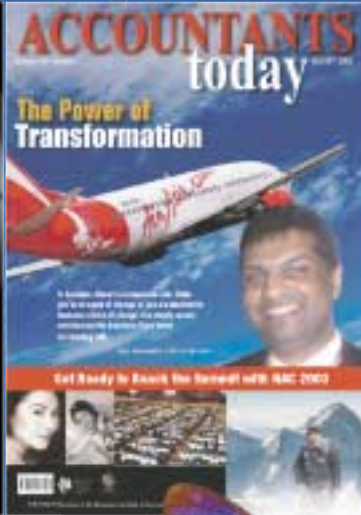


ACCOUNTANTS today

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2003

The Year in Review



Member of
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(Malaysia)



A Monthly Publication of the Malaysian Institute of Accountants



That Feminine Touch!
YBhg Datuk Siti Maslamah Osman



Malaysian Institute of Accountants
(Established under the Accountants Act, 1967)

The **Malaysian Institute of Accountants** is a statutory body set up under the Accountants Act, 1967 to regulate and develop the accountancy profession in Malaysia.

The functions of the Institute are, *inter alia*:

- To regulate the practice of the accountancy profession in Malaysia;
- To promote in any manner it thinks fit, the interests of the accountancy profession in Malaysia;
- To provide for the training and education by the Institute or any other body, of persons practising or intending to practise the profession;
- To determine the qualifications of persons for admission as members; and
- To approve, regulate and supervise the conduct of the Qualifying examination.

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EDITOR'S NOTE

Merry Christmas and Happy New Year

It is often assumed that the end of the year period marks the slow-down of activities for businesses. What with holiday celebrations like Hari Raya, Christmas and New Year's Day all lined up one after another, the majority of employees in various companies are seizing the opportunity to clear their annual leave and go off for some rest and relax.

Those unfortunate enough not to have any more leave left or have taken their leave earlier are left to fend the fort and carry on with business. With the lack of work-related activity going on and fewer colleagues around, let us sit back and re-evaluate what we have done for the past one year and let's take stock. Moving forward, let us also compose ourselves and prepare ourselves for the challenges that the new year will bring.

The year 2003 was a very eventful one. With unprecedented political and economic events shocking the world, we are facing a time like never before.

As we enter a new year, the Institute is also entering a new phase in its life. As promised, the Institute's publication *Accountants Today* has incorporated several interesting articles for its readers. We hope you like them!

The cover story this month features a round-up of some of the significant events, which took place this year. Apart from briefly looking at happenings around the world and the country, we have incorporated comments from the Institute's various committee chairmen on the milestones and breakthroughs that the respective committees have achieved with the support of their members and the Secretariat staff this year. Indeed it has been a year of achievements and much progress has been recorded in the year 2003.

Another must-read article is the Personality Profile piece, which features the former Accountant-General Datuk Siti Maslamah Osman who retired in October this year. An article that seeks to reveal the person who till recently was the highest ranking accounting official in Malaysia, it explores her achievements, thoughts on the Malaysian accounting system, work principles and habits, best memories, as well as her passion for the job and the profession. We hope these articles are able to please you, the reader.

In the spirit of the festive season, all of us here at *Accountants Today* wish you a Selamat Hari Raya, Merry Christmas and a Happy & Blessed New Year! In view of the festive season, there will be a bumper issue for your reading pleasure in our forthcoming issue. **AT**

Editor
ACCOUNTANTS TODAY

LETTERS TO THE EDITOR

A key element in the world of publishing is what readers have to say.

We want to hear from you on just about anything that appears in each issue of *ACCOUNTANTS TODAY*. Why not drop us a line now?

CONTRIBUTION OF ARTICLES

Accountants Today welcomes original and previously unpublished contributions which are of interest to accountants, executives and scholars. Manuscripts should cover domestic or international accounting developments. Lifestyle articles of interest to accountants are also welcomed.

Manuscripts should be submitted in English or Bahasa Malaysia and range from 2,500 to 5,000 words (double-spaced, typed pages). They should be submitted in hardcopy and diskette (3.5 inch) form in Microsoft Word or Lotus Wordpro. Manuscripts are subject to a review procedure and the Editor reserves the right to make amendments which may be appropriate prior to publication.

National Accountants Conference 2003



continued from November issue ...

Other Sessions Held During the Conference

7 October 2003

Issues and Challenges of Measuring and Managing Performance

By John Petty

National Vice-President, CPA Australia

In this presentation, Mr Petty said that there is a need for the finance function within the organisation to move from the traditional score-keeper role to be part of the management team as providers of analysis, business partners, leaders of change, innovators and contributors to the right business decisions. In essence, he explained the direction towards which the profession was headed, stressing that the finance function was no longer just to keep figures in check but expanding to include decision making and as strategizing roles, thus merging and assimilating to become part of the management and managing the performance of the company. He also recommended several steps to be followed in measuring and managing the performance of an organisation in connection with the finance function.

Business Re-Enterprise

Dr. Ilan Kogus, Psychologist, Australian 2000 Olympic Team and Founder Kogus Associates

Renowned for his work in inspiring organisations to win in the global game of business, he presented during the NAC 2003 a session that focused on what makes a good business. He shared with participants some pointers on achieving growth and success and how to sustain these and not fail prematurely. Among other things, Kogus also explained what the entrepreneurial process is about.

Environmental Reporting

By Roger Adams

Executive Director — Technical, ACCA

One of the reporting procedures that do not fall under the category of financial reporting, environmental reporting involves the publication in a company's Annual Report and/or self-standing reports of general environmental policy statements, usually including details of environmental performance. During this presentation, Mr. Adams presented among others the benefits of environmental accounting, an international overview on the developments on the topic and a look at the progress of environmental reporting in Malaysia. Participants were also given an insight on the role of accountants and the accounting profession in reporting and assurance provision.

Issues of Convergence with International Financial Reporting Standards

By Dr. Nordin Mohd Zain, Executive Director Malaysian Accounting Standards Board

The convergence of accounting standards has become a much-discussed issue of late. During this session Dr. Nordin gave the participants an insight into the topic, delving into areas such as international reaction to the convergence of these standards and financial reporting in Malaysia and other ASEAN countries. He also presented some of the issues and challenges as a result of this convergence.

Implementing Accrual Accounting in the Public Sector

By Colin Murphy, Executive Director of Finance Department of Treasury and Finance, Western Australia

As Malaysia is keen on adopting the accrual accounting system due to increased transparency and better corporate governance, this session was meant to enlighten participants on the system. Murphy contrasted cash accounting and accrual accounting, explaining the benefits of accrual accounting and why it would be good to implement. Using Western Australia's Financial Reforms as a case in point he explained to the participants how the process actually took place, key challenges, lessons learnt and future directions.

The Role of the Chartered Accountant in the ERP2 Selection and Implementation

By Chong Chee Hwa

Executive Chairman and Chief Executive Officer of Karensoft Technology Berhad Group

This information technology (IT) centric topic was meant to help people with non-IT backgrounds to understand Enterprise Relationship Planning 2 (ERP2) which is essential in the current business climate. ERP2 is actually a combination of ERP and Customer Relationship Management (CRM). Previously both were stand-alones. In this session, Chong highlighted to participants areas they need to look into and tips as to how to implement a good ERP2 system. He also pointed ERP2 functions within the system that tie closely with the finance functions.

Enterprise Governance

By David M. Abott, Director, Risk Management Practice, PricewaterhouseCoopers, Australia

During this session, Mr. Abott talked about good governance within companies, emphasising the current environment and issues related to governance. He presented governance frameworks and good governance practices as well. Good corporate governance, he said, is the true test of the management's commitment to transparency, accountability and integrity. **AT**

2003

The Year in Review

The year is about to come to an end but before we are able to psyche ourselves up to face the challenges that the coming year brings, *Accountants Today* takes a short walk down memory lane to recap on some of the significant issues and events that impacted the Institute as well as the profession in the past year.



Generally, 2003, especially in the earlier half of the year appeared to be rather trying and was marked by a few undesirable events. Early in the year, the global mood was somewhat sombre, caused by a growing concern on the US led strikes against Iraq. Further dampening the global climate were analyst predictions of bleak economies and a major slumping of large economies, which would inevitably affect smaller economies like ours. Soon after, sometime

towards the end of the first quarter, the Severe Acute Respiratory Syndrome (SARS) caught us unaware and unprepared, resulting in a temporary panic wave which had a (adverse) ripple effect on a number of industries especially travel.

And who can forget that this year, in October, the entire nation came together to bid farewell to our beloved Prime Minister of 22 years, Tun Dr. Mahathir Mohamad. Although his resignation was announced late last year, none of us felt the gravity of this event until the actual day came. With his

resignation, there were speculations aplenty as to the capability of his successor Datuk Seri Abdullah Ahmad Badawi and whether or not he would be able to maintain the legacy left behind by the former premier.

But it appears that the nation has embraced 'Pak Lah' wholly, placing their faith in his leadership and maintaining an open mind to the winds of change. Furthermore, the new leader did not disappoint in the sense that he has shown great commitment thus far in attempting to straighten out some of the contentious issues that have surfaced of late.

For the accounting profession in Malaysia, it has been a year of recuperation — a time to redeem its credibility in the aftermath of major accounting scandals such as Enron and Worldcom. It has been a time of introspection as to what had gone so wrong to result in such dire consequences, apart from being a wake-up call of sorts for accountants worldwide to take the value and integrity of the profession seriously.

There was a need for the implementation of controls and measures to ensure an anomaly of this proportion should never be repeated and the Institute heeded this call with the implementation of its Practice Review programme in January this year, which essentially functions by having an authorised independent reviewer assess the standards and procedures of auditing practices. The programme is meant to ensure that professional and ethical standards are maintained and observed by all members practising as auditors in Malaysia.

Another notable achievement this year was the launch of the Malaysian Institute of Accountants Qualifying Examination (MIA QE) of which the inaugural session was conducted in September this year. It received an encouraging response with a total of 163 candidates sitting for the examination, which was held in Shah Alam, Johor, Penang, Kuching and Kota Kinabalu. The MIA QE was launched early this year as an alternative pathway for accounting, business and finance graduates to qualify as accountants.

Apart from these, *Accountants Today* took the opportunity to catch up with the chairmen of the Institute's committees — tasked with handling the various areas affecting the profession — in order for them to share with us some of their achievements during the last year.

Datuk Dr. Abdul Samad Haji Alias

Chairman, Globalisation and Liberalisation Committee

During 2003, the Globalisation and Liberalisation Committee (GLC), with the support from the International Affairs and Special Projects Department, worked closely with the Ministry of International Trade and Industry (MITI), National Economic Action Council (NEAC), Accountant-General's Office (AGO), National Professional Services Export Council (NAPSEC) and the Professional Services Development Corporation (PSDC) by articulating its position and views on the accountancy services sector, especially with regard to the liberalisation issues and challenges.

One of the milestones achieved by the GLC this year includes the Signing of the Memorandum of Understanding (MoU) be-



tween the Malaysian Institute of Accountants (MIA) and the Indonesian Institute of Accountants (IIA). Another significant achievement is the completion of the strategy document entitled, *Globalisation and Liberalisation of Trade in Services — Challenges and Direction for the Malaysian Accountancy Services Sector* with particular reference to

the accountancy services sector in Malaysia, which the Council adopted on 26 September 2003. The document is tentatively scheduled to be launched in early 2004.

Throughout the year, member firms and members were regularly informed of the progress of liberalisation by the sharing of the knowledge acquired from participating

at the various international and regional meetings via different information channels. Also conducted were briefing sessions to members, associations and institutions of higher learning (IHL's) on issues relating to globalisation and liberalisation of trade in services, in particular highlighting the importance of capacity building by firms, as well as for the IHL's to bring this issue to their students at a very early stage. The GLC also played a significant role in developing the technical content for some of the sessions held during the National Accountants Conference 2003.

Looking ahead, the Institute will be focusing on implementing the various strategies and action plans that are enshrined in the abovementioned strategy booklet, *inter alia*, capacity and capability building, education and training, and strategic networking. The Institute looks forward to an enthusiastic response from member firms and members, as well as their constructive feedback and further ideas that they might have to propel our Institute to greater heights.

Albert Wong

*Chairman, Investigation Committee
Chairman, Ethics Committee*

This year, the Investigation Committee has cleared up some of the backlog of cases and commenced investigations of over 200 Continuing Professional Education (CPE) audit complaints against members for failure to respond to CPE audit queries by the Institute and/or failure to comply with the CPE requirements. In the coming year, the committee hopes to clear the remaining backlog of cases and to conclude investigations on the 200 CPE audit complaints.



Among the youngest of committees within the Institute, having been established this year, the Ethics Committee issued the Exposure Draft on a new By-Law on Professional Independence. This By-Law is substantially based on the section on Professional Independence in the International Federation of Accountants' (IFAC) Code of Ethics, obtaining feedback from regulators and members and finalising the new By-Law on Professional Independence for release next year. The implementation of this By-Law would propel the Institute and Malaysia to be at par with international ethical standards relating to Professional Independence. The Ethics Committee will also be commenting to IFAC on the proposed revision of the IFAC Code of Ethics.

The release of the new By-Law would require support from the Ethics Committee and the Secretariat in creating awareness and promoting the successful implementation of the principles in the By-Law on Professional Independence, through road shows and dialogues with members. Also, the Ethics Committee will engage in the revision of the entire By-Laws (On Professional Conduct and Ethics) in view of the proposed revised IFAC Code of Ethics, which was recently exposed by IFAC and other recent developments. This revision is to ensure that the principles in the new By-Law on Professional Independence (which apply to members in public practice) would similarly apply to members in commerce and industry, government and academia.

Beh Tok Koay

*Chairman, Tax Committee
Chairman, Disciplinary Committee*

The Tax Committee has actively participated in several dialogues/meetings with the Ministry of Finance (MOF), the Inland Revenue Board (IRB) & the Royal Customs Department and presented tax issues affecting our members for consideration.

In co-operation with the Malaysian Institute of Taxation (MIT) and Malaysian Institute of Certified Public Accountants (MICPA), the committee has through the Taxation Forum & Joint Public Rulings



Working Group provided inputs and suggestions on legislative interpretation and implementation matters. The committee also submitted a memorandum on Budget 2004 to the Ministry of Finance, which has adopted some of the recommendations presented.

In the future, the Tax Committee will continue to raise tax issues affecting members and the profession on a timely basis. It aims to intensify co-operation with the tax authorities and other professional bodies with a view to generate useful ideas for the resolution of practical problems and also to foster a more conducive environment for tax compliance. It will also be submitting a memorandum in Mid 2004 on 2005 Budget for MOF's consideration & expects to assist the IRB in finalising more public rulings through the Joint Public Rulings Working Group.

The Disciplinary Committee has timelessly and expeditiously heard and decided all the cases referred to it by the Investigation Committee and those that have come straight to the Disciplinary Committee. As there is no backlog in cases to be heard by the Disciplinary Committee, the Committee can start off the new year on a clean slate.

As for significant future plans, the Disciplinary Committee, together with the Investigation Committee, plan to look at amending the Accountants Act as well as the Disciplinary Rules of the Institute with a view of further improving the investigation and disciplinary rules and processes.

Dato' Nur Jazlan Tan Sri Mohamed

Chairman, Public Relations Committee



The Public Relations (PR) committee is responsible for the delivery of the Institute's communications strategy and public access strategy including planning and executing clear and mature PR programmes to establish a stronger brand identity for the Institute, publicising the role of the Institute internally and externally, establishing stronger and more effective media management and liaison functions, undertaking internal and external research to monitor the effectiveness of communication activities.

The committee has constantly looked at ways in which it is able to achieve these goals and implemented necessary measures to meet them. At present, the committee endeavours to enhance its media relations function by establishing strong ties and rapport with the mainstream media in Malaysia. Much emphasis is also being placed into making the Institute a focal point for business and accounting related issues. The committee is also involved in the Logo Design Contest of which the winning logo design will be adopted as the Institute's new logo.

Raymond Liew

Chairman, Editorial Board

Chairman, Audit Committee of Council

Chairman, Mergers and Affiliations Working Group

Chairman, Financial Planning Working Group

The Editorial Board (EB) team has achieved great heights particularly with the recent change of name from *Akauntan Nasional* to one that we believe is more current and apt — *Accountants Today*!

Although, the terms of reference infers "To consider all matters relating to the editorial policies and publication of the Institute's magazine (formerly journal)" the Editorial Board team has given the magazine a total revamp with better quality articles and the latest news relating to both the accountancy and other related business sectors, the likes of financial planning, travel and even "how to obtain more out of life" articles.

The new name itself is more contemporary, fresh in its outlook, exuberant in personality and the epitome of the profession's integrity. Definitely, the look and feel of the magazine has changed from somewhat



sombre and journal-like in nature to one that is more contemporary and upbeat,

To-date, we have received numerous positive feedback from readers of the magazine. Credit must also be given to our publishing consultant Executive Mode Sdn Bhd.

The EB team will continuously endeavour to improve the quality of the magazine in terms of look and content. At the same time, the EB will ensure that the objectives that form the core of the Institute's existence are still upheld without having to compromise the Institute's integrity or credibility. Further improvements in the pipeline include the change of the somewhat out-of-date logo of the Institute to give it a refreshed new look together with additional new contents such as book reviews, lifestyle articles among others. Watch out for all these additional new contents in the new year ahead!

The Audit Committee of Council (ACC) is a newly set-up committee within the Institute following the advent of corporate scandals such as Enron and WorldCom among others. It was established to provide members with better transparency and accountability of the Institute.

Some of its accomplishments to date include the establishment of an environment in which controls are currently operating effectively and the maintenance of an effective accounting system together with regular reviews of the Institute's management accounts by the committee. It conducts periodic reviews of the Institute's accounting policies and reporting requirements and also assesses the adequacy of management reporting apart from having periodic discussions on the intended scope of the internal and external audit in ensuring that there are no unjustified restrictions imposed by the management within the Institute.

It is also responsible for conducting periodic reviews on the findings of the internal and external auditors as well as evaluations of financial statements and the annual report prior to submission to the Council. All its findings are regularly reported to the Council.

This year, the ACC also established the

"Internal Audit Charter" which will be incorporated in the Institute's forthcoming annual report to facilitate transparency and accountability. It has been approved by the Council and is now put in place.

The ACC will continue to ensure transparency and accountability of all other committees within the Institute for the benefit of its members at all material times. On behalf of the ACC, I sincerely hope that all other committees will work together with us to ensure that the Institute is "managed" by competent members who believe in full disclosure and that transparency and accountability are the two core words of the day!

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The Finance Minister II, Dato' Dr. Jamaludin Dato' Mohd Jarjis recently called for the eventual merger of firms in order to provide a base for certain size, with a view to maintain high standards and the ability to offer a wide range of services from auditing to tax and financial planning. In responding to his call, the Institute has taken a proactive stance in establishing a working group on Mergers and Affiliations to encourage and facilitate the coming together of small firms by way of mergers or affiliations with a view to compete on a more level playing field.

The terms of reference of the working

group dictates that "the Institute is to provide guidance to members on the relevant issues pertaining to the undertaking of mergers, affiliations and/or acquisitions of firms together to provide a platform for eventual practice consolidation, expansion and/or succession".

With the establishment of the working group, the Institute hopes to address the problem before the Government steps in to force firms to merge. The formation of this working group within the Public Practice Committee, has resulted in a number of enquiries from interested member firms who seek guidance from the Institute.

A recent survey conducted under this working group indicates that many of these practitioners are either sole proprietors or less than five partner firms and many seek guidance to widen their firms' range of services other than audit and tax. Equally, a large number of member firms are seeking guidance on the success factors of mergers between firms with a view to expand their practice apart from moving towards specialisation in view of the country's entry into the World Trade Organisation (WTO) & the ASEAN Free Trade Area (AFTA).

The working group has had a number of meetings and an article on the pitfalls of mergers was published in *Accountants Today* — July 2003 issue.

In response to another call by Jamaludin for the profession to expand the range and quality of professional services, the Institute has been quick in ensuring that it is involved right at the early stage of development by forming a working group on Financial Planning.

The formation of the working group on Financial Planning was also in response to requests by member firms to expand their range of professional services to include financial planning, in view of the possible exemption of small audit in Malaysia and the recent introduction of the US Sarbanes-Oxley Act.

