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

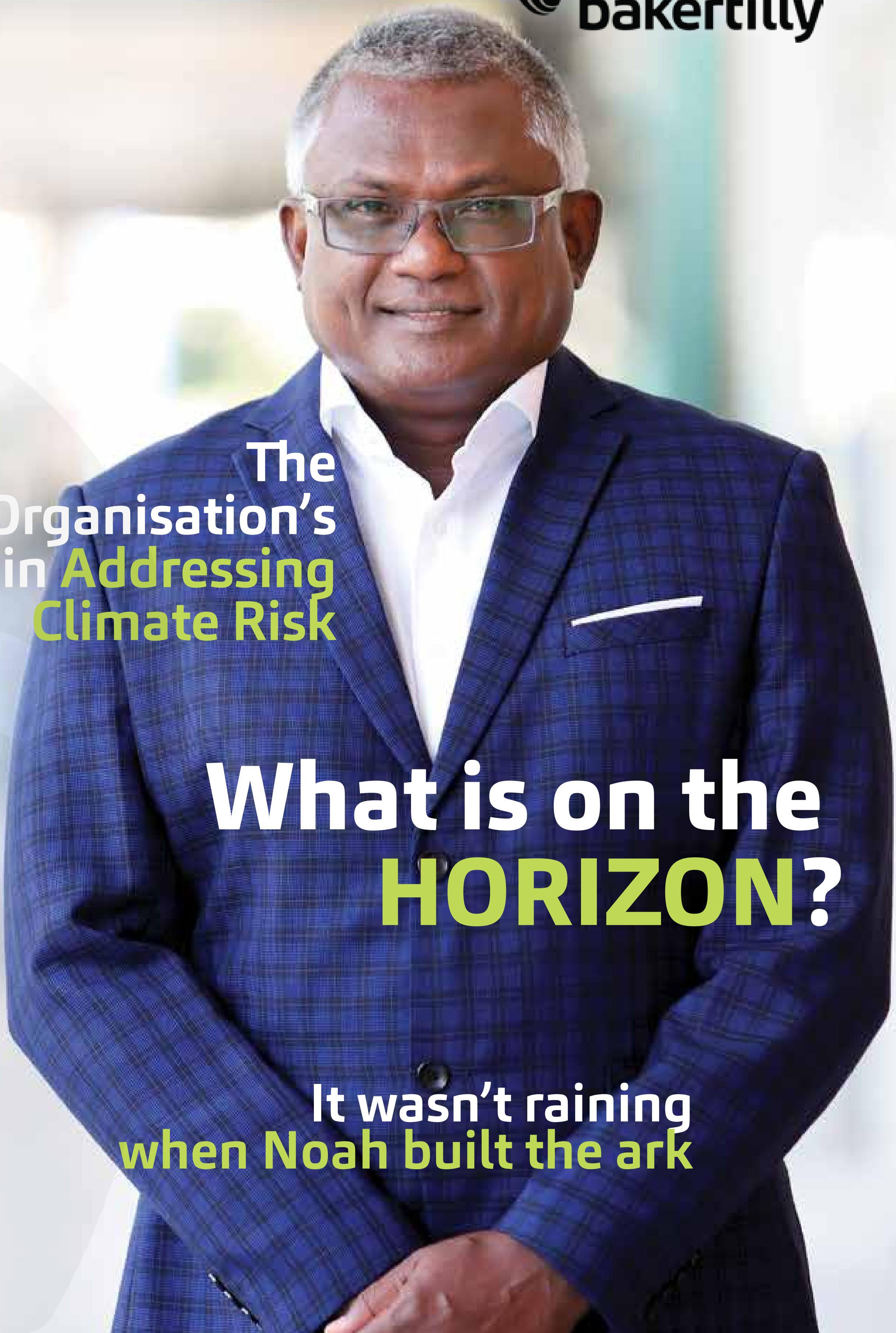
Phnom Penh (Cambodia)
No. 87 Street 294
Sangkat Boueng Keng Kang I
Khan Chamkarmon
Phnom Penh, Cambodia

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

JUNE 2021

BT INSIGHT

bakertilly



The Organisation's Role in Addressing Climate Risk

What is on the HORIZON?

It wasn't raining when Noah built the ark

AFFIN SMEasy Protect

AFFIN SMEasy Protect is a business continuity insurance with affordable premium from RM15 per annum with an option of up to RM250,000 in coverage.

Contact us at smecare@affinbank.com.my or download SME Colony App today

Download on the App Store | GET IT ON Google Play | EXPLORE IT ON AppGallery

#WeGrowWithYou #SMEColony #SMEasy

ASIAN BANKING & FINANCE RETAIL BANKING AWARDS 2020

AFFIN SMEasy Protect is the winner of the "Insurance Product Innovation of the Year – Malaysia" by the Asian Banking & Finance Retail Banking Awards 2020

Terms and conditions apply

AFFIN BANK

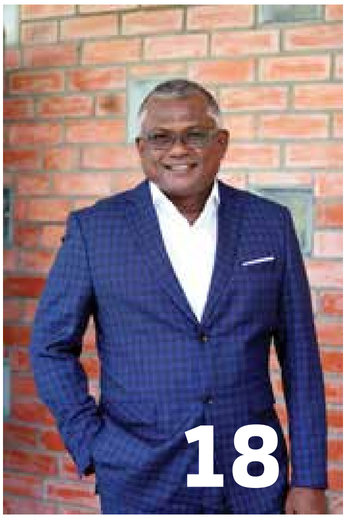
always about **you**

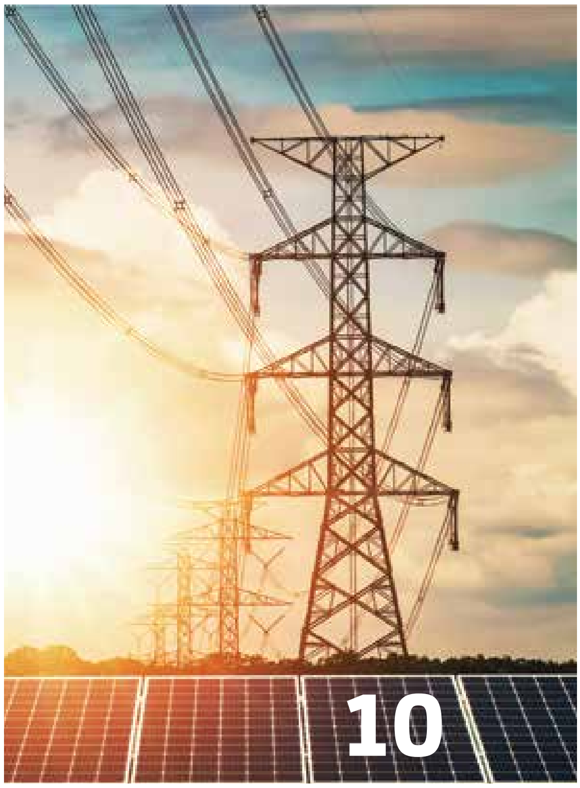
03-8230 2222 AffinMy www.affinbank.com.my

Affin Bank Berhad 197501003274 (25046-T)

CONTENTS

Photography
Olivia Oon





Editors
Olivia Oon
Dharin Chelliah

Designer
Olivia Oon

Published by
Baker Tilly Malaysia
Level 10 Tower 1 Avenue 5
Bangsar South City
59200 Kuala Lumpur

Message from the Executive Chairman

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

I would love nothing more than to have been able to say that we are finally free from the wretched virus that is COVID-19. Alas, the war is still raging, and lives are still lost every day. But the end is nigh for the virus. With vaccination efforts progressing, albeit slowly, there is hope that we can finally beat this.

