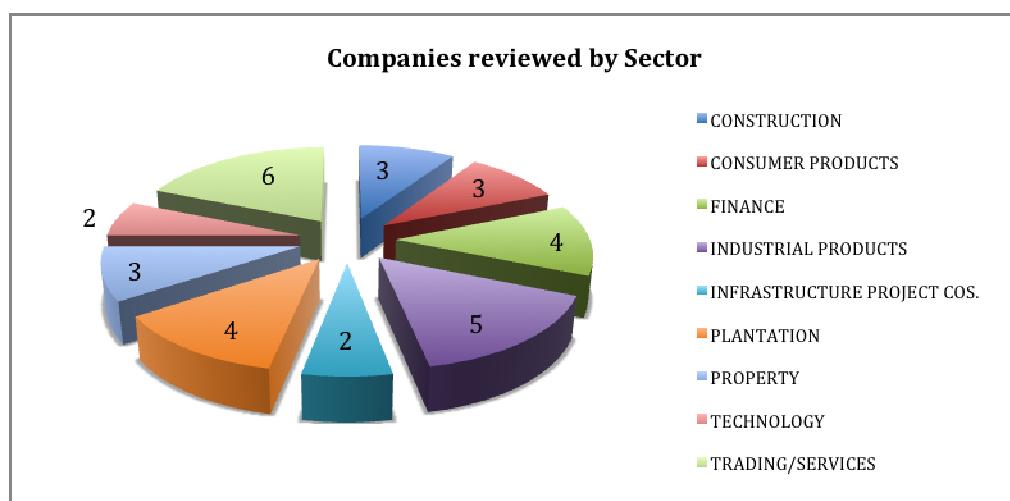
⁴³ Public interest entities fall into this category and apply the standards applicable to this category.

⁴⁴ Refer to paragraph 55 for the latest position on full convergence with IFRS.

dated; hence the MASB's current priority for the review of reporting requirements for Private Entities.

93. As a part of the ROSC A&A due diligence, 32 sets of public interest entity financial statements for the year ending December 31, 2010, were reviewed to better understand the degree of compliance with applicable (Malaysian) FRS and IFRS. The sample selection and methodology used was established in order to cover financial statements audited by the top 10 accounting firms operating in Malaysia,⁴⁵ as well as to provide an overview of the economic environment and key business segments operating within the Malaysian economy. Additionally, the ROSC review included a number of smaller public interest entities to determine whether any disparity in the quality of financial reporting and auditing existed.

94. Public listed companies audited by the audit firms inspected cover approximately 93 percent of the total market capitalisation of companies listed on Bursa Malaysia as of December 31, 2010. Of the 32 public interest entities selected for review, 8 were government-linked companies⁴⁶ that are subject to the same financial reporting and audit requirements as other public listed companies that are not government-linked companies. The reviewed companies represent a mixture of construction, consumer products, finance, industrial products, infrastructure project companies, plantations, property, and technology sectors. A breakdown of the sectors covered is detailed in the following figure:



95. The review focused on issues of presentation and disclosure but did not cover compliance with "recognition and measurement" requirements of accounting standards, as these aspects are not detectable solely through a review of financial statements. While no significant departures from (Malaysian) FRS were identified, some

⁴⁵ The top 10 accounting firms are responsible for over 99 percent of public interest entity audits within Malaysia.

⁴⁶ According to the Government-Linked Companies Transformation Programme Progress Review, April 2011, government-linked companies make a significant contribution to the Malaysian economy in that they contribute 36% of the total market capitalisation at Bursa Malaysia and contribute approximately 13% of GDP".

areas where additional disclosure would be beneficial were identified. These were generally in relation to disclosures required by newly issued standards with increased disclosure requirements, including IFRS 7, *Financial Instruments: Disclosure* (FRS 7, effective January 1, 2010); IFRS 8, *Operating Segments* (FRS 8, effective July 1, 2009); and IAS 38, *Intangible Assets*. The major areas for improvement are presented below:

- a. **Geographic segmental information.** A number of financial statements lacked additional supporting geographic segmental information. While it could be argued that this information was not presented based on materiality, (Malaysian) FRS 8 (and IFRS 8) requires geographic segmental information to be presented unless the information is not available and the cost to develop it would be excessive. Where the information is not available and the cost to develop such information is excessive, this should be disclosed by the entity. A number of entities reviewed appeared to have significant overseas operations; however, an assessment of the nature and size of these operations could not be performed due to the lack of geographic information.
- b. **Intangible assets.** A number of financial statements showed no separate disclosure of intangible financial assets on the face of the Statement of Financial Position, or amortization expense on the face of the Statement of Financial Performance. Review of the notes to the financial statements highlighted that the majority of intangible assets (primarily computer software) were included as part of Property, Plant & Equipment, and amortization was included in depreciation expense. While the argument for non-disclosure is primarily based around either materiality or the inability to separately identify the value of computer software from the hardware, it is arguable that some disclosure of either externally purchased intangible assets (where costs are easily identifiable and separable) or internally generated intangible assets should be shown in accordance with IAS 38 (FRS 138).
- c. **Sensitivity analyses.** Malaysian FRS 7 and IFRS 7 require significant levels of disclosure for financial instruments, including sensitivity to fluctuations in key variables such as interest and exchange rates (where applicable, based on the entities business activities). While there appeared to be no significant departures from the disclosure requirements, the ROSC team noted varying disclosure practices ranging from generic “no material impact” statements to variance analyses based on movements in either the interest or exchange rates. While no single best-fit approach is advocated, since this is dependent upon the operations and management judgment, there is generally room for improvement in the levels of disclosure currently provided from a good practice perspective. Greater disclosure of an entity’s key sensitivities provides the reader of the financial statements with a greater understanding of the key drivers of underlying operating results, as well as any potential downside of the entities exposure to key risks.

IV. Auditing Standards as Designed and Practiced

96. **Malaysian Auditing Standards are in line with international good practice.** All international auditing and ethics standards have been adopted, including clarified ISAs,

which became effective December 31, 2010, for all year-end audits. These standards are applicable to all audits of financial statements.

97. All companies require an annual audit with the exception of those that are legally not required to do so due to specific circumstances.

