

January 29, 2015

The Committee to Strengthen the Accountancy Profession
c/o Securities Commission Malaysia
3, Persiaran Bukit Kiara
Bukit Kiara
50490 Kuala Lumpur
MALAYSIA

Via email: CSAP@seccom.com.my

REPORT ON THE STRENGTHENING OF THE ACCOUNTANCY PROFESSION IN MALAYSIA

Dear Sir/Madam:

The International Federation of Accountants (IFAC) values the opportunity to comment on the Committee to Strengthen the Accountancy Profession (CSAP)'s *Report on the Strengthening of the Accountancy Profession in Malaysia*.

Through its current membership of over 175 professional accountancy organizations in 130 countries and jurisdictions, IFAC represents approximately 2.5 million accountants in public practice, industry and commerce, government, and education.

IFAC strongly supports initiatives aimed at enhancing and promoting the global accountancy profession. Critical to this is the need for strong and effective national—and where relevant, regional—accountancy professions that are appropriately structured, supported, and regulated. Where this is the case, the profession contributes significantly to a sound, sustainable, and growing economy.

As part of its mission, IFAC aims to serve the public interest by contributing to the development of strong professional accountancy organizations and accounting firms, and to high-quality practices by professional accountants, and by promoting the value of professional accountants worldwide.

It is in this context that IFAC offers the following general comments and responses to the specific recommendations outlined in the report.

General Comments

Regulation

With respect to the regulation of the accountancy profession, IFAC's position is outlined in its Policy Position Paper 1, [Regulation of the Accountancy Profession](#). The position states:

“Regulation of professional accountants is primarily conducted at a national level, with professional accountancy organizations playing an important role in working with governments to ensure that such regulation is effective, efficient, and in the public interest. Ongoing dialogue and cooperation is essential to ensure that regulation is suitably rigorous and properly informed, and that there is an



appropriate balance between self-regulation by the profession, self-regulation with public oversight and accountability, and external regulation.”

IFAC recognizes that the mix of self-regulation and external regulation will vary by jurisdiction, and that a range of environmental, historical, and political factors will shape the form of regulatory arrangements that exist in different jurisdictions. There is no one ideal place on the continuum—between self-regulation at one end, and external regulation at the other end—where all jurisdictions will or should be situated. In some jurisdictions professional accountancy organizations will play a more significant role than independent government regulators, while in other jurisdictions the opposite will be the case.

This means that when proposing and implementing regulatory reforms for the accountancy profession within a jurisdiction, while it is important to identify and consider regulatory arrangements in other jurisdictions, it is typically not possible—nor is it appropriate—to aim to adopt or replicate those other arrangements.

IFAC commends the CSAP on the fact that it has made recommendations that are specifically relevant to the Malaysian environment.

Meeting the Demand for Professional Accountants

In terms of attracting and retaining talent within the accountancy profession, for the last several years IFAC has observed this to be a concern for many jurisdictions around the world. IFAC is encouraged that the CSAP aims to proactively address this issue.

Accountancy Education

IFAC recognizes that education—including initial learning, practical experience, and continuing professional development—is key to developing the expertise and competence of professional accountants. It is supportive of the CSAP’s ambition to strengthen the accountancy education sector in Malaysia.

Additionally, IFAC supports the International Accounting Education Standards Board (IAESB) and the work that it does in developing education standards for the profession, and is therefore encouraged by the CSAP’s references to these standards in its report.

More broadly, IFAC believes that a high level of expertise and competence; along with commitments to behave ethically and act in the public interest, and to have the experience necessary to provide high-quality professional service; are necessary to developing the trust and credibility of the accountancy profession. Such trust and credibility are important to ensure that the profession is seen as a respected part of society, contributing to its betterment.

Making Public Accountancy Practices More Competitive

IFAC does not comment on matters specifically addressing market competition issues.

Capturing Sectorial Opportunities and Ensuring Inclusiveness

IFAC recognizes the importance of aiming to establish a more inclusive profession and of capitalizing on existing areas of expertise within Malaysia, and so supports the focus of the CSAP on such topics.



Recommendations

Recommendation 1: New Regulatory Body to be set up

As noted earlier in the general comments, the manner in which the accountancy profession is regulated differs between jurisdictions, depending on a number of environmental, historical, and political factors. It is important when implementing regulatory reform, including the establishment of a new regulatory body that these considerations are taken into account.

IFAC is of the view that a shared regulatory model, in which the accountancy profession has a role to play, can be an effective approach, with the profession often being the only source available to provide input of detailed knowledge when needed. However, this relies on close cooperation and coordination, and dialogue, between the regulatory community and the accountancy profession. There must be a common understanding of purpose and what it is that is to be achieved, in the public interest, with respect to the contributions of the accountancy profession to the economy.