And so, halfway through the second year of what we have come to know as the New Normal, I am glad to see that many have found ways to embrace the new way of living, working and socialising, while still keeping safe. Two interesting observations. "Zoom" has now become a verb, just like its predecessors, Xerox and Hoover. We say "Social Distancing" although we really mean "Physical Distancing", because that was how it was first introduced more than a year ago.

In this issue of BTINSIGHT, our Group Managing Partner, Andrew Heng, shares with readers some of the lessons learnt throughout this challenging time and how to go about becoming that skilled sailor in a storm.

Speaking of storm, our senior consultant in our Corporate Advisory arm, Jeff Tan, whose hobby is studying financial models, shares with us his take on the importance of planning and being prepared for whatever life throws at you. True, it wasn't raining yet when Noah built the ark, but then the flood came.

Along these lines, Heng Cheng Zin, our Director, Internal Audit & Risk Advisory, brings to light the issue of "Climate Risk" and why these should now be part of the board agenda for companies in Malaysia. In her article is an impressive list of what countries and organisations around the world have started doing to address Climate Risk.

Anand Chelliah, our Managing Partner and Asia-Pacific Leader for Tax Services, takes centre page in this issue as he shares his take on the State of the Union and what he sees on the horizon for the tax fratenity.

Also in this issue, our Director of Global Business Solutions, Loke Chee Kien, a strong proponent of Business Process Outsourcing, outlines some of the considerations for outsourcing business processes.

And finally, our Corporate Communication Executive, Dharin Chelliah, presents his findings from a modest survey conducted with Baker Tillians to gain some insight into their experiences of working-from-home. The candid responses from our people is really an enjoyable read.

I hope you will find this issue insighful and interesting. Happy reading.

Dato' Heng Ji Keng
Executive Chairman

A smooth sea never made a skilled sailor.

- Franklin D. Roosevelt

Lessons from the STORM

"A smooth sea never made a skilled sailor." – Franklin D. Roosevelt

It has always been my belief that there is always something that we can learn through the challenges that come our way. During times of trial, instead of fretting about how difficult things are, we should really be looking out for these life lessons. After all, what better teacher than experience?

The past year has been filled with one lesson after another. We have all learnt a lot about ourselves, about our colleagues in a different setting, and about how to manage and navigate through the many obstacles brought about by the various measures imposed by the government to keep the COVID-19 virus at bay.

Perhaps one of the most valuable lessons that many of us received is the importance of planning and providing for that rainy day, for that storm. Plan and prepare. Plan early. Plan properly.

This pandemic has taught us that leaders must have the wisdom to take potential disasters seriously and the foresight to prepare their people for that Plan A, Plan B and Plan C when disaster strikes. This includes carrying out drills to ensure that these plans work. Unfortunately, prior to the pandemic, these measures, which cost time and money, took a backseat, causing unprepared companies to plunge into crisis.

We have also learnt that people are resilient. When push comes to shove, people generally find a way to make it through and to help each other survive along the way. So many heart-warming stories of compassionate Malaysians have emerged during this time. Those who are doing better financially understand that many others are suffering. Like they say, we may all be experiencing the same storm, but we may not all be in the same boat.

Having stated the above, I have also learnt that however advanced technology has become, and however much we have adapted to a new way of living, working and connecting with others, nothing beats the power of the human connection. Online meetings are just not the same. I think that people will learn to appreciate the opportunities to connect face-to-face when we are finally rid of this COVID-19 menace.

Final thoughts. By and large, Malaysians have a lot of wit and a really good sense of humour, and it is this humour, where we are able to laugh at ourselves and the ridiculous situations we find ourselves in, that allows us to carry on another day. The fact that we can understand and relate to a lot of memes that have circulated on social media goes to show that we are not in it alone.

So, "stay curious" and continue to find something new to learn every day. We will all look back one day and realise just how much we have grown through the storm.

Andrew Heng
Group Managing Partner

Always plan ahead

It wasn't Raining when Noah Built the Ark

Jeff Tan, *Senior Consultant, Corporate Advisory*

The pandemic has taken, and is still taking, a devastating toll on human life, affecting the livelihood of millions globally. While we began 2020 rather ignorantly, we can no longer deny the impact COVID-19 has had, globally. The first quarter of 2021 has just gone by, with India, the second most populated country, recording over 400,000 COVID-19 cases in a single day. Unfortunately, we are still struggling to contain the spread of virus despite more than 1 billion doses of vaccines having been administered in 178 countries worldwide.

The direct impact of the pandemic is also evident in the drastic rise in unemployment rates globally. Over the past year, more than 30,000 businesses have shuttered in Malaysia. The pandemic has revealed the unexpected flaws in traditional business models that had previously brought success. To thrive in the new normal, companies have innovated, improvised and stretched beyond their comfort zones, truly testing the resilience of the country's economy.

Most business models are designed to function within a stable environment. In truth, the real failure is not that companies adopted models that failed in this crisis, rather, that they did not have the flexibility to adapt when faced with the crisis. Hence, an effective plan that can quickly adjust **DATA** and **METHODOLOGIES** to reflect the current environment is crucial to support a company's decision-making process during a time of crisis.

As the saying goes, planning is the cornerstone around which business empires are built. If you fail to plan, you plan to fail. So, businesses that constantly monitor their external environment and continually plan are more likely to succeed and prosper in the long run. Those back-of-the-envelope calculations will just not do. So, how can companies best address their challenges and survive through a crisis of a pandemic proportion (or any crisis for that matter)?

Jeff Tan won 2nd place in the 2020 CFI Global Financial Modelling Case Competition and World Championship. He is currently ranked Top 10 in the Financial Modelling World Cup 2021.

How can a Financial Model Help?

It has been said that Financial Modelling is one of the most highly valued but scarcely understood skills in finance. In the past, financial models were generated using a limited amount of data and assumptions, which was merely a simple calculation of one's potential business performance. This was more like a "Garbage In Garbage Out" ("GIGO") approach; limited data equals limited accuracy equals meaningless spreadsheets.

Most of the time, companies build forecasts by using one of two simple methods, by referring to historical data (*e.g. historical costs with a certain growth rate*) and few identifying key drivers (*e.g. expected revenue or cost arising from contract*), then adjusting factors such as seasonality and others. However, these general approaches won't work for all situations, certainly not in this current crisis.

Businesses today require more complex mathematical models that account for the potential effects of a multitude of variables to estimate the potential output of the future performance. A good financial model should provide insightful information, allowing the user to identify the key issues faced by the business and to further enhance the decision-making process by increasing resilience and enabling proactive adjustments to ring about changes during this crisis.

We are currently in an era of big data where we have a plethora of data. A good financial model should be flexible enough to cater for constant adjustments, with the **RIGHT INPUTS**, across all functions and operations of the company, in order to identify what could have failed or are likely to fail in the near future, due to a lack of perspective on the new normal and its impact on the business.

The idea behind financial modelling is to enable decision-makers to simulate their assumptions (with proper contingency plans) into a quantifiable financial effect and foresee its potential impact on the companies' business.

"If you fail to plan, you plan to fail.

Financial models are widely used in various types of corporate exercises or strategy formulation, especially in answering the following questions:

a) How profitable is the business/project?

To a certain extent, financial models are built to assess the financial feasibility of the projects in order to compute the Internal Rate of Return (IRR). It would also help the management identify the non-performing business segments in the forward-looking perspective.

b) Do I have sufficient cash flow for the coming events?

