

Official Publication of the ASEAN Federation of Accountants (AFA)  
Accredited Civil Society Organisation of the Association of Southeast Asian Nations (ASEAN)



## REBRAND, Reposition, Reconnect

 **Aucky Pratama**  
Executive Director, AFA

**T**he age of technology and social media has cut down communication barriers between practitioners and stakeholders, who desire the latest and up-to-date information about how the accountancy profession has gradually evolved, reshaped by the many trends and developments affecting the profession. Demands for availability of information is inevitable, as the era of openness and full disclosure beckons.

AFA as the umbrella organisation for Professional Accountancy Organisations (PAOs) in the ASEAN region seeks to contribute to the development of the accountancy profession in Southeast Asia. With membership representing the ten ASEAN member states, supported by seven regional and internal associates, we continue to explore collaboration avenues to strengthen the profession, and together supporting the attainment of the ASEAN regional economic objectives.



Adapting to the digital era, AFA has been active in exploring various communication platforms such as the AFA website ([www.aseanaccountants.org](http://www.aseanaccountants.org)), email ([afasecretariat@iaiglobal.or.id](mailto:afasecretariat@iaiglobal.or.id)), Twitter ([@AFA\\_Accountants](https://twitter.com/AFA_Accountants)), and Facebook (**ASEAN Federation of Accountants**) – recently launched to respond to demands from particularly younger audiences who mainly use the platform as a media to connect with their peers, professionally and/or personally. Promoting full accountability, all information about the Federation's activities and financial performance are available in the AFA Annual Report, published annually and are available for download in the AFA website.

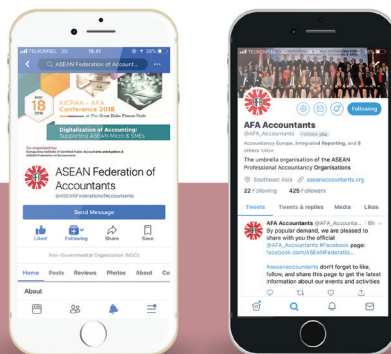
In the past, AFA published the AFA Connection, circulated among our stakeholders in the region until late 2000s. It was the Federation's main communication platform with stakeholders, presenting various information about AFA's and AFA members' activities in the period. The AFA Council sees the need to bring back the publication as a platform of communication supplementing the many technology-based platforms used today. It will also serve as a platform for AFA members and stakeholders to share their voices on issues that will be discussed in the biannual publication.

Through rebranding and repositioning of the AFA Connection as AFA Connect, we seek to reconnect with a bigger audience not only in Southeast Asia but also globally. The first AFA Connect will focus on the Federation's aspiration to be the regional thought leader for Small and Medium-sized Enterprises (SMEs) and Small and Medium-sized Practices (SMPs) issues. Through the AFA Working Committee 2, we have refocused some of our initiatives to contribute more to SMEs as the backbone of the region's economy. SMPs are also expected to play important role in supporting and facilitating SMEs to continue to grow and achieve their full potential.

We hope you will find this publication useful and we look forward to hearing more from you on how together we could build a stronger accountancy profession in the region.

For more information about AFA and our activities, please visit our website and contact us through our social media outlets.

*Salam.*





## AFA as a Regional Thought Leader for SMEs and SMPs Issues

 **Prof. Sidharta Utama**

Council Member, IAI. Board Member, IAESB.  
Chair, AFA Working Committee 2

**A**SEAN Economic Community as a regional joint initiative of the ASEAN member states has established a platform for collaboration between ASEAN countries and their respective stakeholders. So far, majority of the focus have been directed towards large-sized businesses that frequently conduct cross-border commercial activities. AFA recognises the need to contribute more to the larger group of stakeholders: the Small and Medium-sized Enterprises (SMEs) and Medium-sized Practices (SMPs).