It was set-up to provide guidance to members of the Institute on this particular area and with a view to act as a voice of the Institute in dealing with the Securities Commission (SC) and other relevant statutory bodies. It must be emphasised that financial planning is still at the infancy stage of growth and it is timely for the accountancy profession to move towards this direction as the country is now moving towards becoming a part of the global financial planning community.

To-date, the working group has had a number of meetings, one of which involved four professionals from the financial planning arena in a "get-together" of which the excerpts were published in *Accountants Today* — November 2003 issue.

Manjeet Singh

Chairman, Continuing Professional Education Committee

The National Accountants Conference (NAC) 2003 was the highlight of the year. Whilst the attendance of more than 1500 just matched last year's record number, financially, it was a record success. The Conference is a platform to unify the profession. The scheduled bodies helped in marketing and sponsoring speakers. With the size of the event and concern for quality, the entire Institute's Secretariat was mobilised for the first time and it has been noted that unity of all departments achieved augurs well for future events.

Another success was the Regional Ac-



countants Conference in Kuching, Sarawak. The commitment of the branch committee saw the event attracting close to 300 delegates even at the height of the Severe Acute Respiratory Syndrome (SARS) epidemic where cases were reported in Kuching.

Meanwhile, CPE programmes have improved through better local and foreign speakers. A move to introduce contemporary soft skills subjects has been well received. Responding to appeals, fees of events organised by branches have been lowered. The committee expects the grow-

ing demand to see programme output intensified.

The CPE committee has commenced planning for the NAC 2004 with the goal of having a better all-round event and reaching greater number of members. Members' feedback on a new venue is being considered.

Also in the pipeline is a 12 month CPE calendar to enable members to plan ahead for their participation. Attaining the performance indicators in the Institute's Strategic Blueprint will see CPE events for all sectors of membership. For the first time topics for the academia and public sector will also be covered.

Also not too far off is the Institute's inaugural National Public Sector Conference 2004 on 1-2 April 2004 which is held in collaboration with the Melaka State Government. **AT**

That Feminine Touch!



“Since I was in the science stream, my friends and I were trying to figure out what course would be best. It seemed that accountancy was the best option so it was never something that I planned for.”

— Former Accountant-General YBhg Datuk Siti Maslamah Osman

For someone who never aspired to be an accountant in the first place, former Accountant-General Datuk Siti Maslamah Osman, who retired in October this year, has trod a path that fate rendered her with much bravado. This lady of a warm and friendly disposition, reveals how she came to be one of the stalwarts in the accounting industry when she took to a position that prior to this had always been male-dominated.

By Anuja Ravendran

Coming from an average family of six siblings (with her included), her dream during her younger days was always to become a doctor. “Somehow, at that point, becoming an accountant never entered my mind,” she admits. But when the time came to pursue her studies upon completion of her Form Six examination, she could not pursue her ambition and was therefore forced to determine the next best alternative and the best place to go. She finally decided to attend the Mara Institute of Technology (ITM) and as fate would have it, she ended up having to choose to do a professional accounting course from the Chartered Institute of Management Accountants (CIMA) which was offered at the Institute instead. “Since I was in the science stream, my friends and I were trying to figure out what course would be best. It seemed that accountancy was the best option so it was never something that I planned for. Furthermore, as my late father was the sole breadwinner for the family who held a Government job, I could not afford to be choosy and since I was given an opportunity to continue my studies, I was thankful,” she offers.

She spent two years at ITM and went on to complete her final part in the UK. “Back in those days, the final part was usually taught by part-time lecturers due to the lack of full-time lecturers but they were sometimes too busy to handle us so going abroad to complete it was a better option. I was lucky enough to secure a Government scholarship to pursue my studies abroad and I spent two years completing my studies in Birmingham”, she says. “Without the scholarship I would not have been able to go abroad and might have had to struggle for a few years in completing my final part and to add to that, I was even more grateful because of the fact that there would be a job waiting for me here when I got back.”

Upon her return to Malaysia in 1972, she reported for duty at the Accountant-General’s Office in Kuala Lumpur after which she received her first posting to work with the (then-

called) Telecoms Department in Jalan Raja Chulan.

When asked if she had harboured any aspirations to become the AG someday, she said that it had never occurred to her, and that she was just thankful that she came back to a job. "Back in those days, it was good enough to secure a good job that was better than your father's," says the Klang-born lady.

After her stint at Jabatan Telekom, she returned to the AG's Office to work under (the late) Encik Zainul Abidin Yahya who was then a director at the department. According to her, as his chief interests was in systems development, computerisation and consultancy, she too was always involved in projects of a similar nature at the Office. In fact she adds that (the late) Encik Zainul Abidin, when he became the Deputy AG had forced her to take up systems analysis as an area of study. Despite having doubts at first, she later came to appreciate his foresight as the exposure she gained helped her a lot when she was involved in the first computerisation project for the agency in 1978, in which she played a role in designing the system. Though she spent most of her time working in more technical circumstances, Datuk Siti Maslamah states that she was involved in operations for once when she was seconded to Bank Simpanan Nasional as their Finance Manager. In 1987 she was called back to serve the AG's Office as there was a bigger computerisation project in which her expertise was required. This is the system which is being maintained till today.

In October 2000, Datuk Siti Maslamah was chosen to helm the AG's Office after being the Deputy AG for four years. That meant becoming the leader of 2,000 staff in the AG's Office and 4,000 staff under the Accounting Services division. The latter are accounting staff placed in other Government agencies but they still report to the AG.

Managing 6,000 staff is no easy task, as it requires a highly strategic leadership style. Datuk Siti Maslamah says that every leader must be focused in carrying out their roles. It is important to set goals and try to achieve these in the best possible manner. However, she did not deal directly with all her subordinates, further adding that she had her deputy and various directors helping her in the course of managing the entire Office. Carrying out a one-man show is impossible,

she laughs. "Teamwork came into play in these instances therefore enabling me to handle matters of the highest priority." However, she definitely endeavoured to keep in touch with organisational developments through monthly meetings with her deputy and directors.

Busy as she is, Datuk Siti Maslamah is not one to overlook the human factor involved when it comes to employees. Apart from taking part in co-curricular and recreational activities organised by the clubs such as the Sports Club in the organisation, she also made it a point to meet every new staff who joined the Office. Whether or not they are posted to other Government agencies or remain to work at the AG's Office, when they reported for duty, she took the initiative to spend at least an hour, briefing them about the policies and practices of the organisation. Jestingly, she adds, "Also they



"I wanted to see an increase in the level of professionalism among my staff especially accounting technicians and assistant accountants, ... I wanted to make them realise that there is more to being successful than completing a degree or professional qualification and securing a job."

YBhg Datuk Siti Maslamah Osman

needed to know that I existed and at least how I look!" Furthermore, she believed that this would further motivate the staff as they would realise that they worked for someone who actually wanted to meet them.

Indeed, these human resource (HR) concerns are those that define her achievements during her time as the AG. Every AG, she says, is known for implementing something new to further increase the efficacy of operations and services within the Office. Her forte, she offers, is human resource development. "I wanted to see an increase in the level of professionalism among my staff especially accounting technicians and assistant accountants," she says firmly. "I wanted to make them realise that there is more to being successful than completing a degree or professional qualification and securing a job."

When the idea first occurred to her, Datuk Siti Maslamah decided to confide in two other accountants and subsequently once the idea was fully explored and the feasibility established, the Human Resources Development Programme was

thus conceived. There was an existing HR Programme then but she thought it could be enhanced to become more strategic with policies or guidelines that leverage on giving staff increased exposure and avenues to gain experience as well as knowledge," she reveals.

The entire programme is three-pronged in that it focuses on three core areas. In order to facilitate the acquiring of experience and knowledge especially for fresh graduates, she put in place a job rotation procedure in which accounting staff would be transferred to a different office every three years. This, she believes is highly effective in broadening the horizons for the staff and is essential in helping them grow career-wise. In addition, she says three years is long enough for someone to gain enough experience before moving on. "These days you see so many youngsters job-hopping

but it's important to ensure that all that 'hopping' is actually beneficial to the individual and not just motivated by monetary gains." The job rotation function, she informs, has been implemented and is in 'full swing'.

The second module, she explains, was to help these staff increase knowledge through seminars and training sessions. A committee was established to execute this function, she adds. Among others, its task was to determine what kind of training was required by which staff. There would be mandatory training as well as some that were optional, she pointed out. These, she says, were to be conducted via classrooms or on-the-job training sessions and require everyone to get involved in basic operations. Though this module has not been implemented due to a shortage of training facilities, the plan has been identified and will most likely commence early next year when the construction of the *Institut Perakaunan Negara* — which is meant to act as a training institute that operates in a similar capacity as *Institute Tadbir Negara* (INTAN) but serving the accounting indus-

try instead — is completed.

The third component, she states is getting staff involved in co-curricular activities. It is thus called because it is separate from the job itself. One of the initiatives that have been implemented thus far is the pre-placement or induction course for new staff. In the past, new staff are immediately posted out to their respective agencies but with this initiative, they remain with us for 10 days before being posted out to learn all they can about the organisation and how things work.

Apart from that, she also speaks of the newly implemented Mentor-Mentee Programme (MMP), another milestone during her time at the Office. I have noticed that technical people like accountants always tend to be a little reserved. She feels that the MMP might be a way to address this issue and help them become more socially adept. The emphasis of this programme is to bring out the hidden potential in people and to help them overcome shyness and barriers to explore what they would like to excel in, for instance public speaking, she explains. A capable senior is appointed as a mentor while the juniors are mentees and they are given the freedom to choose a mentor whom they feel comfortable with.

While most of the initiatives implemented by Datuk Siti Maslamah are likely to take some time to bear any measurable results, whatever said and done, it is obvious that this lady holds HR issues close to her heart and made sure that they did in fact kick off during her time. “At least I got it going,” she says.

On a more technical level, Datuk Siti Maslamah says that the AG’s Office has commenced the reengineering process of the accounting system which has begun at the state level. It began at the states and not centrally because some of the states could not complete their financial statements on time. The AG was asked to design and implement a new system although there is need for a standardised accounting system in which cash accounting will still be maintained but reporting will be conducted accrually. She estimates the exercise to be completed in the year 2005 as it involves the redevelopment and replacement of hardware and software at branches throughout the country.

The present accounting system, she notes, is over 50 years old and needs to be



“I have always felt that we should treat others how we expect them to treat us regardless of what our status is and it can be applied even in the work environment. For instance if I wanted to pass someone some documents to be signed, I would arrange them in the correct order so the other person is able to go through them easily, and not get annoyed at me for shoddy work.” **YBhg Datuk Siti Maslamah Osman**

changed especially now with the rapid progress of technology. Furthermore, the Finance Minister II, Dato’ Dr Jamaludin Dato’ Mohd Jarjis is keen on implementing the accrual system, which is more accurate. However, for now we can only start with the reporting process, she says. The key to implementing this efficiently is to inform all ministries what it is, which according to her, has already been done by her successor. Also, it will take at least 10 years to complete implementation if the present system is to be replaced with an accrual one.

When asked about what keeps her going, she says that she is driven by job satisfaction. “I loved my job and I couldn’t have asked for anything more!” she reveals. Though she agrees that it was not what she wanted to do in the beginning, it turned out to be something she became passionate about and never for a moment does she regret choosing this path.

About her principles on work, she stresses that, “Everything boils down to having a system.” Because I have been trained that way and have been involved in many projects related to systems, I suppose putting a system in place to achieve goals is something that has been ingrained in me, she admits. Somewhat meticulous in nature, she goes to great extents to ensure that a system she has set is followed in the quest of reaching her targets. “It has always governed the way I work, this systemic approach to things and it has worked for me all this while!” she laughs.

She also strongly believes in the ‘Do-unto-others-as-you-would-be-done-by’ concept. “I have always felt that we should treat others how we expect them to treat us regardless of what our status is and it can be applied even in the work environment. “For instance if I wanted to pass someone some documents to be signed, I would arrange them in correct order so the other person

is able to go through them easily, and not get annoyed at me for shoddy work.” It is not very difficult to go the extra mile when it comes to these things, she states.

Datuk Siti Maslamah adds that she could not have possibly got through the various challenges without the support of her family — her husband and daughter she claims, are understanding of the nature of her job and do not harass her. “Although sometimes they grumble about how busy I am, it is always quickly forgotten”.

Despite her busy schedule, Datuk Siti Maslamah always tries to make time to explore new places as she is quite the nature-lover. She confesses that she loves the beach, forests and mountains. Back in 1986, she climbed Mount Kinabalu and has been to a number of interesting places including her latest one in October, which was a trip to see the Pinnacles at the Mulu National Park in Sarawak. Most of these trips, she adds, are usually office tours, which she enjoys partaking in because she is able to get to know her staff better. Apart from office trips, she also actively participates in sporting events held by the Sports Club. “During working hours, I hardly get time to socialise with the others and I take the opportunity to do this during these trips.”

Now that she is retired, Datuk Siti Maslamah wants to take a break from the hectic schedule she once maintained. “I am looking forward to pursuing religious knowledge, now that I have the time.” And certainly, she would also like to spend some quality time with her family. Also, she confesses that she had always wanted to drive across all the states in Malaysia and explore the various interesting places scattered nationwide. It would be really fun if we could go in a convoy of a few cars, she says enthusiastically clearly indicating that she is really looking forward to this new path that lies ahead of her. **AT**

Cut Down on Contract Stress

By Eric Laursen

Automating a critical process can make your business work better.



Contract Software Has Appeal
Corporate spending on contract and trade management applications will grow at an 80 per cent compound annual rate, reaching US\$3 billion to US\$5 billion in five years.

Source: 2001 survey by Credit Suisse First Boston, www.csfb.com.

Say a company signs a contract with a long-term customer for an item the customer expects to buy over an extended time period. The contract specifies a base price that will drop or increase depending on whether the customer buys more or less of the item than expected.

How can the company's financial managers be sure that accounts payable is keeping track of how much the customer owes and is billing accordingly? Creating a central repository for all of a company's contracts is one way to keep all the details straight. By automating their contract management systems, corporate CPAs and companies can cut expenses, increase revenue and manage business risks.

Automated contract management systems are network-based software platforms that make contract terms accessible to every person within an organisation who needs to know; customers and suppliers also can be brought into the loop. Mary Barth, CPA, the Atholl McBean professor of accounting at the Stanford Graduate School of Business, says the contract management function has two underlying goals: "It should ensure the promises a company is making and the obligations it is taking on are always visible to the right people in the organisation. Second, it should allow top management to see that what the sales staff is promising is acceptable." The fundamental purpose of contract management, says industry spokesperson Neil Couture, director of development at the National Contract Management Association (NCMA), is to fully integrate the

contract management process and the rest of the company's operations.

Implementing the Software

"Automation will embed any contract within the company's operations using technologies such as e-mail, electronic document exchange and instant messaging. The process of installing and implementing automated contract management systems is no more complicated than putting an enterprise resource planning (ERP) solution into place," says John Miles, a senior manager at Andersen, who helps clients implement technology. The level of difficulty depends on the volume and complexity of a company's contracts and the variety of modules or functions the vendor offers and the client selects. Modules may range from rebate management to financial reconciliation, adjudication of incentive or chargeback claims from a trading partner to payment services (following through on payments due the company through the life of the contract).

Most vendors offer automated contract management systems with this modular structure, and as the products have matured, they can be more easily tailored to the needs of individual client companies. The result is most systems can be adapted to the needs of companies ranging from small or mid-sized to those in the Fortune 500.

Here's one company's implementation experience: Red Gold, a large, privately held agricultural processing company in Orestes, Indiana, has 960 employees across the state. It supplies grocery stores

“The fundamental purpose of contract management ... is to fully integrate the contract management process and the rest of the company’s operations.”

**Neil Couture, Director of Development
National Contract Management Association**

with private-label and brand-name tomatoes and has been using an automated system for two years supplied by I-many, a Portland, Maine-based software provider. The system allows Red Gold to better track clients’ deductions and cash discounts. Linking directly with the terms of the contract itself, the system accumulates documentation in an orderly manner “so that if the company wants to dispute a discount, it has the evidence to do so,” says Mitch Rader, CPA, vice-president of finance at Red Gold.

Under its previous, paper-based system, the company was only partially successful in pursuing invalid cash deductions and would get the money back infrequently because it was difficult to pull the documentation together. Rader notes that last year, using its new automated system, Red Gold was able to trace documentation to original invoices in 97 per cent of cases. As a result of these efficiencies, the software paid for itself within a year.

Red Gold chose I-many because other companies in the food industry used this vendor, it liked I-many’s procedures for tracking and resolving discount and deduction issues and found it could easily integrate I-many’s product into its existing ERP system. Red Gold needed only two months to get up and running with its new software. Rader credits this partly to the assistance of I-many’s customer support team, who were available off-site to answer questions, and partly to the procedural steps in Red Gold’s manual contract management system, which closely paralleled those in the new system. Red Gold also had

previous experience installing other companywide automated systems.

Rader found a consultant who had installed the system at another company. She helped Red Gold to diagram the workflow it wanted to direct through the new system and oversaw the implementation from beginning to end. Having someone aboard who had already gone through the process helped Red Gold complete its implementation without missing any important elements, so that about a year later, when the company reviewed the procedures that were in place, it did not need to make any major changes. By that time, Red Gold’s

company’s pricing and those they are not.

■ **Input your company’s present contract archive.** Scan in all paper-form contracts. Red Gold also scanned in check remittances, proofs of delivery and other documentation to create PDF files to attach to e-mails to correspond with clients about deductions or other matters. In each case, Red Gold had to decide how far back it wanted to go — issues involving discounts or deductions more than six months old are difficult to resolve, Rader notes. Scanning documents is now an ongoing practice at Red Gold.

Executive Summary

Automated Contract Management Systems are network-based software platforms that make contract terms accessible to every person within an organisation who is affected by them. Customers and suppliers can also be brought into the loop.

The Actual Level of Difficulty for implementing an automated contract system depends on the volume and complexity of a company’s contracts and the variety of modules or functions offered by the vendor and selected by the client.

Automation May Reveal Ways to streamline the entire contract management process, but not immediately. A year after implementing a new system, companies need to assess where things are and what opportunities exist for reforming or simplifying procedures.

Contract Management Systems Tie executives directly into the negotiating process, give negotiators access to standard contract language and then set up a process that ensures the terms of the deal are carried out in a timely manner.

When Companies’ Automated Contract Management systems don’t run smoothly, it’s usually not the software causing the problem but the workflow process it was built into. It is crucial to bring all the departments that will be affected by the new system into the implementation process.

staff had enough experience with the system that they were able to make needed modifications — mainly to create more reports for management — without bringing the consultant back or asking I-many to make the changes.

Here’s How

Although the details will vary, Rader breaks down the process of implementing an automated contract management system into the following steps:

■ **Identify the transactions your contracts need to cover.** Determine the key elements your agreements need to track. In Red Gold’s case, the critical items were deductions customers are entitled to take on the

■ **Integrate existing systems.** Establish Internet (or Intranet)-based links between your contract systems, especially ERP and CRM (customer relationship management).

■ **Set up workflow.** Determine to whom various contract terms must be routed and how long each stage of the process must take. This may be a critical step since it can turn up internal procedures that need fine-tuning, for example, ensuring that the sales force, offices in different locations and clients are uniformly aware of how often certain problems occur and the amounts of money involved.

■ **Design reports for key functions.** Determine what types of reports the system

must generate to measure your company's performance and how to customise them for certain situations, such as resolving pricing disputes quickly and successfully.

■ **Take a step back.** Assess where things are and what opportunities exist for reengineering or simplifying procedures a year after implementing a new system. Automation may not immediately reveal ways to streamline the entire contract management process. Red Gold found it wanted to tweak the aggressiveness of its time-tables after learning some clients needed more or less response time to notifications before another area in the company took over the matter.

According to I-many's Mark Christiansen, executive vice-president of marketing and

"A company's contract management team — those who are in charge of tracking, filing and issuing notifications based on the company's contracts — has a vital role in communicating the committee's decisions to the implementation team and making sure its work consistently reflects those decisions."



strategy, the vendor's most complex programme, which tracks rebates and charge-backs, can take anywhere from three to nine months to implement because it must be tied into electronic data interchange links with the client's distributors. Tasks include importing and modifying contracts, training contract management staff, resolving errors and creating interfaces with the company's existing ERP and CRM data systems. "Some of our customers have 10,000 contracts covering 50,000 products with different prices," says Christiansen. "The really daunting thing is to make sure that the 100,000 orders against that contract are being executed on time, without fail."