"The customers will likely be late in their payments. The banks are chasing for loan repayment. Does the company have a cash flow issue?".

There are financial models that could assess the sufficiency of working capital, which will then enable companies to keep track of their solvency. With those models, management could always plan ahead and prepare for Plan B before a crisis hits.

c) How would this crisis affect my business?

A scenario analysis generated using financial models will be able to help quantify the impact in a given scenario to give you a better overview of the situation and in turn, help you in your decision-making process.

d) How much funds to raise?

Using financial models, the management is given an insight to the total amount of funds required for a business expansion throughout the different stages of a fundraising exercise, including but not limited to, seed funding, private placement and initial public offering. A good financial model will also help address issues on the potential distortion of ownership / shareholding of a company as a result of excessive money raised.

e) What synergy will I gain through a Merger & Acquisition (M&A) exercise?

M&A synergy generally arises from cost savings, operational efficiencies, revenue boosts, etc. A good financial model can help to figure out the effect of merger or acquisition on the Earnings Per Share (EPS) of the newly formed company and how it compares with the current EPS. It allows the management to identify and determine if the M&A transaction adds value to the shareholders' interest.

f) How much are my businesses / companies worth in this current environment?

Financial models are also used by businesses to value their businesses, especially useful for investors, creditors, sellers, and buyers interested in a company.

Overall, by planning ahead with a good financial model in hand, companies are able to better gauge where their businesses stand at any point in time and are able to be better prepared for whatever lies ahead in their journey to success. ■


210.95
149.16
23.26
1.41%

The Organisation's Role in Addressing Climate Risk

Heng Cheng Zin, *Director, Internal Audit & Risk Advisory*

Good risk management is often misunderstood as a process of piling layers upon layers of controls, policies, and procedures over time with the goal of eliminating risks. In actual fact, "Good Risk Management" is not so much about risk-elimination than it is about risk-optimisation, which requires a thorough understanding of a company's risk profile in order to support its growth strategy. This article will discuss an emerging risk that should be addressed by Malaysian companies in their Risk Framework - Climate Transition Risk.

What is Climate Risk?

Rising temperature and sea levels, along with increased incidences of extreme weather, pose a threat to the global economy.

This led to the signing of the Paris Agreement in April 2016, an agreement within the United Nations Framework Convention on Climate Change (UNFCCC) to limit temperature increase, thereby sustainably reducing the risk of climate change by curbing carbon emissions and mitigating greenhouse gases with adaptation and finance starting in the year 2020. The targets set by the UN Paris Agreement have been adopted by almost every nation in the world, including Malaysia.

The World Economic Forum (WEF) says that the "failure of climate change mitigation and adaptation is the second most impactful risk in the world".

In the Intergovernmental Panel on Climate Change (IPCC)'s report, "Global Warming of 1.5 degrees Celsius", South East Asia was identified as one of the regions that would be hardest hit by climate change in the near future.

The climate related risks faced by organisations in Malaysia remain, primarily due to a lack of awareness and understanding of how climate change can impact their business continuity and prosperity. Climate risks are present in Malaysia in the form of:

- Physical risk and operational impact from extreme weather events, such as changes in rain patterns, rising sea levels, and related coastal flooding, that may have serious implications on assets and supply chains.

- Transition risk, where societal perceptions on the long-term impacts of the fossil fuel industry have driven a global reform in the way companies should approach their public policies, regulations, and technological developments to achieve the standards of a low-carbon economy.

As the world now transitions to a low carbon economy, new policy, market, and technology trends are emerging, which present real risks and opportunities for market leaders. High impact industries, including banks and insurance companies, will need to deal with climate change related risks in their portfolio.

In the real economy, industries most affected by climate change include oil and gas, energy, transportation and car manufacturing, agriculture, forestry and plantation. These industries can expect to face increasing pressure to provide disclosure on how they deal with the impacts of climate change in their business model. In short, leaders must start thinking strategically about how they will manage this risk in the short, medium to long term.

Why Businesses Need to Act

Physical Climate Impacts

Physical climate impacts continue to have implications for businesses. The most tangible risk to assets lie in areas that climate change will directly affect. Recent weather events suggest that businesses still have to deal with the increasingly frequent or severe physical impacts from climate change in the short to medium term. This has implications for all companies with physical assets; and is material for companies in sectors such as real estate, agriculture, plantation, forestry or transport.

Companies whose value and supply chains are dependent on vulnerable sectors would also benefit from exploring what these changing weather patterns mean for their business. For example, companies within the plantation sector in Malaysia may experience the increasing impacts of climate change, specifically extreme whether events, forest fires, deforestation, and floods, and thereafter, work together to determine risk response strategies and mitigation plans. For existing assets, there are few solutions other than insurance. However for new projects, the physical risk must be assessed at conception.

Emerging Regulatory Pressure

Emerging regulatory pressure for improved climate disclosure continues to increase. In some industries, such as transportation and energy, companies are facing evolving regulations around greenhouse gas emissions as nations look to reduce their emissions.

Central banks and other supervisory authorities are now considering climate change as a risk to financial stability. Stock exchanges and security regulators are setting out guidelines mandating or recommending that companies disclose climate risks alongside their financial earnings. In Malaysia, Bank Negara Malaysia, Securities Commission (SC) and Islamic Bank are looking to complete their audits in the area of carbon, water, land waste, biodiversity, environment and climate to identify their current gaps and shortfalls, so as to be able to put the right strategies in place to becoming "greener".

The Malaysian Code on Corporate Governance published by the SC, which is applicable to all Malaysian Public Listed Companies (PLCs) has been revised on 28 April 2021, to include that the Board together with Management should ensure that the company's sustainability strategies, priorities and targets as well as performance against these targets are communicated to its internal and external stakeholders. The board must take appropriate action to ensure they stay abreast with, and understand, the sustainability issues relevant to the company and its business, including climate-related risks and opportunities.

Malaysia's regulators are committed to the agenda of sustainable development and have set the regulatory tone and initiatives to address climate risks. They include:

Year	Initiatives
2015	▪ Malaysia adopted the 2030 Agenda for Sustainable Development in September 2015.
2016	▪ Malaysia signed and ratified the Paris Agreement in 2016 - commitment to reduce Greenhouse Gas (GHG) emissions intensity.
2017	▪ Securities Commission (SC) launched the ASEAN Green Bond Standards (AGBS).
2018	▪ Bursa Malaysia's mandatory disclosure of sustainability statements by PLCs. ▪ ASEAN Capital Markets Forum launched the ASEAN Social Bond Statement (SBS).
2019	▪ SC and Bank Negara Malaysia (BNM) formed the Joint Committee on Climate Change (JC3). ▪ SC launched the Sustainable and Responsible Investment (SRI) roadmap for the Malaysian Capital Market. ▪ SC formed the Malaysian Green Financing Taskforce (MGFT).
2020	▪ BNM finalising the Climate Change and Principle Based Taxonomy (BNM Taxonomy). ▪ Capital Markets Malaysia (CMM), and affiliate of SC launched the Malaysian Sustainable Finance Initiative (MSFI).
2030	▪ Target 2030 achievement of Malaysia's commitment towards reducing 45% GHG emission intensity.

Regulatory Initiatives in Malaysia (Sources: BNM, SC Malaysia, CMM, UNFCC, media releases – various organisations)

Customers

Information availability, advanced technology shifts, and new consumer preferences are transforming buying patterns for goods and services. Consumers increasingly seek products that have been sourced and manufactured with a reduced carbon footprint.