With a vision and mission to be recognised as the regional voice for the accountancy profession, AFA aspires to be the regional thought leader on SMEs and SMPs issues. The Federation acknowledges that more efforts need to be done to support micro and SMEs as the largest number of business entities in the region to achieve their full potential. Among the Federation's strategic objectives, three key priorities have been identified: adoption and implementation of international standards, thought leadership (on SMEs and SMPs issues), and Professional Accountancy Organisations capacity building. The objectives further highlight how AFA collectively want to put more focus on the development of ASEAN micro and SMEs as well as SMPs.

Professional accountants have the potential to play a key role in supporting micro and SMEs as well as SMPs. The expertise of professional accountants can be used to assist micro and SMEs in dealing with various challenges

that they face in running and developing their businesses. Through the AFA Working Committee 2 that has been tasked to achieve the thought leadership objective, the Federation has identified several activities to contribute to the sector, one of which is the AFA Research initiative.

AFA Research grant is an AFA initiative to encourage applicative research on emerging issues relevant to the accounting profession in the region. In line with the Federation's key priorities, the initiative is now focusing on researches on micro and SMEs as well as SMPs issues, particularly those that can contribute to the development of the sector in the future. The current run (offered late 2016) is conducted by researchers of the University of Canberra, selected to receive AFA research grant via an independent call for proposals mechanism that includes a total of 44 proposals from countries in and outside of the ASEAN region. Together with the researchers, AFA aims to finalise and hopefully launch the report in the first semester of 2018.

Highlights of the AFA Research presented in this publication provide the research findings and recommendations. In sharing this, we hope to encourage further discussion from relevant stakeholders in the region, with the objective of shining the light towards micro and SMEs and SMPs. As a grouping of accountancy bodies in the region, AFA continues to build the capacity of its members to provide better support to the ASEAN micro, SMEs and SMPs.

# KEY CHALLENGES and Roles of Accounting Profession in Empowering SMEs in ASEAN<sup>1</sup>



▶ Harun Harun



▶ David Carter



▶ Habib Khan



▶ Miriam MacLennan

(neXus Research Centre for Business, Government and Law,  
The University of Canberra)

**G**iven the uncertainty of the global economic and political outlook and the associated challenges, there is confidence that the ten member-nations of the Association of Southeast Asian Nations (ASEAN) are transitioning toward effective

economic integration. This research project aims to evaluate of the preparedness and opportunities with respect to Small to Medium Entities (SMEs) within the ASEAN region and how accounting profession could contribute to the empowerment of SMEs in ASEAN.



<sup>1</sup> This report is a summary of a study conducted by the neXus Research Centre for Business, Government and Law, The University of Canberra and funded by the ASEAN Federation of Accountants. The leading researcher of the project is Dr Harun Harun. He can be contacted at [Harun.Harun@canberra.edu.au](mailto:Harun.Harun@canberra.edu.au)

## Key Findings

Our examination of documents sources, online surveys and interviews with accounting professionals and representatives of accounting bodies, this study offers four conclusions:

1

Numerous significant issues were identified surrounding incoherent and contradictory definitions of SMEs. Within a country, for example, the definition of SMEs may vary across regulatory bodies, government departments, banking, tax authorities and professional institutions. We find that the existing government laws/ rules and regulatory framework for SMEs reveals significant inconsistencies that will impede the negotiation and adoption of a common and coherent definition throughout ASEAN.

2

In relation to accounting practices, the common challenges faced by SMEs in the ASEAN region include the lack of skills to understand, prepare and utilize financial information for business decision making and to add value to firms through strategic partnerships and business expansion. Clearly, the challenge ahead for the accounting profession in this region is to provide leadership and support for SMEs, beyond traditional services such as reporting, taxing and auditing services.

3

The participants of the study overwhelmingly anticipate that that planning and advisory services, including tax, and business and financial planning will represent the most significant area of future demands. This is supported by responses from interview subjects highlighting the financial leadership role of accountants in providing controllership and value-added activities. Interestingly, despite their unique relationship with the SME sector, and capacity to advocate on behalf of SME clients, participants did not foresee a significant future role in lobbying and communication.