Rochelle Rubin is manager of the strategic legal solutions practice at Deloitte &

Touche in Chicago, which offers information technology consulting — including implementation of automated 'contract management systems — to the law offices of large corporate clients. She notes that the actual size of the client has little to do with how complicated an implementation turns out to be. "It depends mainly on how much of the operation and how many locations are involved," she says. "If it's only one small department, it could take as little as a month and a half, if it's a huge department that handles everything from claims litigation to intellectual property, implementation can take up to a year."

Better Than Spreadsheets

Persistence Software, a San Mateo, California company, uses automated contract

management software from diCarta to manage its support and maintenance agreements. "I can't emphasize enough the importance of support and maintenance revenue," says Persistence CFO Christine Russell. "It's great to go into a quarter knowing that a certain amount of your revenue is already achieved because it's defined by those agreements."

For a long time, the most sophisticated software used in contract management was an electronic spreadsheet, which Russell found wasn't the most efficient way to monitor contracts. "The new system tracks renewals of these agreements and can even indicate when contracts concluded by different Persistence offices can be modified to terminate simultaneously, further rationalising the company's contract management process," observes Russell. This means Persistence finds it easier to handle multiple contracts covering each of a client's different offices, sometimes as many as 20 for a single client. Now Persistence can send out renewal notifications, which automatically offer to adjust the contract end dates to make them all conclude simultaneously. Clients can accept by visiting a website the vendor maintains for Persistence. The result, Russell says, is to consolidate more of the billing for each client. "All of this eliminates a major drain on the time and energies of the company's sales force, allowing it to concentrate more on developing new business," she says.

Get the Right People Involved

Making sure all the appropriate people are involved in choosing the vendor, structuring the workflow and deciding which functions to include in the automated system are crucial to a successful implementation. Donna Ireton, director of acquisition management consulting and training at Advanced System Development (ASD), an Arlington, Virginia, consulting firm that provides information management and technical support, including contract management processes, says, "You get problems when important people were not part of the selection or implementation processes, sometimes resulting in the purchase of an out-of-date system or one that does not meet all the right people's needs."

A company should form a committee in-

cluding a senior official from each department affected by the new system, such as finance, technology, property/inventory and supply, "plus a couple of worker-bee types to make sure it all works on a practical level," Ireton says. They should then pick an implementation team and decide how many people to interview in mapping out the new system, who should be responsible for getting or inputting information, and who should work with the vendor on design.

Ireton stresses not to leave too many tasks to the "techies who may have the technical knowledge but may not be familiar with the work processes the software package must serve. A company's contract management team — those who are in charge of tracking, filing and issuing notifications based on the company's contracts — has a vital role in communicating the committee's decisions to the implementation team and making sure its work consistently reflects those decisions.

What's Out There?

Software developers offering contract management applications range from large diversified vendors to a few smaller companies that concentrate exclusively on this area. ERP and CRM software vendors such as Oracle, SAP, Siebel and i2 offer programs containing some portion of the contract process. A few smaller companies have also emerged that concentrate entirely on this area, including diCarta, I-many and MyContracts.com. Large and small, each of these vendors pays a great deal of attention to what features and services its rivals offer and strives to equal or outdo them. "Rapid evolution is going on in this marketplace," says Rick Ressler, CPA, partner in the risk consulting group at Andersen in Houston, "so I don't like to say there's one vendor out there that's better than another because that might change tomorrow."

MyContracts.com, a web-based vendor, focuses on buy-side contracts. Redwood

City, California-based diCarta concentrates on both buy- and sell-side contracts, including supplier and service level agreements. "Say a certain type of company is being investigated by the SEC," says Ressler, who is now implementing a diCarta system at Andersen, "and we want to do a review of all our legal agreements with that type of company. In the past we couldn't because our contracts were not centralized for all of our firm's offices. This situation will no longer be a problem with the new system."

The modular structure is a plus for firms that want to automate contract management piece by piece, rather than by adopting a single comprehensive system, points out ASD's Ireton. "Not everybody will need an auction system or an order aggregation system all at once," she says. "As you integrate more capabilities, look around and see what more you can use." ASD does not select vendors or implement automated contract management systems for its clients. Ireton says some clients have started

Contract Management Vendors

Vendor	Product	Address	Telephone	E-mail/Website
compliant	Compliant Access	27070 Miles Road, Solon, Ohio 44139	440-519-2531	tfrank@compliant.com
diCarta	diCarta Contracts	600 Allerton Street. Second Floor, Redwood City, CA 94063	888-496-2600	www.dicarta.com
i2 Technologies	i2 SRM	One i2 Place, 11701 Luna Road Dallas, Texas 75234	800-800-3288	www.12.com
I-many	I-many Contract Management Solutions	537 Congress Street, 5th Floor, Portland, Maine 04 101	207-774-3244	info@imany.com
J.D. Edwards	OneWorld* Xe	One Technology Way, Denver, CO 80237	800-727-5333	www.jdedwards.com
MyContracts.com	MyContracts	410 Broadway Santa Monica, CA 90401	866-692-3325	www.mycontracts.com
Oracle	Oracle Contracts	500 Oracle Parkway, Redwood Shores, CA 94065	800-672-2531	www.oracle.com
Ozro (formerly Trade Access)	Ozro Agreements	One Bowdoin Square, Seventh Floor Boston, MA 02 114	6 17-994-8800	Info@ozro.com
PeopleSoft	PeopleSoft Contracts	4460 Hacienda Drive, Pleasanton, CA 94588-86 18	800-380-7638	www.peoplesoft.com
Provato (acquired in April by I-many)	eAgreements	1300 Clay Street, Suite 500 Oakland, CA 94612	866-776-8286 or 888-880-5862	info@provato.com
Siebel Systems	Siebel Contracts	2207 Bridgepoint Parkway, San Mateo, CA 94404	650-295-5000	www.siebel.com
Webango	ContractControl	3508 Bassett Street.	408-562-9925 Santa Clara, CA 95054	sales@webango.com

The Credit Collection Period of KLSE Listed Companies

By Angappan Regupathi & Nasruddin Zainudin

This study is about the average credit collection period (ACP) of 196 non-financial companies listed on the KLSE. The study explored the ACP profile in Malaysia using the companies' financial statements between 1990 and 2000. It also investigated the impact of three selected variables — industry sector, economic condition, and company size — on the ACP. The study found that different industry sectors had different ACP levels. ACP was lower before, compared to after, the advent of the currency crisis in 1997. The relationship between company size and ACP was dependent on the industry sector but not the crisis. In the trading & services, mining, technology and property sectors, ACP was independent of company size. In the consumer products, industrial products, and construction sectors, however, ACP was negatively correlated with company size. In contrast, in the plantation sector, ACP was positively correlated with company size.



Credit is the ability of a business or individual to obtain economic value now, on faith, in return for a promise to pay at a specified date in the future. Trade credit involves supplying goods and services on a deferred payment basis, that is, instead of requiring cash at the time services are provided, or goods are sold, payment is accepted at a later date. Until payment is made, the amount owed, known as accounts receivable or trade debtor, is reported on the balance sheet as an asset that represents the supplier's claim against the customer.

Generally, offering credit will result in an increase in the sales volume of a company. However, this will not necessarily be translated into an increase in profit since significant costs are involved in granting trade credit. In addition, profits of a company,

whatever the size is, depend largely upon its frequency of reinvestment, or turnover, of its capital. Frequent turnover would not be possible if collections are slow since they deny the company the use of its own capital. Thus, prompt collections are vital to the success of any business that sells on credit.

In general, companies would want to collect receivables sooner rather than later as this will reduce collection period and will enable the company to increase its frequency of reinvestment of its capital. Collection period is, therefore, an important factor that may influence a company's overall performance.

Besides having some bearing on a company's success, collection period is being used as a tool in measuring the credit management performance. Pike and Cheng (2001) found that the most commonly employed performance measure is debtor days (commonly known as average collection period), which is employed by 84 per cent of responding firms. Average collection period (ACP) expresses the average time, in days, the receivables are outstanding. As the product of credit policy and collection effort, this figure, when compared to the credit period allowed, reflects the performance of the collection activity of a company.

Previous studies have indicated that accounts receivable constitute a substantial figure on the balance sheets of most companies surveyed. For example, accounts receivables are 21 per cent of US manufacturing corporations' total assets (Mian and Smith, 1992). In the UK, the figures are 19 per cent for large companies (Pike *et al.*, 1998) and over 30 per cent for small and medium-sized firms (Wilson *et al.*, 1995). Despite representing a major proportion

of corporate assets, little attention has been paid by researchers to accounts receivable, as compared to other areas of corporate finance. Especially in Malaysia, many aspects of trade credit are unexplored. Hence, research in the local context in this area is both timely and meaningful.

Literature Review

Several early publications on credit management focused on the credit management practices of businesses in the UK and the US. Grablowsky (1976), for example, surveyed the accounts receivable management of small businesses operating in Virginia, US. Peel and Wilson (1996) and Wilson *et al* (1996) conducted similar studies on UK small businesses while Peel *et al* (2000) narrowed down the scope to include small UK manufacturing firms. Studies on credit management practices of larger firms were mostly done on UK companies (Kirkman, 1977; Goddard and Jay, 1981; Pike *et al*, 1998; Pike and Cheng, 2001). These studies looked into a variety of relationships among the different aspects of credit management.

Many studies concentrated on the credit period and late payment (Wilson and Summers, 2002; Pike and Cheng, 2001; Peel *et al.*, 2000; Neale and Shipley, 1985; Shipley and Neale, 1984), but only a few on the collection period (Deloof and Jegers, 1996; Pike and Cheng, 2001). Credit period is the length of time allowed to the buyer before payment is considered past due. Late payment is the fulfilment of debt obligation at a date beyond the credit period. This study focuses on the average collection period (ACP), the average time, in days, taken by the company to collect their accounts receivables or trade debtors.

Neale and Shipley (1985) compared the credit period of manufacturing firms in the UK and the US, classifying them into broad categories of consumer or industrial products manufacturer, and whether they served domestic or export markets. Their findings indicated that the credit period granted by industrial products manufacturers was, on average, longer than that allowed by the consumer goods producers. Pike and Cheng (2001) used industry sector variables to explain debtor days and they found that the food and drinks sector had lower debtor days than the other three sectors.

Shipley and Neale (1984), in their study on the UK and US firms, observed that there was only a moderate difference in the credit duration of larger and smaller firms. In both countries, the average periods were perceptibly longer among the larger companies. Deloof and Jegers (1996) too found similar results among Belgian firms.

Pike and Cheng (2001) had examined the influence of seasonality of sales on debtor days, and found some evidence that showed that firms with seasonal sales had lower debtor days. Edwards (1997) stated that the economic environment affecting the market could determine credit policy. However, there was no empirical evidence to support the claim because no prior study had investigated the impact of economic conditions on credit collection.

Prior studies had also explored many other variables, apart from the ones described above, to explain credit collection, credit period or late payment. For example, Pike and Cheng (2001) used customer concentration, marketing channel, competitiveness, product specialisation, as well as credit policy to explain debtor days of UK firms. However, all of these, except credit policy variables were not useful in explaining debtor days.

Research Questions

In broad terms, this study was attempted to provide some empirical evidence about the distribution of average collection period (ACP) of trade credit by listed companies in Malaysia, and the influence of some selected factors on the ACP. In particular, this study was undertaken to address the following research questions.

- ① What is the profile of corporate annual ACP in Malaysia?
- ② Do different industry sectors have different levels of ACP?
- ③ Is the ACP different given different economic conditions? More precisely, is the ACP different before, compared to after, the advent of the currency crisis in 1997?
- ④ Is ACP related to company size?

Methodology

This study used the data extracted from the annual financial statements, from 1990 to 2000, of 196 non-financial companies that were listed on or before 1991 on the Kuala

Lumpur Stock Exchange (KLSE). The companies' annual financial statements were obtained from the KLSE-RIAM website, "Company Database" (<http://www.klse-riam.com.my>). Financial companies were omitted from this study because their credit management activity is distinctly different from that of non-financial companies. Often, in financial statements of financial sector companies, we would not find the trade debtors or accounts receivable item that we would normally find in the financial statements of non-financial sector companies.

The dependent variable in the study is the ACP that was calculated for each of the 196 companies, and for each of the years from 1990 to 2000. It was calculated by taking the trade debtors (accounts receivable) item from the balance sheet and dividing that with the revenue or turnover (sales) item from the profit and loss statement (income statement), and multiplying this by 360 days. This should merely give a measure of accounts receivable in the day-sales term.

Although prior literature had explored various factors that were expected to influence ACP, this study confined its investigation to only three factors or independent variables. Prior studies on ACP had only been conducted in other countries. This study on ACP, however, is the first in Malaysia and is of an exploratory nature. Therefore, the examination of three factors might be sufficient. Moreover, the data for the other factors explored by previous studies elsewhere had to be obtained through obtrusive means, i.e., through survey questionnaires or interviews. These methods are less efficient and arguably less suited for an exploratory study. Consequently, this study selected only three independent variables, the data for which could be obtained, unobtrusively, from secondary sources including company financial statements. Nonetheless, this study contributes to the extant empirical literature by capturing the impact of economic condition (or currency crisis) on ACP, apart from providing the profile of ACP in the Malaysian context.

The first independent variable is the company's industrial sector. The study simply adopted the listing sector as categorised by the KLSE. This data was obtained from the KLSE website, "Listed Companies' Profiles" (<http://klse.com.my>). The second

independent variable is the economic condition. As the currency crisis occurred in 1997, this study categorised the years 1990 to 1996 as the pre-crisis years, and the years 1997 to 2000 as the crisis years. Initially, the years 1997 to 2000 were arbitrarily divided into two categories. The years 1997 and 1998 were labelled as the crisis years and the years 1999 and 2000 as the post-crisis years. However, there was no significant difference in the ACP between these periods. Therefore, these years (1997 to 2000) were then put into a single category and labelled

the non-parametric Spearman rank correlation coefficient was utilised.

Findings

Table 1 shows the breakdown of the 196 listed companies the study involved, by industry sector. As can be seen from the table, companies from the industrial products, consumer products, trading and services, property, plantation sectors constituted the bulk of the number of companies in this study. Sectors poorly represented include technology and mining.

Table 2 shows the profile of ACP for the

were merged into a single category too.

Table 3 shows the results of the Mann-Whitney test. Again, the statistic is also significant. This indicates that ACPs before the crisis (1990-1996) and during the crisis (1997-2000) were different. More precisely, the results show that trade credit was collected sooner before, than after, the crisis. This is as expected because, due to the crisis, many companies had greater difficulty in both meeting their payment obligations to their suppliers, and simultaneously, collecting payments from their customers.

Table 1

NUMBER OF COMPANIES BY
INDUSTRY SECTOR

#	Industry Sector	Number
1	Industrial products	50
2	Consumer products	34
3	Trading & Services	33
4	Property	31
5	Plantation	30
6	Construction	12
7	Mining	4
8	Technology	2
	Total	196

as the crisis years. The third and final independent variable is company size. For this, the company's total assets item from the balance sheet was used.

Descriptive statistics have been used to address the first research question — to provide the profile of ACP in Malaysia. The distribution of ACP was highly skewed (Skewness statistic was 18.079 and Kurtosis statistic was 475.600). Both the Kolmogorov-Smirnov and Shapiro-Wilk statistics were statistically significant (respectively 0.306 and 0.275 with p-values less than 0.1 per cent) signifying that ACP was not distributed normally.

As the ACP was not distributed normally, non-parametric statistics had to be used to address the second to fourth research questions. Firstly, to examine whether or not different industry sectors had different levels of ACP, the non-parametric Kruskal-Wallis test statistic was used. Secondly, to examine whether or not ACP levels before and during the crisis were different, the non-parametric Mann-Whitney U test statistic was employed. Finally, to establish the relationship between ACP and company size,

Table 2

ACP BY INDUSTRIAL SECTOR AND THE KRUSKAL-WALLIS TEST

#	Industry Sector	Median ACP	Cases	Kruskal-Wallis Mean Rank
1	Plantation	29.43	314	735.39
2	Consumer products	42.34	367	870.46
3	Trading & Services, Mining, and Technology	49.22	406	929.31
4	Property	68.47	332	1205.60
5	Industrial products, and Construction	82.38	704	1316.33
	Total cases		2123	
	Kruskal-Wallis Chi-Square			283.401
	Degree of freedom			4
	Asymptotic significance			0.000

various industry sectors in Malaysia. Here, median ACP (number of days) has been used rather than mean because the latter is less representative of the central tendency value of ACP given a very skewed distribution of ACP. The findings indicate that trade credit was collected soonest in the plantation sector (29 days), followed by consumer products (42 days), trading & services, mining, and technology (49 days), as well as property (68 days) sectors. Trade credit appeared to be collected latest in the industrial products and construction sectors (82 days).

Table 2 also shows the results of the Kruskal-Wallis test. The statistic is significant, indicating that the ACPs for the five categories of industry sectors were indeed different. This simply confirms that trade credit collection period was different in different sectors. Note, however, that the ACPs among the trading & services, mining and technology sectors were not different, and therefore, these sectors were merged into a single category. Likewise, the ACPs between the industrial products and construction sectors were also not different, and these sectors

Table 4 shows the Spearman rank correlation coefficients between ACP and company size, for each of the five categories of industry sector, both for the pre-crisis and crisis periods. Generally, the results show that in some industry sectors, ACP appeared to be independent of company size, whereas in others, ACP seemed to be correlated with company size. However, the relationship between company size and ACP does not seem to be affected or moderated by the economic condition, or more precisely, currency crisis. In other words, in general for all industry sectors, the crisis did not appear to change the impact of company size on trade credit collection.

In some categories of industry sectors, ACP appeared to be correlated with company size. In the consumer products, industrial products, and construction sectors, ACP seemed to be negatively correlated with company size. This indicates that larger companies, in these sectors, were more prompt in their trade credit collection. This is as expected because larger companies generally have, or have access

to, greater resources, and therefore, can employ these into the credit collection effort to reduce ACP. This is consistent with the evidence found in Pike and Cheng (2001) that showed smaller firms experiencing greater delay in credit collection.

In contrast, in the plantation sector, ACP appeared to be positively correlated with company size. This, on the contrary, implies that larger companies, in this sector, were less prompt in collecting their trade credit. This is rather unexpected. Nonetheless, this might imply that in the mature or declining planta-

tion sector, larger companies are firmer financially, and therefore, can extend greater credit to their customers, thereby increasing ACP. In some other categories of industry sectors, on the other hand, e.g., trading & services, mining and technology, as well as property sectors, ACP appeared to be independent of company size. This implies that company size, in these sectors, did not influence the companies' trade credit collection period. In other words, differences in the speed of trade credit collection in these sectors did not appear to be influenced by differences in company size. This is rather intriguing because generally it is expected that larger companies have greater resources that could be channelled to prompter collection of trade credit. Further investigation of these sectors using additional explanatory factors may unveil some possible answers.

credit than others. It then showed that, for all industry sectors generally, ACP was lower before, compared to after, the advent of the currency crisis in 1997. In other words, trade credit was collected more promptly before the crisis. The study also indicated that the relationship between company size and ACP was dependent on the industry sector but not the economic condition or currency crisis. More precisely, in consumer products, industrial products, and construction sectors, as expected, larger companies seemed prompter in collecting trade credit. In contrast, in the mature or declining plantation sector, larger companies were slower in collecting trade credits. In other industry sectors, like the trading & services, mining, technology, and property sectors, however, the trade credit collection period did not appear to be dependent on company size.

