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Audit and Compliance in ASEAN: Prepare for 2022

Introduction

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A vital task undertaken by businesses at the beginning of the fiscal year is auditing. This undertaking can be more complex for companies operating in multiple ASEAN countries, considering the audit requirements differs in each region.

Still, over the last decade, ASEAN member countries have taken steps to harmonize their auditing and accounting standards with the International Financial Reporting Standards (IFRS), particularly as Southeast Asia becomes a more prominent region to do business.

In this issue of ASEAN Briefing magazine, we provide an overview of the audit and compliance requirements in ASEAN's six largest economies. We then explore the length of IFRS adoption in ASEAN and provide answers to often asked questions about ASEAN's auditing landscape.

With offices located across Asia and years of experience helping foreign enterprises set up operations in the ASEAN region, Dezan Shira & Associates is well positioned to assist your company in ASEAN markets. For more information, please email us at **asia@dezshira.com**.

With kind regards,

Alberto Vettoretti

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Annual Audit and Compliance in ASEAN: Get Ready for 2022

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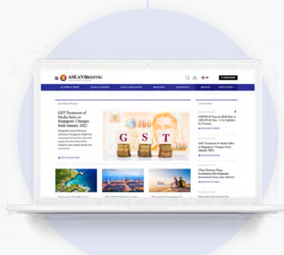

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Preparing for Audit and Compliance in ASEAN in 2022

Audit compliance is one of the most important tasks that needs to be undertaken by companies at the beginning of a new fiscal year. This process can be even more complex when doing business in the evolving markets of emerging ASEAN, despite steps towards regulatory harmonization.

Ayman Falak Medina
Author

As the region becomes more attractive for foreign investors, it is important for all companies to be informed on the latest updates and regulations to remain in compliance.

Indonesia

There is currently no single unifying regulation on auditing and compliance in Indonesia.

Foreign investors will need to be aware that regulations regarding auditing, accounting, and financial reporting are stipulated over several laws and bylaws, and that a good understanding of these can ensure their business stays compliant.

Foreign investors should, however, focus on the *Company Law*, which dictates the terms for when audits become obligatory in addition to the accounting standards companies should adhere to when preparing financial statements.

Auditing and compliance requirements

The *Investment Law* lays out the basic requirements on how to operate in Indonesia. These are part of key compliance norms:

- Implementing good corporate governance;
- Undertake corporate social responsibility activities;
- Comply with the labor law;
- Submit quarterly investment activities to the Investment Coordinating Board (BKPM); and
- Honor the cultural traditions of communities.

The *Company Law* mandates that financial statements of a limited liability company must be audited by a public accountant registered in Indonesia if they meet at least one of the following criteria:

- Companies with assets exceeding 50 billion rupiah (US$3.5 million);
- Public companies;
- Companies that issue debt instruments;
- Certain types of state-owned enterprises; or

- The company collects or manages public funds (such as banks and insurance companies).

By law, a company must keep its accounting records and books for at least 10 years from the end of its reporting period.

Public companies

Under the *Capital Markets Law*, foreign companies are allowed to be listed in the country's bourse.

Their prospectus, however, must first be audited by an auditing firm that is recognized by the country's Financial Services Authority (OJK), the main regulator of Indonesia's financial services sector.

Public companies must comply with the format set out by the Capital Market and Financial Institutions Supervision Agency (Bapepam-LK). They are required to submit to the Bapepam-LK, their audited financial statements three months before the end of their financial period.

Public companies must also establish internal audit committees, an internal audit unit, and a company secretary.

Auditor independence

Indonesian Auditing Standards require that the auditor must be a registered and independent public accountant as stipulated by the Ministry of Finance (MOF). They must avoid all potential conflicts of interests and adhere to MOF regulations.

The Indonesia Financial Services Authority stipulates the mandatory rotation of the public accountant every three years with a two-year cooling period. This only applies to the public accountant and not the public accountant firm.

Fiscal year

The annual deadline for reporting and paying corporate income tax is April 30 – if a company's fiscal year begins from January 1 – December 30. If a company's fiscal year differs from the calendar year, then their deadline is four months after the end of their fiscal year.

Accounting standards

Audits are to be conducted based on the Indonesian Financial Accounting Standards (SAK), which are set by the Financial Accounting Standards Board (DSAK IAI) and the Indonesian Sharia Accounting Standards Board (DSAS IAI), for sharia-based companies.

Since 2015, the DSAK IAI has converged its accounting standards with that of the International Financial Reporting Standards (IFRS), issued by the IFRS Foundation and the International Accounting Standards Board (IASB).

Currently SAK is broken down into two tiers:

- Tier 1 – SAK: applies to listed companies and other entities with significant public accountability; and
- Tier 2 – SAK ETAP: applies to entities with low public accountability. Tier 2 SAK ETAP was developed with IFRS for SE as its point of reference.

This is part of Indonesia's efforts to make local financial statements more comparable and understandable across international boundaries as the country aims to attract greater foreign investment and play a more prominent role within the G20.

Annual reports

Every registered company's annual financial statements are to be submitted to a regional tax office once a year. Financial statements consist of the following:

- Balance sheet;
- Cash flows;
- Profit and loss statement; and
- Statement of changes in equity.

Financial statements are required to provide both the current and previous year's figures and need to be presented on a comparative basis. All financial statements must be prepared in the Indonesian language. A company can use another language only if it has received permission from the MOF.

The accounting books must also use the Rupiah as its currency. Companies will need to seek permission from the tax authorities for the use of the US dollar, the only other eligible functional currency. This must be done no later than three months before the start of the accounting year.