4

It is important to note given that the majority of SMEs are micro enterprises, that ultimately, they have substantively different business problems requiring tailored solutions in comparison to medium and larger companies with greater market opportunities. The contention that adoption of a reporting rules (IFRS for example), are a prioritized concern for all SMEs across nations in the ASEAN is a naïve assumption. Nonetheless, this does not suggest that having the ability to prepare and effectively utilise financial reports is not important for all types of enterprises, irrespective of location and size. We implicitly suggest that despite accounting information being theoretically and practically useful in alleviating inconsistencies associated with reporting and measuring business assets, debt and productivity of all entities, it is beyond the prioritized concerns of micro entrepreneurs.

## Recommendations

Reflecting on the current realities of SMEs and institutional problems they face, the following practical and specific recommendations may assist in addressing these concerns:

### Government supports

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Governments in that region should be encouraged to cooperate with accounting professional bodies in assisting SMEs in terms of business advisory services, accessing basic reporting skills, taxes and other management issues confronting the sector. If the ASEAN region seeks to achieve solid and meaningful economic integration, diverse definitions of SMEs must be integrated with government tax policies. A holistic approach is required to ensure that SMEs are nurtured, and not cynically targeted as a source of taxation revenue, and a lucrative market for advanced financial capital. In terms accounting education, higher education providers retain an approach to the teaching of accounting as the language of major and medium enterprises. Conversely, despite the majority share of economic activity and employment attributed to SMEs, greater efforts are required in preparing students for the roles of trusted financial and business leaders of the future. This imperative should drive all stakeholders to strengthen meaningful partnerships among government institutions, employers, higher education institutions, political parties, and non-government organizations to design teaching curriculums which effectively and equitably accommodate the needs of micro, small, medium and large firms within ASEAN community.

### Definition

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The notion of independence should be included in any definition of SMEs, thus differentiating between subsidiaries and branches of multinationals, and local enterprise. The notion of “productive output” should also

be considered within any universal definition. Genuine SMEs offer or produce something – they do not exist to meet pre-production, post production, or administrative need of another enterprise. Quantitative criteria should be regarded only as a proxy for the qualitative, and not the defining features in themselves. As such, methods for neutralising disparities in economic conditions, such as multipliers based on GNI per capita, GINI coefficient, or poverty rates will need to be considered. Definitions of SMEs must be integrated with government tax policies. A holistic approach is required to ensure that SMEs are nurtured, and not cynically targeted as a source of taxation revenue, and a lucrative market for advanced financial capital. The principal of congruence as per the Japanese model should be considered to minimise the disincentive of regulation and minimise confusion and compliance costs. Consideration should be given to retaining local definition for domestic purposes, as per the EU model. This would enable national policy makers to address initiatives to local challenges and conditions, while facilitating a ASEAN wide response to regional strategies.

### Strategies for Accounting Bodies to Support SME's

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In this space, we propose three strategies: (1) there is a need to encourage membership of international accounting bodies, (2) the encouragement of professional accountants to contribute pro-bono hours through their respective accounting bodies, and (3) the establishment of a voucher system, where upon registration, fledgling businesses are provided either with access to business planning workshops, or individual access to a professional accountant.

In this respect, we believe that accounting bodies must encourage their constituents to acknowledge and accept the imperative to advocate on behalf of their SME clients on one hand, while advocating to them on behalf of governments and their profession on the other. At the ASEAN level, AFA is well placed to facilitate such a culture across accounting bodies. Equally, the accounting profession as “a trusted business advisor” should bridge the void between SMEs and governments throughout the ASEAN community in mapping key problems faced by SMEs and possible solutions.

### Educational Supports

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We believe that augmenting the education of future accountants to address the distinctiveness of SME concerns by developing, which is accommodated into the accounting curriculum by expanding SME specific, technical accounting subjects. In addition, it is important to develop and implement lesser, though rigorously regulated and accredited accounting qualifications. In Australia the educational requirements for registration as a bookkeeper, or tax agent are met at certificate IV or diploma level. Increasing availability and accessibility of vocational training qualifications would assist in alleviating the pressure on professional accountants to provide extensive support services. Finally, augmenting the understanding of the SME operating environment, and relevant accounting needs at a technical level by developing, implementing, and promoting new Continuing Professional Development units and programs.