This exploratory study focused on merely the ACP of listed companies in Malaysia, and examined only three variables, namely industry sector, economic condition, and company size, to explain the companies' ACP. Next, several possibilities for further research in this area in the Malaysian context are outlined. Future studies could investigate other aspects of trade credit management rather than the ACP, e.g., credit term, collection delay, etc. Research could also expand to include other explanatory variables, e.g., credit policy, competitiveness (as in Pike and Cheng, 2001), liquidity, intra-group trade (as in Deloof and Jegers, 1996). Finally, more robust methods of analysis in a multi-variable model, e.g., multiple regression, could be used instead. **AT**

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Table 3

ACP BY ECONOMIC CONDITION AND THE MANN-WHITNEY U TEST

Economic Condition	Median ACP	Cases	Mean Rank	Sum of Ranks
Pre-crisis (1990-1996)	56.02	1346	1027.50	1383019.00
Crisis (1997-2000)	60.67	777	1121.76	871606.94
Total Cases		2123		
Mann-Whitney U				476488.000
Wilcoxon W				1383019.000
Z				-3.413
Asymptotic significance				0.001

Table 4

SPEARMAN RANK CORRELATION COEFFICIENTS
BETWEEN ACP AND COMPANY SIZE^f

#	Sector	Economic condition	
		Pre-Crisis	Crisis
1	Plantation	0.278** (0.000) 199	0.345** (0.000) 115
2	Consumer products	-0.244** (0.000) 233	-0.212* (0.014) 134
3	Trading & Services; Mining; and Technology	-0.610 (0.325) 261	-0.198* (0.017) 145
4	Property	-0.090 (0.197) 208	0.250 (0.785) 124
5	Industrial products; and Construction	-0.249** (0.000) 445	-0.278** (0.000) 259

f— Each cell provides the correlation coefficient, the p-value, and the number of cases. The single asterisk and double asterisks, respectively, indicate p-values of less than 5% and 1%.

Conclusion

This study provided the profile of (median) ACP, or trade credit collection period, for various industry sectors in Malaysia. It also established that different industry sectors had different ACPs, meaning that some sectors were prompter in collecting their trade

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Management Control

in Service Organisations



By Sofiah Md. Auzair

“... researchers in the services area have noted the difficulty in clearly distinguishing a service organisation from a manufacturing organisation which probably led to the relative lack of systematic investigation on the role of management control in service organisations.”

It is often argued that management accounting techniques, which originated from the needs of manufacturing companies, cannot be directly transferred to service organisations. For instance, what is considered as indirect expenditure in manufacturing organisations is a direct expenditure in service organisations. Controlling service processes also become more difficult when organisations provide a bundle of both tangible and intangible services, since it is hard to know what the customer value is. For example, it is unclear whether customers come frequently to a particular restaurant due to the taste of the food or because of the service that they receive. Existence of customers in most service organisations' systems presents an important characteristic that requires tactful consideration.

The need to distinguish between a tangible good and an intangible service rises as services are recognised as possessing several unique characteristics, which in turn require different attention from manage-

ment. However, researchers in the services area have noted the difficulty in clearly distinguishing a service organisation from a manufacturing organisation which probably led to the relative lack of systematic investigation on the role of management control in service organisations.

Defining a Service Organisation

The traditional view of service organisations is that the completed 'service item' cannot be provided until the customers define what they want (Beilharz and Chapman, 1994). This view does not only imply the intensive involvement of customers in most service organisations but also the need for the service provider to understand the nature of their service products if they are to operate efficiently.

Nevertheless, defining what 'services' are has been a problem for centuries. Earlier attempts to define services generally compares 'goods' with 'services'. The distinction found in most definitions can be traced to the work of Adam Smith over 200

years ago. Smith outlines his viewpoint in the *Wealth of Nations* (Book 2): *The labour of a menial servant ... adds to the value of nothing ... The labour of some of the most respectable orders in the society is, like that of menial servants, unproductive of any value, and does not fix or realise itself in any permanent subject, or vendible commodity, which endures after that labour is past ...*

when Allen G.B. Fisher and Colin Clark¹ developed models of the stages of economic growth, they labelled service production as 'tertiary'. Specifically, they described the production of raw materials as 'primary', goods were 'secondary', and services as 'tertiary' (Grubel and Walker, 1989; Tucker, 1977). To operationalise the concept of services, the two Australian

economists used a residual approach, whereby anything that is not the output of the agricultural or industrial sector is the output of the service sector.

More recently, service industries are no longer viewed as parasitic, being 'all those economic activities in which the primary output is neither a product nor a construction. Value is added to this output by means that cannot be inventoried — means like convenience, security, comfort, and flexibility — and the output consumed when produced' (Quinn and Gagnon, 1988, p. 6). Services are viewed as activities that improve a person's economic well being (Beilharz and Chapman, 1994).

McColl *et al.* (1998) used the definition of a service as 'the production of an essentially intangible benefit, either in its own right or as a significant element of a tangible product, which through some form of exchange satisfies an identified consumer need'. This definition recognises the grey area between a pure good and a pure service because, in practice, it is often difficult to clearly distinguish services from goods. Thus, the demarcation between

pure goods and pure services is that pure goods are *tangible dominant* while pure services are *intangible dominant*. Figure 1 illustrates the goods and services continuum.

Pure services possess some unique characteristics that distinguish them from pure goods. These characteristics of pure services include:

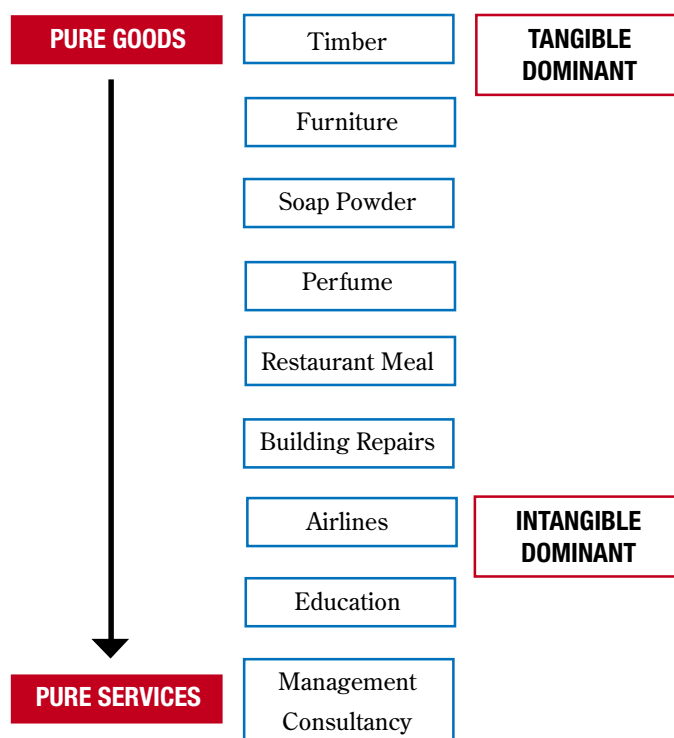
- ① perishability of services, where services not consumed will be lost forever,
- ② inseparability of production from consumption, where customers are also involved in the production of most services,
- ③ heterogeneity in service products, where services provided by the same person may differ between customers or differ at different times, and,
- ④ intangibility of services (Fitzgerald *et al.*, 1991; Hope

¹ Colin Clark was viewed by many as father of service economics.



Figure 1

THE GOODS AND SERVICES CONTINUUM



Adapted from McColl *et al.* (1998), p. 45

Their service how honourable, how useful, or how necessary soever, produces nothing for which an equal quantity of service can afterwards be procured ... In the same class must be ranked ... Churchmen, lawyers, physicians, men of letters of all kinds; players, buffoons, musicians, opera-singers, opera-dancers etc. (p. 351-352)

Not does only this quotation imply that services are quite different from goods, it also leads to the view that a service is an activity without merit, which involves the unproductive use of labour (Grubel and Walker, 1989). Thus, this may go somewhere to explaining the subsequent belief that the service sector is the lagging sector in the economic growth.

This historic view of services continued to dominate the thinking of economists. Even

and Muhlemann, 1997; McColl *et al.*, 1998).

As illustrated, the difficulty in defining services might explain why it is equally problematic to describe a service organisation. Generally, a service organisation is characterised by a lack of finished goods inventory and widely varying levels of face-to-face contact with customers (Beilharz and Chapman, 1994). Nevertheless, the reality of the current economy suggests that all organisations have intangible service and tangible goods components, but to a differing degree. Depending on how one perceives an organisation, for instance IBM, it may fall into both categories of manufacturing and service organisations.

Services Unique Characteristics and Implications for Control

The unique characteristics of services makes service organisations 'just-in-time' organisations, and where the characteristics occur together, these characteristics cause difficult problems for service managers to schedule operations, control qual-

ity, measure performance and trace and control costs (Brignall *et al.*, 1991; Brignall, 1997). The *perishable* nature of services removes the inventory buffer frequently used by manufacturing organisations to cope with fluctuations in demand. This makes scheduling of operations and controlling quality a problem for management. Quality control also becomes critical with a high element of staff-customer interaction involved in the service production process, as represented by the *inseparability of production from consumption* characteristic of services. In the case of tangible goods, production and consumption are two discrete activities. Thus, quality control could take place before the point of sale. In the consumption of a service, the producer and consumer must normally interact in order for the benefits of the service to be realised, such as in the case of a dentist treating a patient. Since the quality of a service has to be created at the moment they confront the customers, quality control therefore, will be limited to process control (Hope and Muhlemann, 1997). However, the difficulty of standardising either the product or the procedures needed to deliver the services, as represented by the service characteristic of *heterogeneity in service products*, also causes difficulty in controlling the mode of the 'service process' (Hope and Muhlemann, 1997). The production of each service product tends to be different even with the same service provider and customer due to the involvement of the human element. The effectiveness of an organisation's controls is therefore highly dependent on managers' ability to balance the available control mechanics. For example, managers may need to find areas where formal

procedures can be applied to ensure that the services provided achieve a certain level of expectations, but at the same time allow flexibility in some other areas where discretion is needed to provide the quality services. *Intangibility of services* refers to the non-physical existence nature of pure services. This indicates that a pure service has no tangible properties that can be assessed by customers prior to buying, to verify advertising or other claims. Thus, the intangibility of services results in imperfect knowledge of the transformation process, which is a fundamental requirement for applying action controls. Accordingly, stud-

ies particularly those relating to professional service employees, have typically endorsed results controls over action controls, because professional service employees typically reserve the right to decide what behaviours are effective (see Bowen and Schneider, 1985). However, with boundary-spanning roles, the control criteria of employees in consumer service organisations need to fit with less-sophisticated technology and relatively less-rigorously selected and trained employees (Bowen and Schneider, 1985). Also, in consumer service organisations where the transformation processes are well understood and the routinised tasks have detailed explicit description, such as fast-food restaurants and retail stores, both action and results control are possible.

Conclusion

The unique characteristics of services pose several important implications to management control systems in service organisations. Organisations providing 'pure' services may face more challenges in the design of the management control systems as the uniqueness of these characteristics may combine to cause problems in quality control or performance measurement. More human element would be involved and there would be greater difficulties in measuring input and output. It is a challenge therefore, to the service organisations' managers to understand the nature of their service products in order to ensure that the control systems in place are those that really contribute to the effectiveness of their organisations. **AT**

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Internal Audit **and** Corporate Governance

By Yuvaraj Ganesan

Corporate governance is an issue that companies have faced for decades but only recently, has there been an increasing focus because of inherent weaknesses in financial reporting exposed during the economic turmoil and financial crisis.

Internal auditors have long recognised that to remain relevant, they must provide demonstrable value to their organisations. Today, internal auditors have the opportunity to be recognised as delivering value at the highest levels of their organisations by enhancing corporate governance.

This paper will discuss the role of internal audit function in an enterprise and its roles in enhancing corporate governance. The evolution of the roles and responsibilities of internal auditors will also be discussed. Good corporate governance will ensure better corporate performance and will lead to an increase of the shareholders' wealth.

The government has come out with various guidelines and accounting standards to ensure that the corporate reporting improves. The Minority Shareholders' Watchdog Group was also incorporated to assist in ensuring that this is done.

Code of Best Practice and Corporate Governance

To encourage greater transparency and accountability of listed companies, one of the principles implemented by the Kuala Lumpur Stock Exchange (KLSE) is to require the Board of Directors to maintain a system of internal control to safeguard shareholders' investment and the company's assets. Standards for the Professional Practices of Internal Auditing (SPPIA) formulated by The Institute of Internal Auditors Inc. US, are accepted internationally by the internal audit community as an authoritative guide for the internal audit profession. It is with these accepted international standards that we seek to enhance the level of corporate governance in Malaysia.

The KLSE has also introduced various guidelines in relation to corporate governance and has adopted the Code of Best Practices in Corporate Governance ("Code") contained in the Report on Corporate Governance by the High Level Finance Committee appointed by the Ministry of Finance, Malaysia (The Malaysian Code on Corporate Governance, February 1999).

Generally, apart from the Board of Directors, the Malaysian Institute of Corporate Governance (MICG) has also recommended the establishment of Audit Com-

mittees, Corporate Governance (CG) Committees, Nomination Committees and also Remuneration Committees to ensure greater transparency of the companies' operations so that the public at large is able to understand the decisions made by the companies' board of directors in steering the company towards the attainment of the companies' objectives.

The Malaysian Code on Corporate Governance (amended March 2000) included a principle that states that the board of a listed company should "maintain a sound system of internal control to safeguard shareholders' investment and the company's assets". Subsequently the KLSE established an industry task force to formulate a guidance to

"A system on how an enterprise is governed and controlled. It comprises the internal and external regulation of the enterprise, management accountability of its authority and agency through an effective internal control system and legislation, and market control for disclosure of corporate information and transparency of the company's affairs."

*Corporate Governance as defined by ... Dato' Megat Najmuddin Khas (2001)
President of the Federation of Public-Listed Companies and
Malaysian Institute of Corporate Governance*

assist listed companies in making disclosures in their annual reports on the state of internal control in compliance with the Listing Requirements of the KLSE (December 2000, Task Force On Internal Control).

Best Practices Provision (BB VII, Part 2 of the Code) states, "The board should establish internal audit function. Where internal audit function does not exist, the board should assess whether there are other means of obtaining sufficient assurance of regular review and/or appraisal of the effectiveness of the system of internal controls within the company. The board should explain, in summary, the means that exist for obtaining such assurance of regular review and/or appraisal".

Best Practices Provision (BB VIII, Part 2 of the Code) states, "The internal audit function should be independent of the activities they audit and should be performed with impartiality, proficiency and due professional care. The board or the audit committee should determine the remit of the internal audit function".

What is Corporate Governance?

Corporate governance has succeeded in attracting a good deal of public interest, as it will ensure economic health of corporations and society. However, the concept of corporate governance is poorly defined because it potentially covers a large number of distinct economic phenomena. Amongst the definitions used are as follows:

"Corporate governance can be defined as a system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and

spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company's objectives are set, and the means of attaining those objectives and monitoring performance" (Organisation of Economy Corporation Development, April 1999).

A definition of corporate governance put forward by Dato' Megat Najmuddin Khas (2001), the president of the Federation of Public-Listed Companies and Malaysian Institute of Corporate Governance, is as follows:

"A system on how an enterprise is governed and controlled. It comprises the internal and external regulation of the enterprise, management accountability of its authority and agency through an effective internal control system and legislation, and market control for disclosure of corporate information and transparency of the company's affairs."

In the corporate sector, prime responsibility for corporate governance lies with the board of directors and management. The observance of corporate governance fo-

cuses on the quality of the board as a whole collectively accountable to shareholders and stakeholders with diligence and care, and duty of compliance with relevant legislation. It purposely wants to ensure upholding of fiduciary duty for best standards of corporate governance practices.

In summary, it can be said that corporate governance is concerned with an honest, ethical and transparent manner in which an enterprise conducts itself in terms of its board structure and composition, accountability, process and practices in pursuit of its goals of ensuring profitability, which aims to improve a company's image, efficiency and effectiveness, and social responsibility.

Poor corporate governance can result in poor perceptions of financial reporting and inability of auditors to provide adequate safeguards which users of financial information expect and which they seek for their investment decisions, severe criticisms on the ineffectiveness of the board of directors and audit committee, excessive remunerations, not closely linked to actual corporate performance, unreliable annual reports and audited accounts which fail to provide forewarning and predictive signals of impending corporate failure and lack of concern for timely remedial action against unhealthy corporate practices.

How to Achieve Good Corporate Governance?

Corporate governance begins with a good corporate management structure with clear lines of authority and responsibilities that are able to direct a corporation and its employees to achieve the companies' objectives. There are essentially three key elements of good corporate governance and they are:

- ① effective board of directors;
- ② management structure and policies and procedures; and
- ③ independent supervision of audit committees.

Effective Board of Directors. The board of directors leads and controls a corporation. The primary role of the board is to set strategic directions and planning of a corporation, and to make decisions on major transactions. An effective board would require the creation and maintenance of a dynamic and innovative

board of directors who possess the competencies needed to govern the corporation. The board should have a balance of executive and non-executive directors (including independent directors) such that no individual or small group of individuals can dominate the board's decision-making.

Management Structure, Policies and Procedures. The board of directors delegates the daily operations of management through a management structure, policies and procedures. Normally, the board sets the strategic directions of a corporation and the management of each operating unit will produce a plan to achieve targets. Hierarchy of a management structure depends on the scale and nature of the business. Maintaining the optimal management hierarchy is an on-going exercise in the development of a corporation and corporate governance. A good management structure has to be supplemented by a set of policies and procedures to control and monitor the implementation of strategies at the operational level.

Independent supervision of audit committees. Procedure on the management of control should be established to ensure the effective application of policies and procedures. This includes the setting up of independent supervisory bodies including an internal audit department and an audit committee. Recent developments in corporate governance will lead to an expanding role of the audit committees, as directors will seek their help in discharging their corporate governance responsibilities and to meet today's business challenges.

What Can Good Corporate Governance Bring to a Corporation?

Good corporate governance can secure an effective and efficient operation in the interest of all stakeholders. It provides assurance that management is acting in the best interest of the corporation, thereby contributing to business prosperity through openness in disclosures and accountability. There are five key contributions of good corporate governance to a corporation and they include:

- ① creation and enhancement of a corporation's competitive advantage;
- ② providing protection to shareholders' interest;

- ③ affecting the valuation of an enterprise;
- ④ enabling a corporation to perform efficiently and preventing fraud and
- ⑤ ensuring compliance with laws and regulations

Creation and enhancement of a corporation's competitive advantage. Creating competitive advantage requires both the vision to innovate and the strategy to manage the process of delivering value. An effective board should be one that is able to craft strategies that fit the business environment of the corporation and are flexible to accommodate opportunities and threats, and to compete for the future. Corporations, which develop their strategies by involving all levels of employees, create widespread commitment to ensure the success of the strategies.

Providing protection to shareholders' interest. Corporate governance is a set of rules that focus on transparency of information and management accountability. It imposes fiduciary duty on management to act in the best interests of all shareholders and properly disclose operations of the corporation.

Affecting the valuation of an enterprise. Improved management accountability and operational transparency fulfil the investor's expectations and confidence on management and corporations, and in return, increase the value of corporations.

Enabling a corporation to perform efficiently and preventing fraud. The code of best practice, policies and procedures governing the behaviour of individuals of a corporation form part of corporate governance. This enables a corporation to compete more efficiently in the business environment and prevents fraud that can destroy business from the inside. Failure in management of best practice within a corporation has led to crises in many instances.

Ensuring compliance with laws and regulations. Jurisdictions around the world have been developing comprehensive regulatory frameworks to protect investors. More rules and regulations addressing corporate governance and compliance have been and will be released. Compliance has

become a key agenda in establishing good corporate governance.

Corporate governance is mainly about accountability and transparency. For corporate governance to be effective, it has to be a part of corporate life and should be placed in the context of corporate practices on social responsibility and environmental practices, delegation versus real empowerment, risk management and control as well as disclosure and transparency of financial information. Companies are encouraged to take the initiative to disclose not only matters required by law but also those of material importance to the decision making of institutional investors, shareholders, creditors and other stakeholders with respect to the company.

The Role of Internal Auditors in Ensuring Corporate Governance

The Institute of Internal Auditors (2001) define internal auditing as follows:

"Internal auditing is an independent appraisal function established within an organisation to examine and evaluate its activities as a service to the organisation. The objective of internal auditing is to assist members of the organisation in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel and information concerning the activities reviewed".

The fundamental role of an internal audit department, regardless of size, is to "add value" to their respective organisations. Traditionally, internal auditors provide auditing in areas such as compliance with organisational procedures, laws and regulations; economic and efficient use of resources; safeguarding of assets; accomplishment of established objectives; response to assertions of fraud; and reliability and integrity of financial information.

Today, internal auditing services add

substantive value to an organisation by providing assurance that its risk exposures are understood and managed appropriately. The services offered by internal auditors include determining organisational risk exposures and their management; improv-

employees who are going to respond to audit questions. In general, the audit staff should have the right of access to the premises of the company and the right to inspect, examine, and audit all correspondence, files, books, records, accounts and all other

documents or forms of information held by the company as are necessary for the performance of audit duties.

