EMBRACING THE DIGITAL ECONOMY OR FIT FOR DIGITAL

ARE YOU READY FOR THE DIGITAL ECONOMY?

A fit-for-digital business strategy requires you to understand the evolving needs of customers and develop the tech-enhanced business models and competencies to deliver the products and services that meet these needs.

Indeed, there is no escaping the massive footprint of the digital economy. Today, technology players such as Apple, Samsung, Alphabet, Microsoft, Amazon and Facebook are ranked among the largest companies in the world in terms of market cap. Even old-economy companies – such as members of the Fortune 500 2016 Top 10 which includes Walmart, China National Petroleum, Sinopec Group, Royal Dutch Shell, Exxon Mobil, and Volkswagen – are plugged into technology.

Fintech, which marries technology and financial services, is yet another booming sector. Accenture estimated that global investment in fintech venture firms grew 10% in 2016 to US$23.2 billion. But just like how fintech scope is hard to pin down, valuation numbers are similarly elusive. Financial Technology Partners, a San Francisco-based investment bank focused purely on fintech, said that in 2016, fintech companies around the world raised a total of US$36 billion in financing across 1,500 funding deals from over 1,700 unique investors.

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TECH AND THE PROFESSION

To fulfil our main roles of providing business advisory and assurance, it's compulsory for accountants to be able to understand and analyse the financial behaviour and impacts of these tech and tech-enhanced companies.

Here at MIA, we recognise the pervasiveness of technology and its impact on the profession and our work. Since accountancy is such a versatile qualification, our career paths cross technology in myriad ways, and it can be dizzying to narrow these down to pure accounting and finance roles.

One, accountants could be working in the finance function in a tech company like Google, Facebook, Apple, a telco or any number of smaller start-ups.

Two, accountants could be working in organisations affected by fintech, which is highly feasible because many MIA members today are employed in financial services institutions, beyond the finance function.

Three, practitioners could be providing audit and assurance services to tech companies across the spectrum, ranging from digital to fintech to e-tailing to crowdfunding, or to tech-enabled companies operating in the digital economy, which encompasses everybody else. To be able to audit tech competently, MIA is urging practitioners to equip themselves with tech, especially data analytics.

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Dr. Nurmazilah Dato' Mahzan, MIA CEO

Of course, accountancy has also been singled out as one of the sectors most vulnerable to automation and tech, but that's another story for another day.

DATA ANALYTICS

"We must embrace technology to be able to exercise the expected due care and competency enshrined in auditing standards. Particularly relevant to the profession is data analytics, especially in raising audit and governance quality. Analytics enables 100% auditing," stressed MIA CEO Dr. Nurmazilah Dato' Mahzan. The traditional approach to audit is by random sampling, which relies on chance to capture any outliers. Data analytics has become a powerful tool because of its ability to sample the entire population or 100% of data.

Without employing analytics, it is highly unlikely that an auditor auditing a tech company would be able to comply with ISA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, which requires formulating a plan to mitigate audit risks. It is also highly unlikely that a non-analytics-using auditor would be able to comply with enhanced standards for auditor reporting and key audit matters when assessing companies in the vanguard of the digital economy. "If you're auditing a mobile service provider like Maxis or Celcom or Vodafone which is capturing data electronically, how would you mitigate audit risks in revenue recognition without using technology to audit the client application? Is analytics a choice? It's not," she said.

UNDERSTAND THE FUNDAMENTALS

But tech cannot compensate for solid accounting fundamentals and sound technical abilities, and it cannot replace robust professional scepticism and judgement, which are the hallmarks of auditors and accountants. Dr. Nurmazilah noted that it's becoming even more urgent to exercise professional scepticism because digital is disrupting and reconfiguring traditional business models. Auditors now have to grapple with performing assurance on digital marketplaces such as Lazada and Amazon, cloud-based platforms, start-ups and crowdfunding, to name some new business models.

Despite the pervasiveness of automation, software and data analytics, accountants and auditors must thoroughly understand debit and credit entries and the logistics of the accounting software - the recording, compilation and summarisation of accounts. "Understanding the logistics and how the transaction was recorded and compiled in the system are very important to enable high-quality accounting and audits."

REFORMING EDUCATION

To build these necessary skills, MIA is going back to the drawing board on education. Education reform is a central piece of the recommendations put forth by the Committee to Strengthen the Accountancy Profession (CSAP), which positions the profession as a key driver of socioeconomic growth. Currently, MIA is engaging with stakeholders and collecting data and empirical evidence to draft its Education blueprint which is targeted for completion by mid-2017.

Early exposure to robust fundamental accounting skills and ensuring a sound understanding of the conceptual framework and the thought process behind accounting standards would support improved judgement and professional scepticism, feeding into enhanced reporting and audit quality. "There is a need to embed critical thinking as early as possible into accountants' DNA as a prerequisite for professional scepticism and judgement," said Dr. Nurmazilah. Of course, experience is also fundamental to professional scepticism and judgement, and the Education blueprint would have to take this into account as well.

This issue rounds up interesting perspectives from regulators, investors and users on fintech and data analytics for audit, two key areas which will affect the landscape for the profession. ■

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It is also important that you receive your AGM papers. This will be posted via your mailing address. Preliminary Notice of AGM will be sent in August 2017 and Final Notice of AGM will be posted in September 2017.

In case you have not been receiving MIA correspondences at your mail box or via e-news, e-circular, e-updates in your inbox, please contact the Membership Services Unit (T: 03-2722 9000 E: membership@mia.org.my) for us to confirm your correspondence/e-mail address in your records.

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BY ABDUL RAZAK RAHMAN

HOW CAN FINTECHS IN MALAYSIA PLAY TO WIN?

RACE TO THE TOP

FINTECH is picking up steam in Malaysia, with the number of fintech companies in Malaysia jumping from just four in 2004 to over 100 by 2016. Fintech fillips include information and communication technology (ICT), millennial behaviour, erosion of credibility in the traditional banking space particularly in developed markets, as well as job creation.

The Malaysian Digital Economy Corporation is the primary agency driving the digital economy – including fintech innovation - and focuses on four important pillars, said Dato' Ng Wan Peng, Chief Operating Officer, MDEC. The first which is also MDEC's core business is to attract investments from traditional ICT players like IBM as well as venture capitalists. The second is to create local champions and promote them to the outside world. The third is to create a conducive

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