With this in mind, IFAC notes that the Malaysian Institute of Accountants (MIA) is represented on the CSAP and so has been consulted and involved in the decision making and development of the recommendations of the committee. The proposed regulatory changes, especially the establishment of a new regulatory body, will have a significant impact on the future operations of the MIA. As the MIA is a member body of IFAC, IFAC will be monitoring the progress of the regulatory reforms and liaising with the MIA as appropriate, throughout the process.

IFAC recognizes that in recent years many jurisdictions have moved away from a model whereby the profession is almost totally self-regulated to arrangements whereby the regulatory community has greater involvement. Areas of regulation where this shift has occurred include some of those described in the CSAP report as responsibilities for the new regulatory body. This includes, for example, the registration of professional accountants and the setting of professional standards—which IFAC importantly believes should focus on the adoption of high-quality international standards.

For any new regulatory arrangements such as those being proposed, it is important to consider a number of key implementation issues. For example:

- Will the registration and regulation arrangements for professional accountants cover all professional accountants within Malaysia, or just those providing specific services? For example, will the arrangements be established just for auditors of public interest entities, or for all professional accountants providing any professional services to the public? Notwithstanding the need to comply with the same standards of ethical behavior, there are clearly differences in the public interest dimensions for an auditor of a public interest entity versus an accountant working in the finance department of a public sector entity. Furthermore, resource considerations need to be factored into any decisions about the breadth of coverage for registration and regulation of the profession. For example, it might be more resource efficient for a regulator to establish high-level principles and maintain oversight of arrangements, the operations of which are then delegated to another party.¹

¹ In considering the extent to which regulatory responsibilities for different parts of the profession might be shared between government regulators and the profession, an important reference point is IFAC's [Statements of Membership Obligations](#) (SMOs). These SMOs cover a series of obligations with which member bodies of IFAC must comply, including for example, the



- To what extent will the profession continue to be involved in important decision making on matters that impact it? As the party responsible for putting into effect legislative requirements, for using the professional standards that are developed and published, and for behaving ethically in the manner expected of them, professional accountants (and the profession more generally) need to be consulted on and involved in the regulatory process.
- The need for effective segregation of powers, such that the same body (or at the very least the same people) is not responsible for all aspects of the regulatory chain. That is, principles of natural justice suggest that those who set the standards should be different from those who enforce and investigate compliance with the standards, who in turn should be different from those who hear disciplinary cases and impose sanctions. While the structure proposed—i.e., having separate boards with separate responsibilities—appears to address this issue, from a credibility and perception perspective such segregation is important to keep in mind.
- The importance of any new regulatory body having resources and funding that is unencumbered and not subject to undue influence from those providing the funding. IFAC believes that the new body could be funded (in whole or in part) by the government, but importantly, for whatever funding arrangements that are developed, safeguards are in place to ensure that the new body is free from conflicts of interest.

Recommendation 2: Ensure baseline competencies are met

The existence of competency frameworks and models is important for identifying and clarifying the baseline competencies that are required for the profession. They also provide a measure against which assessments can be made about whether the levels of competency are being met.

IFAC agrees with the proposal by the CSAP to adopt the competency model of the Malaysian Institute of Certified Public Accountants (MICPA) as an interim measure until work can be completed on the development of a separate model for the entire profession.

Being an IFAC member body, the MICPA's competency model entails education elements that are consistent with the requirements outlined in International Education Standards (IESs). IFAC encourages the CSAP to recommend that the development of a new separate competency model (by a proposed newly established Education Board) be founded on IESs.

Recommendation 3: Co-ordinate efforts to build capacity

IFAC notes that the CSAP has not identified and detailed specific measures with respect to how the building of capacity might best be achieved.

However, it supports the view of the CSAP that there needs to be a coordinated strategic approach to capacity building. Having individual professional accountancy organizations separately addressing the capacity building requirements for Malaysia would not seem to be ideal; and thus it is important for there to be ongoing dialogue and cooperation between regulators and the professional accountancy organizations on this topic.

need to have in place a mandatory quality assurance review system for firms performing audits of financial statements, as well as identifying and taking action to have in place a just and effective investigative and disciplinary system for its members.



Recommendation 4: Increase support to the SMEs and SMPs

IFAC supports the recommendation of the CSAP to aim to increase the support provided to small- and medium-entities (SMEs) and small- and medium-practices (SMPs) by growing the number of approved training organizations where accountancy graduates are eligible to work and obtain the required professional experience for the purpose of being admitted as members to a professional accountancy organization.