### Further Opportunities for Research

This study provides comprehensive exploration of key problems faced by SMEs within ASEAN through the investigation of persistent obstacles confronting them and constraining the growth and expansion of SMEs throughout AMSS. The potential contribution of the accounting profession in addressing these concerns and fostering a supportive and nurturing environment SME development is also extensively explored. However, this study is subject to a number of limitations: (1) participation in the survey was limited to professional accountants; (2) the survey sample size, while sufficient and credible for the purposes of this study, is limited by the rate of responses within the relatively short time frame; (3) survey responses were not further analysed and interpreted according to nationality of respondents; resources and time frame for this study did not allow for interviews to be conducted, and case studies collected across all ten AMSS and (4) on-line examination of accounting curricula was limited to top ranked universities in each country. Resources did not permit a more extensive examination of universities, or research into other accounting qualifications through technical advocational training institutions, or observations of content, materials, or delivery. Further studies should seek to expand both sample size and demographic. While the current survey provides significant insight from the perspective of the accounting profession, future studies would benefit from the participation of a larger and more comprehensive sample of stakeholders. Analysis and interpretation of data by country of origin would also provide greater dimension, and a more comprehensive understanding of the diverse social, economic, and environmental contexts, and factors constraining SME development. Comparison of interview data from Indonesia, Thailand, Malaysia and Singapore indicate significantly disparate views and experiences across SMEs.





# MICRO ACCOUNTING MODEL: A Financial Reporting Framework for Micro Entities



**Lim Ju May**

Deputy Director, Corporate Reporting & Ethics, ISCA

**I**n developing and emerging countries, micro businesses are often the backbone of the economy. These businesses, which are owned and managed by the local population, have a vital place in an economy's ecosystem. The majority of these businesses, however, do not prepare a set of financial statements, but use some form of traditional cash accounting method to record business transactions and keep track of the financials.

The question then is, should this status quo continue? The answer would very much depend on whether the micro business aspires to expand and grow. Micro business owners who are entrepreneurs would envision their businesses growing, expanding and becoming big in the future. For this to happen, two key elements are essential – capital, and the ability to entrust stewardship responsibilities. In order for investors and banks to provide capital and invest, they need to understand the financial performance and financial position of the micro business. In a similar vein, business owners need financial accountability from the people they have entrusted with stewardship responsibilities.

Today, there are various accounting frameworks available, such as the International Financial Reporting Standards (IFRS), IFRS for Small and Medium-sized Entities (IFRS for SMEs), and United States Generally Accepted Accounting Principles (US GAAP). These accounting

frameworks are the financial language of businesses, enabling the recognition, measurement, presentation and disclosure of business transactions in a summarised form, via a set of financial statements, to depict the financial performance and financial position of a business. Notwithstanding the availability of these accounting frameworks, micro businesses in emerging and developing countries require a framework that caters to their needs without the burden of excessive cost and complexity of implementation.

With this in mind, ISCA has developed a self-contained financial reporting framework for use by micro market participants operating in ASEAN countries (micro entities). The Framework, known as the Micro Accounting Model (MAM), is intended for micro entities to transit from cash accounting to the most basic form of accrual accounting. Such micro market participants are typically sole proprietorship businesses that have no public accountability, are exempt from audit and are not required to comply with any stipulated accounting standard framework. MAM is thus intended to provide the building blocks to enable businesses to progress towards more comprehensive accounting frameworks, such as IFRS or IFRS for SMEs, as businesses grow.

MAM, in its approximately 50-page framework, applies basic accounting principles and contains significant simplifications while keep-



ing within the confines of the pervasive principles derived from the International Accounting Standards Board's Conceptual Framework for Financial Reporting and from full IFRS. It also includes a set of illustrative financial statements and reconciliation to IFRS and IFRS for SMEs. Key simplifications have been applied especially in the area of financial instruments.

