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TABLE OF CONTENTS

EDITORIAL BOARD.....	i
FROM THE RECTOR'S DESK	ii
MESSAGE FROM THE HEAD OF FACULTY	iii
EDITOR'S NOTE	iv
 Robotic Process Automation for Future Accountants: A Threat or Asset? <i>Wan Adibah Wan Ismail</i>	 1-3
 The COVID-19 Pandemic and Small Medium Enterprises (SMEs): A Humble Proposal. <i>Intan Marzita Saidon</i>	 4-7
 Are Millennials Whistle-blowers? <i>Nadzri Ab Ghani</i>	 8-12
 New Technologies: A Brief Introduction <i>Muhammad Hariz Hamid</i>	 13-15
 Is Tax Evasion Unethical? <i>Roshidah Safiei</i>	 16-19
 Integrated Reporting Epiphenomenon: Benefits and Challenges <i>Siti Sakinah Azizan</i>	 20-23
 Tax Auditors' Judgment and Decision Making <i>Nor Azrina Mohd Yusof</i>	 24-26
 ESG Reporting: Are We Ready? <i>Muhammad Hariz Hamid</i>	 27-29
 Accountants of the Future: What Skills will be in Demand in the Post-Pandemic Era? <i>Wan Nailah Abdullah</i>	 30-32



TABLE OF CONTENTS

Enhancing Qualitative Characteristics of Useful Financial Information: Slant from Malaysian Companies Act 2016 <i>Muslimah Mohd Jamil</i>	33-35
Training Requirements of Directors in Malaysia <i>Noora'in Omar</i>	36-38
FinTech in the Post-pandemic Future <i>Wan Nailah Abdullah</i>	39-41
Contradistinction of Agency and Stewardship Theories: A Brief Discourse <i>Muslimah Mohd Jamil</i>	42-44



ESG Reporting: Are We Ready?

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Corporate disclosure serves as a means to communicate the performance and governance of a company to its shareholders and other stakeholders. It can be classified into two broad categories: mandatory and voluntary. Traditionally, the mandatory disclosure (also known as “statutory disclosure”) has aided key executives in reporting their company’s financial performance to the intended users, that is, the financial capital providers. In fact, the management has used this process strategically to validate their stewardship function. The scope of this traditional reporting framework, however, is somewhat narrow. Particularly, the context of the general-purpose financial reporting is by far limited to financial information only, whereas both existing and potential investors would require information beyond accounting numbers. In other words, in order to evaluate the overall business performance, a more robust and wide-ranging corporate reporting framework that also incorporates voluntary disclosure is needed. This concern has led to the proposition of the environmental, social and governance (ESG) framework.

The ESG framework has emerged primarily to cater for the needs and expectations of both shareholders and other stakeholders in making informed business decisions (Eccles et al., 2011). The framework is useful in guiding companies to identify relevant topics and their respective metrics (Wilcox, 2020). This mainly includes addressing potential risks and opportunities that are material and have become the issues of concern, particularly on the environmental and social aspects (Heugh & Fox, 2018). Subsequently, the companies will report how those issues are integrated into their core strategy and performance. And this leads to the governance aspect, where those responsible for ESG reporting will ensure that the business activities are aligned with the strategy set in the first place (Arthur et al., 2019). Specifically, they need to assess whether the key performance indicators (KPIs) are met, the remuneration package is linked to the achievements, the accountability of the targets is allocated, and trust is built by fulfilling commitments.



Nevertheless, the ESG reporting framework was not free from criticisms. The proposed framework was commonly argued to be just another framework. Although it helps complement the traditional financial reporting with some non-financial perspectives, it still fails to give a complete picture of a company's overall performance. Moreover, just like any other voluntary disclosure, ESG reporting was alleged to be less useful as it lacks enforceability (Cort & Esty, 2020). Hence, companies would use the ESG framework merely as a guiding principle and will apply it only in certain ways that suit them. Furthermore, there are numerous versions of the ESG reporting framework available, which will make these reports become less comparable. ESG information was also contended to be less credible mostly due to its self-reporting nature. Especially when there are no regulatory assurance requirements, voluntary disclosure such as ESG reporting not only faces verifiability issues, but also lacks comparability across reporting companies (Hodge, 2020).

To recap, ESG reporting is the process of communicating a company's strategy and performance to its stakeholders, comprising information that can be both qualitative and quantitative. ESG reporting is claimed to benefit the company in several ways. Among others, it helps with meeting the needs of investors, managing material risks, and reshaping the business for the future. Nevertheless, to put a new framework into practice is definitely easier said than done. It requires a systematic and organized approach involving a systemic change. Despite the framework's critical acclaim, nothing is guaranteed. To make it work, companies should always align their actions with their ESG goals. Although we may agree that ESG reporting is the way to go, one important question we should ask ourselves is, "Are we ready for it?". The answer to this question is very much dependent on the individual company's circumstances. Even if some companies think they are not, someday, eventually they will be!

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