CAS INTERNATIONAL

CAS & ASSOCIATES' BUSINESS HIGHLIGHTS

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FOREWORD BY CAS & ASSOCIATES MANAGING PARTNER

Welcome to CAS & Associates' new information bulletin, *Business Highlights*.

This is a new knowledge initiative introduced by our firm to share updates and news on current business issues every six months with valued clients and member firms.

In today's fast-changing business environment, it is crucial to focus on the challenges faced by companies and the response time in resolving them.

We hope to add-value by sharpening our readers' business knowledge and empower them to stay ahead of the competition.

I take this opportunity to thank all colleagues for their contribution to this maiden edition of *Business Highlights*.

We welcome feedback and comments on improvement for future issues. Enjoy reading!

Chen Voon Hann
Managing Partner
CAS & ASSOCIATES
Chartered Accountants

ABOUT CAS INTERNATIONAL

CAS International is a network of accounting and consulting firms serving a wide range of clients.

Each member firm in CAS International is an independent legal entity in its own territory.

Member firms have access to an expert team of professional business advisors, and provide well-thought and result-oriented solutions for clients.

Our partners and professional staff are well-qualified and possess expertise on a wide range of business subjects.

They also offer extensive experience in international business practice and local laws and customs, and are always ready to refer clients to their wide network of local business contacts.

With a headcount of 400, comprising partners and staff from both local and foreign firms, our network operations are supported by international committees, technical taskforces and frequent meetings and seminars, reaping consistently high service standards for clients.

CROWDFUNDING COMES TO MALAYSIA

Come December 2015, Malaysian SMEs will receive another source of fundraising to support their business expansion plans. Six (6) companies which have been licensed by the Securities Commission ("SC") to become Equity Crowdfunding ("ECF") operators will be ready to assist emerging companies to tap the capital market with enhanced regulation and confidence.

The internet now provides new opportunities to source capital from the public and crowdfunding is one such method. Crowdfunding is an umbrella term that describes the use of small amounts of money, obtained from a large number of individuals or organizations, to fund a project, a business or personal loan, and other funding needs through an online web-based platform.

ECF is one of four types of crowdfunding activities. There is no legal definition of ECF but as a concept, it refers to a form of corporate fundraising that envisages start-ups or smaller companies ("Issuers") obtaining seed capital through small equity investments from a relatively large number of investors, with online portals publicizing and facilitating such offers to crowd investors ("Investors").

The main features of the proposed framework for Issuers are as follows:

- All locally-incorporated private companies (other than exempt private companies) are eligible to participate in the ECF by issuing ordinary and preference shares to the public.
- An Issuer will be allowed to raise up to RM3.0 million from the ECF platform for a period of 12 months and a total maximum of RM5.0 million through the ECF platform.
- Issuers are required to file a standardized disclosure document with the ECF operator providing amongst others, key information on the Issuer, the offering and the amount to be raised.
- Public-listed companies and subsidiaries are not allowed to issue via the ECF platform. No commercially or financially-complex structures are allowed.
- Funds raised are not allowed to be used for loan provision or investment into other entities.

The main features of the proposed framework for Investors are as follows:

- Retail, sophisticated and angel investors (to be self-declared) are allowed to invest in companies hosted on the ECF platform, subject to the investment limit specified by the SC:
  - ⇒ Retail investors – up to RM5,000 per investment, with maximum of RM50,000 in 12 months.
  - ⇒ Angel investors under the Angel tax Incentive – up to RM5,000 per investment, with maximum of RM500,000 in 12 months.
  - ⇒ Sophisticated investors – no limits.
- Investors will be given a cooling-off period of 6 days to allow them to withdraw their investment.
- If there is a material adverse change affecting the project or the Issuer, Investors are given a period 14 days to opt out of the investment.
- Funds invested will be kept by the ECF operator in a trust account and will only be released to the Issuer after specified conditions are met.

A proposed secondary market may be made available for 2 weeks after 6 months to trade shares for addressing the liquidity risks.

The crowdfunding model offers an alternative yet relevant mode of fundraising for SME entrepreneurs with viable business models. The funds raised will support their business expansion and eventually prepare these companies for initial public-listing.

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"Crowdfunding is an umbrella term that describes the use of small amounts of money, obtained from a large number of individuals or organizations, to fund a project, a business or personal loan, and other funding needs through an online web-based platform."