In the drafting of MAM, three overarching principles have been applied – the cost or burden of applying an accounting treatment must not outweigh the benefits to micro entities; the complexities in the recognition of an item and the degree of estimations and judgements in the measurement of assets, liabilities, income and expenses should be minimised where possible. MAM endeavours to be an intuitive and understandable framework for micro entities and the users of their financial statements. It lays out principles that encourage the use of judgement in the particular circumstances of a transaction or event. It can also be used to provide national accounting standard-setters with an illustrative framework in developing their accounting standard for micro entities in their jurisdictions.

MAM is a principles-based financial reporting framework, underlined by concepts such as materiality, qualitative characteristics of useful financial statements, accrual accounting, definitions of elements of financial statements and the recognition criteria. It provides the fundamentals for the preparation of financial

statements. In addition to concepts and principles, MAM addresses transactions typically encountered by micro entities – property, plant and equipment; inventories; revenue; etc. If MAM does not specifically address a transaction, use of judgement is required to apply the general principles, concepts and criteria contained in the Framework when developing accounting policies.

The idea and conceptualisation of MAM came from ISCA President Dr Gerard Ee, who also penned the Foreword in the MAM document. Among other things, he had said, "I strongly encourage emerging and developing countries, in particular, the standard-setters and national professional accountancy bodies, to use this guide as a starting point towards eventually adopting international accounting standards. I envisage that the government of these countries will find MAM a useful tool in helping to raise the overall standards of the profession, thereby contributing towards stronger investor confidence towards the country. Furthermore, as more businesses are encouraged to use MAM to produce quality, reliable financial information, governments would also have greater assurance over tax collections".

*This article was first published in the IS Chartered Accountant, January 2018. Reproduced with permission from the Institute of Singapore Chartered Accountants*

# SMALL BUSINESSES IN THE ASIA-PACIFIC REGION are Successfully Leaping into the Digital Era and are Optimistic about the Future, According to CPA Australia’s 2017 Small Business Survey



 an Article of CPA Australia

Across the region, small businesses with a focus on technology, innovation and exporting are significantly more likely to be growing and creating jobs than those that are not.

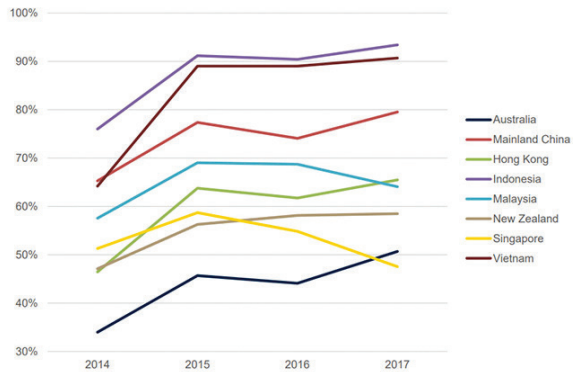
The Asia-Pacific Small Business Survey, the eighth conducted by CPA Australia, was of 2952 businesses with fewer than 20 employees from Australia, New Zealand, Mainland China, Hong Kong, Indonesia, Malaysia, Singapore and Vietnam. While Hong Kong is a Special Administrative Region of the People’s Republic of China, for the purpose of the survey data for Hong Kong is shown separately from Mainland China.

## Growing Sense of Optimism among Small Business Owners

The survey found a growing sense of optimism in the small business sector. Overall, 2017 was slightly more positive than 2016, with a moderate increase in the number of businesses reporting that they grew.

Indonesia and Vietnam showed the strongest rates of growth, and Australia, New Zealand and Singapore the weakest.

Small businesses that reported growing in 2017– a comparison over time and by market



Small business confidence in their expected performance in 2018 is highest in Indonesia, Vietnam and Mainland China and lowest in Australia, Singapore and Hong Kong. Confidence in their local economy is highest in Vietnam and Indonesia and lowest in New Zealand and Australia.

Respondents under 40 were significantly more likely to state that their business is growing, and are more confident about general economic conditions.