As consumers develop increased expectations with respect to sustainable brands, companies must consider their competitive positioning. This trend is further accelerated by the pressures of social media and digital transparency – young people, the consumers of the future, are particularly engaged in this topic. Increasingly, customers will seek out and do business with those companies whose sustainability and climate risk management practices are robust.

Investor Pressure

A growing number of investors view climate change as a material investment risk, which increases the pressure for better climate information. A challenge for investors is the lack of good quality climate disclosures that are useful for them to base their investment decisions on. In our view, the call for disclosure on potential business impacts and management responses will only increase in the coming years. Demonstrating to shareholders that the impacts of climate change are being managed, and can, in addition provide reputational benefits.

Business Opportunities

Climate change also offers business opportunities that may lie in becoming part of the solution to address risks. Firstly, companies can aim to improve their resource productivity (for example by increasing energy efficiency), thereby reducing their costs.

Secondly, there is an opportunity for businesses to spur innovation and gain a competitive advantage across a wide range of sectors. Technology, for instance, brings opportunities for developers and users. Technology companies like Lenovo and Google have deployed artificial intelligence to enhance efficiencies. Google has created solutions to cool its data centres in buildings worldwide. The services sector and legal firms may gain business in advising clients on the best way to evaluate, disclose and reduce emissions, if any. A growing number of start-up car companies are planning to sell tiny electric cars that carry one to three people. Many are also racing to dominate the market of battery-powered E-scooters loved by Silicon Valley. In Malaysia, MESB Bhd announced plans this year to venture into the waste recycling business to enhance its prospects and financial performance.

Taking the Lead in Addressing Climate Risks in 2021

We know that big corporations are mostly responsible for causing damage to the planet. Hence in 2021, initiatives have been taken globally, by the governments and major corporations (Source: CNN, CNN Climate), to address this:

- **Singapore** is building a 42,000 home eco 'smart' city. It will be the first with centralised cooling, automated trash collection and a car-free town centre, which conservationists hope will offer a roadmap for slashing carbon emissions in the country.

- **New Zealand**, aiming to be net zero carbon emission by 2050, is set to consider legislation that would require banks, insurers, and asset managers to disclose the impact of climate change on their businesses. This bill is the first of its kind to be proposed anywhere in the world.

- **Norway** is using huge tax incentives to help ensure that every new passenger car and van sold in the country by the end of 2025 is a zero emission vehicle. Electric vehicles accounted for more than half of all cars sold in Norway in 2020.

- **Maersk** will launch the world's first carbon neutral cargo ship in 2023. The vessel will operate on methanol produced from renewable sources or sustainable biomass.

- **Nike**, who is aiming for a 70% reduction in greenhouse gas emissions, is reselling lightly worn sneakers at a discount in select stores in an effort to reduce waste. Returned shoes will be donated and if they can't be given a second life, they will be converted into recycled material.

- **Coca-cola** launched new bottles made out of 100% recycled plastic materials as part of their initiative to reduce plastic waste.

- **Ikea** bought 11,000 acres of forest in Georgia to protect it from development.

- **Bill Gates**, **Amazon** and **British Airways** are partnering to fund a hydrogen plane startup, ZeroAvia, that is developing a hydrogen-electric technology to power aircrafts. The partnership aims to speed up the switch from fossil fuels to hydrogen in order to fuel its planes.

- **Apple** announced a $200 million investment fund designed to remove carbon emissions from the atmosphere and support sustainable forestry, and to generate financial returns for the company. The effort aims to remove 1 million metric tons of carbon dioxide from the atmosphere each year, equivalent to the fuel used by more than 200,000 passenger cars annually. This project can act as an important model for other corporations by demonstrating the ability to profit from investments in the environment.

- **JP Morgan**, announced in April 2021, its decision to deploy $2.5 trillion to fight climate crisis, where it aims to finance or facilitate investments of $2.5 trillion over 10 years to support solutions that address climate change and contribute to sustainable development.

- **SMRT**, **Singapore** will change its entire taxi fleet to electric vehicles in 5 years.

- **Volvo** and **Ford** both aim to sell only electric cars by 2030, and you will only be able to buy it online.

- **Eleven Madison Park**, a 3 Michelin-starred restaurant announced that it will go completely plant based in May 2021. The move reflects a growing trend in the food industry as they move towards more sustainable ingredients and food practices.

- **ExxonMobil** is adding two prominent activist investors to its board of Directors, as Exxon faces extreme dissent from shareholders about its poor performance and climate stance. Exxon, once the world's largest company by market value, has lost $200billion of its market value since mid-2014.

- **Shell** unveiled plans to become a net zero emissions business by 2050, joining European rivals BP and Total in making a shift towards clean energy.

Next Steps for Malaysia

All businesses,big or small, need to participate in stopping climate change and making a lasting impact.

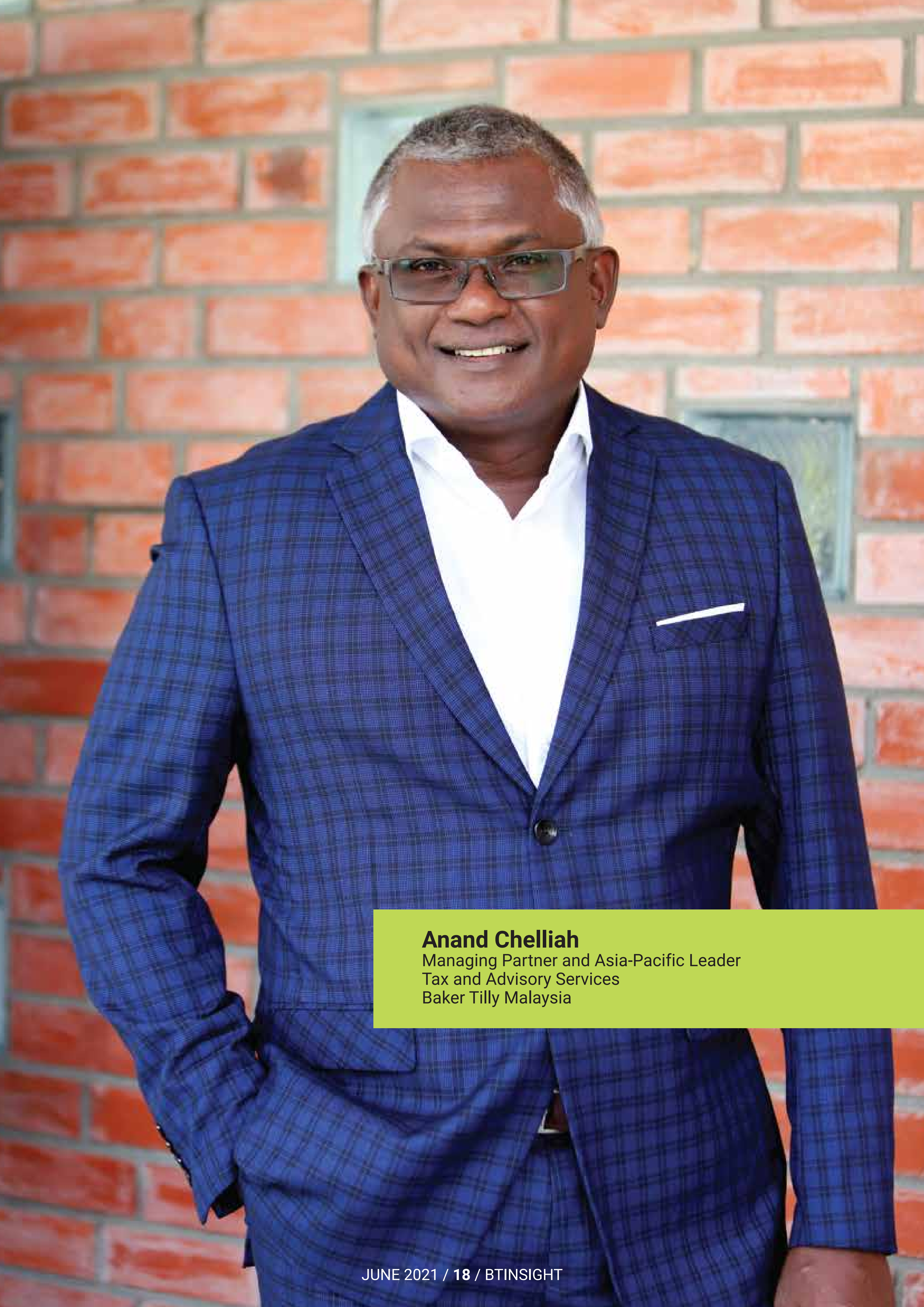
With the examples of actions already taken by countries and organisations around the world, Malaysian organisations should start to assess the inclusion of Climate Risks into their Enterprise Risk Management (ERM) Framework to not only improve their climate resilience, but also to gain a competitive advantage. Companies can do so by leveraging on their existing ERM and risk assessment processes to identify, assess and manage climate related risks and opportunities, increase awareness, consider areas of analysis and risk mitigation, and develop appropriate management approaches. This is a conversation that should be encouraged and driven by Boards and Management executives now as a strategy moving forward.