CHANGING THE AUDITOR'S REPORT

In 2006, the International Auditing and Assurance Standards Board ("IAASB") together with the American Institute of Certified Public Accountants both embarked on a project to enhance the communicative value and relevance of the auditor's report and to accommodate evolving national financial reporting regimes, while ensuring that common and essential content was communicated.

On 25 July 2013, IAASB released an exposure draft with proposals to expand the content of the auditor's report. After almost a decade of deliberations, research and consultation, IAASB finally issued a new and revised set of auditor reporting standards in January 2015, effective for audits of financial statements for periods ending on or after 15 December 2016.

The changes that IAASB are introducing centre around three key aims: transparency, improved readability and insight.

The main proposal to enhance transparency is to introduce explicit statements regarding the auditor's independence in all audit reports. The auditor's report has also been restructured to improve readability by placing audit and entity-specific information at the front of the report, in particular placing the audit opinion first, immediately after the introduction and identification of the financial statements paragraph. Descriptions on the auditor's responsibilities and what the audit involves have also been clarified and placed at the end of the report.

Going concern will also attract greater visibility. When there is material uncertainty about the entity's ability to continue as a going concern, this will now be highlighted in a separate, clearly defined section of the report. This was due to cases where events or conditions that might cast significant doubt on the entity's ability to continue as a going concern were identified, but after considering management plans to deal with these events or conditions, the management and auditor concluded that no material uncertainty exists ('close-call' situations).

The most significant innovation is the introduction of 'key audit matters' ("KAM") under ISA 701. Currently, the auditor's report is symbolic and has little communicative value. Significant audit matters are currently reported to the Audit Committee and Board members in the audit summary memorandum presented at the end of the audit, but this is not available to other users of financial statements. Therefore the rationale behind reporting KAM is to highlight significant issues in the audit, 'through the eyes of the auditor'.

Having KAM in auditor's reports will improve audit quality, which in turn may increase the confidence of users towards the audit and financial statements. The number of KAM may be affected by the size and complexity of the entity, the nature of its business and environment, and the facts and circumstances of the audit engagement.

For a listed issuer, preparation of the financial statements and annual report is an onerous task as reports need to conform to various rules, regulations, and listing requirements, besides a shortened timeframe for issuance of the annual report. With enhanced requirements for the audit report, management needs to ensure that adequate information is provided to the auditors throughout the audit process to facilitate a thorough understanding of matters that may be of concern to the auditors.

In conclusion, the need for relevant information is foremost, necessitating spending more time and resources on obtaining this information, including discussions, which result in cost increases. Thus continuous communication between auditors, management and those charged with governance is key in ensuring that audit reporting achieves its objectives.

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"The new and revised Auditor Reporting standards are designed to enhance auditor's reports for investors and other users of financial statements."

RISK MANAGING YOUR PRACTICE

Public practice in accounting and auditing has become more intricate these days due to the complexity of business structures and transactions as well as cross-border trading; heightened compliance with financial reporting standards, auditing standards, and professional standards and quality control requirements; and rising expectations by the government, media and community for practitioners to exercise the highest duty of care.

A risk management model for a professional practice would encourage vigilance toward all areas of risk within the practice, and the identification of methods to reduce or eliminate the likelihood and effect of unacceptable levels of risk in specific areas. As illustrated below:

1. Professional risk in providing wrong advice or failure to advise on a material area.

   As part of the risk management process, advice should be rendered by an authorized, qualified and competent person.

2. Ethical risk in conflicts of interest in new and existing engagements.

   To manage this risk, practitioners must review new and existing assignments from time to time to ascertain any conflict of interest, and thereafter decline an assignment where a conflict of interest may exist.

3. Regulatory risk when there are complaints lodged with professional bodies or regulators and peer or quality review indicates inadequate quality control and poor work approach or documentation.

   In this situation, practitioners should adopt ISQC and test all compliance matters against the quality control system and standard working papers.

4. Business risk when a firm's profitability is less than budgeted and the firm heavily depends on one or two major clients or key personnel.

   A practitioner should avoid staffing that depends on one or two persons only, and work upon a client mix where no single client is greater than 10% of total gross fees.

5. Client risk when calls and emails by the client are not returned within a reasonable timeframe and agreed deadlines with the client are not met.

   Practitioners should attach the agreed completion date and scope of work with clients to the job file and monitor it regularly. Clear protocol for returning phone calls and emails and replying to correspondence should be established too.

6. Continuity risk for IT systems, fire accidents, and property damage.

   This risk can be managed with the maintenance of offsite current data copy, and the keeping of a register of property insurance.