Penalties for non-compliance

Companies that fail to comply with Indonesia's audit and tax requirements can expect to receive monthly interest penalties starting from two percent and up to 48 percent. Furthermore, issuing false tax and accounting documents can also result in imprisonment.

Audit and Compliance Timeline for Companies Operating in Indonesia

Financial statements certified by independent auditor

After end of fiscal year

Audited documents submitted to Ministry of Trade

*Deadline June 30th**

** Note that the financial year is normally the same as the calendar year end; however, companies are allowed to set up a different financial year if they wish to do so.*

Malaysia

Malaysia operates a self-assessment tax system, and tax returns must be filed within seven months of the company's year-end.

Auditing and compliance requirements

All companies incorporated in Malaysia must have their accounts audited by a Ministry of Finance approved auditor as mandated by the Companies Act of 2016. These companies are required, under the Companies Act, to keep their accounting books up to date.

Under the Act, private companies are no longer obligated to hold Annual General Meetings (AGMs), and thus the election of auditors, the retirement or election of directors, and the lodgment of audited annual returns are no longer tied to the holding of an AGM and are dealt separately. Public companies are still required to hold an AGM.

Private exempt companies are not required to file audited accounts; an exempt private company is defined as a private company having not more than 20 members, none of whom are corporations having direct or indirect interest in its shares.

The criteria for audit exemption for certain private companies are:

- The company is dormant – this means the business has no accounting transactions occurring and its operations have halted;
- Zero-revenue companies – these are companies that do not generate any revenue during the current financial year, as well as the past two

Audit and Compliance Timeline for Companies Operating in Malaysia

Financial statements certified by independent auditor	Annual shareholders meeting approves audited statements	Documents submitted to Companies Commission of Malaysia
After end of fiscal year	*Once audit is complete*	*Within 2 months of general meeting*

financial years. Further, its total assets do not exceed 300,000 ringgit (US$72,100) in the current financial year and the previous two financial years; and

- Threshold-qualified companies – these are companies whose revenues do not exceed 100,000 ringgit (US$24,000) during the current financial year as well as the previous two financial years. Secondly, total assets of the company does not exceed 300,000 ringgit (US$72,100) in the current financial year and the previous two financial years, and it ended the current financial year and the previous two financial years with no more than five employees.

The certificate that substitutes the attachment of the audited accounts must either be in Bahasa Malaysia or English. If presented in any other language, a translation must be provided.

Appointing auditors

During the filling process, companies must use the services of a professional accountant qualified under the Accountants Act 1967, which must confirm that the applicant's statements comply with the approved accounting standards.

Accounting standards

Companies doing business in Malaysia are required to prepare their financial reports in accordance with the following two sets of reporting standards:

- The Malaysian Financial Reporting Standards (MFRS), designed for companies with public accountability; and
- The Malaysian Private Entities Reporting Standards (MPERS) designed for private companies with annual periods beginning on or after January 1, 2016.

It should be noted that foreign companies listed in Malaysia are able to apply either Malaysian Accounting Standards Board approved accounting standards or acceptable internationally recognized accounting standards. Similarly, Malaysian companies are able to use IFRS in their financial statements if they wish to do so.

Annual reports

The documents required during an annual audit are similar for both foreign companies operating in Malaysia and Malaysia-incorporated companies. These include the following:

- Director's report;
- Financial statements;
- Principal business activities;
- Statement by directors on the financial statements;
- Total paid-up capital;
- Statutory declaration by the director or officer primarily responsible for financial management; and
- Auditor's report.

Penalties for non-compliance

For private limited companies, non-compliance in relation to the late submission of financial statements could lead to a fine of up to 2,000 ringgit (US$481) while the non-submission of audited financial statements could lead to a 30,000 ringgit (US$7,200) or imprisonment of up to five years.

Philippines

Under the Tax Code, all persons, natural or juridical, who are subject to internal revenue taxes must keep proper records of all business transactions and keep books of their accounts.

Auditing and compliance requirements

Companies whose gross annual earnings exceed PHP3 million (US$61,760) are required to have their accounts audited. Companies whose annual sales do not exceed PHP3 million (US$61,760) can file their tax returns with unaudited financial statements.

There are several government regulatory bodies who have the power to establish additional reporting requirements. These regulatory bodies are:

- Securities and Exchange Commission (SEC);
- Insurance Commission (IC);
- The Bangko Sentral ng Pilipinas (BSP);
- Professional Regulation Commission (PRC); and
- Professional Regulatory Board of Accountancy (PRBOA).

Regulated entities, such as public utilities, insurance companies, and banks or corporations, are to submit their audited financial statements to their relevant government regulatory agency as well as file with the Securities and Exchange Commission (SEC).

Further, the Securities Regulation Code (SRC) Rule 68 provides the reporting requirements for the following types of entities:

- Regional operating headquarters of foreign companies with capital of more than PHP1 million (US$20,088);
- Stock corporations with total assets or liabilities of PHP 600,000 (US$12,000) or more;
- Non-stock corporations with total assets or liabilities of PHP 600,000 (US$12,000) or more;
- Branch offices of non-stock foreign corporations with total assets of more than PHP1 million (US$20,088); and
- Branch offices of stock foreign corporations with total assets of more than PHP1 million (US$20,088).

Appointing auditors

All companies must submit their financial statements accompanied by an auditor's report issued by an independent certified public accountant (CPA). The PRC is the government agency responsible for regulating the accounting profession in the country and the PRBOA is responsible for the licensure examination as well as for CPAs to observe the rules implemented in the Philippine Accountancy Law of 2004.