However, this itself will not suffice. Companies must take actual actions to reduce emissions and mitigate risks, which will require a change in mindsets towards the use of natural resources. This may include initiatives for change in the direction of renewable energies and resources (e.g. solar and wind power), a reduction in their reliance on water resources, increasing energy efficiency or as simple as implementing waste management practices in efforts to reduce waste (e.g., go paperless or default to double-sided printing, conduct a waste audit, compost, donate food waste, reduce packaging, eliminate bottled water, set up recycling and etc.).

Currently in Malaysia, a thorough understanding of climate risks is rare and the ERMs lack details on climate risk management. In building and incorporating controls to mitigate climate risk, organisations can start small. This includes rethinking business travel and how we meet clients; *"Is a face-to-face meeting always necessary?"*, *"Do employees always need to commute to the office?"* Remote working could be encouraged where appropriate.

To put it simply and as a starting point, we believe that business leaders in Malaysia must start asking the following questions now, for tomorrow:

- Are there regulatory policies applicable to our company and industry that we need to identify and address?
- Are climate related issues considered in our Management and Strategy discussions?
- Do our risk management and governance systems consider climate change?
- How robust is our business under differing climate-related scenarios?
- Are there climate related opportunities to explore and exploit?
- How do we demonstrate our commitment to, and expand our understanding of, climate related risks and opportunities?
- Do our non-financial KPIs include climate related risks and how are we quantifying climate related risks?
- Can we differentiate our offering by taking industry-leading positions in response to climate change? ■



Anand Chelliah
Managing Partner and Asia-Pacific Leader
Tax and Advisory Services
Baker Tilly Malaysia

The State of The Union
What is on the Horizon?

I have been a part of the taxation fraternity for a few decades now, and in this article, I share my thoughts on some of the potential developments and challenges that can be expected in the near and longer-term future that may fundamentally change the tax landscape as well as the professional tax services playing field.

The Tax Landscape

At the top of the minds of global tax authorities is the need to keep pace with economic shifts – the technological advances and global transactional patterns - brought about by the digital era, borderless trading and the constantly evolving supply chains - in the interests of protecting their respective countries' tax revenue bases. Tax regimes globally have also been leveraging and investing heavily in technology to prepare for, and to embrace, this economic shift.

Focus is given to areas expected to yield significant tax revenues going forward, for example, transfer pricing, tax audits and investigations of tax transactions and structures, both domestic and international. This has been brought about by tax authorities globally looking to have their fair share of the economic pie, or more importantly, not to lose out on ways and means to enlarge their sovereign tax bases. To this end, Malaysia has embraced the Base Erosion and Profit Shifting (BEPS) actions stipulated by the Organisation of Economic Development (OECD) member countries, and is introducing into domestic tax statute and regulations, the measures proposed under the OECD guidelines. This will address:

- the challenges brought about by digitalisation and the manner in which the digital economy can be taxed;
- how artificial or tax-driven structures without commercial substance may be attacked and held accountable for tax; and
- how abusive tax-treaty 'shopping' may be dealt with.

Tax professionals indeed have their work cut out for them! It creates a plethora of international and domestic tax challenges to keep abreast of these rapid developments in order to be able to advise their clients, and more importantly, properly discharge their obligations in assisting clients to properly file their annual tax submissions from a corporate governance and legal compliance standpoint.

The Advent of Digitisation

The last major digitisation leap in Malaysia was in year 2004, when electronic filling was introduced. Since then, our tax authority has continued to step up to the challenge of scaling up the digitisation curve by equipping themselves with state-of-the-art technologies and sophisticated search tools and databases to gather information and knowledge on taxpayers, markets, products, trends, beneficial ownership data, related-parties and connected persons, etc. Yes, Big Brother knows more than you think!

Naturally, the investment in resources and technologies comes with the expectation of a sizeable payback in terms of enhanced tax collection from increased efficiency, monitoring and surveillance, and scrutiny of taxpayers and their proper discharge of their tax obligations. Simply put, there will be more 'bang for the buck' from what can be expected in the future by the tax authorities in the increasing deployment of these weapons of mass destruction (sic!) for greater and more efficient tax administration and collection.

What this then will entail is the need for taxpayers to be commensurately more diligent in the discharge of their tax obligations, maintenance of proper documentation of transactions and business structures, embracing tax governance at the ownership and stewardship levels, and careful planning and implementation of tax-efficient structures that can stand the test of proving commerciality and substance. 'Substance' is a question of fact – either it can be explained, reasoned and sufficiently documented, or not. For example, tax avoidance is not wrong nor illegal (as it is often made out to be by tax authorities in Malaysia and elsewhere) – it is the legitimate right of a taxpayer to arrange his affairs in a tax efficient manner, provided he can prove substance and commerciality at every step of the way.

That brings us to the interesting topic of where the tax fraternity is heading towards.

The Tax Profession - What Lies Ahead?

Dealing with the constant change of legal and administrative tax requirements is an unending quagmire of rules and practice, and is bewildering for taxpayers and the business community as a whole. This is where the tax fraternity comes in. The tax profession in Malaysia, similar to most countries, comprises the provision of tax compliance services and tax consulting services.

The former consists of services provided by a licensed tax agent. Tax agents are regulated under the Income Tax Act, 1967 and their role is to assist clients in the preparation and submission of tax returns on behalf of a taxpayer. He also acts as the representative of the taxpayer, to attend to any queries or issues raised by the tax authorities, and has to be in attendance to provide assistance to the tax authorities in the course of tax audits or tax investigations, if called upon. High ethical standards and strict adherence to the tax rules are traits and qualities expected of licensed tax agents. The consequences of professional negligence or wrong-doing are severely dealt with under the tax laws, both from a criminal and civil standpoint.

Tax consulting or advisory services, on the other hand, can be provided by any professional who believes he can provide a client with requisite or specialist tax advice or assistance that a client can benefit from, either to mitigate tax risks in the client's business, or to mitigate or reduce his exposure to tax generally by arranging his operations in a manner that may be beneficial to him – also referred to as 'tax structuring' for efficiency. I repeat, this is not legally or morally wrong – it is a right of a taxpayer.

