BTINSIGHT

DECEMBER 2021

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Navigating Through Challenges - The Journey Ahead

Ferrier Hodgson joins the Baker Tilly Malaysia Network

How Materiality Judgements Impact the Preparation of Financial Statements

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Olivia Oon

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Editors
Olivia Oon
Natalie Yap
Dharin Chelliah

Designer
Olivia Oon

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59200 Kuala Lumpur

Message from the Executive Chairman

Welcome to our **BTINSIGHT December 2021** issue.

As year 2021 comes to a close, I am so glad to see things beginning to improve around the world as we move to the next stage of learning to live with COVID-19.

I am also happy that the editorial team caught up with Joe Heng, our Chief Operating Officer, who has been working so hard during the last two years ensuring that things continue to move like clockwork. We hardly get to hear from Joe, so this is a valuable piece indeed, especially if you want to know what makes him tick.

Our Group Managing Partner, Andrew Heng, penned his heartfelt message in this issue as we finally bid farewell to the Ferrier Hodgson brand in October this year. I, too, feel that sense of loss. Afterall, it has been a brand that has been close to my heart for 20 over years. Still, the pages have turned and a new chapter has begun for our Insolvency and Advisory team. I'm very sure that this will continue to be an exciting journey ahead for the Baker Tilly Malaysia group.

On page 10, Andy Lee, our Partner for Audit and Assurance, helps us understand "Materiality Judgements" and how these impact the preparation of Financial Statements.

In light with all the changes brought about by the pandemic, our Director of Corporate Advisory and Global Corporate Finance, Lim Seuk Fang, shares her thoughts on how corporate advisors must now start thinking beyond the traditional due diligence approach in a post-pandemic world.

Now, for those of you who are interested in how psychology can play a part in your workplace, our Corporate Communications Executive, who did his undergraduate studies in psychology, shares his article on "Psycology in the Workplace".

And finally, at the end of the issue, you will find a very interesting piece about the artist we commissioned to create an artpiece for us, to be used as the artwork for our Chinese New Year ang paos for 2022.

I want to take this opportunity to thank our sponsors for our Baker Tilly Tax & Budget Webinar, OCBC Bank and Prudential, as well as the speakers and panellists, for making the event such a success.

Let me just end here by wishing everyone a Joyous Christmas and a Wonderful New Year! ■

Dato' Heng Ji Keng
Executive Chairman

The geographical boundaries for hiring talents are disappearing.

Transitions and New Beginnings

The last six months have been very interesting for Baker Tilly Malaysia. As with the rest of the nation, we have been preparing ourselves to transition to a post-pandemic environment while still taking all the necessary precautions to keep our people safe. We have also been dressing down in the office to make this transition period easier. I'm sure that by now, many have seen the top-formal, bottom-casual photos of our leadership team on social media.

Of course, it would be naïve to expect that we would return to the world that was after two years of living with the COVID-19 virus, which, after what seemed like a brief respite from its aggressive spread, has global markets cowering again with news of the latest mutation - Omicron. That said, we will get to the end of this tunnel eventually. We always do.

One of the biggest impacts we have seen in the corporate world is the mobility of workforce. The COVID-19 pandemic forced corporations into the biggest test of workforce mobility and flexibility, allowing us the platform to understand what works and giving us the time to fine-tune the flexible work arrangement mechanism best suited for our own organisations, down to the different departments and job functions.

The geographical boundaries for hiring talents are disappearing, even for those operating in different time zones, so long as one is willing to work odd hours. No longer will one need to be uprooted to a different country, incurring re-settlement cost. For corporations, this opens up doors of opportunities for talent requisition and potential cost-saving. Like they say, the possibilities are endless here.

For Baker Tilly Malaysia, and for me personally, the last six months also saw a significant milestone for the Insolvency and Advisory team. On 13 October 2021, after 20 years of branding as Ferrier Hodgson, Ferrier Hodgson MH Sdn Bhd (FHMH) officially joined the Baker Tilly Malaysia Network, dropping the Ferrier Hodgson logo entirely.

For those of you who know me, you will know that my journey with Ferrier Hodgson started in my early 20s. Within 20 years of its establishment, I saw Ferrier Hodgson MH Sdn Bhd grow to be one of the largest corporate insolvency, restructuring and advisory firms in Malaysia. Today, with the people and expertise that we have built over the years, we are continuing to break new grounds in Malaysia.

I have said this in my messages, but I thought I would take the opportunity again to pen my appreciation to the past leadership team of FHMH, Dato' Heng Ji Keng, the late Michael Joseph Monteiro, our Perth partners – Gary Trevor, Alden Halse and Martin Jones, as well as my two former bosses, Kelvin Flynn and Brad Norman. My experience with Ferrier Hodgson shaped my formative working years. I will always think of the Ferrier Hodgson brand fondly.

Finally, let me take this opportunity to wish you all a very Merry Christmas and a Happy New Year! ■

Andrew Heng
Group Managing Partner

FERRIER HODGSON MH SDN BHD
JOINS THE **BAKER TILLY MALAYSIA** NETWORK

13 October 2021 | Since its establishment in Malaysia over 20 years ago, Ferrier Hodgson has steadily gained a reputation as one of the top advisory firms in Malaysia. The string of successes in helping companies rehabilitate and regularise their financial position over the last decade has also made Ferrier Hodgson a leader in its field.

We are therefore proud to announce that Ferrier Hodgson Malaysia will now officially join the Baker Tilly Group as a Baker Tilly Malaysia Network member.