The BSP requires external auditors engaged by banks to be changed every five years and the IC requires insurance companies to also change their external auditor every five years. Once the services of the auditor have been used for these five consecutive years, the same auditor cannot participate in the auditing process for a period of, in most cases, two years.

Fiscal periods

The Philippines uses a self-assessment tax system, and the accounting period consists of 12 months,

Audit and Compliance Timeline for Companies Operating in the Philippines

1. Financial statements certified by independent auditor
2. Annual shareholders meeting approves audited statements*
3. Fill out General Information Sheet (GIS)
   Deadline 30 days after AGM or January 31st if no AGM held
4. Documents submitted to Securities Exchange Commission (SEC)

** Note that companies are not required to hold an annual meeting. However, if no meeting is held during the fiscal year, the GIS must stll be filled and filed to SEC no later than January of the following year. However, if the GIS form is submitted and an AGM is held thereafter, a new GIS must be submitted.*

normally ending on December 31. Tax returns must be filed on the 15th day of the fourth month following the closing of the taxable year. A company can change its accounting period with prior approval from the Bureau of Internal Revenue (CIR).

Accounting standards

The Philippine Financial Standards (PFRS) is the most authoritative accounting standards in the country. This applies to all entities with public accountability. The SRC Rule 68 sets out the applicable framework for the following type of entities:

- For large and publicly accountable entities – The PFRS;
- For SMEs – PFRS for SMEs; and
- Micro-enterprises – PFRS for SMEs or other accounting standards issued after 2004.

Large companies are classified as any of the following criteria:

- Companies with total assets of more than PHP350 million (US$7million) or have total liabilities of more than PHP250 million (US$5 million);
- Companies that in the process of filing financial statements in order to issue class instruments;
- Companies that are required to file financial statements; or
- Holders of secondary licenses from a regulatory agency.

A company is classified as an SME if it meets all of the following criteria:

- Have total assets of between PHP3 million (US$(US$61,760) and PHP100 million (US$2 million) or total liabilities of between PHP3 million (US$(US$60,000) and PHP100 million (US$2 million);
- Are not in the process of filing financial statements in order to issue class instruments; and
- Do not hold secondary licenses from regulatory agencies.

SMEs are obligated to follow the PFRS for SMEs unless they fall under one of the below categories:

- Subsidiary of a parent company who are reporting under the full PFRS;
- Is part of a group that is reporting under full PFRS;
- It is a branch office or regional operating

headquarters of a foreign company, also reporting under full PFRS; or
- The company is a subsidiary of a foreign parent company that is planning to apply the IFRS system.

Annual reports

All companies regardless of their size are required to prepare their documents in any native language from the Philippines, such as Tagalog.

Companies must maintain their books of account, which consist of a journal and a ledger (or their equivalents). These records need to be retained for three years although some local governments may require records to be kept for up to five years, and the Philippine Stock Exchange requires dealers in securities to retain their records for six years.

The BIR has the power to examine a company's financial records for up to three years from the date of filing.

Penalties for non-compliance

There is a 25 percent surcharge of the amount of tax due if a company fails to timely file any return plus a 12 percent interest per annum. A 50 percent surcharge of the basic tax due is applied to companies who willfully neglect to file their return or to purposefully submit fraudulent returns.

Singapore

Singapore's transparent business and legal systems have made the island nation a popular destination for international companies to establish their regional headquarters.

In maintaining this vibrant business climate, the country's audit and compliance procedures are considerably less burdensome compared with its ASEAN peers.

Auditing and compliance requirements

According to Singapore's *Companies Act*, the primary legislation regulating the conduct of companies in the country, companies must comply with annual filing requirements of the Accounting and Corporate Regulatory Agency (ACRA), as well as the Inland Revenue of Singapore (IRAS).

The *Companies Act* states that private limited companies must have their financial statements audited by a qualified public accountant at least once a year.

Annual general meeting

An annual general meeting (AGM) is obligatory for a Singapore company. The AGM can be held anywhere in the world, whereby the shareholders discuss the following items:

- Approval of the audit reports;
- Re-elect directors (if required);
- Re-appointing auditors;
- Declare dividends; and
- Transact other business.

AGMs are to be held:

- Once every year;
- Within 15 months from the previous AGM; or
- Six months from the FYE date.

Appointing auditors

Within three months of company incorporation, company directors must appoint an auditor, unless they fall under the following criteria:

- Annual turnover is less than S$5 million (US$3,700,00);
- The total number of shareholders is less than 20; and
- All shareholders are individuals and not corporations.

The role of the auditor is to report if the company's financial statements comply with the relevant financial reporting standards and to provide an objective analysis of the company's financial performance. Additionally, only public accountants registered with ACRA can conduct company audits.

Fiscal year

All companies in Singapore should determine a financial year-end (FYE) (that is, the last day of the company's first financial year) after incorporation.

After the FYE, the company must hold their AGM as well as file their annual returns (AR). Listed companies must file their AR within five months and non-listed companies within seven months.

Many companies choose December 31 for their FYE while others have chosen the end of any quarter (March 31, June 30, and September 30).

In deciding an FYE, companies should consider whether the chosen date affects their eligibility to receive tax incentives.

For certain companies, it is, therefore, more advantageous to have December 31 as their fiscal year-end date.

Audit exemptions

In July 2015, ACRA amended the Companies Act through the Small Company Concept. This amended the audit exemption criteria for businesses.