In Malaysia, we have a proliferation of tax advisory firms – accounting firms and company secretarial firms that offer tax services as a service offering, boutique tax advisory firms, even legal firms who feel that they are competent enough to advise their clients on taxation and not merely represent them in the courts in tax disputes. It is a highly competitive market and offers interesting career paths for those that have an interest in this area of finance.

So, what is the future of the tax industry?

The State of Technological Developments

I recently witnessed a demo overseas where the process of processing and transforming data and accounting information into a tax computation and tax return in compliance with the local tax regulation was completed within just 10 minutes. Yes, 10 minutes. What takes an average tax agent a few weeks of information gathering and processing to prepare and submit a tax return and computations.

With this being possible, I foresee a paradigm shift in the future of tax compliance services where next generation technologies will drive the entire information gathering process and tax submissions. This can either be perceived as a threat to tax practitioners or a boon for the fraternity as a consequence of a reshaping of the industry as a whole. It is the advent of next-generation technologies, digitisation and of particular emphasis, artificial intelligence, or AI as we fondly refer to it now. This is set to reshape the future of the tax services landscape. What this entails is essentially a new or existing set of technology companies who can move into the tax processing space and offer customers embedded tax technology modules and platforms that will process their tax information to meet the requirements of the tax authorities. We in Malaysia have already witnessed the rapid

Can technology replace the role of the tax agent?

pace in which the application software for the Goods and Services Tax (before its abrupt abolishment) was developed by software companies for both Government and taxpayers alike – so what stops the advent of the tax preparation and submission process being fully automated?

Therein lies the question – can technology replace the role of the tax agent?

There is a paradox – as tax regimes become more sophisticated in their approach to tax administration and expansion of their tax base, does that leave a taxpayer in a better or worse situation when discharging his tax compliance obligations if he plans to go 'robotic'? Should he automate and be at the peril of tax audits and investigations himself, or should he still engage a tax practitioner who, having prepared his tax computations and returns, will then proceed to assist in the substantiation of the tax filings? Will tax practitioners maintain their tax compliance services, or will they migrate their businesses to focus on tax advisory services, if the perception takes root that they are merely a 'commodity' that can be dispensed with as technologies emerge?

So many questions and uncertainties, yes, but two factors have become apparent to me – the first is that the tax compliance services industry without doubt will come under increasing pressure to render their services for an appropriate and meaningful fee that will pass the risks-versus-returns test. This will gradually influence the introduction of the technologies I referred to that will be offered to customers at prices that the market is prepared to pay for a tax 'commodity'.

Tax compliance services need to be measured on the basis of the value they bring – it is not a mere 'commodity' to my mind, and never should be thought to be so. With proper discharge of their responsibilities, a tax agent brings value to the entire corporate governance framework and capital markets as a whole. It is therefore important to recognise that fact, and tax practitioners should strive to enhance the perceived value of that service.

The second factor is the need for tax practitioners to move up the curve in terms of the quality, innovation and delivery of tax advisory services, where specialist skills, in-depth knowledge of special industries and market sectors, etc will provide the edge and differentiate tax consulting firms in an already highly competitive industry. The future abounds with new challenges and opportunities, and tax professionals need to be readying themselves for it. ■

Business Process Outsourcing

Cost saving measure or strategic decision?

Top on the minds of business owners, especially during these times of uncertainty, are business sustainability and growth, and with that, the need for efficient cost management. There is always that risk and return that business owners have to balance.

The windows of opportunity are much smaller today than they were yesterday. To survive, business owners must adapt to the rising global challenges and competition brought about by the advancement in technology and borderless business platforms. On top of this, the complexity of businesses today has also led to equally complex regulatory requirements.

These challenges are accentuated by the challenges to recruit and retain talents, which come at a cost, from the hiring process to the implementation of retention strategies. Attrition also leads to uncertainty in getting the right employee, especially one that fits the company's culture.

So, to really be ahead of the game, **businesses today are faced with the need to be cost efficient (savings), the need for stability and the need for speed**.

3 S's for businesses

- Savings
- Stability
- Speed

Loke Chee Kien
Director, Global Business Solutions

It is no surprise that the outsourcing of certain operational functions has become increasingly popular. Many have found that competent and effective outsourcing service providers are able to **deliver long term value to the business**.

Business Process Outsourcing helps to **iron out some of these challenges**, freeing up precious time for business owners to focus on strategy and growing the business.

The most common outsource functions are in the areas of accounting & finance, human resource & payroll and information technology. Becoming increasing popular is the outsourcing of the Chief Financial Officer role.

Having stated the above, it is important to note that this also means trusting a service provider with your day-to-day operation and confidential information.

Savings:
Cheaper to outsource?

Businesses, especially MNCs, are gradually streamlining their manpower needs by outsourcing certain business functions, to focus its internal resources on core business activities, while enjoying a lean and mean staff force, resulting in less energy spent on human resource management and a lesser need for floor space (and rental, utility, perks, insurance, etc). Overall, this results in an improvement in profitability.

Furthermore, outsourcing also saves recruitment cost, training and retraining cost, retention cost (e.g. annual increment, promotion and bonuses) and the pain of finding the right replacement when capable staff leave, not to mention the downtime when this happens.

Outsourcing also allows companies to enjoy incremental cost when their business expands and more manpower is required, as opposed to hiring internally that would lead to a jump in staff cost with a possibililty of excess capacity and the risk of hiring the wrong person. Basically, outsourcing allows you to scale up rapidly without the need to increase your headcount.

The inverse is also true. If operations need to be scaled down, this can be done without the need to worry about excess staff or redundancy issues.

Therefore, while the outsourcing service itself is not necessarily “cheaper”, it does **lead to cost savings in the long run**.

Stability:
Certainty and access to a wide talent pool

Arguably, for the same price, outsourcing provides companies with the opportunity to access a wide high-quality talent pool, who are equipped with a wide spectrum of experience obtained from servicing a wide variety of clients, thereby enabling them to provide faster solutions for different challenges.

As stated earlier, having certain functions outsourced also **provides stability, certainty and continuity**. The manpower attrition risk is transferred to the service provider, who must ensure delivery of their contractual obligation, regardless of that service provider's staff turnover.

Again, this allows the business owners to concentrate on the business proper.

Speed:
The need for speed

We all know the phrase, "Time and tide wait for no man".

Managing a business today is very different from 20 years ago. With technology, social media and a global marketing platform, your first-mover advantage can be easily eroded.

There is a need for speed.

Businesses need to be able to focus their energy on staying ahead of the competition. With certain operational functions outsourced and managed well, this frees up their time to do just that, and to focus on responding to the ever-changing market conditions instead.