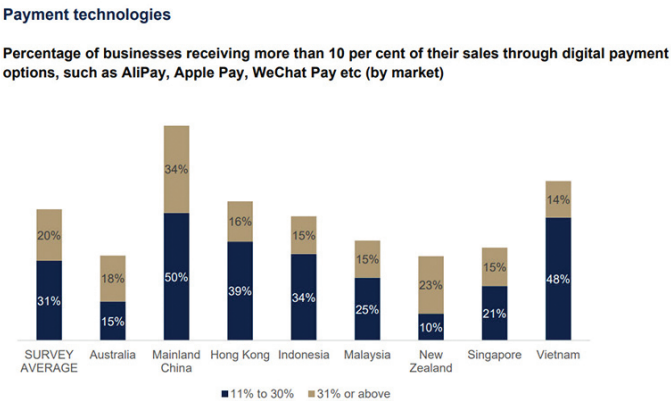
The Asian average of businesses planning to increase employee numbers over the next year – a metric associated with growing businesses – is 49.4 per cent. This contrasts with a figure of 18.8 for Australian small businesses and 17.6 per cent for New Zealand small businesses.

“2017 was a positive year for most small businesses across the region, especially in Indonesia and Vietnam, and these positive conditions look set to continue into 2018,” says Paul Drum FCPA, CPA Australia head of policy.

**Small Businesses and Digital Payments**

The survey found that over 90 per cent of small businesses in Asia use social media or sell online, especially in Mainland China, Indonesia and Vietnam, while counterparts in Australia and New Zealand are lagging.

Amongst Australian and New Zealand small businesses, only about 60 per cent use these technologies.



The link between growth and technology is reflected in over 78 per cent of businesses that grew strongly in 2017 reporting that their investment in technology was already profitable. The emphasis on technology extends to payment systems, with Mainland China at the forefront. Nearly two-thirds of small businesses from Mainland China offer at least one e-payment option (from digital platforms such as AliPay, ApplePay, and WeChat Pay).

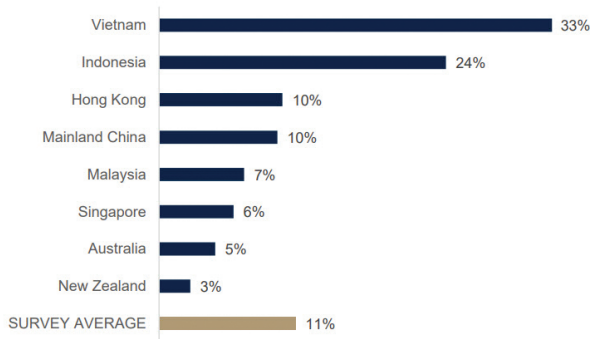
Over a third of these companies said that payments via digital platforms made up over 30 per cent of total sales.

### Small Business Shy of Bitcoin

There appears to be a wariness of cryptocurrencies such as bitcoin.

In Vietnam, however, 32.9 per cent of respondents said they accepted cryptocurrencies, although cash remains the most popular payment option for the country’s small business owners.

**Percentage of businesses that accept payment through cryptocurrencies (by market)**



Cryptocurrencies are also gaining ground in Indonesia, where 24 per cent of small businesses accept it as a payment method.

However, in the other markets surveyed only a small percentage of businesses accept payment via such means.

Drum says that while there is a strong link between adoption of technologies and growth, “this does not always mean that investing in the latest thing is always a good thing – and bitcoins and other cryptocurrencies are a very good example of where businesses need to tread carefully.”