98. Practice and engagement reviews to assess compliance with regard to ISA and ISQC1 have been performed by the MIA (in 2004) and the AOB (in 2010). The MIA-conducted practice review of non-public interest entity auditors highlighted that small and medium-size audit practices generally failed to comply fully with auditing standards and ISQC1. Of the firms reviewed, 48 percent failed to meet auditing and reporting standards and required significant remedial action with a further 46 percent requiring some further remedial action.⁴⁷ The AOB-conducted engagement reviews of public interest entity auditors also highlighted some compliance gaps in the auditing process. The key areas were as follows:⁴⁸

- a) Going Concern (ISA 570).** The review noted that more robust audit procedures were required to assess the appropriateness of the going concern assumption. This includes challenging key assumptions and estimates made by management. There were some discrepancies discovered between the disclosures in the financial statements and audit evidence reviewed as part of the engagement review.
- b) Related Party Transactions and Disclosure (ISA 550).** The review noted a need to revisit the existing process for identification (and accompanying disclosures) around Related Party Transactions to ensure that this is more robust.
- c) Third Party Confirmations (ISA 505).** The engagement review identified instances where reliance was placed on photocopied, scanned, or faxed copies without additional assurance procedures being undertaken to ascertain the veracity of the confirmations. Additionally, there were instances where confirmations were received after the opinion date.
- d) Use of Experts (ISA 620).** The engagement review identified instances where an evaluation of the competence, objectivity, and scope of experts' work was not performed. Additionally, the auditor did not always adequately (or appropriately) address limitation clauses.
- e) Review of Journals.** The engagement review identified instances where the rationale for sample selection was not always adequately documented, nor was the completeness of the journal population ascertained. Additionally, the engagement review also noted instances where significant late adjustments remained untested.

⁴⁷ The MIA practice review separates firms into Tier 1: No follow up is required, Tier 2: Some follow up is required, and Tier 3: Significant remedial action required.

⁴⁸ As the AOB stated in its report, similar areas of weakness have been noted by regulators in other jurisdictions.

f) Other Issues. In addition to the issues identified above, the engagement review identified other findings, including:

- i. Audit documentation was generally weak.
- ii. Risk assessments could be more robust.
- iii. Communication with the audit committee could be improved.
- iv. The role played by the engagement partner could be made more effective with greater involvement suggested.

The AOB has discussed its findings with the accounting/auditing profession and, where necessary, has taken appropriate remedial action and proactively increased its engagement review and monitoring actions.

99. **While overall the regulatory and enforcement regime for public interest entities is well developed, there are some concerns over the ability of small audit firms to fully comply with the clarified ISAs and ISQC1.** As noted earlier in the report, consideration is currently being given to a reduced auditing and financial reporting framework for non-public interest entity entities as part of a review of the Companies Act (1965).

V. Perception of the Quality of Financial Reporting

100. **Overall the institutional framework of corporate financial reporting in Malaysia is well developed** in the multiple layers of systematic control, review, and enforcement with a high level of communication and coordination between institutional enforcement agencies (i.e., AOB, BNM, Bursa Malaysia, MASB, MIA, Securities Commission, and SSM).

101. **A recent survey of the business community indicated that end users of financial statements favour retention of the compulsory audit regime and users derive some usefulness from having all financial statements audited.** There however remains a significant expectation gap between users and auditors that requires attention to ensure that users are fully cognizant of the scope and limitations of an auditor's role and their ability to influence information contained in published financial statements.

102. **The expectation gap results largely from a lack of understanding of the role of the auditor at the director and investor levels.** There appears to be an overarching misconception on the part of some directors and investors that it is the auditors role to assist in the preparation of a company's financial statements, including in areas where the company itself has applied significant judgment. This is in contrast to the auditors' primary function of ensuring that financial statements are prepared in compliance with accounting standards and statutory requirements and to express an independent opinion as to whether the financial statements present a true and fair view of the company's financial affairs in accordance with the financial reporting framework.

- 103.** This misconception is an indicator of a need to improve corporate governance in some organisations, including the capacity and financial capability of audit committees.⁴⁹ The SSM is the body primarily responsible in Malaysia for the monitoring of company directors regarding the fulfilment of their duties and responsibilities. As part of its education of new directors, the SSM provides training materials to directors aimed at improving the overall level of financial (accounting/auditing) literacy. For public listed companies, Bursa Malaysia and Securities Industries Development Corporation provide training and education to audit committees, as well as to directors. The education of directors and investors will be a key to further reducing the expectation gap.
- 104.** The expectation gap should not be used as an excuse for noncompliance with international good practice (ISQC1 and ISA). As noted, the AOB and the MIA are responsible for ensuring auditor compliance with international standards for public interest entities and non-public interest entities, respectively. A number of areas for improvement were identified as part of their (respective) practice and engagement reviews. A reduction in the expectation gap should derive from a combination of an increase in the overall quality (and compliance with international standards) of audits, and increased understanding on the part of users of the role and function of auditors through a strong education programme.
- 105.** While some compliance weaknesses have been identified in this report, the review of public interest entities audited financial statements for compliance with (Malaysian) FRS indicates a high level of compliance is currently being achieved. There is however a need for increased enforcement following the engagement and practice review to ensure that the quality of audits is improved.

VI. Policy Recommendations

- 106.** The broad policy recommendations made in this ROSC emerge from the review findings and from the valuable inputs received from the various stakeholders. These primarily principle-based recommendations take a holistic approach and could provide input for preparation of a comprehensive country action plan aimed at further strengthening the institutional framework for accounting, auditing, and financial reporting. The policy recommendations are interrelated and mutually supportive, and are designed to collectively improve the financial reporting environment in Malaysia.
- 107.** The guiding principles behind the recommendations are to build on the existing system of accounting and auditing infrastructure. The future developments should be carried out in a manner that does not jeopardize the achievements of the framework and systems in place that have been implemented through strong collaboration between the Government, regulatory agencies, and the accountancy profession.

⁴⁹ As part of the Government-Linked Companies Transformation Programme, a number of initiatives have been taken to improve corporate governance, including guides on Enhancing Board Effectiveness and (Malaysian Directors Academy) Strengthening Directors Capabilities.

A. Statutory framework

108. **Section 174 of the Companies Act should be amended or clarified.** This action should address the issue that auditors are not required to review the audit opinion for each of the subsidiaries of the group entity they are auditing before issuing their audit opinion on the consolidated financial statements. A narrow interpretation of the Act would indicate this is currently required. This will be particularly important in light of the initiatives under way to shorten the timeframe for submission of audited financial statements for public interest entities and public listed companies to 2 months after balance date.