Companies that qualify as 'small' are exempted from having their accounts audited and from appointing an auditor. They first need to fulfil two of the three following criteria:

- Total revenue must not exceed S$10 million (US$7.3 million);
- Total assets of the company should not exceed S$10 million (US$73 million)
- Total number of full-time employees must not exceed 50.

Group company audits

Holding companies and their subsidiaries can also be exempt from audit compliance if they qualify as a 'small group'. To qualify, the group (comprising of all the companies) should fall under two of the three criteria as written above for small companies.

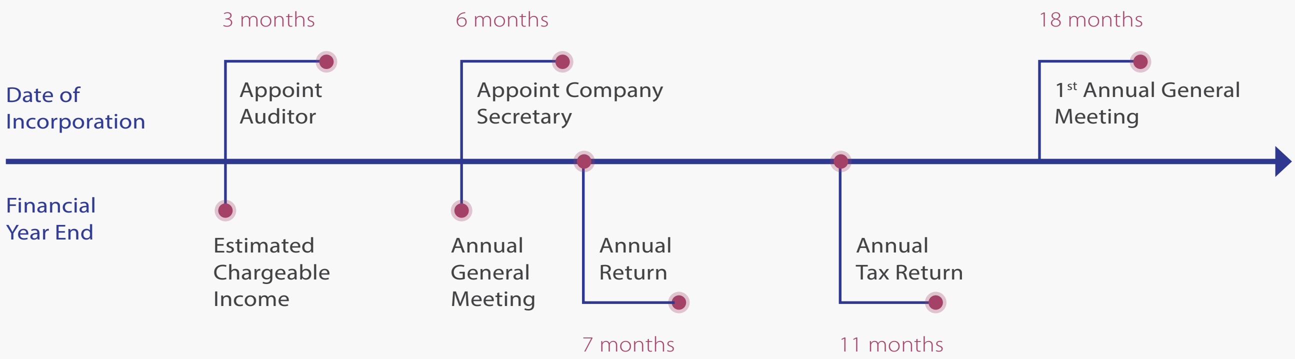
Businesses that are exempt from audits are advised to prepare annual financial statements.

Accounting standards

Companies in Singapore that have a financial period starting after January 1, 2003, must use the Singapore Financial Reporting Standards (SFRS), which are based on the IFRS.

Financial statements are prepared under the accrual basis of accounting, which is a one of the main principles of the accounting standards in Singapore. Under this accounting method, revenues are recorded when a transaction occurs rather than when the payment is received. When the International Accounting Standards Board (IASB) issued the IFRS for small entities (SE) in 2009, the Accounting Standards Council of Singapore introduced the SFRS for small entities (SE) in 2010.

Compliance Timeline in Singapore



Businesses that are eligible to apply for SFRS for SE are:

- Classified as a small entity, meaning they must also qualify in two of the three aforementioned criteria under audit exemptions, being:
  - » Total revenue of not more than S$10 million (US$7.3 million);
  - » Total assets of not more than S$10 million (US$7.3 million); or
  - » Total number of employees of not more than 50.
- The company is not publicly accountable; and
- It publishes financial statements for external users.

Annual reports

Singapore's authorities require companies to submit their estimated chargeable income within three months from the financial year-end. This accounting should include the following:

- Statement of comprehensive income (profit and loss accounting);
- Company details;
- Balance sheet;
- Shareholder details;
- Dates of annual returns and AGM;
- Detail of company officers;
- Cash flow statement; and
- Statement of changes in equity.

Penalties for non-compliance

Businesses that fail to hold an AGM and are late to file financial statements are at risk of fines, summons, and even an arrest warrant issued by ACRA.

Failing to file tax returns for two years or more will result in a Court summons, and upon conviction, the company will be ordered to pay a penalty that is twice the amount of tax and a fine of up to S$1,000 (US$730).

Thailand

Audit and compliance are outlined in a number of laws in Thailand. These are:

- The Accounting Act of 2000;
- The Securities and Exchange Act of 1992;
- The Bank of Thailand Act B.E. 2485;
- Insurance Commission Act B.E. 2550; and
- Financial Institutions Business Act B.E. 2551.

Auditing and compliance requirements

All companies, partnerships, joint ventures, and branches of foreign companies must prepare financial statements for their assigned accounting period to the Ministry of Commerce. Foreign companies (ROs, branch office, regional offices) must submit their financial statements no later than 150 days after the end of the fiscal year.

Once an accounting period is chosen, it cannot be changed unless there is written approval obtained from the Revenue Department.

Annual general meetings

Companies and partnerships must comply with the requirements set out in the Thai Civil and Commercial Code to hold annual general meetings (AGM).

The board of directors must issue a letter to organize the AGM within four months of the end of the fiscal year. The AGM must be held at least once a year. The AGM should have the following agendas:

- To clarify the minutes of the AGM for the previous AGM;
- Approval of the director's report on the company's business activities;
- Acknowledge the company's operational results from the previous year;
- Select new directors to replace those that have been terminated;
- To appoint an auditor and determination of audit fees; and
- To consider dividends.

Appointing auditors

Financial statements must be examined and certified by an independent certified auditor. The Thai Accounting Professions Act requires all certified public accountants (CPA) to apply the Thai Standards of Auditing. The audit opinion issued by the CPA is required when submitting financial statements and tax returns.

Fiscal year

Thailand operates a self-assessment tax system with the tax year generally set as the 12-month period ending on December 31. A company, however, can choose their own accounting period as long as it does not exceed 12 months.