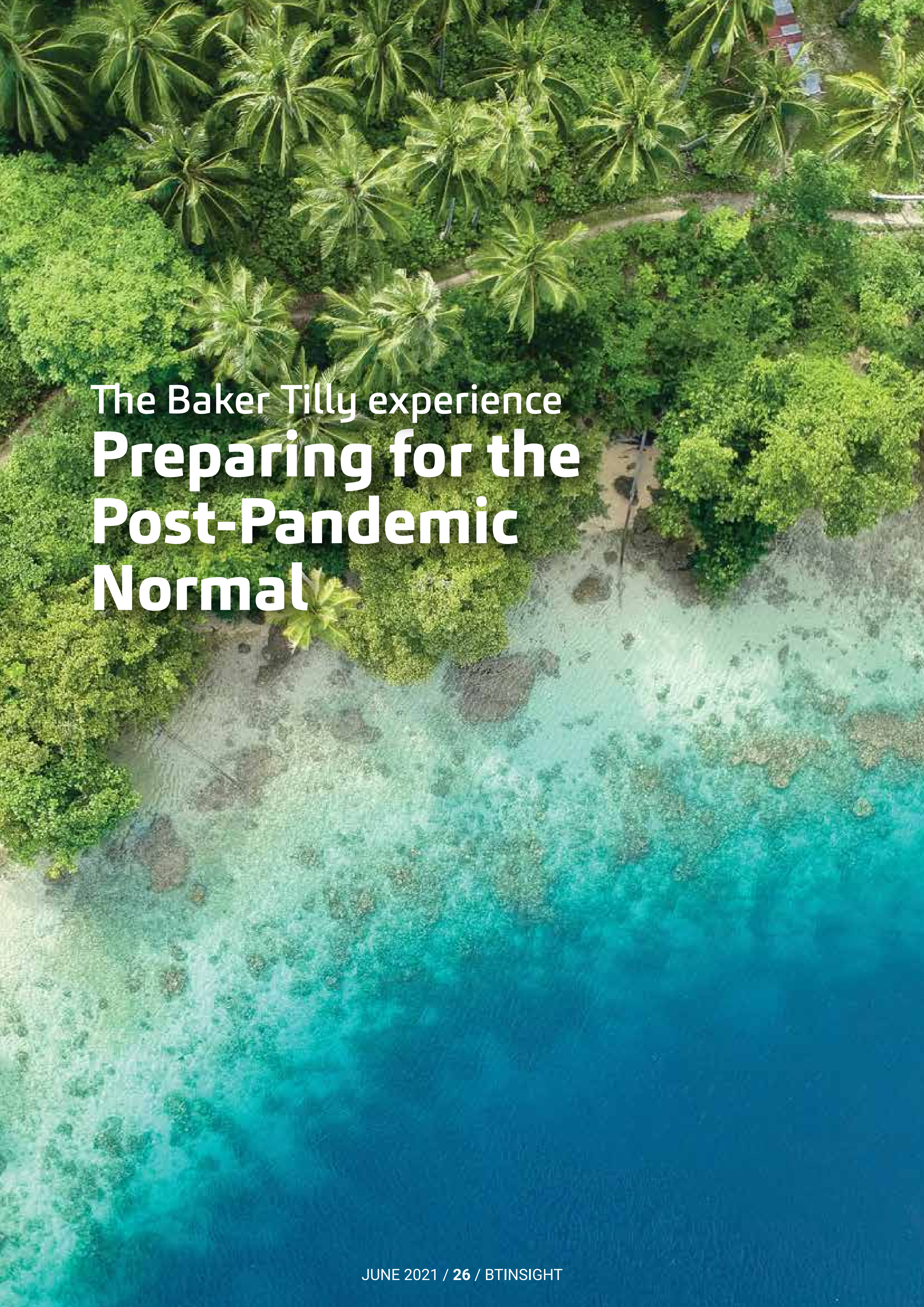
Conclusion

Naturally, as companies outsource their accounting and human resource functions, there is that concern for the security and confidentiality of the information. It is therefore important to engage the services of a reputable business process outsourcing provider that has a track record of being trust-worthy, professional and has top-notch security.

It is also critical that the business process outsourcing service provider has extensive experience in various types of industries and business processes, and is backed by an in-house team of technical experts who are able to quickly advise on changes to regulatory requirements and ensure that the company does not fall foul of the law. Classic examples would be of messy and disorganised accounts, leading to severe operational inefficiencies.

While outsourcing may not be everyone's cup of tea, it is certainly something worth considering and exploring for business owners who are overwhelmed and bogged down with challenges of managing certain functions within their organisations.

Business owners must find a solution that not only gives you the comfort of security, but also that of savings, stability and speed. ■



The Baker Tilly experience

Preparing for the Post-Pandemic Normal

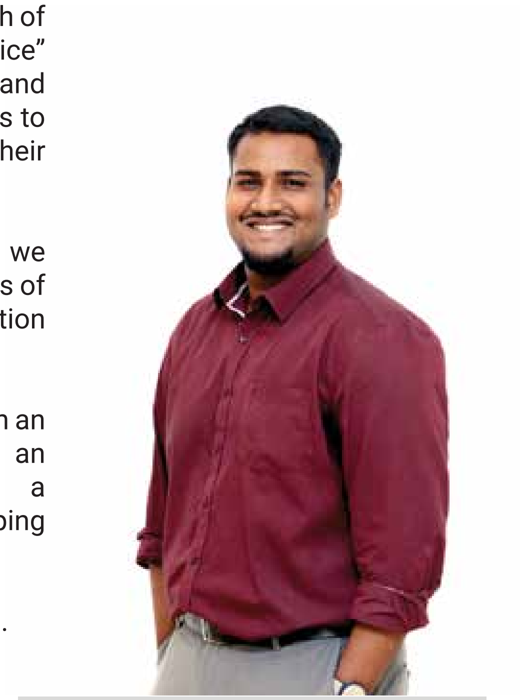
It has been over a year since the beginning of the pandemic, and with that, the implementation of “working-from-home”. Companies that never considered working-from-home as an alternative, or have held back these sorts of work arrangements, were suddenly jettisoned into a new system of working and managing staff. At Baker Tilly, we found ourselves in the same boat.

Now, more than a year into what has become a mesh of “working-from-home” and “working-from-office” arrangements amidst multiple types of lockdowns and brief flashes of (semi)normality, we were curious as to how our fellow Baker Tillians were faring and what their views were on this new normal.

With this in mind, via a light and modest survey, we sought out to gain some insight into the experiences of our Baker Tillians and how they felt about the transition back to the “Old Normal”.

The results were interesting. Being a workforce with an average age of 35, one would think that an overwhelming majority would favour a “working-from-home” arrangement. Afterall, skipping the rush hour traffic in the morning is a big plus.

Contrary to our expectation, the results were mixed.



Dharin Chelliah
Executive, Corporate Communications

> The new normal works for me on a personal level. I enjoy not having to commute as much. I also have more time to cook and am able to eat healthier.
>
> Anoopal Kaur

While some really enjoyed being able to reduce their commute to office from an hour (through the horrific traffic jam or via public transport) to just a minute's skip and hop to their workstations at home (in comfortable clothes, or sometimes in just their pyjamas), thus eliminating the pre-workday stress and increasing their efficiency, others still preferred the office. Many felt that working-from-home also allowed them to save money on fuel and food, although, inversely, there was an increase in their utility bills.

It was interesting to note that those who frequently had to work late felt that it was safer to already be working at home, rather than having to travel back home late at night after work. This "extra time" could then be channelled towards having a healthier lifestyle.

> Working from home allows me to work in comfort. I am also less worried about working overtime as I do not need to travel home late.
>
> Prasyanth

On that same note, many felt that the boundaries between office work and personal time have blurred, or have become non-existent, and they end up working longer hours. It used to be that when you leave the office, you clocked off for the day. Now, with most people spending their time at home due to the pandemic and with the computer constantly switched on, the challenge is to learn to find that cut-off time to rest, which is vital for both physical and mental wellbeing.

While working-from-home is more efficient, the boundries of my work and personal time have blurred.

Ho Lee Sien

We also thought that after more than a year, everyone would have gotten used to the new working arrangements. Not true either. Although a vast majority have gotten used to working-from-home after more than a year of doing so on and off, not all have.

The experiences of Baker Tillians during this period were shaped by a combination of:

1) the individual's circumstances at home;
2) the nature of the job; and
3) the facilities required for the job.