The Ferrier Hodgson brand in Malaysia has always worked strategically with the Baker Tilly Malaysia brand due to the co-branding initiatives over the years. As Ferrier Hodgson continues to make headways in what is its third decade in Malaysia, it is fitting for the brand to now officially be part of the Baker Tilly Malaysia Network. With the synergy brought about by the combined expertise of over 50 Partners and Directors within the group, Baker Tilly Malaysia is poised to be the largest mid-tier professional services firm in Malaysia.

We are excited to be officially joining forces with Baker Tilly Malaysia. This is a strategic and cultural fit for both firms, making us a highly competitive force and propelling us into the significant and very well-regarded Baker Tilly global network. Clients are increasingly looking for specialised advice and nimble service and this partnership provides just that – we will continue in our areas of specialisation while leveraging on the skills and reach of Baker Tilly to deliver a greater breadth of solutions.

Patrick McPhee
Managing Partner, Insolvency & Advisory

The Ferrier Hodgson team, headed by Patrick McPhee, is known in the industry for providing specialist restructuring and forensic advisory. Having Patrick and his team officially on board gives clients immediate access to a comprehensive and diverse range of skill sets.

Dato' Lock Peng Kuan
Managing Partner for Audit & Assurance

> The joining of forces has been a long time coming. I am very proud of what we have achieved and the impact that Ferrier Hodgson has made to corporate Malaysia in the last 20 years. The depth and breadth of experience that we now have has allowed us to be at the forefront of the changing corporate restructuring landscape in Malaysia. I have high hopes of what we can achieve together.

Andrew Heng
Group Managing Partner

How **Materiality Judgements** impact the preparation of financial statements?

Andy Lee, *Partner, Audit & Assurance*

The objective of general purpose financial statements is to provide financial information of a reporting entity, that is useful to existing and potential investors, lenders and other creditors (collectively "primary users") in making decisions about providing resources to that reporting entity. These primary users cannot require reporting entities to provide information directly to them and therefore, must rely on the general purpose financial statements to obtain financial information they need.

The reporting entity identifies the information necessary to meet this objective by making appropriate Materiality Judgements, particularly when making decisions about recognition and measurement, as well as presentation and disclosure in their preparation of financial statements. Requirements in the Malaysian Financial Reporting Standards ("MFRSs") only need to be applied if their effects are material to the complete set of financial statements, which include the primary financial statements and the notes. As such, the need for Materiality Judgements is pervasive in the preparation of the general purpose financial statements.

Background

The International Accounting Standards Board ("IASB") in its Conceptual Framework for Financial Reporting ("Conceptual Framework"), lays down the basic concepts and principles that serve as a foundation for preparation of the financial statements. The Conceptual Framework provides guidance on when information is relevant to primary users. In determining the relevance of financial information, consideration needs to be given to its materiality. Information is material if omitting it or misstating it could influence decisions that primary users make on the basis of an entity's financial statements. In other words, materiality is an entity-specific aspect of relevance based on the nature, magnitude, or both, of the items to which the information relates. Consequently, the IASB did not specify a uniform quantitative threshold for materiality, nor did they predetermine what could be material in a particular situation.

In its Agenda Consultation in 2011, the IASB received feedback that financial statements are increasingly perceived as burdensome to prepare, and that there are concerns about how well the financial statements prepared by the reporting entities meet the needs of their primary users.

The IASB observed three main concerns about information disclosed in general purpose financial statements (termed as the "Disclosure Problem"):

Not enough relevant information
- resulting in their users possibly making inappropriate investing or lending decisions.

Too much irrelevant information
- resulting in financial statements that are hard to understand and time-consuming to analyse, and users may overlook relevant information or fail to identify relationships between pieces of information in different parts of the financial statements.

Ineffective communication of information provided
- resulting in clutter that might make relevant information easily overlooked or hard to find, and add unnecessary cost to the preparation of financial statements.

In the process of addressing the Disclosure Problem, the IASB soon identified "materiality" – how it is defined and how it is applied – to be the major contributor to the problem. The IASB then launched its portfolio suite of related projects known as the "Disclosure Initiative" to improve the effectiveness of disclosures in financial statements and to address how the concept of materiality is applied in practice.

The Disclosure Initiative, among others, include:

Narrow scope on IAS 1 Presentation of Financial Statements ("IAS 1")	To emphasise that reporting entities should apply judgement when determining what information to disclose in their financial statements by clarifying the requirements in IAS 1 for materiality, order of the notes, subtotals in the primary financial statements and disclosure of accounting policies to address some of the Disclosure Problems.
Amendments to IAS 1 and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	To refine the definition of materiality. To clarify its application by including 'obscuring information' to respond to concerns that the effect of including immaterial information should not reduce the understandability of an entity's financial statements.
Published IFRS Practice Statement 2 Making Materiality Judgements ("PS 2")	A non-mandatory document, providing guidance and examples to help preparers understand the role of materiality and how to make Materiality Judgements in their preparation of financial statements.
Conducting Standards-level Review of Disclosures project	To consider whether to make targeted improvements to disclosure requirements in existing IFRSs and to develop guidance for the IASB to use when developing disclosure requirements in new and amended IFRSs.

Definition of Materiality

The MFRS framework issued by the Malaysian Accounting Standards Board ("MASB") is fully compliant with the International Financial Reporting Standards ("IFRS") framework issued by the IASB.

MFRS 101 Presentation of Financial Statements ("MFRS 101") and MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors (with amendments to Definition of Material) ("MFRS 108") provide the following definition for material information:

> *'Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'*

Concept of Materiality

A requirement in MFRSs need not be applied if the effect of not applying it is not material, whether individually or in combination with other information. However, it is inappropriate to make or leave uncorrected immaterial departures from MFRSs intentionally to achieve a particular presentation of financial position, financial performance or cash flows.