An effective risk management plan and process should be embedded into the culture of a professional firm as part of good business practice. It will help to protect the firm's assets and one's professional reputation and ability to generate future income as a professional. The earlier the preparation in avoiding risk positions, the better the management of risky scenarios when they actually occur.

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"Sitting inside every practice is an inevitable risk exposure. The less time you care for this, the higher your risk profile is likely to be."

INTEGRATING ENTERPRISE RISK MANAGEMENT

Good internal controls and the effective management of risk play a crucial role in organizational management, especially in a volatile business environment. The cost and effort of implementing risk management will be lower than handling the consequences of a detrimental event that impacts the organization's operations and image.

The Importance of Managing Risk Effectively

Risk management should never be implemented in isolation. Instead it should be embedded into the system, becoming integral to setting and achieving the organization's objectives. The system should include the organization's process for good governance, i.e. strategy planning, operational decision-making, monitoring, reporting and establishing accountability. Stand-alone or poorly implemented risk management and internal control usually lead to higher costs, sub-optimal performance and lost benefits.

Managing Risk is an Integral Part of Managing an Organization

Managerial planning and control provides a technical foundation and practical model of how organizations can effectively integrate risk management into their systems. This is known as the 'Plan-Do-Check-Act' cycle.

How does this work? Risk is the effect of uncertainty; control helps the organization ensure that risk is moving in the right direction, at the right speed, and on the right course to achieve the objectives. Through a series of iterative planning and control processes, an organization can progressively reduce its level of uncertainty as it moves toward achieving its specific objectives. Consequently, the number of steps will become more operational-related and fewer.

In conclusion, risk management and internal control should be integrated into the system when making informed decisions about the level, nature and amount of risk that management wishes to assume, together with the controls required, in pursuit of organizational objectives.

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"Risk management should never be implemented in isolation. Instead it should be embedded into the system, becoming integral to setting and achieving the organization's objectives."

BRAND PROPOSITION FOR A BUSINESS

A brand proposition is a valuable organizational asset that distinguishes your services from those of your competitor. Create a strong presence during challenging times by presenting your value proposition to entrepreneurs or SMEs and build lifelong, rewarding business relationships with them.

Every big, well-known brand once started out small. The Big 4 firms took years to develop as market leaders in their industry. They succeeded because they consistently focused on brand development, vision, and where they wanted to be eventually.

Without clear direction, you will not succeed in business. Ask yourself what differentiates you from your competitors, in light of the current challenging market. First impressions are always important as they may lead to business opportunities. As such, place importance on corporate profile brochures, your office environment and interiors, and corporate signboard.

Sharing a clear and documented tagline, vision and mission, and standards statement with your clients will create business confidence and trust in your organization. Remember to share these statements with other staff within the organization too so that they will work toward the same goal and objectives.

A well-organized office environment and impressive company logo will indirectly imply to customers that the company is well-organized and they can rely on you for quality services.

A signboard is very important in creating awareness about your organization's existence. Invest in a signboard so that people can easily find your office and become familiar with your brand.

Effective brand management will help to reduce marketing costs since a high percentage of existing customers can help to build your brand by telling others about the quality of service they received. Word-of-mouth marketing is acknowledged to be one of the most powerful forms of marketing. If customers truly believe in your services, their recommendations will be more persuasive than any other form of marketing.

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"A brand proposition is a valuable organizational asset that distinguishes your services from those of your competitor."

MALAYSIA PRIVATE ENTITIES REPORTING STANDARDS (MPERS)

Introduction of MPERS

MPERS, issued by the IASB in July 2009, is an adaptation of the International Financial Reporting Standard for Small and Medium-Sized entities that typically do not have complex business transactions and instruments.

The requirements and guidance in MPERS would generally be sufficient for small and medium-sized private entities in Malaysia. However MPERS does not contain detailed application guidance in certain complex areas so larger private entities may need to refer to guidance in the MFRS framework for their accounting requirements.

Applicability, Effective Date and Compliance

1. Applicability
   The MPERS is applicable to private entities only.

2. Effective date
   Private entities shall apply the MPERS for financial statements with annual periods beginning on or after 1 January 2016. Earlier application is permitted.

3. Compliance
   Private entities shall comply with either:
   - MPERS in their entirety; or
   - MFRS in their entirety.

Why Private Entities To Migrate To MPERS?

There have been significant changes, developments and improvements to the MFRS in the last 10 years, while the PERS standard has not been updated to incorporate these changes. Hence there is a 10-year gap between PERS and the newer reporting frameworks.