109. **In accordance with recommendation 1.6 of the Review of the Companies Act (1965), some exemptions from the requirement to audit annual financial statements should be introduced for small and medium-size enterprises based on specific criteria.** This change should be implemented in conjunction with the MASB review of financial standards for small and medium-size enterprises, which will possibly result in the introduction of a differential reporting framework. The SSM in its 2008 consultative document “On Creating a Conducive Legal and Regulatory Framework for Businesses” suggested using the following three criteria to determine whether a entity should be considered a small entity:

- Total revenue of not more than RM10 million;
- Total assets of not more than RM5 million; and
- Not more than 50 employees.

The various stakeholders should be consulted to consider public interest and cost/benefit considerations and to determine how best to introduce a differential reporting framework that best suits the Malaysian context. The status quo is not an option as the reputation of the audit profession is at stake. In the case of small companies (a vast number of which are dormant), financial statement users are potentially relying on the audit opinion that accompanies the financial statements. While the services provided by the auditors is undoubtedly of some benefit as surveys have shown, evidence collected from the MIA with respect to compliance with auditing standards and the low fees charged suggest that audit quality may be well below an acceptable standard.

110. **The gap between the quality of audit service provided for many small and medium-size enterprises and whether this is meeting the actual needs of the users of the financial statements should be addressed.**

111. **The procedure for licensing of statutory auditors needs to be improved.** The four-month official timeframe for the submission and processing of the audit license interview application form should be adhered to, the application process should include provision of feedback to candidates, and the three-year practical experience requirement should be allowed to be completed (at least in part) overseas. The requirement for auditors

to be compliant with ISQC1 in order to renew their license should be demonstrated by a certificate of compliance issued by the MIA after completion of an inspection.

112. **The minimum professional indemnity insurance requirement of RM100,000 for MIA members in public practice should be reviewed** to determine whether it remains adequate and whether different levels of minimum insurance should be set for auditors of public interest entities, audit firms with several audit partners, and any other relevant criteria.
113. **Auditors should be required to attend the annual general meeting of a public interest entity**, or be represented by a suitably qualified member of the audit team that conducted the audit so that they can answer any questions relating to the audit.
114. **Changing auditors for the sole purpose of reducing the audit fee should be discouraged.** Over time this practice will potentially lead to lower-quality audits. A review of legislation and regulations governing changes in auditors in other jurisdictions should be initiated in order to determine whether some changes should be implemented in Malaysia, with the overarching goal of supporting high-quality audits within the framework of free and open market competition.

B. Accounting and auditing standards

115. **Priority should be given to the current review of the PERS accounting and reporting framework.** The MASB is in the process of reviewing and evaluating the PERS reporting regime in light of recent developments such as IFRS for SMEs. The ROSC team recommends that this review be given priority as these standards, based on 2003 version of IAS, are out-dated.

C. The profession

116. **An independent review of the governance structure of the MIA should be conducted to provide recommendations for improving its structure and operations.** In particular, these actions should address the structure and membership of the MIA Council, and the streamlining of the investigation and disciplinary process. These changes should also facilitate the process of approving any increases in membership fees, as it appears that a lack of resources is impacting the MIA's ability to discharge effectively all its obligations.

D. Monitoring and review arrangements for improving the quality of audits

117. **The MIA should place a greater emphasis on enforcement, including the suspension or removal of noncompliant auditors.** The MIA practice review has revealed that a significant number of audit firms and practitioners were not compliant with ISAs and ISQC1. The MIA has provided an adequate amount of time and support for practitioners to comply with the standards to date, but better enforcement is necessary. Equity of treatment

across all MIA members is important in order to maintain the credibility of the accounting and auditing profession as a whole. This may require some changes to the legislation or MIA By-Laws since the professional body does not have the authority to suspend registration of auditors.

- 118. The MIA practice review function should be made more comprehensive.** The practice review should include a risk-based scheduled review of all registered auditors (with the exception of those falling under the AOB jurisdiction), regular reporting of results, strict timelines for noncompliant firms to adhere to standards, suspension or deregistration of auditors depending on the level of noncompliance, and prospects for reaching compliance in a reasonable time frame.

E. Professional education and training

- 119. All MIA-recognized university programmes should be subject to periodic reviews.** The institutions offering noncompliant programmes should be given a warning and the option of addressing any deficiencies. As a last resort, the MIA should exercise its authority to suspend the accreditation of any programme or institution that fails to comply with the required quality standards.

- 120. Reforms should be introduced for facilitation of international students' access to the various professional accounting programmes offered in Malaysia in order to relieve the shortage of professional accountants in Malaysia.** To facilitate the return of Malaysian accountants practicing overseas, their experience gained prior to joining the MIA should be taken into consideration in meeting the three-year practical experience requirement when applying for an audit license in Malaysia. It is further recommended that the right of international students studying in Malaysia to work during and after completion of their studies be liberalized.

- 121. The MIA should mandate that candidates for membership who are members of a recognized professional accountancy body (as specified in Part II of the First Schedule of the Accountants Act)⁵⁰ write an examination covering taxation and business & company law in Malaysia prior to admission.**

- 122. The MIA qualifying examination should be expanded and become mandatory for candidates who do not hold a recognized designation.** By strengthening the syllabus of the qualifying examination, the MIA will further improve the image and enhance the recognition of the designation in Malaysia and internationally. It will have the added benefit of facilitating any mutual recognition agreements the MIA may wish to enter into, and potentially allow its members to be treated as equals in any such agreement.

- 123. A regular monitoring and enforcement process for university accounting programmes should include the ability to suspend the recognition of accounting degrees that have fallen below the minimum standards set by the MIA and the**

⁵⁰ A list is included in Appendix 2.

MOHE. Even though the MOHE and the MIA have undertaken several initiatives to improve the quality of accounting degrees in Malaysia, the approach has been based on a strict evaluation of new degrees offered and fosters continuous improvement of existing programmes. It should be noted that CPA Australia has been compelled to take such actions in Malaysia.