To ensure that the internal auditors attain an independent status within the company, the main thing is that they should not have executive or managerial powers, authority, functions or duties in the company except those relating to the management of the internal audit office itself. In conducting the audit, they should report to the Board of Directors or report directly to the audit committees.

The role of an internal auditor is to minimise organisational risk, identify opportunities for improving efficiency and effectiveness in the performance of business processes, and to support management in any way possible to the extent that the internal auditor's personal and professional integrity are not compromised. The internal auditor provides the company with an independent appraisal of the adequacy and application of internal controls, management oriented assessments of the company's operations and activities and detailed assessments as to the efficiency, effectiveness, economy, compliance and financial regularity of the company's operations and continuous review of the income and expenditure of the company.

In enhancing corporate governance, the summarisation of the roles of the internal auditor include:

- preparing triennial and annual audit plans.
- reviewing systems and operations and appraising the adequacy of controls.
- advising on appropriate systems of control and other operational matters.



"Internal auditing is an independent appraisal function established within an organisation to examine and evaluate its activities as a service to the organisation. The objective of internal auditing is to assist members of the organisation in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel and information concerning the activities reviewed".

The Institute of Internal Auditors (2001)

ing an organisation's risk management and control systems and monitoring the effects of change on an organisation's risk exposures and related control.

To enhance corporate governance, there must be good cooperation and communication between audit staff and staff or em-

- appraising the extent of compliance with established policies, procedures and plans
- assessing the accuracy of management information
- maintaining a continuous review of the income and expenditure of the company and its associated organisations
- reporting on and recommending improvements to systems and procedures
- co-ordination activities with the company's external auditors
- conducting ad hoc and confidential investigations as directed by the Board of Directors, Registrar or Audit Committee.

The Changing Role of Internal Auditors in Ensuring Corporate Governance

The traditional "financial audit" approach was oriented towards the examination of financial results with a focus on financial and accounting issues. It is to give the internal audit department a role of control, inspection and verification, approaching that of an outside audit. When an organisation has an internal audit function, management may delegate to it some of its supervisory roles, especially with respect to the review of internal control. This particular internal audit function constitutes a separate component of internal control undertaken by specially assigned staff within the organisation, with the objective of determining whether other internal controls are well designed and properly operated. The internal auditors provide independent reviews of the efficient operations of the organisation, and the evaluation of management effectiveness. Internal auditing provides a value-added service for organisations.

The value today of internal auditing lies in assisting management in achieving its objectives through the timely identification of business risks and helping management to act upon them. Internal auditors must be capable of monitoring the extent to which internal controls are appropriately aligned with a diverse and increasingly complex arena of corporate risks. Internal auditors today do not confine themselves to the routine review of internal control, but have evolved with the complexity of business to expand into a consultancy role for management. Internal auditors can act

as an intermediary service to management in terms of reviewing operational efficiency, investigating outcomes of financial initiatives, providing knowledge of business activities and identifying potential risks. Its mission no longer consists in just "telling the general management about poor performance," but also requires submitting recommendations to solve them.

Management asks the auditor to make the organisation evolve. Indeed, finding a problem is one thing, making the organisation more efficient is another. From a practical perspective, the internal auditor must participate in the risk management process by assisting management in identifying, assessing and reporting risks and related exposures to the organisation; promote effective controls at a reasonable cost to mitigate these risks; act as a catalyst for continuous improvement in controls and best practices; review the controls established by management critical to the achievement of goals and objectives; focus on those areas where the potential for improvement or risk of loss is greatest; and ensure controls exist to secure corporate assets.

Present and Future Challenges of Internal Auditors in Corporate Governance

Corporate governance has reached new heights of importance to be ignored by internal auditors. Internal auditing functions are part of the corporate governance structure where they play an increasingly important role in monitoring internal control systems of the company and its financial reporting systems. They are expected to exert their roles in examining, evaluating and monitoring the adequacy and effectiveness of the internal control structure.

The present challenges that should be solved in the near future includes performing an independent function, different from other departments and executive management; carrying out a duty of appraising business activities objectively from the internal control viewpoint; and shouldering a responsibility and requisite authority for providing services to the organisation for unfettered examination and evaluation of all internal control functions.

The future challenges for the internal audit profession include the setting up of a robust and structural control mechanism for proactive stewardship as an essential foundation for corporate governance practices; increasing expectations on the role of auditors and to whom they owe their responsibility and independence and to be aware of the impact of globalisation and the vicissitudes of information technology, higher expectation for disclosure and accountability, and pressures in favour of stricter sanctions against wrongdoers on their roles.

Conclusions and Implications

In today's economic conditions, it is crucial for Malaysian organisations to adhere to high corporate governance standards in order to survive. In addition, the uplifting of local corporate governance standards will also contribute towards the restoration of foreign and local investor confidence. To make the corporate governance effective, internal auditors are well positioned to exert a greater role within the organisation to support all initiatives for corporate governance practices on on-going activities of the company that require them to review the organisation from the top as well as analyse the structure of internal control processes which cut across the whole spectrum of the organisation.

In conclusion, internal audit has crucial roles to play in uplifting corporate governance standards. The internal auditors' role in enhancing corporate governance is indispensable. A good system of internal control, which promotes high standards of corporate governance, is beneficial for all companies and the country's economy as a whole. With the improvement of corporate governance, it would be easier for companies to raise funds during the hard times and thereby enhance the dynamism of the economy. **AT**

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IAS 41 on Agriculture

Money Does Grow on Trees



By Foo Yin Fah

In the year 2000, the IASB issued IAS 41 on Agriculture. The standard prescribes the accounting treatment for assets employed in agricultural activities. What was revolutionary about this standard was the requirement for the recognition of biological assets and agricultural produce at fair values. Any increases or decreases in these fair values are to be recognised in the net profit for the period. The MASB is currently reviewing the standard for adoption in Malaysia. This paper identifies several issues that would have an impact on the acceptance of this standard in Malaysia. These issues include the reliability and volatility of fair value measurements as well as the relevance of recognising unrealised gains or losses as a result of changes in fair values.

Accountants generally do not have much difficulty in recording items such as machineries, equipment's, vehicles and other types of physical assets used in a business enterprise. These assets are lifeless objects and the only physical transformation that can take place would be the deterioration caused by wear and tear. Such physical deterioration will reduce the usefulness of these assets, which is accounted for by allocating the cost of these assets over their estimated useful lives through the process of depreciation. Therefore in the recognition of such assets in the financial statements, the traditional historical cost model can be argued to be a relatively acceptable measurement basis.

But when faced with assets that are alive such as trees in a plantation and livestock, accountants are presented with a unique type of assets that traditional accounting techniques are not able to adequately address. These 'living' assets not only do not deteriorate, at least not through the process of wear and tear, but actually undergo natural physical transformation through biological processes. As a result of such biological transformation, these living assets may actually enhance its quality as well as increase its volume. The 'usefulness' of such assets, in terms of its ability to generate future cash flows, will actually increase over time. How then can we adequately recognise the value of these assets by using traditional historical cost accounting?

The International Accounting Standards Board (IASB) issued a revolutionary standard *IAS 41 on Agriculture* in the year 2000 to account for these living assets. The first and only country to have developed a similar standard was Australia. The Australian Accounting Standards Board (AASB) had issued *AASB 1037 on Self-Generating and Regenerating Assets* in 1998. The requirement of IAS 41 is quite similar to AASB 1037. What is most significant about IAS 41 is that it prescribes the measurement of these living assets at fair values and any increases or decreases in the fair values of these assets are to be recognised in the net profit or loss for the period. The Malaysian Accounting Standards Board (MASB) is currently review-

ing IAS 41 for adoption in Malaysia. This article aims to discuss the controversial provisions of IAS 41 with regards to the measurement and recognition of such living assets, the rationale for such requirements and the possible impact on the Malaysian agricultural sector, specifically in relation to companies listed on the Kuala Lumpur Stock Exchange (KLSE).

Rationale for IAS 41

According to the IASB Framework for the Preparation and Presentation of Financial Statements (IASB Framework), the objective of financial statements is to provide useful information to users to make economic decisions. For information to be useful, it must be relevant as well as reliable. Fruit trees in a plantation and dairy cattle in a cattle farm pose a unique problem to accountants in the attempt to provide relevant and reliable information. These 'living assets' have the ability to grow naturally and even procreate and regenerate. Such 'biological transformations' have a direct impact on the future economic benefits of these assets but bear little relation to the timing and incurrence of costs in the cultivation or rearing of these plants and animals. The growth of these assets may be due to resources that may not have any costs at all, e.g. sun, air and water. Some fruit trees may take a few years before revenues can be generated while large amounts of expenditure are being incurred to cultivate the trees in the earlier years.

It is therefore argued that when dealing with living assets, the traditional transaction-based historical cost model of accounting may not be able to adequately reflect the value of these assets as well as account for its income generation throughout the life of these assets (Deegan 2003; Henderson & Peirson 2002). Although historical cost may possess the characteristic of reliability, it does not provide relevant information for decision making.

It is due to this reason that the IASB began the development of an international accounting standard on agriculture in 1994. It subsequently approved IAS 41 in December 2000, which will be effective for financial statements with financial year beginning on or after 1 January 2003.

The Scope of IAS 41

IAS 41 prescribes the accounting treatment of assets related to agricultural activity. Agricultural activity refers to 'the management by an enterprise of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets'. The biological transformation must be as a result of managed activities that provide conditions necessary for the process of change to occur. Therefore, agricultural activity would exclude ocean fishing and deforestation. The bio-

agricultural produce after harvest is beyond the scope of IAS 41, and is accounted for under other applicable accounting standards, e.g. IAS 2 on Inventories.

Measurement and Recognition of Biological Assets and Agricultural Produce

It is argued that the traditional historical cost accounting model is not able to deal with the unique features of biological assets mentioned earlier. The ability of cost to provide relevant information for the pur-

Table 1

EXAMPLES OF BIOLOGICAL ASSETS, AGRICULTURAL PRODUCE AND PRODUCTS THAT ARE THE RESULT OF PROCESSING AFTER HARVEST

Biological Assets	Agricultural Produce	Products that are the result of processing after harvest
Sheep	Wool	Yarn, carpet
Trees in a plantation forest	Logs	Lumber
Plants	Cotton	Thread, clothing
	Harvested cane	Sugar
Dairy cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Bushes	Leaf	Tea, cured tobacco
Vines	Grapes	Wine
Fruit trees	Picked fruit	Processed fruit

(Source: IAS 41 Para. 4)

logical change must also be measurable either qualitatively (ripeness, density, etc.) or quantitatively (weight, diameter, etc.).

The assets identified to be related to agricultural activity are biological assets and agricultural produce. Biological assets refer to 'living animals or plants' that undergo biological transformation resulting in biological changes in the asset through growth, procreation, regeneration or the production of agricultural produce. Agricultural produce is the 'harvested product of an enterprise's biological assets' which may be further processed into products for sale. Table 1 provides examples of biological assets and its related agricultural produce and products that are the result of processing after harvest.

IAS 41 prescribes the accounting treatment of biological assets and the initial measurement of agricultural produce harvested from these biological assets at the point of harvest. The processing of these

pose of making economic decisions is in doubt as it would not be able to adequately reflect the biological transformation that has taken place. One of the common arguments for the use of costs is its reliability. In fact cost may not be a reliable measure of biological assets because of the need to use arbitrary assumptions and allocations when dealing with indirect or joint production costs.

IAS 41 requires biological assets to be measured on initial recognition, and at each subsequent balance sheet date, at its fair value less estimated point-of-sale costs. Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Fair value is defined as 'the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction'. Fair value is therefore the market price after deducting

transportation and other costs necessary to get an asset to a market. Any gains or losses resulting from such changes in the fair value of a biological asset less point-of-sale costs will be recognised in the net profit or loss for the period in which it arises. Effectively income is recognised as the biological assets grow and not at point-of-sale.

Agricultural produce harvested from biological assets of the enterprise are also required to be measured at fair values less point-of-sale costs at the point of harvest. Such measurement will be the deemed cost of the produce and will subsequently be treated according to *IAS 2 on Inventories*. Gains or losses arising on initial recognition of agricultural produce at fair value less point-of-sale costs should be included in the net profit or loss for the period in which it arises. The effect of this requirement would be that income is recognised upon the harvest of the agricultural produce, which represents a substantial departure from traditional transaction-based accounting. Unless there is a substantial delay between the time of harvest of the agricultural produce and its subsequent sale, no gross profit will actually be recognised at point of sale.

The accounting treatment adopted by IAS 41 for biological assets have been arrived at by taking a balance sheet perspective of financial statements rather than an income statement perspective. According to the IASB Framework, assets are defined as 'resources controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise'. The future economic benefit embodied within an asset is the 'potential to contribute, directly or indirectly, to the flow of cash or cash equivalent to the enterprise'. When biological assets grow as a result of their biological transformation, procreates or produces agricultural produce, the future economic benefits embodied within it would also increase resulting in an increase in value to the enterprise.

The IASB Framework defines income as 'increases in economic benefits during the accounting period in the form of inflows or enhancement of assets or decreases in liabilities that result in increases in equity,

other than those relating to distributions to equity participants'. The biological change in a biological asset that results in the enhancement of the asset should therefore be treated as income in the period in which it arises.

There is a need to modify our traditional focus on the income statement whereby profits or losses are determined by matching expenses incurred with revenues generated. Any amount unmatched is then transferred to the balance sheet as either assets or liabilities. This practice has in the past created a trend to manage earnings in order to show a smooth trend despite volatility of market conditions. The arguments against adopting fair value have been centred on the problem of the resultant volatility in earnings due to market fluctuations. However it should be stressed that such variations reflect market realities. Management should be held accountable for the effects of market fluctuations on the performance of the enterprise. It would not be unreasonable to expect management to anticipate such fluctuations and to take the necessary precaution through various risk management techniques to mitigate the possible effects of a volatile market.

It has also been argued that changes in the value of biological assets and agricultural produce represent unrealised gains or losses that may remain unrealised for many accounting periods. If these unrealised gains or losses were to be recognised in the income statement, it would create expectations by shareholders of increased profits available for distribution as dividends. Therefore the inclusion of such unrealised gains or losses in the income statement would provide misleading information to users. Such gains or losses arising from the changes in the fair value of these assets should instead be taken directly to equity. IAS 41 prescribes the recognition of these unrealised gains or losses in the income statement.

Changes in market value of a biological asset can be attributed to the biological transformation of the asset as well as price changes. The biological transformation of the biological assets through natural growth or maturity will result in an increase in quality or volume. This will, as discussed earlier, enhance the value of the

assets and therefore result in an increase in its market value. Such transformation is naturally irreversible. Price changes, on the other hand, are subjected to demand and supply factors and may be highly volatile. Although IAS 41 encourages the separation of the changes in market value of biological assets due to biological changes and changes due to price movements, it is not a required procedure. It has also been suggested that only changes in market value as a result of biological transformation be taken to income while changes due to price movements be taken directly to equity. This is obviously going to be difficult to determine in practice and accordingly not prescribed by IAS 41.

Determination of Fair Value

IAS 41 prescribes that fair value be determined based on an asset's 'present location and condition'. Fair value can be determined by reference to the quoted price of the biological asset and agricultural produce where an active market exists. An active market is defined as a market where items traded are homogeneous, willing buyers and sellers can be found at any time, and prices are available to the public. Where an enterprise has access to more than one active market, reference should be made to the most relevant market in which the enterprise expects to sell its assets.

If an active market does not exist for the specific asset at the reporting date, fair value can be determined by reference to the following market-based benchmarks:

- a) The most recent market transaction price, provided there has not been any significant economic circumstance between the date of the transaction and the reporting date.
- b) Market prices of similar assets with adjustment to reflect differences; and
- c) Sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat.

Where market based prices are not available for the assets in its present condition, fair value may be determined by calculating the 'present value of the expected net

cash flows from the asset discounted at a current market-determined pre-tax rate'. The net cash flows used should exclude cash flows for financing, taxation or 're-establishing the biological assets after harvest' i.e. replanting expenditures. Calculation of present values must be based on the expected net cash flows of the biological assets in its present location and condition. The present condition of the biological assets excludes any increases in value due to the further growth or maturity of the asset.

IAS 41 therefore presumes that fair value of these agricultural assets in its present location and condition can be reliably measured. For agricultural produce, its fair value less point-of-sale cost can always be measured reliably as there should be an existing market. However, in the case of biological assets, market-based prices may not be available and alternative estimates of fair value may not be reliably determined. For example, growing plantations and forests may not have an active market. Therefore fair value may have to be determined using the present value method which may involve considerable judgement and assumptions that may render the value unreliable. In such cases, IAS 41 allows for the reliability presumption to be rebutted. The biological asset should then be measured at cost less any accumulated depreciation and impairment losses. However this reliability exception can only be applied to the initial recognition of a biological asset. Once fair values can be reliably measured, the biological assets should be measured at fair values less point-of-sale costs until its disposal. IAS 41 prohibits an enterprise from changing their measurement basis from fair value to cost.

Cost, however, may be used as an approximation of fair value when there has been little biological transformation since the incurrence of the initial cost or the impact of biological change on price is not expected to be material.

Biological assets are often physically attached to land. In such cases, although there may be no separate market for the biological assets, an active market may exist for the combined asset. An enterprise may therefore use the market price of the combined asset to determine a fair value for the

biological asset by deducting the fair value of the land and land improvements.

Current Malaysian Practice

A review of the companies listed on the KLSE reveals that the main agricultural activity in Malaysia is oil palm production. There are also several companies dealing in rubber and cocoa production. Currently Malaysia has two accounting standards relating specifically to agricultural activities, which are *MASB 8 on Accounting for Pre-Cropping Costs* and *MASB 5 on Accounting for Aquaculture*. These standards are based on the traditional historical cost model.

"The acceptance of IAS 41 in Malaysia will therefore require a change in the conceptual approach to accounting. It requires accountants to embrace the notion that financial statements are prepared to provide users with useful information to make an informed economic decision."

MASB 8 prescribes the accounting treatment for expenditures on new planting and replanting of crop bearing trees in a plantation operation. The standard requires the capitalisation of new planting and replanting expenditures on biological assets as fixed assets. These capitalised new planting and replanting costs should then be amortised on a systematic basis over the expected useful life of the biological assets. Alternatively, replanting expenditures may be charged to income in the period incurred and no amortisation is required of the capitalised new planting cost.

MASB 5 prescribes the recognition of initial investment cost, income and stock in accounting for aquaculture operations. The standard requires the capitalisation of initial investment costs on aquaculture ventures as fixed assets and depreciated on a systematic basis over its estimated useful life. Income from aquaculture operations is to be recognised at point of sale. MASB 5 also requires the recognition of aquaculture stock, which are stocks of the identifiable cost units comprising of an individual pond, pen or cage or an individual batch of production cycle. These stocks would include the aggregate of cost of material in-

puts, labour and production overheads. The standard requires the aquaculture stock to be valued at the lower of cost and net realisable value.

The Impact of IAS 41 in Malaysia

It is obvious that the Malaysian agricultural sector has been adopting the traditional transactional-based historical cost accounting. Income is recognised on the basis of the sale of agricultural produce. Biological assets are recognised only to the extent that it relates to plantation development expenditure incurred, which is measured at cost with or without amortisation.

The acceptance of IAS 41 in Malaysia will

therefore require a change in the conceptual approach to accounting. It requires accountants to embrace the notion that financial statements are prepared to provide users with useful information to make an informed economic decision. The concept of fair value is argued to be more relevant information for decision-making than historical cost accounting (Barth & Landsman 1995). Fair value is more representational of the economic benefits to be derived from these biological assets and therefore would be more indicative of the expected future cash flows to be generated from these assets. Although reliability is also an important characteristic of useful information, it should not be pursued at the expense of the relevance factor. Furthermore the reliability of historical cost accounting should not be taken for granted as it too involves considerable judgement and assumptions.

The idea that changes in the fair value of biological assets should be taken to net profits for the period requires the adoption of the balance sheet perspective which views transactions and events based on how it fits into the definition of assets and liabilities. Any increase or enhancement of assets or decrease in liabilities during the

accounting period will therefore be regarded as profits. If this concept of income is accepted, then all income should be reported in the income statement. There should not be any income taken directly to equity on the basis that it is not realised. But the argument that the inclusion of unrealised income due to increments in the fair value of biological assets in the income statement may provide misleading information to shareholders appears to be a valid one. However, the issue is perhaps the manner such unrealised income is presented in the income statement and not that it should be excluded altogether. The format and structure of the income statement is currently being reviewed by the IASB as more standards will require changes in fair values to be recognised in the income statement.