In making Materiality Judgements, a reporting entity needs to consider the quantitative and qualitative aspects of the information and its relevance to the primary users.

Quantitative

- Usually this is the starting point, looking at the relative size of the impact of transaction, other events or conditions against certain financial measures in the financial statements.
- The materiality threshold is calculated using a specific percentage of a financial measure such as revenue, expenses, profit before tax, total assets and net assets.
- The specific percentage is entity-specific and may vary due to changes in circumstances, and the selection of financial measures would depend on the measures of great interest to primary users. Different materiality thresholds may also be applied to each item in the statement of financial position, statement of profit or loss and the notes.

Qualitative

- An item below the quantitative materiality threshold is not necessarily considered as immaterial.
- A reporting entity should also consider qualitative factors, which are either entity-specific or external, such as the nature of the item of information, the industry or economy the entity is operating in, and possible effects of error or omission of such information.
- For example, a nature of error resulting from fraud is usually considered material although the amount involved is relatively small, or if an estimated small amount involves a lot of uncertainties.

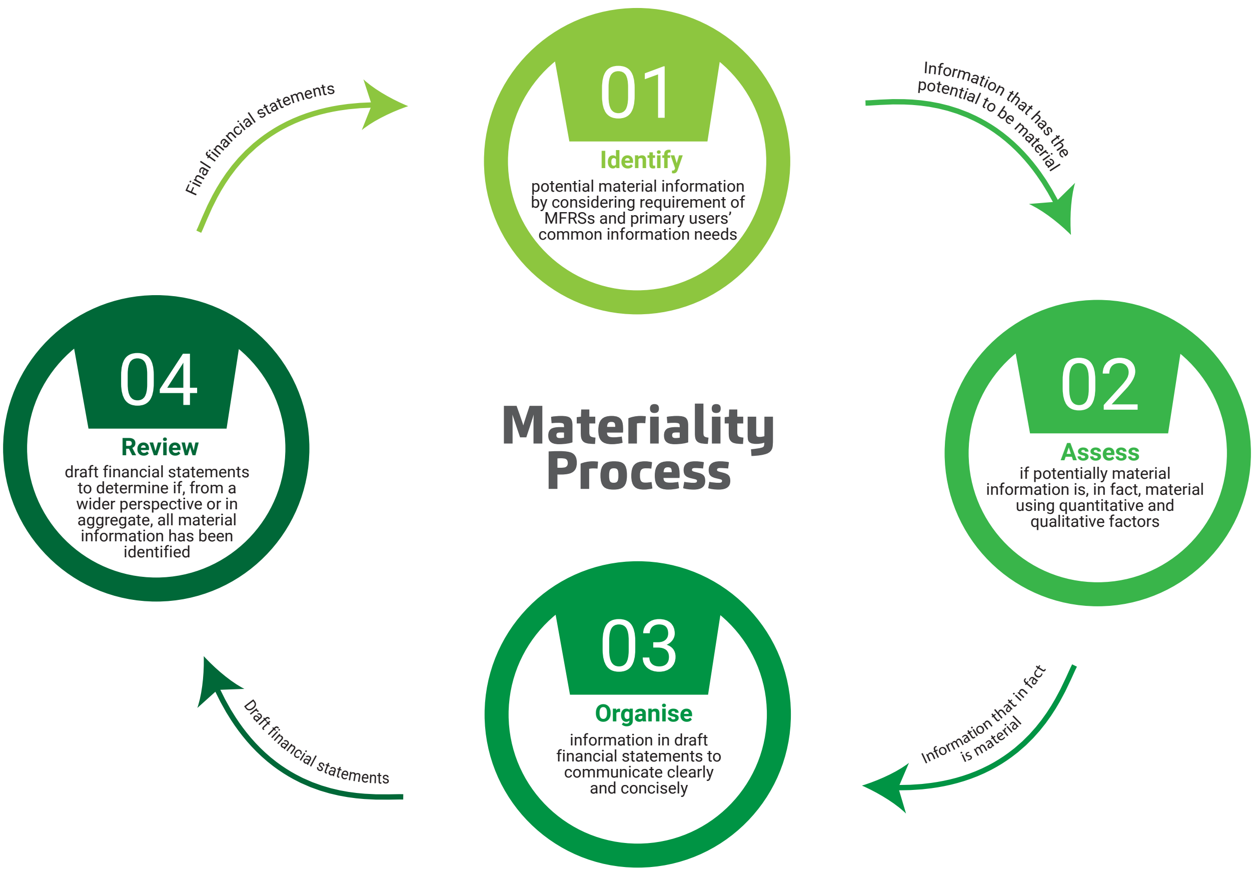
In the recent amendments to MFRS 101 and MFRS 108, the concept of 'obscuring' was included in the definition of materiality to emphasise that obscuring information can affect the decisions of primary users just as omitting or misstating that information can. Such circumstances may arise, for example, when language used in disclosure is vague or unclear, or when the understandability of financial statements is reduced as a result of material information being hidden by immaterial information.

Concept of Judgement

When a reporting entity assesses whether information is material to the financial statements, an application of judgement is required to decide whether the information could reasonably be expected to influence decisions that primary users make on the basis of those financial statements. When applying such judgement, the reporting entity considers both its specific circumstances and how the information provided in the financial statements responds to the common information needs of primary users of financial statements. The primary users are expected to have reasonable knowledge of businesses and economic activity and have the ability to review and analyse the information included in the financial statements diligently.

Making Materiality Judgements

PS 2 presents a four-step process ("materiality process") a reporting entity may follow in making Materiality Judgements when preparing its financial statements. The materiality process provides an overview of the role materiality plays in the preparation of financial statements, with a focus on the factors the reporting entity should consider when making Materiality Judgements.