- 124.** **Hala Tuju 2, the Reassessment Report on Accounting Programmes at Public Universities in Malaysia published in 2006, contains the standards by which accounting degree programmes should be assessed.** This publication is meant to be updated every five years. Given the significant changes to accounting and auditing standards during the past five years, publishing the 2011 update should be a high priority for the MIA and MOHE.⁵¹
- 125.** **The balance of academic qualifications (Masters, PhD) weighed against the benefits of having strong practical industry experience for lecturers should be reviewed** to ensure accounting graduates receive the training and acquire the competencies required by the profession and industry. The MOHE should also ensure that the pursuit of objectives set by the Government for the education sector takes into account the quantitative and qualitative requirements of the market for accounting graduates.

⁵¹ MIA has been engaging with MOHE on the preparation of Hala Tuju 3.

Annex. Background Information on the Malaysian Economy

Economic overview

Malaysia maintains high levels of foreign exchange reserves. Reflecting the reduction in the federal budget deficit, the ratio of federal government debt to GDP declined from 53.30% in 2009 to 51.15% in 2010. Only 3.5% of the public debt was external debt.⁵² The government continues to actively manage the economy with state-owned enterprises heavily involved in the oil and gas, plantation, shipbuilding, steel, telecommunications, utilities, automotive, mining, and other sectors.

Vulnerabilities and economic strategy

The ratio of private investment to GDP has been around 11% for the last decade, compared with rates over 30% of GDP in the 1990s before the Asian Financial Crisis. The country is also losing its attractiveness as an investment destination, seen in its falling ranking in the Global Competitiveness Index – 17th in 2006 to 26th in 2010. Some of the reasons usually advanced for this include the increasing social tensions between the country's various ethnic groups and the need to substantially improve the business and investment environment. This is being addressed through the Government Transformation Plan (GTP). The GTP contains six “national result areas”, which include tackling corruption, improving education as well as basic infrastructure. The Government has relaxed a regulation that obliged companies to offer minority equity stakes in a number of services sectors to the Bumiputera (the country's indigenous Malays) and will continue with similar reforms, hoping for greater inflows of foreign direct investment (FDI). Another vulnerability of the economy is that exports are heavily concentrated in electrical and electronic products – eventually destined for industrial-country markets where demand is uneven – and primary commodities (such as petroleum and palm oil) whose prices are volatile. Both types of export generate little value added and employ workers mainly with low skills and low wages. It is in this context that the Government has embarked on its ambitious structural reform programme. On-going reforms to transform the economy are showing positive results. More recently, FDI recovered in 2010 with a strong increase of RM29.3 billion compared to RM5.04 billion in 2009, reflecting improving confidence by the private sector.⁵³ In September 2011, the World Economic Forum's Global Competitiveness Report reported that the Malaysian economy's economic rankings have improved from 26 to 21, which is second in ASEAN and sixth in Asia Pacific.

The Malaysian Government announced its New Economic Model, Tenth Malaysia Plan and Economic Transformation Programme, in 2010. The New Economic Model includes divestment of state enterprises and an increase in the private sector's role in stimulating higher levels of investment in high-value-added sectors, to boost GDP growth. They aim is to create a business environment more conducive to long-term sustained economic growth, development, and

⁵² “Asian Development Outlook 2011”, Asian Development Bank, page 196,
<http://www.adb.org/documents/books/ado/2011/ado2011.pdf>

⁵³ Department of Statistics Malaysia: Table 3 – Malaysia – Components of the Capital & Financial Account and Reserve Assets 2009-2011
(http://www.statistics.gov.my/portal/images/stories/files/LatestReleases/bop/bop_q211_table3.pdf)

investment, with the goal of Malaysia becoming a high-income economy, with industrialized nation status by 2020. The reforms are expected to create 3.3 million jobs⁵⁴ and to raise nominal GDP per capita to US\$15,000. Over 60% of these jobs are expected to be middle income or high income, which would result in a significant growth in the jobs market, a shift toward higher paid jobs, a wide variety of new opportunities for Malaysians, and strengthening of the skills base.

Regional and international integration.

Malaysia is a founding member of ASEAN, established in 1967. Malaysia has concluded or implemented bilateral Free Trade Agreements with Japan, Pakistan, New Zealand, India, and Chile. At the regional level, Malaysia and its ASEAN partners have established the ASEAN Free Trade Area. ASEAN has also concluded Free Trade Agreements with China, Japan, Korea and India, as well as Australia and New Zealand. Malaysia has also been a member of the World Trade Organisation since January 1, 1995. Negotiations on a Free Trade Agreement with the European Union may be finalized in 2012, and trade talks with the United States and seven other nations are proceeding through the Trans-Pacific Partnership.

Partly in an attempt to reduce Malaysia's dependence on foreign labour, in October 2010 authorities amended legislation to clarify the rights of part-time workers (to entice housewives, students, and others to enter the workforce). It also established the Talent Corp in January 2011 to entice Malaysians working abroad to return home. Malaysia is trying to shift its economy away from low-value-added industries; consequently, authorities are making it harder for companies to recruit low-skilled foreign employees. At the same time they are relaxing the rules on the employment of highly skilled expatriates.

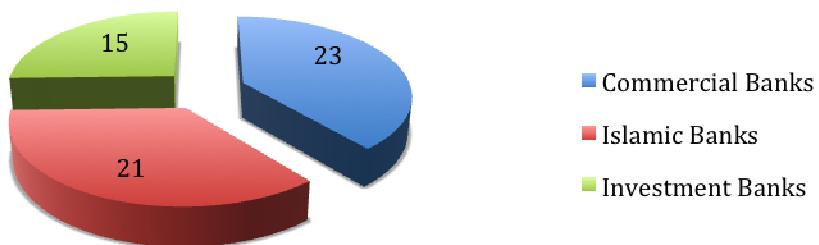
Banking sector.

Malaysia's financial institutions have weathered the volatility in the global financial markets very well. The relatively healthy state of the financial sector is largely the result of reforms implemented following the 1997–98 Asian Financial Crisis. None of the nine anchor banking groups (the domestic commercial banking conglomerates) had reported liquidity problems or a significant upswing in nonperforming loans.

As of December 31, 2010, there were 59 banks operating within Malaysia. Of these, 23 were commercial banks, 21 were Islamic banks, and 15 were investment banks. Assets of all banks totalled RM1,547.2 billion.