The acceptance of these concepts in Malaysia is in doubt as the IASB Framework has yet to be adopted here. The MASB had issued a Discussion Paper on a Proposed Framework for the Preparation and Presentation of Financial Statements (MASB DP 1) in 1998 which is based on the IASB Framework. It is important that accountants in Malaysia debate the concepts contained within MASB DP 1 rigorously and come to a consensus whether to accept or reject its propositions. Any discussion on the appropriateness of using fair values will have to be grounded on the acceptance of the conceptual framework for accounting proposed by MASB DP 1. Admittedly, the IASB Framework is incomplete as it does not prescribe an appropriate measurement basis to use. However, it still provides the conceptual foundation to develop an appropriate measurement basis, be it fair value, cost or some other basis.

As discussed earlier, the determination of fair value for the recognition of agricultural produce at point of harvest may not pose any significant problems as there should be a ready market. However, this may not be the case for biological assets. If the reliability presumption is not rebutted, fair value will have to be determined but there may not be an active market for such assets. As a result, a suitable proxy may have to be used and perhaps the present value method may be the most appropriate alternative. Therefore an appo-

site information system should be in place to provide relevant and reliable data to enable present values to be calculated. It is interesting to note that when the AASB introduced their standard in the late 1990s, Australian companies encountered implementation problems due to the lack of proper systems of gathering reliable data. As a result, the application of the Australian standard was delayed for a year. Therefore, the issue of the readiness of Malaysian companies to comply with IAS 41 is an important factor.

Notwithstanding the conceptual argument supporting fair value measurement of biological assets and agricultural produce, Malaysian investors must be able to understand the financial statements produced and this should be reflected in the share price of the companies that are listed on the KLSE. However, Barth and Landsman (1995) have commented that a fair value based balance sheet may only be relevant in a perfect and complete market. In such a market the income statement is redundant and income realisation is not relevant to the valuation of the enterprise. The readiness of the Malaysian capital market to adopt a fair value approach in the preparation of financial statements is also an important factor to consider.

Conclusion

This article has reviewed the controversial provisions of the first true fair value standard issued by the IASB. IAS 41 prescribes the recognition of living assets used in agricultural activity at fair values in the financial statements. Any increases or decreases in the fair value of these assets are required to be treated as profits or losses for the period in the income statement.

Fair value is argued to be conceptually more appropriate in measuring these living assets than historical cost. But the author believes that the acceptance of this argument depends on the preparers' perspective of the role of accounting. This would involve the adoption of the conceptual framework of accounting prescribed by the IASB Framework.

There are also valid concerns on whether fair values can be determined reliably for some of these living assets. IAS 41 provides for the reliability presumption

to be rebutted in circumstances where fair value cannot be reliably determined. Nevertheless, companies involved need to have the appropriate information systems in place to provide the data necessary to determine the fair value of these assets.

The recognition of unrealised profits in the income statement may provide misleading information to investors by creating expectations of higher dividends due to increases in profits reported in the income statement. However conceptually all income should be reported in the income statement irrespective of whether they are realised or unrealised. The appropriate concern here should be how such information is presented to investors in an understandable manner and to avoid misinterpretation of the information. This would involve a re-examination of the reporting model used in the preparation of the income statement, which is currently being studied by the IASB.

What the accountancy profession is currently doing, in so far as financial reporting is concerned, should be viewed positively as it is attempting to incorporate the realities of the 21st century business environment. However, the accounting practices used today have essentially remained the same since the 15th century or perhaps even earlier. The road ahead requires a change of mindset as we move to project the substance of the modern business environment while using a form inherited since ancient times. In order for this evolution to succeed, there should be more proactive debates on the issues from a theoretical as well as practical perspective. **AT**

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Business Succession

By Jenny Tan

Planning

Do You Have A Succession Plan for Your Business?

You have worked hard and spent years to build your business and today, your business is probably one of your most valuable assets. However, have you thought of what would happen to your business and family should an unfortunate event happen and you become disabled or die? Do your heirs know your day-to-day business operations? Would they receive a fair price for your business? Would you be forced to liquidate your business? You should start thinking of preserving your business/wealth if you have not made any arrangement to deal with these issues yet. A business plan is not complete without a succession plan. You owe it to yourself and your family to protect your years of hard work.



To ensure a smooth transition and succession of business interests following the departure of a business partner, it is important for business owners in sole proprietorships, partnerships or corporations to have a written agreement made between them to buy and sell their shares upon death or disability. This is a form of a business succession plan to protect the viability of the business in the long run.

Buy-Sell Agreement

A buy-sell agreement is a legal document binding the business owners stating the circumstances when co-owners can sell their interests, the parties who can buy into the business and what price will be paid. The business interest is transferred according to the terms stated in the contract upon the departure of a business owner. The surviving owner(s) are obligated to purchase the business interests from the deceased's heirs and the deceased's heirs are obligated to sell. A well drafted buy-sell agreement also deals with issues such as the method of business valuation, the type of buyout, and the triggering events which may include retirement, bankruptcy, divorce, withdrawal of business interests, disability and death.

Benefits of a buy-sell agreement:

- Ready buyer for the outgoing/ deceased ownership interests;
- Guarantees a pre-determined price for the value of the business;
- Business continuity;
- Preservation of wealth/business;
- Provides liquidity or financial security for the business owner and/or deceased's family; and
- Avoids conflict or dispute between heirs and surviving owner(s).

For Surviving Owners:

- Assures the ownership and control — need not worry about new and possibly unwanted partners;
- Knows the fair/purchase price of the business beforehand;
- Receives the portion of the business interest as stated in agreement;

- Assures funding of the business interest is readily available through life insurance; and
- Maintains and remains good standing with clients, employees and creditors through a smooth transition of ownership.

For Heirs:

- Receives immediate cash;
- Eliminates business worries and uncertainties;
- Guarantees a fair price for the sale of the business interests;
- Avoids the delays associated with probate.

Funding Buy-Sell Agreement

An unexpected event such as a death may give rise to a substantial contingent liability in which the funding may not be readily available to acquire the business. A good buy-sell agreement can set forth the specific payment plan and the source of the funding.

At the death of a business owner, the surviving owner may use cash, borrowed funds or a life insurance to buy the business interests as stated in the buy-sell agreement. Life insurance guarantees a specific payout at death, regardless when death occurs. Due to the low premium costs, life insurance can be the most economical and practical method of prepayment of the business. Otherwise, without the proper availability of funds in the buy-sell agreement, the heirs and the surviving owners will be locked in tribulation over the payment for the deceased's business interests. The insurance is to create substantial capital immediately with a relatively minor initial outlay. In this instance, the funding vehicle for the buy-sell agreement in this article is using an insurance company.

The two common types of buy-sell agreements are **Cross-purchase** and **Entity plan**.

Cross purchase method — This legally enforces the surviving owner to acquire the deceased's business interests at a pre-fixed price or formula in the agreement. In short, cross purchase on the life of the other business owner is funded by life insurance. (Diagram 1)

Trusted cross-purchase plan — Where there are multiple partners involved, to avoid multiple policies, a trust can be established to hold these contracts. This is an arrangement by appointing an indepen-

Diagram 1
Cross-Purchase Plan

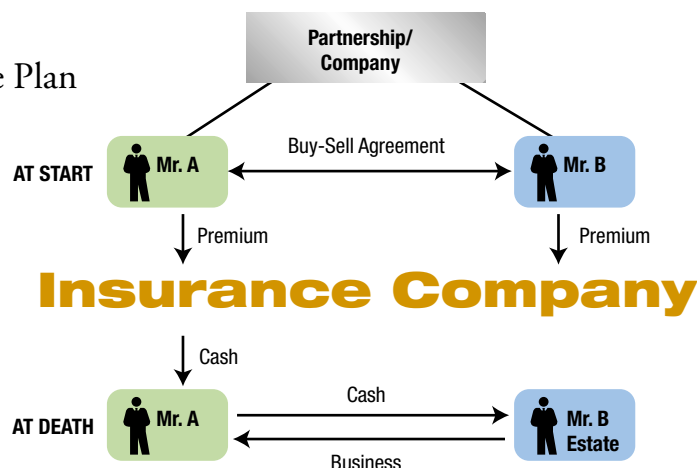
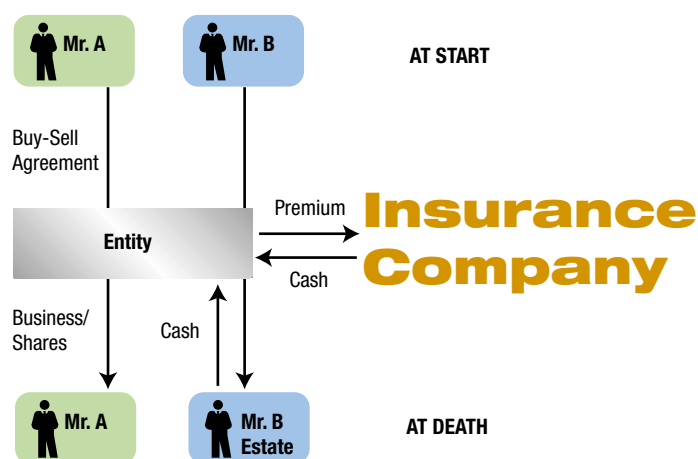


Diagram 2
Entity Plan



dent trustee in the buy-sell agreement. The independent trust purchases and owns one policy on each business owner's life. Upon the death of the business owner, the independent trustee will receive the insurance proceeds and pass it to the deceased's family upon transferring the business interest to the surviving partners.

Entity plan — (Diagram 2) The partnership or corporation* agrees to purchase the business interests upon the death of a partner. This is a plan whereby the business owners or shareholders enter into an agreement with the business entity using an insurance company for the funding of buy-out. When an owner (Mr. B) dies the business entity will receive the life insurance proceeds and this is paid to the owner's estate (Mr. B's estate) in exchange for the business interests. The estate is contractually obliged to sell the portion of the business interests to the surviv-

ing owner (Mr. A) and receives an agreed-upon price for their business interests.

In summary, the entity is the owner and beneficiary of the life insurance on the life of the partners or shareholders with a predetermined price or formula stated in the agreement.

Upon the death of a business owner, the insurance proceeds will be used to pay the deceased's estate through the partnership or corporation in exchange of the portion of the business interests.

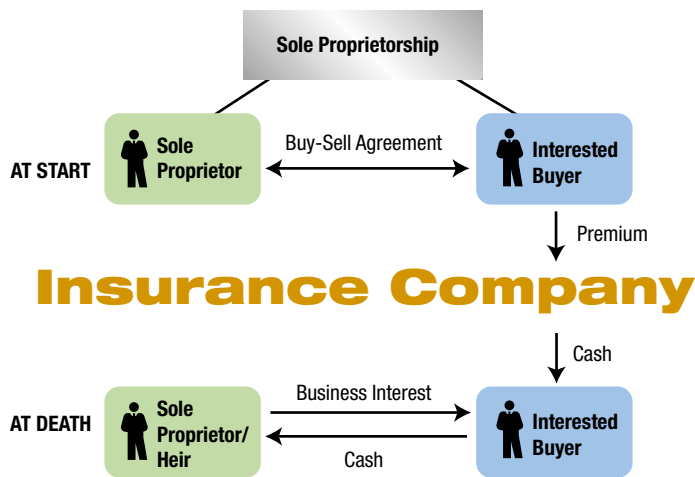
Sole Proprietorship

In a sole-proprietorship business, the death of the owner legally means the dissolution of the business unless prior ar-

* **Stock redemption agreement** — the corporation redeems or retires the shares of a shareholder upon an event such as death. However, this type of arrangement is disallowed under the Malaysian Companies Act, 1965, S 67(1) as a protection for creditors against illicit capital reduction.

Diagram 3

Proprietorship Buy-Sell Plan



arrangement is made for its continuity. Without proper instructions, the executor will have to wind-up the business as soon as possible, unless the owner has a Will written to empower the executor to continue, to sell or to transfer business interests to the heirs.

Hence, it is vital to have a pre-arrangement for a buyer and a contract binding the plan. This contract is called *proprietorship buy-sell agreement* as shown in Diagram 3. Under this plan, the sole proprietor offers to sell his business to his employee or any interested buyer. The agreement binds the interested buyer to buy and sole proprietor or the heir to sell the designated portion of business at an agreed price. The interested buyer can purchase a life insurance in the life of the owner, which will provide the funds needed for the purchase of the business interests upon retirement or death of the owner.

Among all sole-proprietorships, self-practice professionals are the hardest to source due to the licensing requirements to succeed the business. Hence, professionals like accountants, architects, valuers and others should address this succession issue and identify their potential business successors.

Partnership

The partnership business is also legally dissolved upon the death of a partner. Without prior agreement for its continuity, the surviving partner is forced to liquidate the business and is personally liable for the business during the transition period of winding-up. Depending on the situation and circumstances, a partnership can form

more than one buy-sell agreement.

First, the *cross-purchase agreement* — each partner buys a life insurance on the lives of the other partners for the purpose stated in the buy-sell agreement. (Diagram 1)

Second, an *entity plan* — where there are more than three partners, ownership can become complicated and it may be wiser to use the entity purchase. (Diagram 2)

Alternatively, establish a trust i.e. *trustee cross-purchase plan* outside of the entity to hold the contracts and avoid multiple policies.

Incorporation Business

Unlike businesses like a sole proprietorship and partnership, the death of a shareholder will not dissolve a company, as it is a separate legal entity. However, the operation of the firm may be put in jeopardy due to the lack of skills and expertise. In addition, the interference of the heirs may affect the plans and smooth operations of the company.

As for a corporation, there are two forms of agreement:

Cross purchase buy-sell is an arrangement where the shareholders agree to purchase a proportional share of the other shareholders funded by an insurance company upon an event such as death. The agreement is between the shareholders themselves, not the corporation.

Trustee cross purchase method — Shareholders pay a proportional share of the premium through contributions to the trust. Shareholders have an equitable interest in the trust in proportion to their interest in the corporation. At the death of a share-

holder, the insurance proceeds are distributed to the deceased's heirs in exchange for the shares through the trust. The surviving shareholders receive the business shares from the trust in proportion to their equitable interest in the trust.

The tax treatment for premiums paid is not a deductible expense because they are regarded as a capital expenditure. On the other hand, the death proceeds are not taxable.

Who does not need a buy-sell agreement?

Depending on the situation, a buy-sell agreement may not be necessary. Eg. in a sole proprietorship business where the owner and his/her spouse have full control ownership (with whom divorce is highly unlikely), and if one of them dies the other person will probably inherit the ownership interest. Likewise, in a small business with whom the child plans to succeed the business, it may be sensible to forgo a buy-sell agreement and leave the wishes in a will or trust. However due to unforeseen circumstances, a buy-sell agreement is still an option to business succession planning.

Running a business means coping with issues of uncertainty. The buy-sell agreement helps ensure business objectives are met without unexpected consequences and by providing assurances to the surviving owners that the business will continue in a usual manner. In addition, it provides immediate cash for the deceased's heirs to settle estate administration costs and meet their daily needs. Overall, the buy-sell agreement gives everyone comfort and security that they will receive maximum benefit from the business that they have worked a lifetime to establish.

If one of these statements reflects your situation, start today and dedicate time to think of your business succession so you can meet your personal and financial goals. Through proper planning, you can secure the continuation of your business and the financial security of your heirs with minimal interruption. **AT**

Jenny Tan is the principal consultant of Reach Link Advisory Sdn Bhd. She is a qualified accountant and a certified financial planner. She can be contacted at reachline@pd.jaring.my.

Garlic

More in its favour than just its flavour

My 92 year old godfather swears that he maintains good health because of the chopped fresh garlic sandwich he eats every morning! I don't mind him eating the sandwich, it's just the smell! For those of us here in Asia, no meal would be complete without the addition of garlic to our food. Most of us would not be able to survive without this wonderful pungent flavouring!

By Christina T. Chew



Garlic has a centuries-old reputation for its health and healing qualities. Did you know that garlic ranks as the most popular herbal cure-all? The priestesses in the temples of Eros, being experts in making love potions attracted travellers from all parts of the empire with their recipes. The basis of their recipes was garlic. They claimed that garlic “makes women fall in love and men powerful.” Garlic was known as the “stinking rose” by the Greek athletes in the time of the Pharaohs. They stuffed themselves with fresh garlic to strengthen their muscles. Even the slaves who built the pyramids consumed garlic as fossilised cloves of garlic were found in the necropolises.

Louis Pasteur proved that garlic contained antibiotic properties by putting a small piece into a petri dish of bacteria. The bacteria quickly died! During the First World War fresh garlic was used to treat infected battle wounds.

What Makes Garlic So Special?

Cholesterol Reducer — Garlic has been shown to reduce blood cholesterol. Twelve studies published around the world confirm that garlic in several forms can reduce cholesterol. It was found that half to one whole clove of fresh garlic daily lowered their levels by about nine per cent. Within consuming garlic for one-month improvement in cholesterol levels can be seen by as much as 12 per cent.¹

Protects Arteries (Blood Vessels) — In a recent study carried out at the University of Kansas US, it was found that those who eat garlic might have less harmful cholesterol than non-garlic eaters with identical cholesterol counts. Those who were involved

in the research were asked to take 600 milligrams of powdered garlic every day for two weeks. It was found that after two weeks the LDL oxidation was reduced by as much as 34 per cent. Garlic is found to prevent LDL cholesterol (bad type) from oxidising. If oxidation takes place this can result in a plaque build-up in the walls of arteries and lead to blocking of the arteries, heart attack and possible stroke. The theory is that unoxidised cholesterol is not very harmful.

Acts as an Anticoagulant — Studies have shown that garlic helps to thin the blood. In a double-blind study carried out in India, it was found that three cloves of

¹ Review by Stephen Warhaafsky at New York Medical College in Valhalla, US.

raw garlic per day improved clot-dissolving activity by about 20 per cent. However, one must proceed with **caution** if you regularly take medications such as aspirin or other drugs to thin the blood due to the anticoagulant properties present in garlic.

Cancer Blocker — Research carried out in animals suggests that chemicals found in garlic could block cancers including those of the breast, stomach, liver and colon. It was found in a study carried out in Iowa, US involving 42,000 older women that those who ate garlic more than once a week were half as likely to develop colon cancer as non-garlic eaters.

Fights Infection — For generations in Asia, our grandmothers have been telling us to eat garlic to prevent colds and flu. This has proven to be good advice. It is good to eat raw garlic when you feel a sore throat coming on. If you do, you may not even get sick. Garlic also acts as a decongestant. Therefore, it is good to eat when your nose is blocked. Studies suggest that garlic builds up immunity by stimulating infection-fighting T cells.

Good for nursing babies — “**whets their appetite**” — It has been found that when nursing mothers eat garlic, infants nurse longer at the breast.²

Positive Effect on Pregnancy — New research shows that taking garlic during pregnancy can cut the risk of pre-eclampsia (raised blood pressure with protein in the urine which occurs in one in 10 pregnancies).

Garlic may also help to boost the birthweight of babies that are destined to be too small (e.g. due to placental insufficiency). Experiments have showed that extracts of garlic added to cells from the placenta of women likely to suffer the above two conditions was able to stimulate growth quickly.³

Other suggested good effects from consuming garlic — ■ May lower high blood pressure. ■ Retards the growth of certain bacteria therefore acting as an antibiotic (because garlic

contains sulphur). ■ Acts as a diuretic. ■ Helps in the long-term management of restricted leg blood flow that causes pain while walking. ■ Verrucas rapidly disappear by applying crushed garlic or onion covered with a twice daily dressing.

Raw or Cooked?

This area is still under debate. However, most research indicates that garlic has a better effect if taken raw. The only problem associated with garlic is the smell. The smell can be neutralised by chewing a few cumin or cardamom seeds or munching on a sprig of parsley or Chinese celery. However, these are only temporary measures. Garlic infuses both the blood and lungs for as long as four to 18 hours. Sometimes, one cannot help but notice the smell of garlic exuding from people. This is because each person's body reacts differently with regards strength and duration of absorption and smell.

Some Tips on Getting the Best From Fresh Garlic

When buying garlic — Purchase only unpackaged garlic. The bulb should feel solid, not light or dried out. Press the cloves with your fingertips to make certain that they are firm. Purchase bulbs in which the outer skin is unbroken, tight, and free of soft spots.