Through the materiality process, a reporting entity could assess whether information is material for the purposes of presentation and disclosure, as well as for the recognition and measurement. The materiality process considers potential omission and potential misstatement of information, which includes the consideration of inclusion of any unnecessary immaterial information and whether immaterial information obscures material information. In all cases, when making Materiality Judgements, a reporting entity needs to focus on how the information could reasonably be expected to influence decisions of the primary users.

Financial Statement Areas Requiring Materiality Judgements

Financial Statement Areas	Materiality Judgements
Recognition and measurement	• A reporting entity is only required to apply recognition and measurement requirements when the effects of applying them are material.
Application of accounting policies	• In the Disclosure of Accounting Policies (Amendments to IAS 1) ("the Amendments"), a reporting entity shall disclose material accounting policy information. The amendments are effective for financial periods beginning on or after 1 January 2023. • The Amendments explain how a reporting entity determine material accounting policy and give examples of accounting policy information that is likely to be material. • The PS 2 was also amended by adding guidance and examples to explain and demonstrate the application of the four-step materiality process to accounting policy information.
Presentation and disclosure	• A reporting entity shall present, separately, each material class of similar items whilst items of dissimilar nature or function shall be presented, separately, unless the items are immaterial. • A reporting entity need not provide a disclosure specified by a MFRS if the information resulting from that disclosure is not material. • A reporting entity needs to consider whether to provide information not specified by MFRSs if that information is necessary for primary users to understand the impact of particular transactions, other events and conditions on the entity's financial position, financial performance and cash flows.
Prior-period information	• A reporting entity shall assess whether prior-period information is material to the current-period financial statements that might lead the entity to provide more prior-period or less prior-period information than was provided in prior-period financial statements.
Assessment of errors	• A reporting entity shall, applying MFRS 108, correct all material errors (or cumulative errors), as well as any immaterial errors made intentionally to achieve a particular presentation of its financial position, financial performance and cash flows.
Others	• A reporting entity assesses the materiality of information about the existence and terms of a loan covenant, or of a covenant breach, to decide whether to disclose information related to the covenant. In making Materiality Judgements, the entity considers both the likelihood and consequences of the breach. • A reporting entity, in preparing its interim financial report in accordance with MFRS 134 Interim Financial Reporting, applies the same materiality factors in its annual financial statements. However, the materiality is assessed with reference to the interim results instead of the forecast annual results.

What's next?

The concept of materiality is important in the preparation of financial statements because it helps reporting entities determine which information to include, or exclude, from the financial statements. Reporting entities make Materiality Judgements not only when making decisions about recognition and measurement, but also when making decisions on what information to disclose and how to present it.

In March 2021, the MASB issued an Exposure Draft on Disclosure Requirements in IFRS Standards – A Pilot Approach (Proposed Amendments to IFRS 13 and IAS 19) ("Exposure Draft") to improve how the IASB develops and drafts disclosure requirements in IFRSs so that reporting entities applying those requirements provide more useful information to primary users. The Exposure Draft includes proposed guidance for the IASB to develop disclosure requirements in IFRSs. In applying the proposed guidance, the IASB would require reporting entities to comply with overall and specific disclosure objectives and apply judgement to decide what to disclose instead of applying disclosure requirements like a checklist.

The consideration for materiality has been prevalent among auditors in their audit of financial statements and in their discussion with their clients who are the reporting entities. However, how often have reporting entities usually made Materiality Judgements in their preparation of financial statements? The research undertaken by the IASB received feedback from the stakeholders on the Disclosure Problem. Directors of reporting entities should focus on making Materiality Judgements in the preparation of financial statements and keep themselves abreast of the recent developments arising from the Disclosure Initiative projects, checklist or boilerplate approach on the disclosure in the notes to the financial statements. ■

The Office of the COO

Navigating through Challenges - The Journey Ahead

Joe Heng, *Chief Operating Officer & Partner*

Thrust into a global pandemic, our Chief Operating Officer (COO), Joe Heng, had the unenviable task of ensuring that the Firm had the infrastructure and support we needed to carry on as effeciently as we could, given the circumstances. His foresight proved invaluable during this time, and after almost 2 years of steadying the ship, Joe found some time to share his thoughts with us.

I always look forward to meeting people, whether it would be a colleague, a client or just some friends. It is at these meetings where I have my light-bulb moments, which often lead to new initiatives that we can implement for the Firm.

How has the last couple of years been for you?

Positives

I think as a firm, our digitalisation transformation journey probably would not have taken on the pace that it currently is on at the moment if it wasn't for the pandemic.

When we went into the first Movement Control Order (MCO), we had just invested in Microsoft 365 and that proved to be a critical tool that brought us through all the multiple MCOs that we have had over the last 2 years. That was the start of our digitalisation journey and since then, the Business Performance Improvement and Automation and Innovation teams have been working on overdrive to achieve our goal of "automating anything and everything we can".

Negatives

There has been a lot of attention in the media about the negative effects of working from home on people's mental health. The never-ending back-to-back virtual calls and the inability to meet people and physically engage with them made the MCO that much more difficult.

I always look forward to meeting people, whether it would be a colleague, a client or just some friends. It is at these meetings where I get my light bulb moments, which often lead to new initiatives that we can implement for the Firm. That was, and is, my source of ideas for what we could do to make Baker Tilly the #bestplacetowork whether it be digitalisation initiatives or Human Capital initiatives. With the MCO rules recently relaxed, I am so excited to be able to go into the office now, and meet colleagues, and have that physical engagement with them. It makes a tonne of difference as opposed to the cold and straight-to-the-point virtual calls.