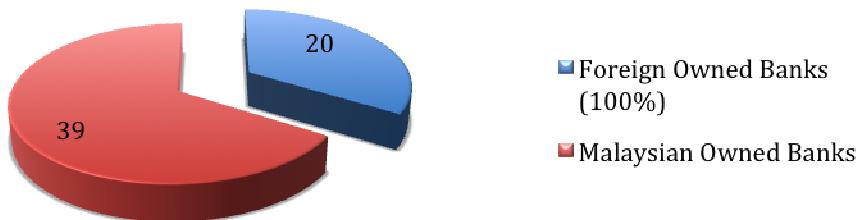
⁵⁴ These estimates are based on a projected increase of the population of Malaysia from 27.9 million in 2009 to 31.6 million in 2020.

Banks in Malaysia



Fourteen commercial banks and 6 Islamic banks are 100% foreign owned (overseas-based parent entities). There are no state-owned banks.

Banks in Malaysia



Foreign owned Banks in Malaysia

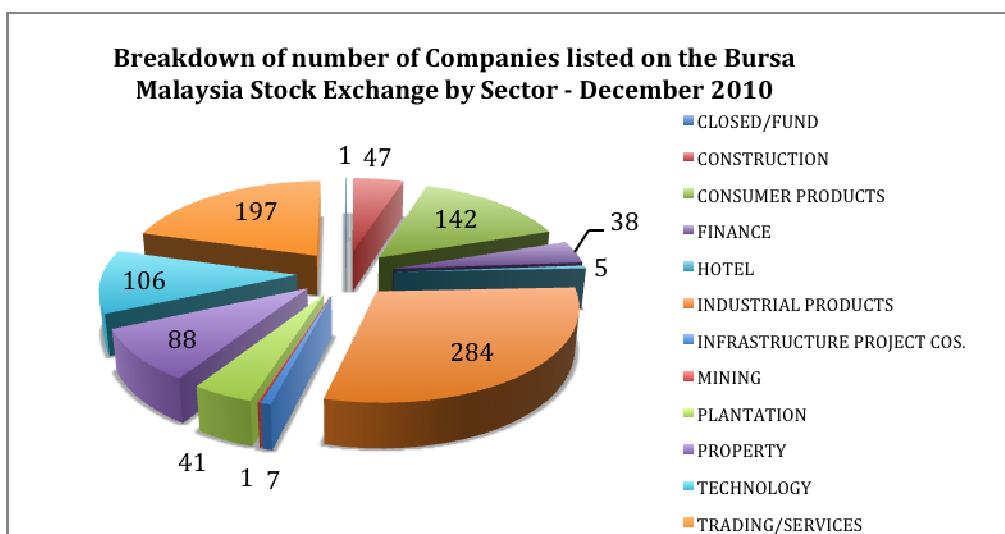


Capital markets.

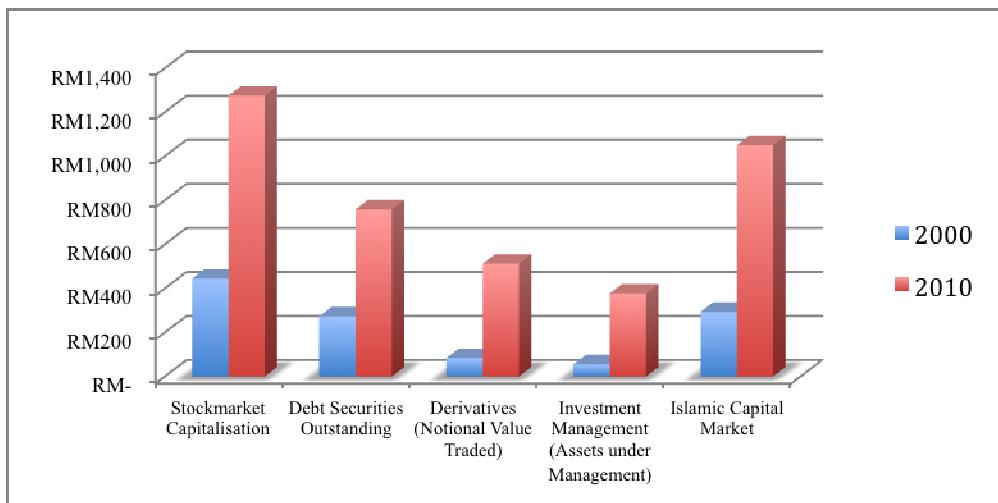
A Malayan Stock Exchange was first established in 1960 when the public trading of shares commenced. In 1964, the Stock Exchange of Malaysia was established. With the secession of Singapore from Malaysia in 1965, the common stock exchange continued to function but became known as the Stock Exchange of Malaysia and Singapore.

In 1973, currency interchangeability between Malaysia and Singapore ceased, and the Stock Exchange of Malaysia and Singapore was divided into the Kuala Lumpur Stock Exchange Berhad and the Stock Exchange of Singapore. The Kuala Lumpur Stock Exchange, which was incorporated on December 14, 1976, as a company limited, took over the operations of the Kuala Lumpur Stock Exchange Berhad in the same year. On April 14, 2004, following demutualization, the Kuala Lumpur Stock Exchange became Bursa Malaysia Berhad.

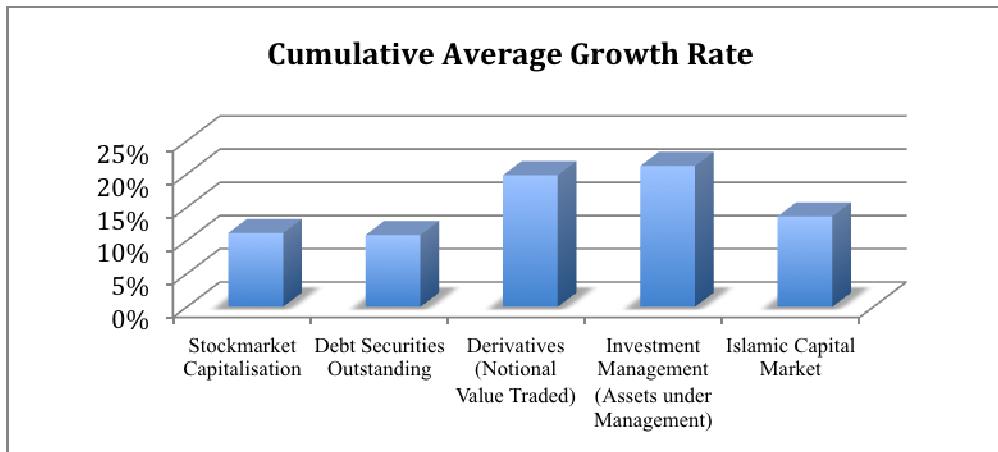
As of December 31, 2010, Bursa Malaysia Berhad had a total of 957 listed companies (29 new listings during the 2010 calendar year).