If a company chooses their own accounting period, they must inform the Director-General of the Revenue Department. Starting from April 2020, financial statements must be filed electronically with the Department of Business Development (DBD) of the Ministry of Commerce.

Accounting standards

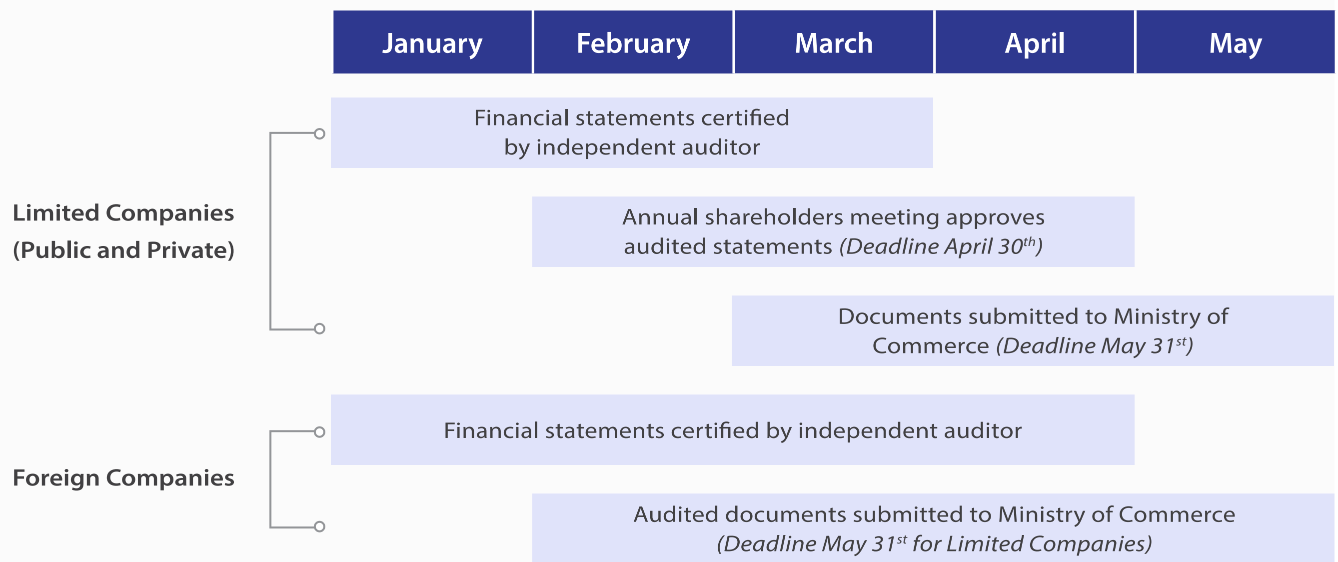
Under Thai law, a company registered in Thailand, irrespective of whether it is a limited company, a foreign company operating in the country, or a partnership, are obligated to keep their accounts and undertake annual audits.

Companies in Thailand should apply the Thai Financial Reporting Standards (TFRS) in the preparation of financial statements. TFRS have made great strides in harmonization with IFRS in recent years.

Currently, SMEs in Thailand are allowed to use one of the two following standards:

- TFRS; and
- Thai Accounting Standard for non-publicly accountable entities (TFRS for NPAEs).

Audit and Compliance Timeline for Companies Operating in Thailand



** Note that fiscal year does not need to correspond to the calendar year. However, approval from the Director General of the Revenue Department is required before any changes to the accounting calendar are mode.*

Foreign companies are permitted to use the IFRS system.

Annual reports

Limited companies, both public and private, should provide the following documents at the end of each accounting period:

- Company name;
- Type of business;
- Details of directors;
- Audited financial statement;
- Balance sheet;
- Profit and loss accounts;
- List of shareholders, as of the date of the meeting; and
- Minutes of the annual meeting.

For reporting purposes companies must prepare their documents in the Thai language. While foreign companies may prepare their documents in a language other than Thai, a translation must be attached.

In accordance with the Accounting Act of 2000, businesses are required to retain their books of accounts for at least five years. This may be extended for a period of seven years by the Director-General of the Revenue Department depending on the business activity.

Penalties for non-compliance

Failure to comply with these regulations may result in a penalty up to 100,000 baht (US$3,000). If a business underestimates its profits for an entire year by more than 25 percent, it is subject to a 20 percent surcharge is imposed. A surcharge of 100 percent in the case of an incorrect filing and 200 percent in the case of failure to file a return. The penalty can be reduced by 50 percent if the taxpayer submits a written request to the tax officer.

Vietnam

The Accounting Law governs the principles for accounting, audits, and organizational structure, for businesses to stay compliant in Vietnam. The tax year in Vietnam is determined according to the calendar year, and a Vietnamese-based auditing company must conduct the audit. The financial reports should then be submitted to the local tax authority, Ministry of Finance, and the statistics office 90 days before the end of the fiscal year.

Auditing and compliance requirements

Investors should be aware that the audit and compliance requirements are different for foreign-owned enterprise (FOE) and representative offices (RO) in Vietnam.

Annual compliance for foreign-owned companies

FOEs are obligated to provide an annual audit report and the finalization of corporate and personal income taxation.

The statutory audit requirements are as follows:

- Statement of income;
- Statement of financial position (profit and loss);
- Statement of changes in equity, if any; and
- Balance sheets.