What were some of your achievements over the last two years?

Well, my golf has improved significantly over the last two years, which is a personal achievement.

On a more serious note though, continuing from the above topic of mental health, I think one of the initiatives that came out from this is our partnership with The Mind, who are a team of psychologists providing 24/7 on-call assistance to all our staff. This has provided an avenue for all Baker Tillians to call and talk to a professional on any issue, whether it be a work issue or a personal issue, on an anonymous basis, which is particularly important for our staff's mental health during this pandemic period.

I think one of my proudest moments as the COO of Baker Tilly was the execution of our vaccination drive for every Baker Tillian in our Kuala Lumpur office via the Selangkah program. It was a decision arrived at with the Leadership Team that we needed to get our people vaccinated and protected as early as possible, no matter the cost. It just makes it so much better when you receive all the appreciation messages from our staff in relation to this initiative. To-date, 99.9% of our staff are fully vaccinated.

From the digitalisation side, we are continuously working on projects to automate, digitalise and most importantly improve the efficiency of our everyday processes within the firm. If I were to list our top 2 achievements over the last couple of years, it would probably be Baker Tilly Connect (our Customer Relationship Management (CRM) system) and Baker Tilly Interact (our intranet system). These were developed in-house by our own AI and BPI team with minimal costs under Microsoft 365.

What were some of the challenges you faced during the pandemic?

Like I mentioned above, the ability to brainstorm effectively and gather ideas was wanting when we were working from home. Virtual calls are great but they are not very conducive for brainstorming.

Managing all the different and constant changes to the Covid-19 SOPs was a huge challenge, so kudos to the Talent, Interaction and Memories (TIM) team for the work done on the firm's Emergency Response Protocol.

From a "projects" perspective, change management was probably the most challenging part of the work at the COO office. We are very unique in that we have many different practice areas with leaders of different strengths and personalities. A particular new initiative may be the perfect solution for one particular division but not the other. It is always challenging, and sometimes impossible, to have a one-size-fits all system that would meet everyone's needs. So, when you don't get 100% buy in from your stakeholders, this is when you need to really take a step back and think about whether the task at hand aligns with the Firm's overall strategy, and whether it will be beneficial in the long term.

At Baker Tilly, we understand that change is constant, and that implementing new initiatives can be painful on the onset. However, with the full support of the leadership team, and as long as we are all moving towards the same goal, which is to do what's best for the organisation in the long term, we know that we will be able to overcome the teething problems and hurdles brought about by those changes. This gives us the confidence to push these projects through. There is no perfect fit when you're looking for the next big thing to do. You have to take opportunities and make an opportunity work for you, rather than the other way around. I am also a firm believer of permanent beta which means continuous improvement. The project doesn't stop once it has been implemented. We will celebrate, have a couple of drinks and move on immediately to phase 2 on how to improve on the particular initiative.

What do you have planned for the next two years?

I think coming out of the pandemic we all need to hit the reset button. People have likened this situation to Korea or Japan coming out from their respective wars. We all have to rethink our strategies and everything that we do. Whatever we were doing pre-pandemic may not be as effective coming out from it. Some of the initiatives we are currently looking at are as below:

Hybrid working arrangements. This must be THE topic coming out of the Pandemic. We won't be doing our jobs properly if we were not actually looking into this and assessing whether 1. It is a suitable model for Baker Tilly 2. If it is, what is the best way of doing it. From a business point of view, initial views are that it could be beneficial as rental expense can be managed if we don't take up additional floor space as the firm grows. But how do we come up with a policy which will fit everyone's nature of work? Maybe some sort of a "hybrid -hybrid" model?

Environmental Social and Governance (ESG). This particular topic has become more and more prevalent over the last couple of years. Public listed companies are now required to communicate their ESG goals and strategies to their stakeholders. Companies are also now cutting business ties with companies who do poorly in ESG compliance. There are already many ESG initiatives that the Firm has embarked on like gender diversity, our commitment to reduce paper usage, donations and participations in charitable organisations like Kiwanis and others. In 2022, we will be allocating additional budget to enhance our ESG initiatives and we plan to communicate them to all our stakeholders in the form of an ESG report.

Automation. We will continue with our strategy to automate all our processes. Although the initial plan was to automate all our processes under one single platform, Microsoft 365, due to the limitations of this platform, the strategy required a bit of rethink. Moving forward we will continue to perform feasibility studies of the best applications available for our needs and will ensure that all the applications that are purchased or developed are able to be integrated to the other applications in our ecosystem.

Last, but not least, to improve my golf handicap of course. Mustn't forget that! ■

Thinking Beyond the Traditional Due Diligence Approach **in a Post Pandemic World**

Lim Seuk Fang
Director of Corporate Advisory and Global Corporate Finance

It has been almost two years since COVID-19 was declared a pandemic. As countries reel from their economic impact, we have seen many companies with strong balance sheets seizing opportunities to strengthen and right-size their own business operations through different business strategies, either organically or inorganically that is, mergers or acquisitions. These companies are looking to diversify their revenue streams, supply chains and distribution channels, and at the same time, gain access to innovative technologies and digital infrastructures.

Due diligence therefore remains equally important, if not more so than ever. In fact, companies embarking on mergers and/or acquisitions are now expecting a more cautious approach to due diligence in light of the current economic environment.

Hence, Corporate Advisors must now **THINK BEYOND** the traditional due diligence approach when assessing the following 4 key items of target companies during their review process.

1 Quality of Earnings

The pandemic, which disrupted business activities, has in a way, created “noises” in the financial statements of many companies. This means that it is now important to review how the target companies’ existing and future earnings profiles have been affected and/or permanently changed by the pandemic, and how their business performance is expected to return and recover post-pandemic.