During the past 10 years, stock market capitalisation has grown by 11% annually to triple in size from RM444 billion in 2000 to RM1.3 trillion in 2010 with a growth in government-linked companies (GLCs) playing a significant role.



Cumulative growth (2000 and 2010) in each of the above sectors in the chart above has been significant as demonstrated below:



Government-linked companies.

The GLCs and their controlling shareholders constitute a significant part of the economic structure of the nation. The GLCs employ an estimated 5% of the national workforce and account for approximately 36% and 54%, respectively, of the market capitalisation of Bursa Malaysia and the benchmark Kuala Lumpur Composite Index.⁵⁵

The test of what constitutes a GLC is defined by control rather than percentage ownership. Essentially, a GLC, as defined in the Malaysian Government's Economic Transformation

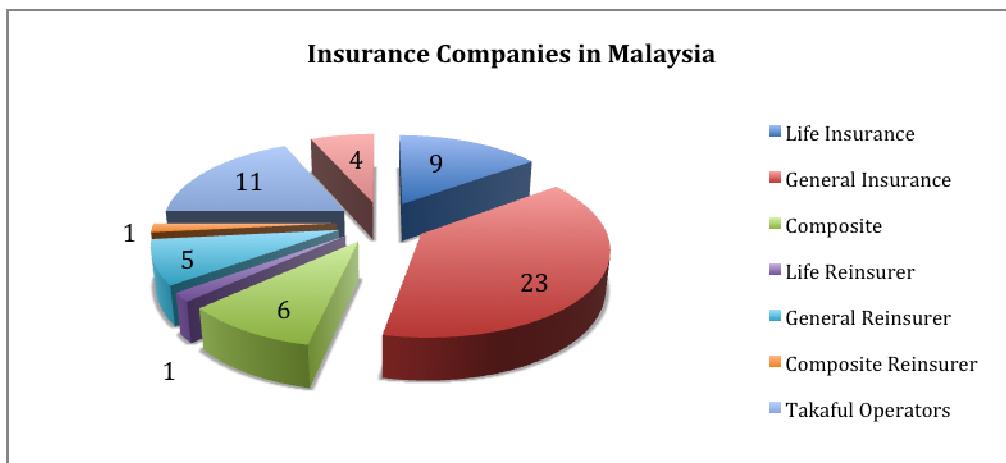
⁵⁵ “Catalysing GLC Transformation to Advance Malaysia’s Development” published by the Putrajaya Committee on GLC High Performance dated 29 July 2005 –Section 2, Pages 1 and 2.

Programme,⁵⁶ “is where control of a company is exerted by a GLIC, either in terms of super control (where one GLIC is the majority shareholder) or simple control (where a GLIC is the single largest shareholder). Control is defined by the ability to exercise and influence major decisions such as appointment of Board members and senior management, award of tenders and contracts at the Board and so on”.⁵⁷ It also includes companies where GLCs themselves have a controlling stake (i.e., subsidiaries and affiliates of GLCs).

GLCs remain the main service providers in key strategic utilities and services including electricity, telecommunications, postal services, airlines, airports, public transport, water and sewerage, banking and financial services

Insurance Sector.

As of December 31, 2010, there were 60 insurance companies operating within Malaysia. A breakdown of these is as follows:

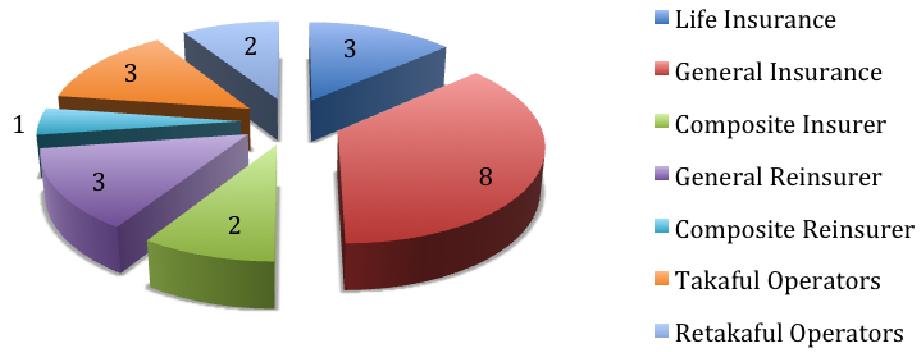


Of the 60 insurance companies, 22 have foreign-based parent entities. There are no state-owned insurance companies in Malaysia. A breakdown of the foreign-owned insurance companies is as follows:

⁵⁶ GLICs are defined as federal government-linked investment companies that allocate some or all of their funds to GLC investments.

⁵⁷ Defined by the influence of the Federal Government in: appointing/approving Board Members and senior management, and having these individuals report directly to the Government, as well as, in providing funds for operations and/or guaranteeing capital (and some income) placed by unit holders. The definition currently includes seven GLICs: ERF, Khazanah, KWAP, LTAT, MKD and PNB.

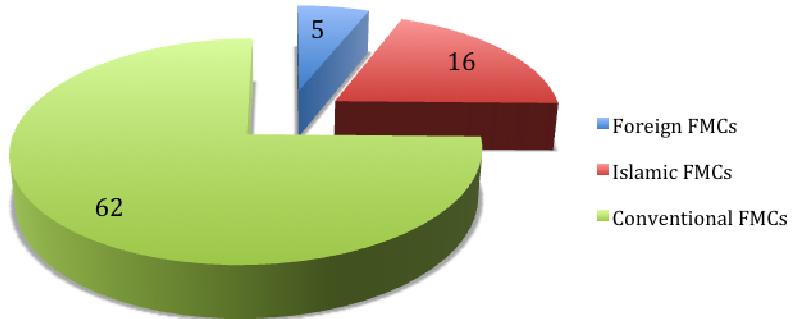
Foriegn owned Insurance Companies in Malaysia



Fund Management.