Recommendation 5: Widen pathways into the professions

It is a growing trend around the world for professional accountancy organizations to broaden their pathways into the profession, by offering alternatives and options for non-accounting graduates.

IFAC supports such an innovation, as long as appropriate standards are maintained with respect to the initial professional development requirements and the professional qualification programs, in accordance with the requirements of the IESs.

Recommendation 6: Focus funding on accountancy education

IFAC offers no comments on the proposed strengthening of governance arrangements for the Malaysian Accountancy Research and Education Foundation.

Recommendation 7: Make accountancy the profession of choice

IFAC commends the CSAP on proposing initiatives aimed at promoting the accountancy profession, including efforts to raise awareness of the profession to accountancy students at the early stages of their education.

Recommendation 8: Make Malaysia a hub for accountancy education

IFAC is supportive of initiatives that encourage and promote the accountancy profession, especially with respect to the important areas of education and training, critical to making the profession an attractive choice for students and existing professionals.

Clearly, the need to maintain high-quality standards of knowledge, expertise, and teaching is paramount in any endeavor to make Malaysia a hub for accountancy education and to attract high-quality students from other countries. Encouraging university lecturers to ensure that these high standards are reached—for example, through the use of centers of excellence and professional qualifications—appears to be a positive approach to achieving this objective.

An important consideration in efforts to make Malaysia a hub for accountancy education is the competitive regional environment and how Malaysia may be able to distinguish itself from others, either through the quality of the service provided or by specialized offerings such as a focus on accounting for Islamic finance (refer also to Recommendation 14).

Recommendation 9: Encourage co-operation between the industry and universities

IFAC believes it is critical for all parts of the profession, and all key stakeholders who input into and are impacted by the work of the profession, to cooperate, collaborate, coordinate, and engage in dialogue on matters of importance to promoting and advancing the objectives of the profession in the public interest.



Maintaining and enhancing the links between academia—especially in those areas responsible for the education and training of potential new professional accountants—and the broader profession (including professional accountants in practice and working in business and industry) is important. IFAC is encouraged by the CSAP’s proposals to promote a greater understanding and trust between these groups.

Recommendation 10: Revise promotion and reward structures for lecturers

IFAC offers no comment on proposals to revise the promotion and reward structures for lecturers teaching accountancy programs at institutions of higher learning.

Recommendation 11: Create an accommodating human capital development environment and Recommendation 12: Introduce certification in specialised areas

In line with the principles espoused in the IESs, IFAC recognizes the importance of continuing education and professional development, in addition to initial education and professional development and qualifications. Indeed, a hallmark of a profession is the commitment to ongoing education and development, and the recognition of the need to ensure that professionals maintain appropriate levels of expertise and competence.

As such, IFAC believes it is important to provide opportunities for more experienced professional accountants to acquire advanced and specialized knowledge, and so supports the CSAP recommendations in this regard, including the potential for specialized post-qualification certifications to be made available.

Recommendation 13: Nurture SMPs that are relevant to SMEs

IFAC is encouraged by initiatives that aim to support the work of SMPs and in particular, in supporting leadership training and in developing and promoting the value-added services that SMPs provide.

However, IFAC offers no comment on the proposals to offer financial incentives to re-shape the competitive SMP market.

Recommendation 14: Capitalise on existing expertise

Capitalizing on and leveraging existing expertise—for example, in areas such as accounting for Islamic finance—seems to make a great deal of sense for a jurisdiction such as Malaysia to pursue. Generating opportunities such as these may potentially bring to prominence the name and role of Malaysia as the place to which to turn when information and expertise on specialized topics is required.

Recommendation 15: Establish a more inclusive profession

IFAC recognizes the importance of inclusiveness and diversity in the accountancy profession and the benefits that accrue from such actions. CSAP proposals to encourage greater participation in the profession by Bumiputeras and from students across the entire country are to be commended.

Also, increasing the English language proficiency of students is important. The need for those in the accountancy profession to be proficient in English cannot be overstated in a global economy in which English is now the language of business and where growing regulatory consistency and the use of international standards provides greater opportunities for cross-border mobility within the profession. Indeed, cross-border mobility is something that should be considered as an important selling point in trying to attract students and others to the profession.



Please do not hesitate to get in touch if you have any questions, require further clarification of the comments provided, or if you believe that there are areas where IFAC may be able to provide you with assistance in achieving your objectives.

Regards,

A handwritten signature in black ink, appearing to read 'Faye Choudhury', written over a light gray rectangular background.

Faye Choudhury
Chief Executive Officer