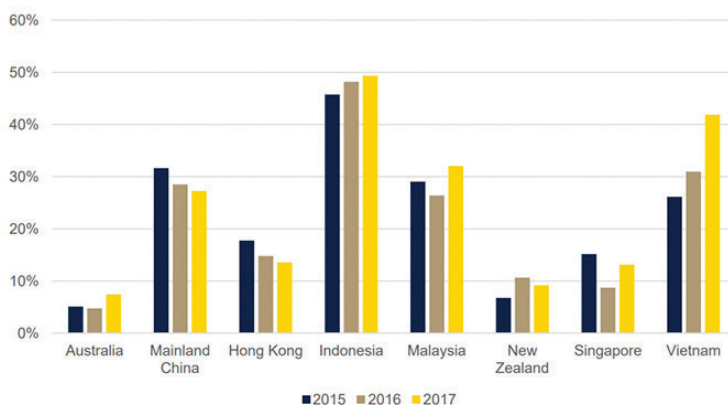
### Exports and Innovation are Key to Small Business Growth

Small businesses that have exports and innovation as a key part of their business model are significantly more likely to have grown in 2017 and to expect to grow in 2018. Amongst Asian business, 24.5 per cent expect revenue from overseas sales to grow in 2018, compared to only 6.7 per cent in Australia and 8.2 per cent in New Zealand.

“The survey results again show a strong link between innovation and growth – yet innovation is not all about white lab coats and Silicon Valley-types,” says Drum.

“Innovation can include introducing a new product or service to your market or investing in new processes – and this may come not just from a new invention but market research in overseas markets or tweaks to your existing product range.”

**Small businesses that will innovate through the introduction of a new product, service or process that is unique to their market or the world in the next 12 months (by market and over time)**



While technology is improving processes, small businesses in Asia were significantly more likely to introduce a totally new product, process or service to their market or the world than Australian and New Zealand small businesses.

This was especially true with businesses from Indonesia and Vietnam.

Of Australian companies, only 7.4 per cent expected to bring something new to the market (9.2 per cent for New Zealand), compared to an Asian average of 29.1 per cent.

### **Costs and Finance Hurt Small Business**

Survey respondents cited customer loyalty, good staff and improved customer satisfaction as having the most positive impact on their business in 2017.

Increased costs and increasing competition were seen as the factors most detrimental to their business. Staff costs were a particularly significant cost in Mainland China, and rent costs were again named as a problem in Hong Kong.

Small businesses in Australia and New Zealand are much less likely to have required external finance in 2017 than businesses from Asia.

In Asia, as well as Australia and New Zealand, banks are the most common source of finance, and in most cases businesses borrowed to finance growth.

In Singapore and Hong Kong, however, there were large numbers of businesses that accessed finance to cover increasing costs. This is a worrying trend, pointing to high cost structures and potentially high levels of debt.

Reflecting the above-average use of social media tools, online sales and new payment technologies, respondents in Mainland China reported a growing use of fintech to finance their business. Over a quarter of these respondents who raised funds in 2017 said that their main source of finance in 2017 was peer-to-peer lending and crowd-sourced funding. The implications of this are not yet clear but it indicates that fintech is a growing field.

### **Growing Cybersecurity Threat to Small Business**

Cybersecurity is a significant concern for small businesses across the region.

The survey average saying that an attack was very likely or somewhat likely in 2018 was 35 per cent, with Australia and New Zealand at the lower end (26 per cent and 19 per cent respectively) and Vietnam and Indonesia at the higher end (81 per cent and 76 per cent respectively).

Businesses that expect to grow in 2018 are the most likely to expect a cyberattack, with over 69 per cent expecting it.