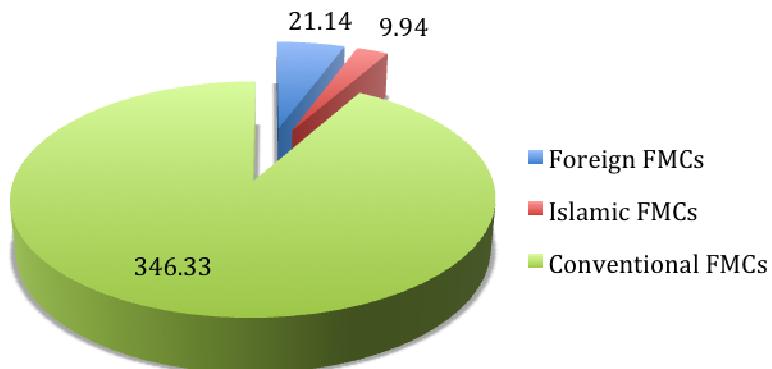
As of December 31, 2010, there were 83 fund management companies and 9 unit trust management companies operating within Malaysia. A breakdown of these is as follows:

Fund Management Companies



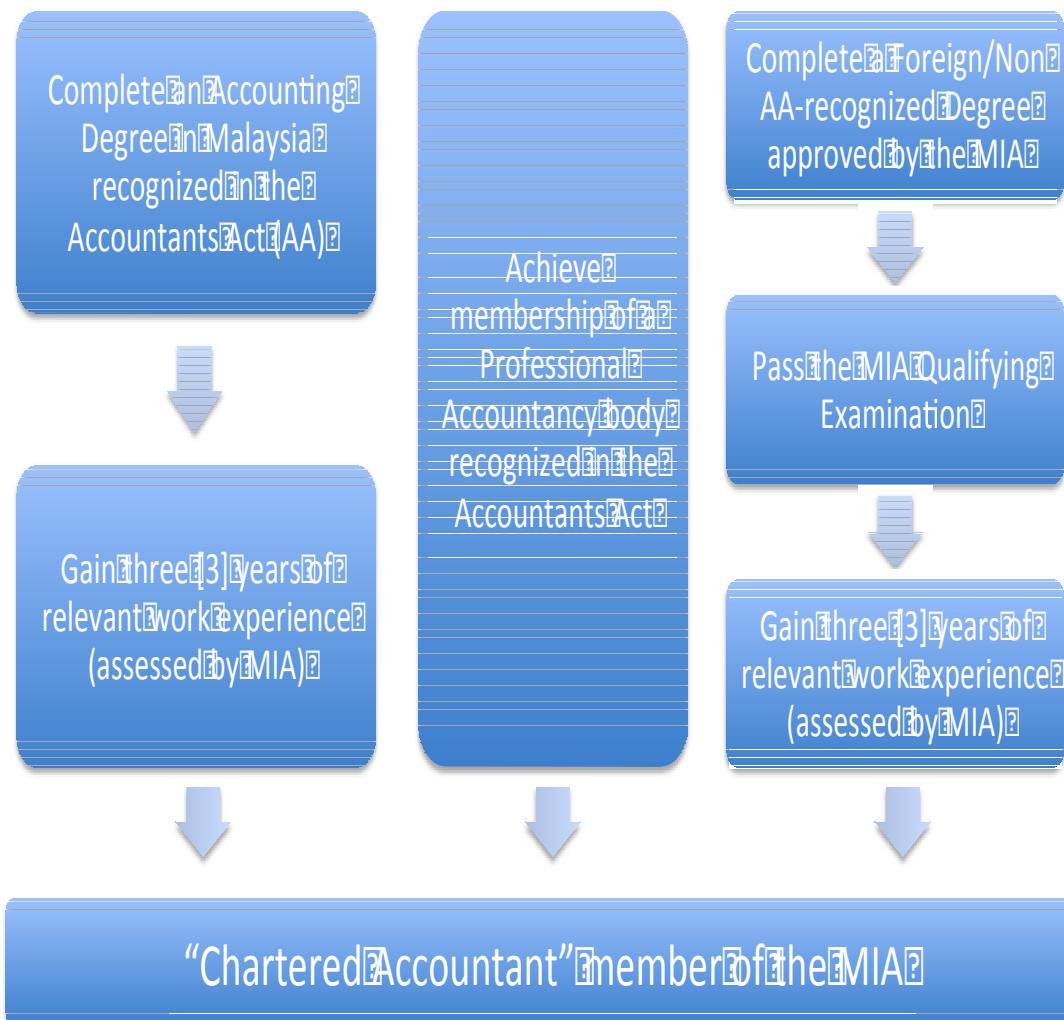
Total funds managed as of December 31, 2010, totalled RM 377.4 billion and was distributed as follows:

Distribution of Managed Funds (RM Billion)