Storage — Garlic should be stored in a cool, dry place. Place in a ceramic jar with holes for ventilation or basket and loosely cover. Refrigeration of garlic is not advised. Freezing will spoil uncooked garlic. Cloves that have sprouted can be used but the flavour will be milder. Many Asian women chop garlic and store it in oil for convenience sake in the refrigerator. Never store for more than two weeks, as there is a threat of deadly botulism.

Garlic Supplements

There is little market control over garlic supplements. When you purchase garlic

pills you really cannot be certain of the contents of what you are buying. Garlic pills are not under the scrutiny of government regulatory bodies and therefore are not checked for content or purity. The content of these pills can and does vary. However, Malaysia is in the process of adapting new laws and guidelines with regards to health supplements.

Not Enough Long-term Research

Health organisations such as the American Heart Association are reluctant to make any health recommendations for garlic until more long-term clinical trials where individuals are randomly assigned to consume or not to consume garlic. As a result, they are not sure if there are any long term effects from consuming large amounts of the plant.

With all the benefits listed above, there is no doubt that garlic should be included in our daily diet, especially if you are overweight, suffer from high blood pressure and/or heart problems. After writing this article, I have decided, “Never mind the smell! If a fresh garlic sandwich keeps my godfather healthy, he can keep on eating it. I better join him!” **AT**

² Tests carried out at Monnell Chemical Senses Center in Philadelphia, US.

³ Research carried out by Dr D Sooranna, MSJ Hirani and Dr I Das in the Academic Department of Obstetrics & Gynaecology, Chelsea & Westminster Hospital, London, UK.

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The writer can be contacted at christina@prohighway.com

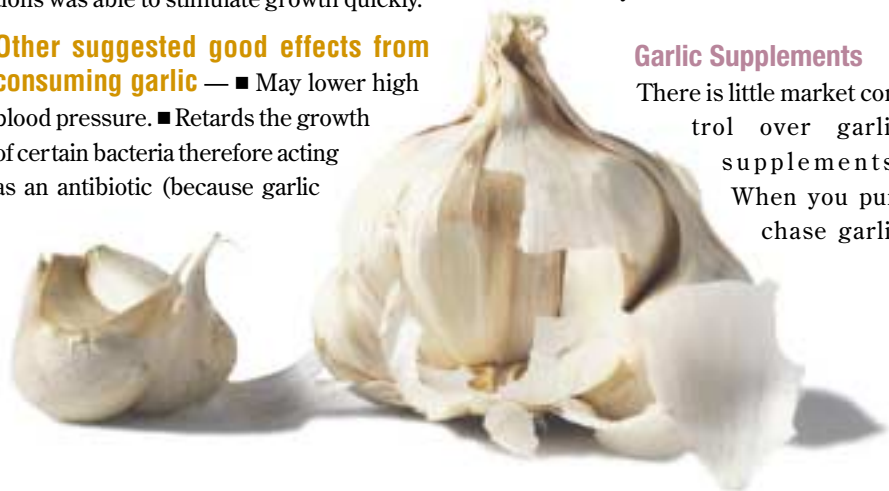
Brief Profile on prohighwayhealthcare

ProHighway Healthcare Sdn Bhd provides health information to the public through its URL: www.prohighwayhealthcare.com

Such information includes useful health tips that range from baby to elderly health as well as information on diseases, drugs, statistics and treatment contributed by various national organisations such as the National Cancer Society and Malaysian Aids Council.

Linkages with various other websites also provide wider and more comprehensive content. Other community services in the URL are:

- 1 **Ask Dr Bella.** A question & answer column where the public can ask our team of medical specialists' health questions.
- 2 **E-Family Counselling.** Focus on family counselling.



Principles Behind Delegation

By Shiv Prasad

What Does Delegation Provide?

Delegation provides a wonderful opportunity to strengthen the entire work team:

- ❶ Each member gains a better understanding of what goes on;
- ❷ Each member is made aware of the contributions others make to the total effort;
- ❸ Individuals learn new skills and master additional tasks;
- ❹ Each member is motivated and confidence grows;
- ❺ Each member assumes responsibility and has increased job satisfaction.

The Role of the Delegator

- The skilled delegator possesses a clear vision of the results desired, and can describe this to the employee.
- This leader accurately assesses the capabilities of each employee and assigns tasks that an individual can complete successfully. When delegating sufficient authority is also transferred to the delegate to get the job done.
- Additionally the skilled delegator determines how much supervision or follow-up the employee needs, and provides that right amount of guidance in a timely fashion.



- Using such principles, the delegator or manager can multiply effectiveness — thereby benefiting the business, the employees, and also the customers.
- The delegator can use the valuable time at his disposal now, to concentrate on the over-

No successful business or large organisation is run entirely by one person. Such entities these days are operated through hiring others to help conduct their business goals. How well organisations tap the energy, skills, and talents of their employees, depend on their efficiency in empowerment, in delegation.

all management and growth of the business ... while the employees delegated with particular responsibilities attend to the more routine or specialised tasks.

The Delegation Process

The process of delegation begins once the delegator analyses the jobs that need to be done, and how they are to be performed and distributed. The delegation limits have to be clear and not ambiguous. To explain the assignment the manager has to not only think through the process, but also be prepared to describe the anticipated end results to the employee: viz.

- What should the final product look like?
- What methods are used to evaluate performance?
- What is the tentative date of completion?
- What budget is allocated for the project?
- How much authority is given to the employee on the project?
- How much control is the manager retaining?

Through addressing these issues, the manager is better able to identify the right employee for the delegated assignment.

Making Assignments

When assigning the manager's interpersonal skills are stretched. Each assignee is individually spoken to and the process, as well as authority and responsibilities, clearly

explained. Explaining in advance the individual's selection for the delegated task is a morale booster and sets the right tempo for the employee to get on with the new task and responsibilities. If the manager involves the individual in defining the work in the early stages itself, then acceptance of the delegation becomes easier. When there is resistance to delegation, the manager must investigate — commencing from the time common ground was achieved to the nature of objection. Modifications, and even disciplinary actions, occur when delegation is being purposely reversed.

Avoid Misunderstandings

Misunderstanding is a major concern when delegating work. Instructions must show clarity; arrange and present your ideas in logical, manageable steps. Language is also important as problems can surface from differing interpretations. Details must sufficiently explain to the delegate what to expect. Asking questions and making the individual express freely when explaining, can determine if the person has clearly understood the assignment.

Empowerment

Once delegated an assignment, release the employee from other conflicting duties so that the individual can perform the assigned task. Not only should time be provided but also resources necessary to do the job. The manager must also empower the person by formal announcement to other employees of the new status and responsibilities. Others are to be told to cooperate and give the person the support needed.

Empowerment also means giving the assigned person some latitude to be resourceful and creative with the tasks to be performed. The manager can of course monitor through progress reports and reviews, to ensure that the overall project is on course.

When Not to Delegate

Delegation is inappropriate when:

- The manager cannot delegate more authority
- Highly personal relations e.g. manager-subordinate staff matters, that only managers can handle.
- When employees do not have the training, skills or resources to perform the job.

Barriers to Delegation

Despite many obvious benefits, there are still a number of barriers:

- Managers take the poor stance and object on the grounds that it takes more time to show someone how to handle the task - than it does to handle it oneself
- Managers feel threatened and are reluctant to train claiming they can do the job better.
- Managers lack confidence in subordinates, and project their own indispensability.

Training your subordinates to take on more responsibilities, adds new dimension to management practices, and underscores the principles of being able to delegate. **AT**

How to Build your Competence

Competence goes beyond mere words, it stretches one's imagination. It's the manager's ability to say it, plan it, and do it in such a manner that others know that you know how — and you know that they want to follow you.

By Charisma Mendoza

We all admire people who display high competence, whether they are precision craftsmen, world-class athletes, or successful business leaders. But the truth is that you don't have to be a Michelangelo, Carl Lewis, or Bill Gates to excel in the area of competence ... you want to cultivate some of their qualities.

What You Need To Do

Turn Up Everyday

There are two sayings, which spring to my mind: "All things come to him who waits." — "The early bird catches the worm." Responsible people show up when they are expected, but the highly competent ones take it a step further — they not only show up, they come prepared to participate everyday ... no matter how they feel, whatever their circumstances, or however difficult they expect the situation to be.

Keep On Improving

All competent people search continually for ways to keep learning, growing, and improving. Their's is a simple secret — they do that by asking *why*, and their reasoning is that "the person who knows *how* will always have a job, but it's the person who knows *why* that gets to be the boss".

Learn To Follow Through Always

Quality in any facet of activity is the result of conscientious effort, high intentions, intelligent direction and skilful execution — not an accident. You make a wise choice after following through many options available to you. Performing at a high level of excellence is therefore always a choice, an act of will. As a captain of a soccer team, you will expect your players to follow through with the ball when it is passed to any and each one of them. The players in turn expect that and a lot more from you as their captain — their leader.

Accomplish Above Expectations

You must be prepared to run that extra mile ... be guided by the motto “good enough for some is never good enough for all”. Just meeting the requirements will not be right for those who want to be leaders in their industry or community. They have to change their mindset, their attitude. They need to do the job well, and then some, day in and day out. They have to accomplish more than what is generally expected.

“good enough for some is never good enough for all”

Inspire Others Around You

The highly competent leaders do more than perform at high levels — they excel, they motivate and inspire others to do the same. Effective leaders combine interpersonal skills with high competence to take their organisations to new levels of excellence and influence.

Take Competency Stock of Yourself

No leader can make it to the top without appraising oneself. When you consider people who are competent, you’re typically considering only three types:

- 1 Those who can see what needs to happen.
- 2 Those who can make it happen.
- 3 Those who can make it happen when it really counts.

Ask of yourself, when it comes to your profession, where do you consistently perform? Are you a *thinker*, a *doer*, or a *clutch player*? The better you are, the greater potential for influence you will have with your people.

Drive Your Competence Home ...

Get Involved — If you have been side-tracked or emotionally detached from your work, it’s time to re-engage — get your head back into the game. Firstly, rededicate yourself to the job — schedule appro-

priate and undivided attention to your tasks. Next figure out why you got detached, whether you need fresh challenges, and if there have been conflicts at the workplace with your superiors. Identify the problem areas and create a plan to overcome these.



Re-examine Standards — If you have fallen short of consistent high-level performance, then you need to re-examine and redefine your standards. Avoid, or better still, do away with those shortcuts ... change your mindset, and outline more demanding expectations for yourself.

Find Three Ways to Improve Yourself

— Nobody improves without being intentional about it. Carry out a private research to identify three things you can do to improve your professional skills. Then dedicate the time, money and other resources to follow through on them.

In today’s globalised business world, marked by various beliefs and ethical boundaries, you do not want to be left behind huffing and puffing on the fast lane for lack of competence. You are eventually only as good as your private standards. When was the last time you gave a task your absolute best, even though nobody but you would really know about it?

The success of Benjamin Franklin, the 17th child of humble working class tradespeople and a school drop-out at the age of twelve after two years of formal schooling, should serve to inspire all of us. Apprenticed to his brother in the printing trade he moulded himself by working hard and living by principles and virtues he set himself. He went on to live an extraordinary life, excelled in everything he involved himself, and even contributed as a founding father to the constitution of the US. This tradesman seized the opportunity to be competent and even as an inventor (of numerous items) he wielded so much influence. Franklin’s mind was curious, and he continuously sought to improve himself and others.

In his noted publication, *Poor Richard’s Almanac*, Benjamin Franklin revealed his attitude when he wrote:

“Hide not your talents. They for use were made. What’s a sundial in the shade?”

Benjamin Franklin

“Hide not your talents. They for use were made. What’s a sundial in the shade?” **AT**

Survey on Member Firms

Mergers and Acquisitions

On 20 March 2003, the Working Group on Mergers and Acquisitions under the Public Practice Committee conducted a survey on member firms. The aim of the survey was to gain a better understanding of the profile of member firms' and their future plans and if they would consider the possibility of a merger or acquisition as a vehicle to grow both in terms of size and capacity in this rapidly changing business environment.

Overall Industry Statistics

As at 29 May 2003, there were 1,551 firms registered with the Institute with more than 92 per cent being sole proprietorships or 2 partner set-ups. In addition, based on statistics, more than 56 per cent of the firms are based in the Klang Valley. In the Federal Territory alone, more than 571 firms are registered so far.

During the period between 1 July 2002 to 29 May 2003, the number of new audit firms set up is 44, which shows a decline of 50 per cent, as compared to the previous year's figure of 87 (the 12 month period to 30 June 2002). The trend for the setting up of non-audit firms has, however, shown a tremendous increase from 44 to 109 as at 29 May 2003. The breakdown of firms by number of partners is shown in the table below:

BREAKDOWN OF FIRMS BY NUMBER OF PARTNERS
AS AT 29 MAY 2003

No. of Partners	Audit Firms	Non-Audit Firms	Total
1	914	273	1,187
2	220	31	251
3-5	89	1	90
6-10	13	0	13
>10	10	0	10
Total	1,246	305	1,551

Survey on Member Firms — Mergers & Acquisitions

The Institute sent out over 1,500 survey questionnaires to member firms throughout the nation. As at the closing date of 7 April 2003, the Institute received 131 survey questionnaires, which represented close to 10 per cent of the total. Some 48 per cent came from the Klang Valley, which incidentally is quite indicative of the general population of member firms registered with the Institute.

Survey Questionnaire

The survey questionnaire was divided into three main parts:

- ① Part A: Firm's Current Profile (Questions 1-6)
- ② Part B: Future of Your Firm (Questions 7-10)
- ③ Part C: Contemporary Issues (Questions 11-16)

Within each of these three main parts, there are various types of questions, including some, which request for subjective responses.

SURVEY RESPONSES

Firm's Current Profile

This survey was very successful in drawing out the smaller practices as more than 75 per cent came from firms with a sole proprietor and 13 per cent from a two partner set-up. There were no responses from firms with partners of six and more. In fact, about 50 per cent of them have less than 10 staff, which coincides with our common perception of what is termed as a small firm. Furthermore 76 per cent of the firms responded that they do not have branch offices in other states. This could be due to the fact that most of the respondents are sole proprietors or two to three partner set-ups. Thus, it is generally not possible for them to manage too many branches.

The breakdown of the staff qualifications indicates that 55 per cent of the firms have at least one MIA member as their staff. Our member firms also employed staff with other qualifications and this would include those with a master's degree, accounting degree not recognised by MIA and/or diploma. Based on the ratio of MIA members and non-MIA members as enumerated in the survey, it is good to emphasise that the 'Big 4' firms were not included in the tabulation of the survey results since there were no responses received from them in the first place. Otherwise, these results would have been significantly distorted.

Those that responded tend to lean heavily towards the most traditional area of the profession i.e. auditing (about 66 per cent). This complements the survey results whereby other services provided which includes management consultancy, accounting, secretarial services and taxation has generated less than 50 per cent of the total turnover for these firms. Member firms have also indicated that revenue is generated through other services such as Corporate Recoveries, Corporate Finance, Liquidation and Insolvency; however the contribution is still negligible.

The survey attracted the attention of firms who have been in operation for more than 15 years and those in operation between 1-5 years. This perhaps indicates that new members are very concerned of the direction of their business, therefore are very keen on expanding their services. Members in operation for more than 15 years may be interested in disposing their practices.

Firm's Future Plans

Based on the survey, more than three-quarters of the respondents expressed the intention to expand the size of their firms within the next two to three years. One of the more popular means seems to be

to take in new partners while increasing the staff force. This fact is not surprising given that a significant number of the respondents had been in practice within the last five years only.

In as far as the range of services is concerned, it is good news that about 57 per cent of respondents have the intention to expand into management consultancy. The other area where there will be significant room for expansion is taxation (about 25 per cent). It is also interesting to note that some firms have indicated their interest in expanding through financial planning which is an evolving industry presently.

Many firms (70 per cent) are interested in expanding their services and tackling the succession issue through mergers and acquisitions. Due to the interest generated by this survey, most firms have requested for further information on the various areas pertaining to mergers and acquisitions. The area that has attracted the attention of many, about 80 per cent, is the valuation of a practice. As it is obvious, the valuation of the firm has to be conducted to determine its profitability before a merger or an acquisition is performed. Two other areas that firms are keen to obtain information on are the critical success factors of mergers and acquisitions as well as a partner's responsibility under a partnership arrangement. As most firm's priority would be the profit sharing arrangements, it is not surprising to note such keen interest in this area.

Contemporary Issues

On the question of limited liability practices, an overwhelming 92 per cent of respondents understandably support this proposal. An equal percentage of 49 per cent of firms support the idea of corporatisation of practices and the idea of operating in the form of a limited liability partnership, similar to that being practised in the UK at present.

On the question of multi-disciplinary practices, firms who support the idea seem to double in terms of numbers *vis-à-vis* those who were indifferent. Perhaps, respondents have acquired knowledge or noticed the benefit of such practices.

Most firms have indicated expansion of practice through mergers and acquisitions as their major key concern at the moment. This is probably due to the fact that most

firms possess minimal information or knowledge in the area of mergers and acquisitions. Therefore, there is a strong request for assistance from the Public Practice Committee under the Institute.

The other key concern seems to be in the area of technical updating. Most firms are very keen to be updated by the Institute, as the Institute would be in a better position to obtain the latest information and updates affecting the accounting profession. This can also be partly attributed to the fact that many younger members who are now coming out to practice may not have the necessary resources (especially on technical expertise) to service their clients properly. Perhaps the Institute can consider promoting activities on mergers and acquisitions — to create a pool of resources among member firms that would eventually encourage specialisation of skills within each practice.

For firms who have no intention of expanding their services, (approximately 11 per cent), they indicated difficulty in locating potential partners and cited a lack of understanding in the area of mergers and acquisitions as their main reason. As mergers and acquisitions could be a difficult process due to reasons such as differing backgrounds, work ethics and compatibility with new partners etc, it is not surprising that there are firms who may not want to jeopardise their present freedom and independence for the sake of expanding their business through mergers and acquisitions.

The survey form also clearly indicated that about 81 per cent of the firms did not commence discussions on mergers or acquisitions as compared to 16 per cent who did. The survey extended an invitation to firms who have commenced discussions or have been through a merger process to share their experience in meetings conducted by the Working Group on Mergers and Acquisitions in the near future. Thus far, we have received about 40 such responses from practising members. [AT](#)

Interested practitioners are invited to contact the working group for mergers and strategic alliances, chaired by Raymond Liew, a council member of MIA at raymondliw@raymondliw.com. Alternatively, you may wish to contact the secretariat, Johnny Yong at 603-2279 9200 (Ext. 252)

Notice to all Member Firms

Annual Return 2004

The Institute recently distributed the Annual Return 2004 to all active member firms registered with the Institute. Sole proprietors and managing partners of all member firms involved were required to update their records with the Institute by submitting an annual return on the particulars of their firm and branch/es (where applicable).

Submission of the annual return to the Institute is **MANDATORY**, as stated in By-law B-2.5 (1)(d) of the Institute's By-laws (On Professional Conduct and Ethics).

Please amend the said form/s, if necessary, and return it to the Institute latest by **Saturday, 31 January 2004**. Please be reminded that you are required to return the annual return form/s regardless of whether there are any amendments.

[For **audit** firms, amendments to particulars (e.g. details of partner/s or address of firm or branch) should be supported with a copy of the updated Form 5 lodged with the Companies Commission of Malaysia (CCM) and proof of lodgement of the Form, if such documents have not been submitted to the Institute previously].

Please note that failure to comply with the above mentioned By-law may subject the member to investigation and disciplinary proceedings. [AT](#)

Notice to all Members

The Institute would like to inform members that the Council has resolved to remove from the register of members, those members who do not settle their outstanding Annual Subscription by 31 December 2003. Accordingly, all members are reminded to settle their Annual Subscription before 31 December 2003. A re-admission fee of RM500 will be imposed on members who seek re-admission. [AT](#)

Briefing for Practitioners February 2004

Once again, we are pleased to inform our members of a briefing at the MIA's Office on **6 February 2004 (Friday)**. Details are as follows:

Venue: Main Boardroom
Dewan Akauntan
2 Jalan Tun Sambanthan 3
Brickfields, Kuala Lumpur
Time: 5.30 p.m. to 8 p.m.
Admission: Free

Interested members are required to register with Cik Shuhairah or Ms. Tarana at 603-2279 9200 Ext. 323 and 226 respectively, both from the Practice Matters Department.