How Can It Benefits Private Entities?

By adopting MPERS early, private entities will enjoy a quantum leap, bringing their financial reporting on par with current global financial reporting standards.

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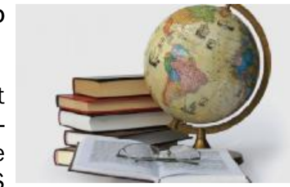

"MPERS is an adaptation of the International Financial Reporting Standard for Small and Medium-sized Entities."

BECOMING A MULTIMEDIA SUPERCORRIDOR (MSC) STATUS COMPANY

MSC Malaysia is Malaysia's national ICT initiative designed to attract world-class technology companies while developing the local ICT industry.

MSC Malaysia status is recognition granted by the Government of Malaysia, through the Multimedia Development Corporation ("MDeC"), to ICT and ICT-facilitated businesses that develop or use multimedia technology to produce and enhance their products and services.

It is also a mark of world-class service and achievement, bringing a host of privileges granted by the Government of Malaysia to the business entities.

MSC Malaysia status is awarded to three (3) types of business entities, each with a set of different application criteria and guidelines. The qualifying business entities are:-

1. Private limited companies (i.e. Sendirian Berhad)
2. Institutions of higher learning
3. Incubators

Here are reasons why companies should consider applying for MSC Malaysia Status:

1. Enjoy world-class physical and information infrastructure.
2. Unrestricted employment of local and foreign knowledge workers.
3. Freedom of ownership by exempting companies with MSC Malaysia status from local ownership requirements.
4. Freedom to source capital globally for MSC Malaysia infrastructure, and the right to borrow funds globally.
5. Enjoy competitive financial incentives, including pioneer status which gives 100% tax exemption for up to 10 years or an Investment Tax Allowance for up to 5 years, and no duties on import of multimedia equipment.
6. Become a regional leader in intellectual property protection and cyberlaws.
7. No internet censorship.
8. Globally-competitive telecommunications tariffs.
9. Leading companies that are willing to use MSC Malaysia as their regional hub qualify to tender for key MSC Malaysia infrastructure contracts.
10. Benefit from the support of MDeC as an effective one-stop agency.

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MSC MALAYSIA
Status Company

"MSC Malaysia is your gateway to the ICT industry in Malaysia and the region."

THE INTERNAL AUDIT CONTROL ENVIRONMENT

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The control environment sets the tone of an organization and influences the control-consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.

The International Standards for the Professional Practice of Internal Auditing ("Standards") Glossary defines the control environment as 'the attitude and actions of the board and management regarding the significance of control within the organization', and involves elements such as:

1. Integrity and ethical values;
2. Management philosophy and operating style;
3. Organizational structure;
4. Assignment of authority and responsibility;
5. Human resource policies and practices; and
6. Competence of personnel.

Any approach to auditing the control environment should include an assessment of the risks of failure of any of the six control environment elements above and their interaction with each other.

The level of risk may vary across geography, business unit, and process, and may be addressed in various forms such as:

1. A single audit across the organization, i.e. a series of audits, each of which addresses selected aspects of the control environment, for example the ethics hotline, board and committee operations.
2. Audits of the control environment within selected divisions or operating units.
3. A variation of the above.

Control environment deficiencies need to be evaluated individually, with an understanding of how they interact with and/or impact other controls in the organization. Corrective action may sometimes need to extend beyond the immediate control environment element being evaluated.

Auditing the control environment or any one or more of its elements, either as standalone or part of another internal audit, is not only consistent with the intention of various standards within the International Professional Practices Framework but also adds value to any organization.

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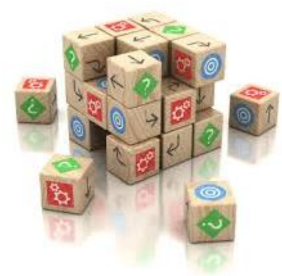


"The control environment provides discipline and structure for the achievement of the primary objectives of the system of internal control."

If your actions inspire others to dream more, learn more, do more and become more, you are a leader .

— John Quincy Adams —

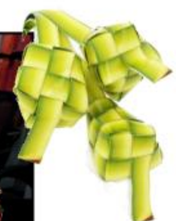
RAYA CELEBRATION AT CAS

Happy smiles after the Raya feast

Jom makan - makan

Thumbs up for our lunch at Four Points by Sheraton

Home-cooked Raya dishes for the potluck party



Selamat Hari Raya to our CAS colleagues!

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