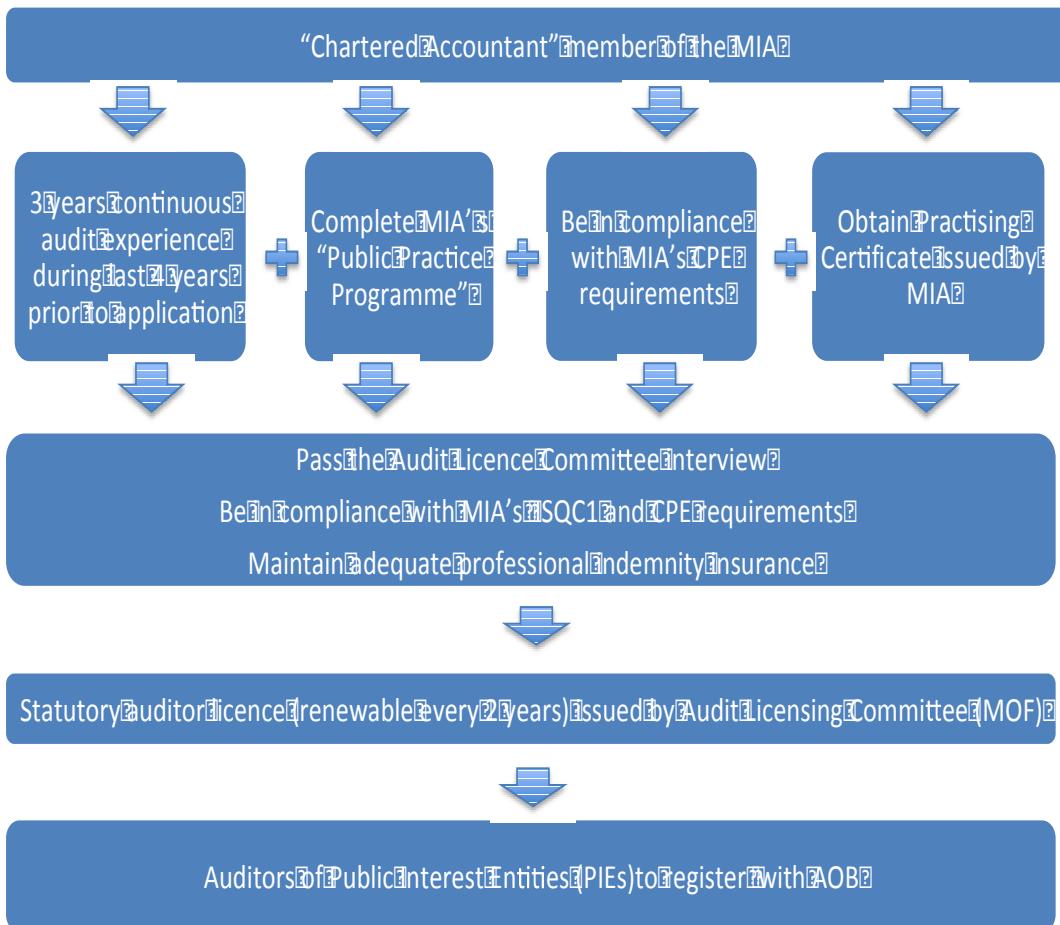
APPENDIX 1

Pathways to becoming a Chartered Accountant



APPENDIX 2

Becoming a Statutory Auditor



APPENDIX 3:

University degree programmes listed in the First Schedule of the Accountants Act (1967)

- (a) Final examination of the University of Malaya for the Diploma Perakaunan (Diploma in Accounting);
- (b) Final examination of the University of Malaya for the Ijazah Sarjana Muda Perakaunan (Degree of Bachelor of Accounting);
- (c) Final examination of the Universiti Kebangsaan Malaysia for the Ijazah Sarjana Muda Perakaunan (Kepujian) (Degree of Bachelor of Accounting (Honours));
- (d) Final examination of the MARA Institute of Technology for the Diploma Lanjutan Perakaunan (Advanced Diploma in Accountancy);
- (e) Final examination of the Universiti Teknologi MARA for the Ijazah Sarjana Muda Perakaunan (Degree of Bachelor of Accounting);
- (f) Final examination of the Universiti Utara Malaysia for the Ijazah Sarjana Muda Perakaunan (Kepujian) (Degree of Bachelor of Accounting (Honours));
- (g) Final examination of the Universiti Pertanian Malaysia for the Ijazah Bacelor Perakaunan (Kepujian) (Degree of Bachelor of Accounting (Honours));
- (h) Final examination of the Universiti Putra Malaysia for the Ijazah Bacelor Perakaunan (Kepujian) (Degree of Bachelor of Accounting (Honours));
- (i) Final examination of the Universiti Islam Antarabangsa for the Ijazah Sarjana Muda Perakaunan (Kepujian) (Degree of Bachelor of Accounting (Honours));
- (j) Final examination of the Universiti Sains Malaysia for the Ijazah Sarjana Muda Perakaunan (Kepujian) (Degree of Bachelor of Accounting (Honours));
- (k) Final examination of the Universiti Utara Malaysia for the Degree of Bachelor of Accounting (Honours)(Information System),
[Subs. P.U.(A) 281/2007]
- (l) Final examination of the Universiti Tenaga Nasional for the Degree of Bachelor of Accounting (Honours), the academic programme for which first commenced from the academic year 2002/2003 onwards;
[Am. P.U.(A) 281/2007]
- (m) Final examination of the Universiti Multimedia for the Degree of Bachelor of Accounting (Honours), the academic programme for which first commenced from the academic year 2002/2003 onwards;
[Am. P.U.(A) 281/2007]
- (n) Final examination of the Kolej Universiti Sains dan Teknologi Malaysia for the Degree of Bachelor of Accounting (Honours);
- (o) Final examination of the Universiti Malaysia Sabah for the Degree of Bachelor of Accounting (Honours).
[Ins. P.U.(A) 281/2007]

APPENDIX 4:

Recognized professional bodies listed in the First Schedule of the Accountants Act (1967)

- (a) Malaysian Association of Certified Public Accountants;
- (b) Institute of Chartered Accountants of Scotland;
- (c) Institute of Chartered Accountants in England and Wales;
- (d) Institute of Chartered Accountants in Ireland;
- (e) Association of Chartered Certified Accountants (United Kingdom);
- (f) Institute of Chartered Accountants in Australia;
- (g) Australian Society of Certified Practicing Accountants;
- (h) New Zealand Chartered Accountants;
- (i) Canadian Institute of Chartered Accountants;
- (j) Institute of Chartered Accountants of India; and
- (k) Chartered Institute of Management Accountants (United Kingdom)

APPENDIX 5:

Consensus views published by the Financial Reporting Standards Implementation Committee.

View	Description
1	Determination of Substantively Enacted Tax Rate for Year of Assessment 2008 and Thereafter
2	Applicable Accounting Standards for MSC Status Company
3	Is Fixed Deposit Held on Lien for Bank Guarantee Facilities a Cash and Cash Equivalent?
4	Accounting treatment for impairment of goodwill in situation where court approval has been obtained to write it off against reserve
5	Split of the minimum lease payments between the land and the building elements
6	Accounting for premium paid for transfer of listing status in a reverse takeover scenario (acquisition of the listing status of a company that was not itself a going concern)
7	Accounting treatment for granting of ESOS by parent company to subsidiary's employees and subsequent recharge by the parent
8	Revenue recognition for shipping freight services companies
9	Accounting for rights issue with free warrants
10	How to compute the majority of the benefits and risks of Special Purpose Entity (SPE) and what constitutes the residual interest in the case where there are different tranches of risks?
11	When a company changes the measurement basis for its assets, which warrants a Prior Year Adjustment, should the related depreciation charges be adjusted retrospectively based on the Revised Definition of Residual Value in accordance with FRS 116?
12	Sustainable Forest Management Concession Arrangements
13	Expenses Permitted to be Written Off Against the Share Premium Account under Section 60 of the Companies Act, 1965
14	Impairment of Investment in Equity Instrument Categorized as Available-for-Sale Financial Asset due to "Significant or Prolonged" Decline in Fair Value
15	Classification of a Term Loan that Contains a Repayment on Demand Clause by the Borrower