Within 90 days after the end of the fiscal year, FOEs need to submit the audited reports to three government agencies:

- Provincial Department of Planning and Investment (DPI) or the Provincial Level Export Processing and Industrial Zone Department in the case of FOEs based in investment zones (IZs) or export processing zones (EPZs);
- Provincial level tax departments; and
- Provincial level statistical offices.

Fiscal year

The financial period in Vietnam usually coincides with the calendar year. FOEs can choose from four fiscal periods with the 12-month period beginning in the first day of each quarter after registering with the Tax Department.

The financial reports should then be submitted to the local tax authority, Ministry of Finance, and the statistics office before the end of the fiscal year. The four fiscal periods are:

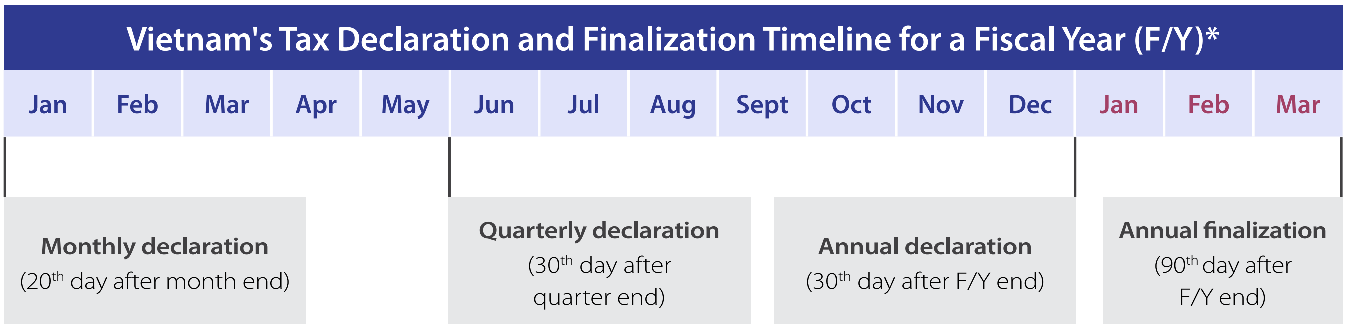
- January 1 – December 31;
- April 1 – March 31;
- July 1 – June 30; or
- October 1 – September 30.

Accounting standards

In addition to the Accounting Law, local and international companies are obligated to adhere to the Vietnamese Accounting Standards (VAS), which has been developed by the Vietnamese Ministry of Finance, when documenting financial transactions. The VAS provides the guidelines for bookkeeping, financial reporting, and financial statement preparations.

There are industry-specific accounting guidelines for businesses engaging in insurance, securities, as well as funds management.

Foreign investors should be well aware of unique fundamental characteristics of VAS to fully comprehend compliance requirements and make informed investment decisions. Vietnam's government currently has 26 VAS accounting standards based on IFRS.



The government aims to replace VAS and adopt the International Financial Reporting Standards (IFRS) by 2025 through a draft IFRS roadmap, published in 2019.

Annual reports

Enterprises under foreign ownership must have their financial statements audited by an independent audit firm operating in Vietnam. Such statuary audits are performed in accordance with VAS and every organization is required to have a Chief Accountant, as annual financial statements must be approved by the chief accountant and the legal representative.

The accounting records should be maintained in the Vietnamese language although this can be combined with another commonly used foreign language, such as English. Additionally, the Vietnamese Dong must be used as the accounting currency, however, entities that receive and pay with foreign currency can select that said foreign currency in their accounting records and financial statements.

For ROs, the annual reports must include:

- Basic information – contact information, such as office address, telephone numbers, primary bank contacts. Investors should note that the address should match to that written in the RO license.
- Human resource report – ROs must document their policies with regards to salaries, bonuses, insurance, and other benefits. The personal information and position of every employee should also be included.
- Activities report – ROs must document their activities for the preceding year, which includes information such as market research activities, advertising activities, participation in trade fairs, and the promotion of service agreements, among others.

Penalties for non-compliance

Under the government's *New Penal Code*, which was issued in 2018, businesses that fail to adhere to the compliance laws can now be held criminally responsible. If the tax authorities find discrepancies in the financial reports, after an audit, a 20 percent tax will be imposed on the amount that is under-declared. There is also a 0.03 percent daily interest rate for the late payment of tax.

In addition, tax authorities can penalize companies for VAS non-compliance through the disallowance of input VAT credits and withdrawal of CIT incentives.

Tracking IFRS Adoption in ASEAN

ASEAN members have a wide range of financial reporting standards and the cohesion of these individual standards with the International Financial Reporting Standards (IFRS) are at varying stages.

Ayman Falak Medina
Author

The IFRS are a set of accounting rules issued by the International Accounting Standards Board (IASB) that aim to bring integrity and transparency to accounting practices regardless of the country or company. As such, the IFRS has been adopted as a common accounting language in more than 160 countries, including all nations in the European Union, India, South Korea, and Russia. The US and China have their own systems.

Indonesia

Indonesia's stance on IFRS adoption is to maintain its national accounting standards (Indonesian Financial Accounting Standards, SAK) and to gradually converge with the IFRS as there are currently no plans to fully adopt the IFRS. Since 2012, the IFAS has been substantially in line with the IFRS.

Malaysia

Malaysia has fully adopted IFRS standards and in November 2011, the Malaysian Accounting Standards Board (MASB) issued the Malaysian Financial Reporting Standards (MFRS), which in substance, is fully IFRS-compliant and has been in effect since January 2012.

As such, the MFRS framework applies to all non-private entities for annual periods on or after January 2012.