When adjusting for a post-pandemic scenario, Corporate Advisers should pay close attention to the impact of COVID-19 on the target companies’ current trading activities, run-rate for revenue and costs, changes in the product mix and value chain, adjustments on discontinued operations, review on various government support schemes such as loan moratoriums, salary & wages subsidies and tax incentives, etc.

In addition, Corporate Advisers should also evaluate their analysis with reference to market trends and “what if” scenarios to further understand the impact on the target companies’ earnings profile more constructively.

2 Level of Capex for Infrastructure

The prolonged nature of the pandemic has changed consumer behaviours and accelerated digital adoption in how they shop and what they consume. The structural shifts towards online activities and the increasing reliance on e-commerce and digital solutions for basic needs, education, healthcare, entertainment, etc are likely to outlast the pandemic and has prompted companies to adopt a more digital business model.

Accordingly, it is crucial to assess the digital readiness of the target companies to understand how the increased level of capex for digital infrastructure is expected to stimulate revenue growth and at the same time sustain the cost-benefits in a post-pandemic environment.

3 Working Capital

Instead of benchmarking the working capital requirements of the target companies using historical financial data, a normalised working capital will need to be considered and reviewed, factoring in the effect of the pandemic. Corporate Advisers will need to consider and review the possible supply chain / customer changes, level of dependence on the existing major customers and suppliers, ability to fulfil contractual obligations, short-term debt payments, etc.

Consideration of these matters will help to better understand how viable and resilient the target companies’ business model is and how they will be able to maintain sufficient liquidity to meet the short-term working capital requirements in a post-pandemic environment.

4 Off Balance Sheet Items

The financial statements of the target companies could be distorted by off-balance sheet items that may potentially reduce their financial assets and jeopardize future profitability and cash flow if those events were to crystalise in the future. To mitigate these matters, Corporate Advisers should undertake necessary review procedures to identify and quantify the potential losses arising from these off- balance sheet items. Examples of off-balance sheet items may include warranty claims, guarantees on debts, litigation, employee claims, capex catch-up amounts, one-off re-start up cost, deferred bonus, etc.

Business Continuity & Disaster Recovery Plans

Most companies now would have plans in place to ensure continuity of their business operations during a crisis. Therefore, it is important to review their business continuity and disaster recovery plans in greater detail to understand how well-protected and prepared they are. Corporate Advisers will need to understand the potential implementation costs of the plans on the target companies' operations, workforces, assets, and brand equity. The plans should be up-to-date and fit for continuity and emergency preparedness purposes.

With the uncertainty that lies ahead, it is also crucial to examine the target companies' existing insurance policies and material contracts with third party providers and business partners, including the force majeure provisions, to avoid or minimise threats to the business operations.

> *Standing still is not an option.*

In a nutshell, Acquirors are now more mindful about what they are investing in and how that investment will bring value to their realigned business strategy against the backdrop of uncertainty in a post-pandemic landscape.

At the heart of *Now, For Tomorrow*, a due diligence process should extend beyond the traditional methodologies, to be able to identify potential financial and non-financial issues affecting post-investment integration, and adjust and normalize numbers for the Acquirors' due consideration. ■

Psychology in the Workplace

Dharin Chelliah, *Executive, Corporate Communications*

As discussed in our previous issue, the corporate world has become one of radical dynamism.

With ever-evolving cultures, policies, and workforces, particularly within the last decade, it is often the case that a company is perceived either as one that is "contemporary" and "forward thinking" or it becomes relegated to the "outdated" and "out-of-touch" cohort.

With such labels often defining the pre-conceived mindsets that staff go into work with (and how they may be perceived by their potential clients and competitors), it is paramount for a company to invest time and thought into a sound approach to shape their culture and identity. Furthermore, it needs to set itself apart from the crowd by providing their staff with a sense of true belonging and comfort, which keeps motivation high and turnover low.

Currently, although the field of industrial psychology, which is a facet of psychology focused on the workplace, is catered toward the views stated above, much of the psychological application in the market today goes in the direction of brand perception and profit boosting, that is, "external" factors rather than "internal" factors, which will be discussed in the next paragraph. It posits that, possibly, the best way to optimise brand perception and profit is to approach them as "by-products" of a more holistic way of corporate practice. Here, psychological principles can be a major asset.

There are many avenues of inquiry when it comes to optimising psychological principles in the workplace; from focusing on subjects like Performance Appraisal and Compensation to the slightly more abstruse topics like Socialisation and Behaviour, psychology is relevant in all aspects of humanism.

Much of psychology is based on trends in human behaviour, which can be critiqued simply due to individual differences. However, when it comes to an organisation, you have a group of individuals working toward a common set of goals, thus allowing for generalisations to be made as there is less of a focus on individuality and more on the collective mindset that facilitates efficient progress. This, of course, falls to the environment that an employee is provided with.

Research conducted by Wright & Bonett (2007) involving a 2-year study on a large organization on the west coast of the U.S.A detailed Job Satisfaction and Psychological well-being as predictors for Turnover. Their findings proved both variables successfully predicted turnover, however, the most pertinent fact was that when well-being was low, job satisfaction had the strongest inverse relation to turnover; in simple terms, when employees felt that their job was not providing them with a higher "benefit-to-risk" ratio, turnover drastically increased. This point is especially salient given the current pandemic, where employees are either "forced" to be in almost-constant isolation or where employers do not care enough about employee safety, which can negatively affect the psychological well-being of an individual.

Being deprived of the choice to socialise forces individuals to constantly re-evaluate their situations. Realistically, for many, the relationships they forge in the workplace give them almost as much incentive to go to work as the remuneration they receive for their efforts. While a pandemic is a horrid position for any society, it is worth noting that it is a true litmus test of an organisation's policies and principles for staff welfare.