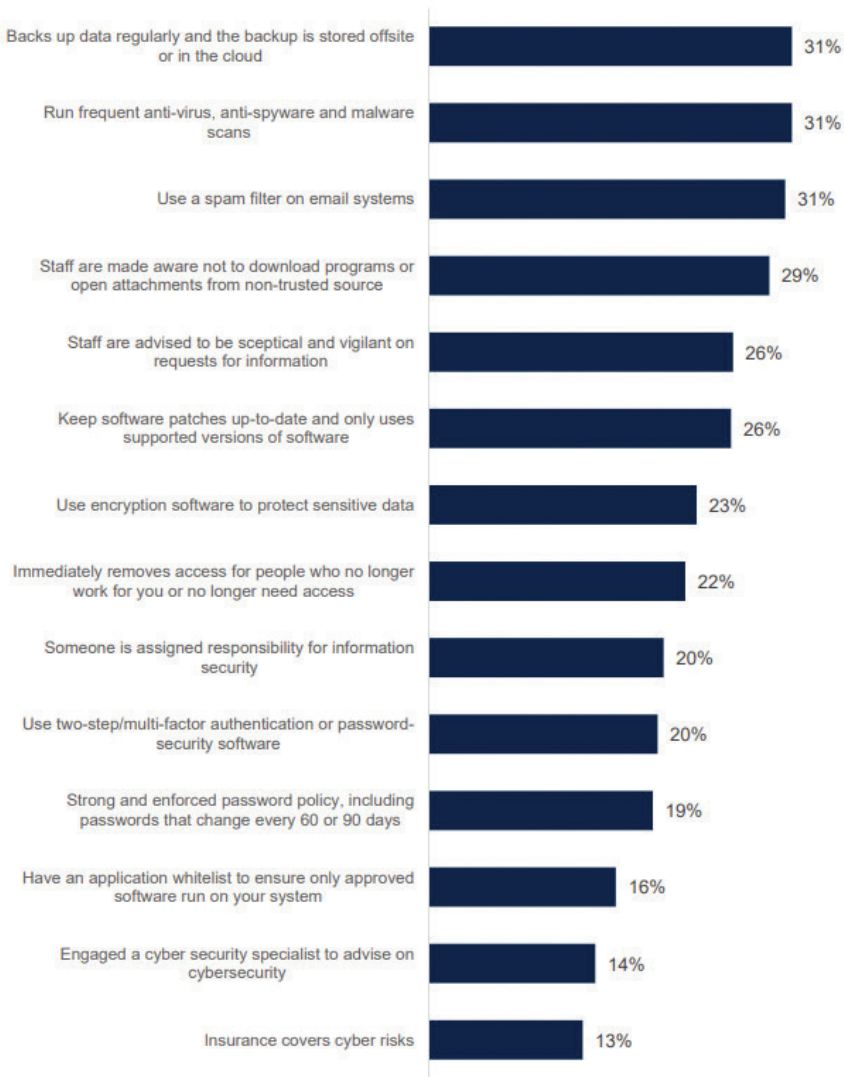
Even where businesses do not believe they will be subject to a cyberattack in 2018, the majority are still taking action to protect their systems. The most common cybersecurity actions are regular anti-virus, anti-spyware and malware scans, performing regular backups and storing the backup offsite or in the cloud, and using a spam filter on email accounts.

Actions such as insurance covering cyber risks, engaging a cybersecurity specialist, or having a “whitelist” application to block unapproved software appear to be fairly uncommon. Taking actions in these areas could do much to limit damage from a cyberattack, or even prevent it from occurring.

Drum says the outlook for 2018 is generally positive across the region, particularly for businesses from Indonesia and Vietnam, and those that make good use of technology, that are expecting to innovate and grow their revenue from exports.

“Businesses should be considering how to build their understanding of technologies so that they can invest in technologies that best meet their needs, and take time to learn about new markets. While such research may not result in an exporting opportunity, it may give businesses new ideas they can roll out,” he says.

**Actions small businesses are most likely to be taking to protect their systems (multiple response)**





## The Data

In total, 2952 participants completed the online survey, conducted from 13 October to 10 November 2017.

### Survey Participants, by Country

Australia **511**

Mainland China **606** (Beijing, Chongqing, Guangzhou, Shanghai)

Hong Kong **310**

Indonesia **304**

Malaysia **309**

New Zealand **306**

Singapore **305**

Vietnam **301**

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### ASEAN Federation of Accountants

Accredited Civil Society Organisation of the ASEAN

#### AFA Secretariat

Grha Akuntan, Jl. Sindanglaya No. 1  
Menteng, Jakarta 10310, Indonesia

**T.** (+6221) 31904232 ext. 700

**F.** (+6221) 3900016

[www.aseanaccountants.org](http://www.aseanaccountants.org)



@AFA\_Accountants



ASEAN Federation  
of Accountants