Further, transitioning entities (TEs) were required to apply the MFRS framework by January 2018. TEs are entities that fall under the scope of MFRS 141 Agriculture and/or IC Interpretation 15 Agreements for the Construction of Real Estate.

Philippines

The Philippines has adopted most of the standards under the IFRS. These standards are known as the Philippine Financial Reporting Standards (PFRS). The only exception is the recognition of revenue under the IFRS 15 for real estate.

Extent of IFRS Application in Indonesia

Extent of IFRS application	Notes
Are domestic companies whose securities trade in a public market required or permitted to use IFRS standards in their financial statements?	Since Indonesia has not adopted the IFRS standards for reporting, domestic companies whose securities are traded in the public market are required to use SAK.
Are foreign companies whose securities trade in a public market required or permitted to use IFRS standards in their financial statements?	Foreign companies must use the standards set by SAK.
Are IFRS standards translated into the local language? (if applicable)	SAK is in Bahasa Indonesia.
Has the country adopted IFRS for SMEs or is it under consideration?	Indonesia has not adopted the IFRS for SMEs, however, the Tier 2 SAK ETAP standard was developed using the IFRS for SMEs as reference.
What is the relevant jurisdiction authority?	Indonesian Financial Accounting Standards Board

Source: IFRS.org

Extent of IFRS Application in Malaysia

Extent of IFRS application	Notes
Are domestic companies whose securities trade in a public market required or permitted to use IFRS standards in their financial statements?	Public companies are required to apply the MFRS framework, as it is identical to the IFRS framework.
Are foreign companies whose securities trade in a public market required or permitted to use IFRS standards in their financial statements?	Foreign companies can use the standards under the MFRS framework or any acceptable international accounting standards recognized by the MASB.
Are IFRS standards translated into the local language? (if applicable)	No. The English language is used.
Has the country adopted IFRS for SMEs or is it under consideration?	Yes, in February 2014, the MASB issued the Malaysian Private Entities Reporting Standard (MPERS) which is word-for-word the IFRS for SMEs standard.
What is the relevant jurisdiction authority?	Malaysian Accounting Standards Board (MASB)

Source: IFRS.org

The PFRS applies to all entities with public accountability such as:

- Public utilities;
- Financial institutions including banks, security brokers, insurance companies, mutual funds, and investment funds, among others; and
- Entities whose securities are listed in a public market.

Singapore

Singapore's accounting standards, known as the Singapore Financial Reporting Standards (SFRS) are substantially aligned with the IFRS framework and all companies with a financial period on or after January 1, 2003, must comply with the SFRS.

Financial statements must comply with accrual basis of accounting — meaning transactions are recognized as and when they occur instead of as when paid. The statements prepared through the accrual basis inform users of the company's cashflow and operational efficacy. There are some 41 different standards under the SFRS, with each standard covering a specific topic, such as recognition of revenue, and the presentation of financial statements, among others.

Thailand

Thailand has adopted the IFRS standards through the Thai Financial Reporting Standards (TFRSs). Since January 2014, Thailand's guidelines represent a near word-for-word compliance with IFRS.

Although the extent of Thai adoption is impressive, those establishing business operations here should note that IFRS 17 Insurance Contracts is tentatively being planned to be adopted in 2022.

Vietnam

Vietnam uses IFRS as a basis for its own system, the Vietnamese Accounting Standards (VAS), yet there are key differences between the two. These include differences between IFRS, and VAS include terminology, applied methods or presentation scope. There are currently 26 VAS accounting standards based on IFRS.

In March 2020, the Ministry of Finance (MoF) issued Decision 345/QD-BTC on the IFRS implementation roadmap in Vietnam.

From 2022 to 2025, the MoF will select specific companies, such as state-owned enterprises (SOE), large companies, and listed companies, to implement IFRS into practice.

From 2025 onwards, listed companies, large-scale unlisted companies, and SOEs will be obligated to apply the IFRS standards for consolidated financial statements. Other remaining businesses can apply the IFRS on a voluntary basis.

Extent of IFRS Application in the Philippines

Extent of IFRS application	Notes
Are domestic companies whose securities trade in a public market required or permitted to use IFRS standards in their financial statements?	Domestic companies whose securities are traded in a Philippine public market are required to use the PFRS framework in their consolidated financial statements.
Are foreign companies whose securities trade in a public market required or permitted to use IFRS standards in their financial statements?	Foreign companies are also required to use the PFRS standards in their financial statements.
Are IFRS standards translated into the local language? (if applicable)	No. Since English is already the language of business in the Philippines.
Has the country adopted IFRS for SMEs or is it under consideration?	Yes. The Philippines Philippine Financial Reporting Standards for SMEs (PFRS for SMEs) is in line with the IFRS for SMEs standard .
What is the relevant jurisdiction authority?	• Philippine Financial Reporting Standards Council (FRSC) • Philippine Interpretations Committee (PIC) • Board of Accountancy (BOA) • Philippine Securities and Exchange Commission (SEC) • Insurance Commission (IC) • Bangko Sentral ng Pilipinas (BSP), Philippine Central Bank