Following the same line of thought, Chong et al. (2021) took an Occupational Health Perspective on work during the pandemic. This places importance on an employee's physical health and safety to provide them with the peace-of-mind required to work productively. Baker Tilly Malaysia has taken many measures following this; from mandatory masking and physical distancing, providing the necessary technological infrastructure for staff to work safely from home or from the office, to funding an organisational vaccine program, the actions taken reflect a good sense of awareness over our employee's well-being.

In the United States, there are between 11 million (MCI, 1998) and 55 million meetings each day (Keith, 2015), with employees averaging six hours per week in meetings. Managers spend even more time in meetings, with averages around 23 hours per week, and up to 80% of work time in meetings (Rogelberg, Scott, & Kello, 2007).

Another major benefit of applying psychology principles in the workplace is that it would provide a leadership team with the insights they need to truly boost the efficacy and impact of their interactions with their staff. Mroz et al. (2018) analysed the science of workplace meetings to provide a checklist of items which promote productive meetings. A great gauge that they provide is as follows:

"In the United States, there are between 11 million (MCI, 1998) and 55 million meetings each day (Keith, 2015), with employees averaging six hours per week in meetings. Managers spend even more time in meetings, with averages around 23 hours per week, and up to 80% of work time in meetings (Rogelberg, Scott, & Kello, 2007)."

As seen from the figures above, it is evident that a large amount of time goes into conducting meetings. Now, the most salient point here would be whether all that time and effort is being channelled productively. Meetings are meant to act as a conduit for engagement, debate, and ideas, where a team can make executive decisions on the direction they take with regards to an engagement.

They found that the science of good meetings comes down to three main perspectives: What happens before, during and after a meeting.

Before:

A person/team's preparation and schedule play a crucial role in the efficacy of a meeting. Attending many meetings, particularly non-productive ones, can increase stress and perceived workload. Like a catch-22, this leads to another "bad" meeting which in turn may lead to another. Alternatively, if all attendees approach a meeting with a common mindset, it not only reduces the time required for a meeting (innately promoting efficiency), but aids in boosting healthier discourse and clarity.

During:

A functionally diversified group in a meeting can promote better solutions to problems simply due to the difference in skillsets available, thus providing a larger range of discussion, ideas and solutions. Furthermore, good leader behaviours encourage engagement and can increase the sense of meetings being "short and sweet" due to a pre-set agenda.

After:

Debriefs and post-meeting interactions act as a bolster for organizational success. Satisfaction derived from productivity is also closely tied to overall job satisfaction, which as previously discussed, is vital to an employee's perception of their job.

So really, how DOES psychology aid us in the workplace?

Putting it all together, you may be wondering; "So really, how DOES psychology aid us in the workplace?". Well, the answer to that question lies in several "distilled" statements.

Being the study of behaviour, psychology intrinsically analyses the methods that we, as humans, employ to go about our daily lives. Using the same line of thought, an organisation can apply psychological research to their processes, structures, and operations to allow for a holistic method of practice, which can provide an environment in which employees will WANT to go to work.

As discussed above, motivation is crucial to productivity. People, similar to businesses, generally rely on a simple method of determining their motivation, Risk vs Reward. Psychology can aid us in understanding the workings behind this concept and can aid a business in determining the most effective Benefits that they provide employees, which can keep their motivation (and productivity) high, thus boosting overall performance.

Lastly, providing a conducive environment for employees, will not only better them but it will better the company overall. After all, businesses are organised, populated by and represented by humans, though, it is often easy to forget that as they are too often perceived as faceless entities.

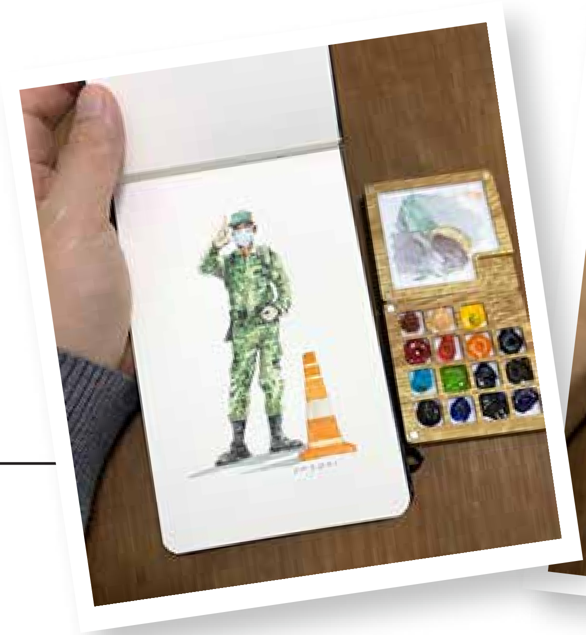
By applying the right psychological tools and further research into a humanistic view of business, leaders can transform the way that they approach their leadership, allowing them to hone their employees to be efficient and productive, whilst maintaining a sense of pride and motivation, thus sowing the seeds of personal growth and inspiring them to be better versions of themselves now, for tomorrow. ■

The Art of Vincent Phang

It has been another turbulent year for the world. At Baker Tilly, we count ourselves very fortunate to have had the capacity and capability to adapt to the circumstances we were thrust into during the pandemic. Many, however, struggled to stay afloat the last two years.

As the year 2021 comes to a close, a new chapter opens for the new year, ringing in the Chinese New Year come February 2022. To mark the new lunar year, and to support our Malaysian artists, Baker Tilly commissioned local Penang artist, Vincent Phang to create an art piece to be used as the artwork for our unique edition of Chinese New Year 2022 Ang Pao packets.