Working-from-home makes it safer for those who have to work late during peak periods.

Jentzen Ewe

1. Individual's circumstances at home

This really boils down to whether the "home" is a conducive place to work. Factors such as children, workspace and "noise level" play a part.

Some of those with children, especially with babies and toddlers, found it challenging to juggle between the demands of having the little ones around and getting work done. Others appreciated the opportunity to spend time with their children during their formative years.

A conducive environment or workstation is vital. Some found that the comfortable home setting allowed them to be more efficient, while others found it challenging to concentrate at home, therefore preferring to be in the office.

2. Nature of the job

Having invested in digitizing and automating most work processes, our transition from the old normal to the current normal was almost seamless. We simply packed up our work spaces in the office and set up our work stations at home during the first "lockdown" period last year.

Though it initially took a bit of time to get used to having our meetings online and reviewing all documents digitally, most eventually got into the groove of things. Sixty-five percent (65%) of the respondents said that the nature of their job, coupled with the technology that was available, made it easy for them to work-from-home.

There were, however, certain work processes that were challenging when done remotely, eg. reviewing reports and collating documents for the necessary signatures and submissions.

Managers also found the process of coaching their subordinates more challenging, and junior staff found it harder obtaining guidance from their seniors. One would have to agree that it is far easier, quicker, more comfortable, and more effective to coach and ask questions when we are able to communicate with each other face-to-face. This is also important for reducing miscommunication.

Working from home, I can spend more time with my 3-year-old, and thus, I can see her development.

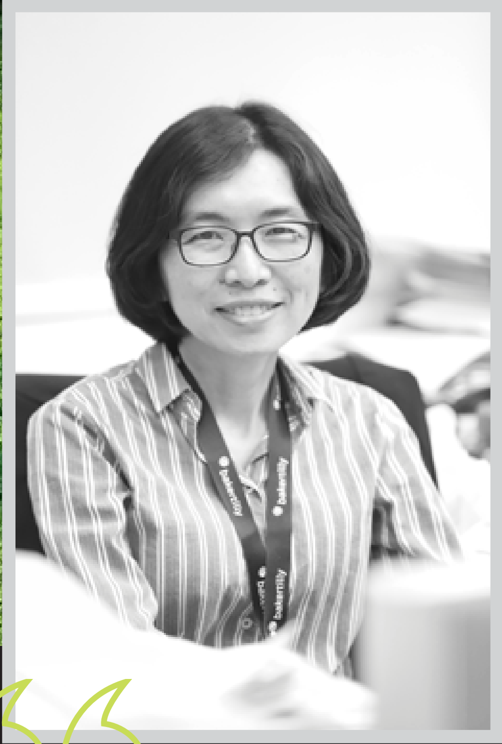
Shereen Nadiah

3. Facilities required for the job

Although a lot of processes have been digitized, some aspects of work are still paper-heavy and require the use of printers, such as, the printing of contracts, reports or documents for regulatory submission.

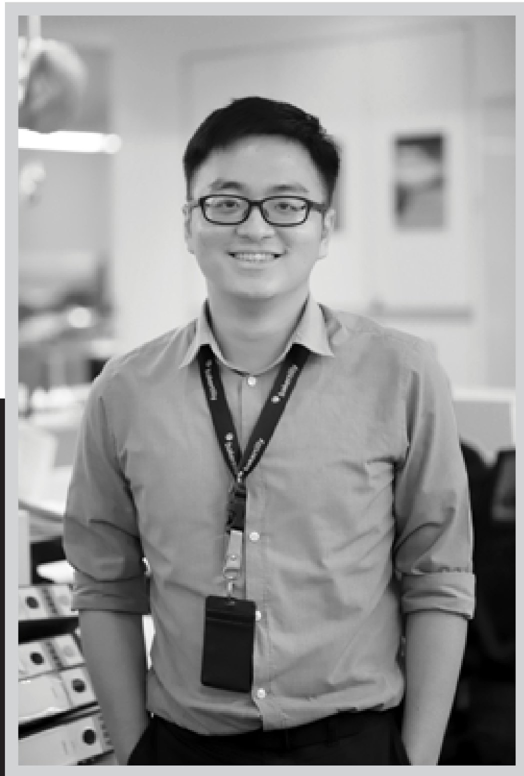
Another important facility is the availability of fast internet speed. It would really be difficult to work remotely if the home internet speed is too slow to access online documents. Granted, these are not so much a hindrance but a huge inconvenience.

Some managers also find it easier and more efficient to monitor the progress of a job through face-to-face interaction with their staff.



When the nature of my job involves reviewing many pages full of numbers, it makes it challenging to review documents online.

Eleanor Hau



It is more convenient to print and circulate documents for review and signature while in office.

Wong Yew Mun

The Personal Touch

A common theme that resonated among the respondents was the lack of the "human touch" when everyone is working remotely. Many missed just "hanging out" with their peers at work or simply just being able to engage with each other face-to-face on a regular basis, which further aids in the reduction of miscommunication.

As a firm that believes in having Great Conversations and Great Relationships, having that "human touch" is important. Face-to-face team meetings, brainstorming and discussions are part and parcel of a one's professional growth. There is also that energy when teams come together, which is lacking when conversations are held online.

Many therefore feel that a hybrid work-from-home/work-from-office model should be the way forward, although it largely also depends on the nature of the work involved.

I enjoy being in the company of my colleagues in office.

Aaron Ching

It is easier to monitor the actual progress of an engagement when you have face-to-face interaction with your colleagues.

Mallika

The Post-Pandemic Normal

To surmise, the transition to this New Normal has forced many businesses to adapt a policy of dynamism to keep abreast with the progress and demands of their industrial cohorts. It has given rise to new techniques and structures and has rattled the world's approach to work as a whole.

Perhaps there are many considerations, on both a personal and an organizational level, that need to be examined pertaining to the future of the work experience.

We had the "Old" Normal and we are living the "New" Normal, but it is worth pondering now; What will be the Post-Pandemic Normal? ■

Signing documents can be done electronically or through the Audit software, even meetings can be attended virtually, however, there are some aspects of the job that still require that physical touch.

Andy Lee

bakertilly

Total Listings in 2020

Grand Total - 19

Reporting Accountants with the most number of IPOs on Bursa Malaysia in 2020.

Listings on Bursa Malaysia in 2020

Total funds raised from listing

RM 2.00 Billion

Total market capitalisation

RM13.35 Billion

PE of the listings

Average 13.93

LEAP Market **16.16**

ACE Market **10.84**

Main Market **22.45**

All listing and corporate exercises that require reporting accountants are handled by our specialised Transaction Reporting team.

If you have listings in your plans, please contact us for a complimentary readiness assessment to see if your company is ready to take the first steps to greater heights **Now, For Tommorow**.

bakertilly

TRANSFER PRICING

Ready or not, they are coming for you

Our Transfer Pricing webinar held in April this year, in both English and Mandarin, was a huge success and was made possible thanks to our speakers as well as our Supporting Partner, Affin Bank, and our Sponsor, ABSS Asia. 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 Transfer Pricing specialists, do send an email to tax@bakertilly.my.

Anand Chelliah
Managing Partner and Asia-Pacific Leader
Tax Services
Baker Tilly Malaysia

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

Huang Shze Jiun
Managing Partner, Johor
Baker Tilly Malaysia

Joanne Khor
Director, Tax Department, Penang
Baker Tilly Malaysia

Christine Teh
Transfer Pricing
Baker Tilly Malaysia

Supporting Partner

AFFIN BANK

Sponsor

abss

Formerly known as MYOB South Asia