Source: IFRS.org

Extent of IFRS Application in Singapore

Extent of IFRS application	Notes
Are domestic companies whose securities trade in a public market required or permitted to use IFRS standards in their financial statements?	Singapore-incorporated companies (both listed and non-listed) are required to comply with the accounting standards prescribed in the SFRS. Such companies can also use IFRS standards if they receive prior approval by the Accounting and Corporate Regulatory Authority of Singapore (ACRA).
Are foreign companies whose securities trade in a public market required or permitted to use IFRS standards in their financial statements?	Foreign companies listed on the Singapore Exchange (SGX) can apply IFRS standards under the SGX rules. Companies whose equity securities have a primary listing are required to apply SFRS, US GAAP, or IFRS standards.
Are IFRS standards translated into the local language? (if applicable)	No. Since English is already the language of business in Singapore.
Has the country adopted IFRS for SMEs or is it under consideration?	Yes, through the Singapore IFRS for SMEs.
What is the relevant jurisdiction authority?	Singapore Accounting Standards Council (ASC)

Source: IFRS.org

Extent of IFRS Application in Thailand

Extent of IFRS application	Notes
Are domestic companies whose securities trade in a public market required or permitted to use IFRS standards in their financial statements?	The Thai Accounting Standards must be used but these have substantially converged with the IFRS standards.
Are foreign companies whose securities trade in a public market required or permitted to use IFRS standards in their financial statements?	IFRS standards are permitted for foreign companies.
Are IFRS standards translated into the local language? (if applicable)	Yes
Has the country adopted IFRS for SMEs or is it under consideration?	Yes. SMEs in Thailand are allowed to use one of the two following standards: • TFRS; and • Thai Accounting Standard for non-publicly accountable entities (TFRS for NPAEs). The TFRS and TFRS for NPAEs are based on the IFRS.
What is the relevant jurisdiction authority?	Federation of Accounting Professions of Thailand (FAP)

Source: IFRS.org

Extent of IFRS Application in Vietnam

Extent of IFRS application	Notes
Are domestic companies whose securities trade in a public market required or permitted to use IFRS standards in their financial statements?	Currently not required, however, from 2025, listed companies will be obligated to apply the IFRS standards.
Are foreign companies whose securities trade in a public market required or permitted to use IFRS standards in their financial statements?	Not required
Are IFRS standards translated into the local language? (if applicable)	Still under process
Has the country adopted IFRS for SMEs or is it under consideration?	No. SMEs use an accounting regime developed by the MoF.
What is the relevant jurisdiction authority?	Vietnam Ministry of Finance

Source: IFRS.org

Q+A

Opportunities and Challenges in ASEAN's Audit and Compliance Landscape

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What are some of the opportunities and challenges faced by the audit and accounting industry in ASEAN?

Cloud and data analytics are the two most widely adopted technology tools by finance teams and external auditors. Looking ahead, audit committee members, board members, and CFOs have expressed the need to see greater adoption of technology tools by both their finance teams and external auditors.

There are several accounting challenges we face today:

Keeping up with changes in tax laws

A large part of an accountant's duty is undertaking tax preparations. With ever-changing tax laws, accounting professionals are under more pressure to keep updated. These constant changes add to the accountants' responsibility and duty to properly advise their clients.

Adapting to new technology

Another challenge for accounting firms is to effectively switch from the old accounting tools and technology to new SaaS platforms.

Not only do accountants need to be updated on the latest industry software, but they also need to encourage their clients to adapt to these new changes.

Quality client services

There are more independent accountants and outsourcing companies being incorporated to serve foreign investors in Southeast Asia.

Further, with online reviews of accounting firms becoming more visible, competition to attract clients has heightened the quality and scope of services expected.

Have ASEAN member countries adopted the IFRS accounting standards?

ASEAN countries have adopted the International Financial Reporting Standards (IFRS) at varying stages.

Countries like Singapore already have their accounting standards substantially aligned with the IFRS while businesses in Indonesia are gradually adopting IFRS standards in their consolidated financial reports.

Foreign investors looking to establish operations in ASEAN or expanding throughout the region should fully comprehend relevant compliance requirements.

What are the advantages of using an external audit and accounting services firm by investors setting up in ASEAN?

Using an external audit service gives shareholders confidence as it improves internal systems and controls. Through this, auditors not only focus on the numbers but can provide a more personalized service.

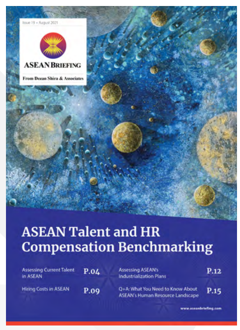
Moreover, an external audit provider offers credibility. External audits provide company boards with valuable objective information regarding their company's financial condition and also help board members spot potential internal oversight or unethical behaviour.

Another advantage of having the external firm provide both audit and consulting service is that the firm can help the organization to find weaknesses during the audit process, which can be addressed during post audit.

RELATED READING

ASEAN Talent and HR Compensation Benchmarking

As the fifth largest economy in the world — the quality of human resources is a vital ingredient to sustain the development and competitiveness of ASEAN member states. Understanding the dynamics of ASEAN's labor market can prove a time-consuming endeavor for new market entrants as well as established investors seeking to expand their operations. Comprised of 10 member states, each with its unique challenges, regulations, and opportunities, optimizing labor in the region is a significant task.



In this issue of the ASEAN Briefing magazine, we provide an overview of current talent availability in ASEAN, and future factors that will impact its human resource development. We then explore hiring costs and the industrialization plans of select ASEAN members.

READ MORE

How do you foresee the auditing and accounting landscape changing in ASEAN in the coming decade?

Changes in the audit and accounting landscape have been rapid and driven largely by huge advances in technology applications.

In many ways, the pandemic has accelerated the adoption of tech tools. For example, wider adoption of cloud-based accounting software as well as a move toward automation and artificial intelligence.

Are you making changes to your operations in Asia?

Get started by speaking to our professionals today

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