We recently caught up with Vincent to get to know him better.



How long have you been painting for?

I started to paint frequently when I was 17 years old.

How and when did you first find your interest in art and painting?

I doodled a lot during my childhood when I was about 9 years old. I was a big fan of Dragon Ball, so I drew the characters that inspired me in the comic books that I read, and cartoons that I watched, and created a whole new storyline for them. I used to have a whole stack of my own comic doodles back then, but my dad was worried that I spent too much time doodling and that it might affect my studies. So I stopped doodling.

What type of work have you been involved in?

Besides being commissioned to do art pieces and wall murals, I would take part in art competitions and exhibitions.

In 2012, I focused on oil painting on canvas. I created a series of 45 portraitures, 60cmx60cm in size. This series was inspired by Facebook selfies, capturing expressions and emotions of different individuals on social media. I had various exhibitions showcasing this series of artwork in hotels, cafes and art galleries in Penang and Kuala Lumpur.

Since 2013, I have focused more time on mural projects (while lecturing art and drawing part-time at an art college). Lately, I have also begun to focus more on watercolour paintings.

Where do you usually draw your inspiration from?

My art is inspired by my observations of life, contemplation on ordinary people, daily scenes that I see, human activities, different places, nature and animals, as well as social & cultural elements.

How do you feel about being an artist, and what are the struggles of being an artist in Malaysia?

To be an artist is a privilege, just like the saying goes, 'Do what you love, and love what you do.' Artists don't really treat our work as a 9-5 job. We work at what we love constantly out of passion. To me, creating art is enjoyable, and each piece is like a mission to be fulfilled. The biggest reward is when your artwork is appreciated and it inspires others.

The struggles are still pretty much the same as it has always been in Malaysia. It is viewed as "non-essential" work by a majority of people.

I have also met clients that place very little value on the effort of artists, expecting work done at ridiculously cheap prices, sometimes even expecting free artworks because they think that art is not something that is worth paying anything for. This is a sad reality that we are faced with.

What should people know about artists and/or working with them?

People must understand that artists dedicate their time, energy and effort in perfecting their crafts, and they will be motivated and become more productive if they receive due support and appreciation of what they do.

Do you have any other hobbies/interests outside of art and painting?

Besides art & painting, I enjoy sports. I would love to try different kinds of sports. I am a die-hard Liverpool fan (sorry haters). I love exploring nature and different places. I love cooking, and I am also a coffeeholic.

What advice do you have for young artists/budding artists?

Discover your own creative path. Never let others tell you what you can or cannot do or determine your way forward for you. Keep the passion, persevere and be consistent in your work.

To check out Vincent Phang's work, or to purchase his art pieces, follow him on instragram @paint_thing.

> **We can create an ideal world through art.**

This beautiful masterpiece by Vincent, originally hand drawn and painted on a piece of 30 x 30cm watercolour on paper, depicts racial unity in our home, Malaysia, and a longing for celebration and happiness in better times.

We are so pleased to be able to feature this artwork on our Chinese New Year 2022 Ang Pao packets. Do follow our social media post for an opportunity to have this special edition Ang Pao sent to you. ■

bakertilly

TAX & BUDGET WEBINAR

17 November 2021

Our Baker TIlly Tax & Budget Webinar, held on 17 November this year, was a huge success and was made possible thanks to our speakers, moderator and panellists, as well as our Platinum Sponsor, OCBC Bank, and our Gold Sponsor, Prudential. A big thank you to our participants as well. We look forward to welcoming you again to our events in future.

If you would like to get in touch witih our Tax Experts, do send an email to tax@bakertilly.my.

Freda Liu
Emcee, Host & Author
Business Presenter

Marcus Tan
Executive Director, Tax
Baker Tilly Malaysia

Yohan Francis Xavier
Executive Director
International Tax & Transfer Pricing
Baker Tilly Malaysia

Datuk William Ng
Chairman of SAMENTA Central
Small and Medium Enterprises Association

Michele Kythe Lim
President & CEO
Institute of Corporate Directors Malaysia

Anand Chelliah
Managing Partner
Asia Pacific Leader, Tax
Baker Tilly Malaysia

Selana Ling
Chief Economist
Head of Treasury & Research
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Contact us

Kuala Lumpur Head Office
Baker Tilly Tower
Level 10 Tower 1 Avenue 5
Bangsar South City
59200 Kuala Lumpur

T: +603 2297 1000
F: +603 2282 9980
W: www.bakertilly.my

Penang
9-2, 9th Floor, Wisma Penang Garden
42, Jalan Sultan Ahmad Shah
10050 Penang

T: +604 227 9258
F: +604 227 5258

Johor Bahru
157-B, Jalan Sri Pelangi
Taman Pelangi
80400 Johor Bahru

T: +607 332 6925 / 332 6926
F: +607 332 6988

Batu Pahat
33 Jalan Penjaja 3
Ground Floor
Kim's Park Business Centre
83000 Batu Pahat

T: +607 431 5403
F: +607 431 4840

Seremban
Level 2, Wisma Sim Du
37 Jalan Dato' Bandar Tunggal
70000 Seremban

T: +606 762 2518 / 763 8936
F: +606 763 6950

Labuan
1st Floor, U0509
Lazenda Commercial Centre
Phase 11, Jalan Tun Mustapha
87000 Federal Territory of Labuan

T: +608 744 0800

Phnom Penh (Cambodia)
No. 87 Street 294
Sangkat Boueng Keng Kang I
Khan Chamkarmon
Phnom Penh, Cambodia

T: +855 23 987 100
F: +855 23 987 388

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