For this briefing, we have invited renowned speaker and author Choong Kwai Fatt to highlight some of the more significant revenue law cases that have spanned the annals of the Malaysia corporate scene from 1932 to 2002. Although we are still going through the learning curve in regards to self-assessment methodology, the fundamentals of revenue law, has thankfully, remained rather consistent. And hence, such rulings either by the Malaysian Court of Law or the IRB's Special Commissioners is still very relevant to our members so as to deal better with tax issues on hand.

This briefing is possible due to several people who came together to sponsor the event. The Institute would like to thank them for their kind support:

- a) Christopher Chooi of Christopher Chooi & Co.
- b) Richard Tan of RS Corporate Services
- c) Chong Sai Sin of Lim Tang & Partners
- d) C. N. Khoo of C.N. Khoo & Assoc.
- e) K.C. Kuan of Kuan & Co.
- f) Ho Mee Ling of HML & Co.
- g) Lim Siew Yong of SY Lim & Co.
- h) N. Chanthiran of Chanthiran & Co.
- i) T. K. Phua of Phua & Co. **AT**

Notice to all Member Firms Amendments to Listing Requirements in Relation to Documents to be Provided in Respect of an Application for Quotation

Pursuant to Section 9 of the Securities Industry Act 1983, amendments have been made to the Listing Requirements of the Kuala Lumpur Stock Exchange ("the said Amendments") in relation to the documents to be filed with an application for quotation, attached as scheduled.

Prior to the said Amendments, an application for quotation of securities by a listed issuer must include a confirmation to the effect that all notices of allotment have been issued and despatched to all successful applicants. In view of the above Amendments, such confirmation is no longer required to be filed. However, in substitution thereof, an undertaking that all notices of allotment will be issued and despatched to all successful applicants prior to the date for listing and quotation of the securities must be filed as part of an application for quotation.

The said Amendments are implemented in conjunction with the launch of a reduced timeframe for initial public offerings announced by the Securities Commission on 29 October 2003. The said Amendments form part of the collective efforts of

regulators and industry participants to enhance efficiency and investor protection for the markets.

The said Amendments shall take effect from 1 December 2003.

For the avoidance of doubt, the said Amendments shall apply in respect of applications for quotation that are **received** on or after 1 December 2003.

Please take note that the said Amendments are available for reference on the KLSE website at www.klse.com.my.

For further information or any enquiries on the said Amendments, kindly contact:

Legal Advisory
9th Floor
Kuala Lumpur Stock Exchange
Exchange Square, Bukit Kewangan
50200 Kuala Lumpur
Tel: 03-2026 7099
Fax: 03-2732 0065
Contact Persons:
Emilia Tee (Ext. 1016)
Yew Yee Tee (Ext. 2338)
Anisah Suyuti Low (Ext. 7970)
Noraishah Ismail (Ext. 7977) **AT**

Issuance of Guidance Note 12A under Policies and Guidelines on Issue/Offer of Securities

Members are hereby informed that the Securities Commission (SC) has released Guidance Note 12A which was issued under the Policies and Guidelines on Issue/Offer of Securities relating to the injection of property-investment assets into companies listed on the Kuala Lumpur Stock Ex-

change resulting in a significant change in business direction.

Kindly take note that the guidance note is effective immediately. Members can also access the guidance note on the SC website at www.sc.com.my. Please be 'guided' accordingly. **AT**

Joint MIA-MICPA Memorandum to the Securities Commission

20-23 OCTOBER 2003

Issues and Recommendations

① *Preparation of Historical Track Record of Companies within a group in the Long Form Accountants Report (LFAR)*

The Securities Commission's (SC) recently revised "Format and Contents of Application under Policies and Guidelines on Issue/Offer of Securities", requests that the Long Form Accountants Report (LFAR) prepared for submission consist of:

- (a) the historical track record of each company in the existing/proposed group; and
- (b) on a consolidated/*pro forma* basis, the results of the combined group.

On item (a) above, it has to be pointed out that preparation of the historical track record for each company in situations where there is a high number of subsidiaries in a group may not be practical especially when the group already prepares consolidated financial statements. This will, without doubt, increase the costs of submission to the SC and will certainly diminish our attractiveness *vis-à-vis* our neighbouring countries as a potential destination for corporations seeking to list their operations in Malaysia.

Whereas on item (b) above, preparing *pro forma* information in respect of the historical performance of a group that did not previously exist or that was not subject to common control is misleading. The *pro forma* would simply be a mathematical aggregation of figures that do not represent the performance of the companies had they been constituted as a group during the track record years. For this reason, the Malaysian Accounting Standards Board (MASB) requires the use of acquisition ac-

counting rather than merger accounting for such business combinations whereby the results are consolidated from the date of acquisition and not at any date earlier than that.

Recommendation

- (a) Both the Institutes would like to request the SC to allow for discretion to be exercised by the applicant company, its advisers and Reporting Accountant in deciding whether to present the historical track record of each company in the existing/proposed group or whether to present such information on a consolidated basis based on available audited financial statements.
- (b) Again, both Institutes would like to request that *pro forma* information is not a requirement of the SC by deleting the word "pro forma" from its requirements. Instead, the SC should allow the Reporting Accountant the flexibility to decide on the manner of presentation of information for submission purposes. For example, where the companies were previously not part of a group and therefore, should not be presented in the LFAR in this manner, the Reporting Accountant may present such aggregated *pro forma* information (for the group) as a separate statement similar to *pro forma* balance sheets presently included in the SC's submissions.

The Institutes believe that such an approach will allow the reader to be able to distinguish clearly the actual historical track record from the mathematically aggregated sum intended for illustration only. The Institutes will be providing our members with guidance on this matter to ensure consistency and appropriateness of approach in due course.

② *XBRL*

A number of capital market regulators are moving into the area of implementing a common reporting platform to reduce the cost of reporting as well as enhancing the processing speed of information being collated, analysed and interpreted. One common platform is the use of Expandable Business Reporting Languages (XBRL). XBRL is the common language of data exchange on the Internet. It is an electronic format for simplifying the flow of financial statements, performance reports, accounting records and other financial information between software programs. XBRL is simply an additional format for information included within company reports. Current information formats include "html" or Word (".doc") or Adobe ("pdf") or paper. XBRL is developed to make it less costly for companies to publish financial information in a format that can be easily viewed and used by management, investors, regulators, and all participants in the financial markets. By reducing the re-processing interface, it is expected that the cost of information retrieval over a long run will be greatly reduced. An enhancement to the speed of information retrieval will increase the value of information that is reported by entities listed on KLSE and Mesdaq. We are aware that many softwares in the market for preparation of financial information are already XBRL compatible or are already in the process of ensuring compatibility with XBRL.

Recommendation

We suggest the SC set up a joint working group with both our Institutes to review the possibility of implementing the XBRL reporting platform in the near future. With a standardised reporting platform, the enforcement capacity of the SC will be greatly enhanced; furthermore, this platform would facilitate companies intending to seek dual listing status elsewhere in reducing the cost of reporting that has to be borne by such corporations when dealing

with different market authorities previously.

③ *Role of Sponsor for the Mesdaq companies*

Pursuant to Rule 2.20 of the Listing Requirements of the KLSE for the Mesdaq market, IPO candidates shall secure and maintain the services of a sponsor for five years after admission. The role of the sponsor will, among other things, include:

- (a) To advice and guide the directors of a sponsored company (listed on the Mesdaq market) as to their responsibilities and obligations to ensure compliance on an on-going basis with all listing requirements and/or legislation issued by regulatory authorities.
- (b) To be a co-signatory for all correspondence between the Mesdaq listed company and the Exchange.
- (c) To act as a point of contact between the Mesdaq listed company and the Exchange.
- (d) To provide the Exchange with such information concerning the Mesdaq listed company in such form and within such time limits as the Exchange may require.
- (e) To ensure at least one primary research report is produced in respect of the Mesdaq listed company every 6 months and to furnish such reports to the Exchange.
- (f) The sponsor must ensure that all statements issued jointly with the Mesdaq listed company constitute full and true disclosure of all material facts concerning the said company and be satisfied that the statement is made based on all available information and to the best of his knowledge and belief.

The Institutes would like to draw the attention of the SC to Part IV of the Rules Governing Sponsor for MESDAQ Listing (Para 14.11.2), which provides for merchant banks or a Universal Broker to act as a sponsor for companies seeking IPO on the Mesdaq market for a minimum period of five years. Furthermore, Para

14.11.1 encourages these advisers to the Mesdaq bound company to continue as a sponsor after expiry of one year from the date of admission to the Mesdaq market.

Recommendation

One of the recommendations under the Malaysian Capital Market Masterplan is **“The market for the provision of corporate advisory services will be further deregulated” (Recommendation Rule: 20)**. Therefore, it is the contention of both Institutes that our member firms also be in a good position to act as a sponsor for Mesdaq listed companies after the expiry of the first year from the date of the companies being admitted to the Mesdaq market. Based on the role and responsibilities as highlighted above, we believe our firms are able to discharge their obligations under the rules with very little complications. By opening up the market to our member firms, it will allow greater competition among the various capital market players in the industry rather than limit it to the present 14 or so merchant bankers and universal brokers. Certainly, the SC can consider imposing relevant conditions prior to allowing member firms to act as a sponsor such as the existing track records etc. However, this should be the first step forward to further liberalise the Malaysian capital market.

Similarly, the SC should also consider allowing for greater competition in the area of corporate finances. We would be glad to work with the SC on exploring further the areas of corporate finance that can be further liberated to include member firms as competent advisers in some of the other corporate finance activities.

④ *Disclosures in the Annual Report on Non-Financial Information*

One of the recommendations under the Malaysian Capital Market Masterplan is the effort by the SC to further enhance disclosures in the annual reports by public listed companies that will eventually cover non-financial information. (Recommendation No.: 117). We are aware that this

is the reporting trend on a worldwide basis and the SC should be lauded for taking up such an initiative.

Recommendation

The Institutes would like to express their interest in participating in the process to reform the disclosure requirements in the annual report of PLC's to enhance the value of information being reported especially in the area of non-financial information. In fact, we would be happy to provide the support and participate in the Working Group to consider this matter further, should the SC feel that such an initiative is timely in view of the current trend worldwide.

⑤ *Listing Of Foreign Companies On KLSE*

Paragraph 9.26 of the KLSE Listing Requirements stipulates that the annual audited financial statements of a listed issuer must be prepared in accordance with approved accounting standards of the MASB and the 9th Schedule of the Companies Act 1965.

Recommendation

We would like to propose that, to encourage foreign companies to list their securities on the KLSE, these companies should be allowed to prepare their financial statements in accordance with International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS). This is particularly relevant in view that the International Organisation of Securities Commissions (IOSCO) has endorsed IAS/IFRS as suitable for purposes of cross-border listing. There is also a global trend towards convergence with IAS/IFRS. The European Union has endorsed the application of IAS/IFRS by public listed companies with effect from 1 January 2005. Similarly, Australia requires all reporting entities to apply IAS/IFRS by the same time-line. In addition, since MASB Standards are substantially in harmony with IAS/IFRS, financial statements prepared in accordance with IAS/IFRS will in most instances not result in material differences. Hence, the Institutes recommend that the Financial Reporting Act be amended accordingly. AT



A Time For Celebration

It's that time of year again when everyone heads in all directions to vacation the end of the year away! With festivities at every bend and long school holidays to boot, who could possibly blame us!

Caught up in the swing of things was the MIA Toastmasters Club, which decided to celebrate its long-standing relationship with the IGB Toastmasters Club by hosting a joint meeting on Thursday, 20 November 2003. The theme for the night was "A Time for Celebration" and the words on the tip of everyone's tongue were "Pure Delight"!

As everyone is aware, the two key objectives of the Toastmasters Club are to provide a platform for its members to cultivate more effective speaking skills and to help members overcome their fear of public speaking. Let's just say that both objectives were beautifully met! Members of both the MIA and IGB Toastmasters Clubs were not only very supportive of each other but gamely took joint responsibility to run the meeting. What's more there were role players

from both clubs as well as project speech speakers.

A cake is a delightful addition to any celebration and the Vice President-Education (VPE), ATM-B Lydia Ng arranged for



The cake-cutting ceremony at the joint meeting of the MIA and IGB Toastmasters' Clubs

just that during the intermission. The cake was no ordinary cake mind you but a chocolate-banana cake from the well-known Secret Recipe master bakers. The two VPEs of the club, ATM-B Lydia Ng and TM Johnny Yong did the honour of blowing out the candles and wishing for many more harmonious joint meetings to come.

The two club presidents, CTM Raymond Liew and CTM Richard Ngau cut the cake. The President of MIA Toastmasters Club, CTM Raymond Liew then thanked the IGB Toastmasters Club for their generous contribution.

Later that evening, general evaluator ATM-G Lourdes Chandramohan, the area gov-

masters Club also honoured the new CTM Karunanithi by awarding him an American gold pin, a definite incentive for all other members to achieve their CTMs as early as possible. CTM Renuka also received recognition.

The next event to look forward to is the installation night held to honour the club's executive council members — definitely a night for good old fashioned camaraderie and fun.

For those of you reading this article, come join us for enjoyable and educational meetings. Our meetings are usually held at the MIA boardroom, every first and third Thursday of the month. Meetings start at 6.30 p.m. with light refreshments and commences at 7.00 p.m. For the meeting on 18 December 2003 and 15 January 2004, there will be special themes: 'A time of joy and the ushering in of the Year of the Monkey'. With the nature of the monkey, this particular meeting is bound to be fun (and, I suspect mischievous too!).

For those who are interested, do come and "feel" the experience. For registration and more information, call 603-2279 9200 for either Johnny Yong (Ext. 252) or Cik Shuhairah (Ext. 323). We are here to listen to you TALK. **AT**

Johor A Busy Year Down South

The Johor Branch of the Institute has had an active year indeed as they organised a series of activities to ensure that members were kept well-informed and updated on the latest developments within the profession.

On 14 March this year, the

Branch held a members' dialogue on the Practice Review to update them on the programme. About 80 people attended. It was chaired by Johor Branch chairman Sam Soh and the speakers were the chairmen of the Institute's Practice Review Com-



(left-right) CCM Director Khoo Beng Chit, MIA President Datuk Dr Abdul Haji Alias, Johor Branch chairman Sam Soh, CCM chief executive officer Tuan Abdul Alim Abdullah, CCM Johor officers Hairul Annuar Haji Yassin and Puan Roziah at the members' dialogue with CCM

mittee (PRC) Lam Kee Soon and PRC committee member Dato' Nordin Baharuddin.

On 24 April, the Branch organised an Annual Closed Dialogue between the IRB, MIA, MIT and MATA in Johor Bahru. During the event, a memorandum of tax queries and problems, prepared by the Johor Branch Tax Committee was submitted to the IRB for deliberation and discussion.

Another IRB-MIA tax dialogue was held on 13 May in Muar. A total of 45 members from MIA, MIT and MATA from Muar, Segamat and Melaka attended the session which covered areas related to taxation such as the Self-Assessment System for non-company cases, making claims for

insurance related to education and medical expenses, problems related to tax payment and filing of tax returns with the Pusat (in KL), refunds and other tax related queries.

In June this year, a members' dialogue was held with the MIA President and senior officers of the Companies Commission of Malaysia from KL and JB. During this session, the MIA President Datuk Abdul Samad Haji Alias briefed members on the latest developments within the Institute and the relevant Government agencies. CCM 's Chief Executive Officer Tuan Abdul Alim Abdullah and Director Khoo Beng Chit conducted a briefing on the updates and changes to the Companies Act and Company Sec-



At the Fellowship Dinner, speaking to Tuan Abdul Alim Abdullah is Datuk Dr. Abdul Samad Haji Alias, and to his left are Mdm Ng Oi Leng and Sam Soh

retarial Practice. Approximately 85 members attend this event, which was followed by lively discussions. Later that night, a Joint Fellowship Dinner between MIA, MIT and MATA was held at the poolside

of the same hotel. The dinner was meant to give Tax Agents the opportunity to interact and foster professional relationships with IRB at a social level. Approximately 110 guests attended the dinner. **AT**

Sabah Scaling New Heights

The Sabah Branch played host to MIA members when they celebrated their 36th anniversary dinner themed "Accountants: Scaling New Heights" in Kota Kinabalu in October, which was honoured by the presence of Yang Berhormat Datuk Panglima Haji Yahya Hussin, Minister of Infrastructure, Sabah, representing YAM Datuk Musa Hj Aman, the Chief Minister of Sabah.

In his address to members at the dinner, Datuk Dr. Abdul Samad Haji Alias, MIA President, commended the Sabah Branch members for being equally active on the local front with various beneficial activities, spanning profession related talks to social gatherings organised for members. The President encouraged the branch to provide better services to members, to promote the Institute and to organise more interesting and

relevant activities, which will appeal to members and attract more support from them. Acknowledging the significant growth in the number of members, the President still cautioned that an increase in quantity did not necessarily correlate with an increase in quality and urged the branch to guide, assist and groom its members towards becoming highly skilled and truly professional in every sense.

For the second year, the organising committee produced the annual dinner CD-ROM which summarised Sabah Branch's activities and events for the year. A total of 470 members and guests attended the grand dinner and were entertained by modern Latin American style dancers from the Philippines and magical escapes by a local Houdini whose hands and ankles were tied by ropes (verified by an accountant). **AT**



Alexandra Thien handing over the mock cheque to Eva Susau, the representative from the Society for Sabah Heart Fund.



VIP Datuk Seri Panglima Haji Yahya Hussin (centre) being ushered to the dinner venue

78th AFA Council Meeting and AFA Conference 2003

Bangkok, Thailand

The Institute of Certified Accountants and Auditors of Thailand (ICAAT) hosted the 78th AFA Council meeting on 9 October 2003 at the Sofitel Central Plaza Hotel, Bangkok, Thailand. All ASEAN member countries were represented at the meeting, including two Associate Members (ACCA UK and CPA Australia).

The President of AFA (Paitoon Taveebhol of ICAAT) chaired the meeting, while MIA was represented by its President (Datuk Dr. Abdul Samad) and Council Members Datuk Nur Jazlan and Raymond Liew, together with GLC member Nik Mohd Hasyudeen. Ho Foong Moi and Khairul Azmi Rezo provided the Secretariat support.

Among the proposals discussed at the meeting were:

- Establishment of the AFA Permanent Secretariat
- AFA new structure (with an AFA Board replacing the current set-up of the AFA Council, so as to enhance the effectiveness of AFA)

- IFAC's proposed Statements of Membership Obligations (SMOs).

Subsequent to the meeting, the AFA Conference 2003 was held on 10-11 October 2003, with the theme "Making ASEAN the Voice of the Global Accounting Profession". The conference witnessed the participation of the full spectrum of ASEAN member countries, both as panel speakers for the session and also as participants. Dr. Nordin Md Zain of the Malaysian Accounting Standards Board (MASB) and Encik Mohd Khairi Mohd Isa of the Malaysian Institute of Corporate Governance (MICG) were selected by MIA to be the speakers at the above Conference. Both were experienced panellists in the area of their expertise, i.e. standards-setting and corporate governance.

At the conclusion of the Conference, the audience witnessed the handing-over ceremony of the Presidency of AFA from ICAAT to the Vietnam Accounting Association (VAA). The next AFA Conference will be held in Vietnam in 2005. **AT**



One for the album ... Delegates from Malaysia and the Philippines during the AFA Conference



AFA Meeting in progress



The AFA Council Members and observers during the Conference

33rd ASEAN Co-ordinating Committee on Services (CCS) Meeting

5-7 November 2003

The 33rd ASEAN Co-ordinating Committee on Services (CCS) meeting was held in Bali, Indonesia on 5-7 November 2003, with representatives from all ASEAN countries except Myanmar.

The Meeting was held in plenary and was chaired by Dr.

Khiane Phansourivong (Director, Department of Economic Affairs, Ministry of Foreign Affairs, Lao PDR), with the various sectoral Working Groups meeting back-to-back. Meanwhile, the Ad-hoc Expert Group on Mutual Recognition Arrangements (MRA) under

the Business Services Sectoral Working Group (BSSWG) held its first meeting back-to-back with the BSSWG Meeting.

M. Nagarajan of the Ministry of International Trade and Industry (MITI) led the Malaysian delegation, while Gloria Goh (Council Member) and Nik Mohd Hasyudeen (Member, Globalisation & Liberalisation Committee) represented the MIA, with Robert Khaw and Khairul Azmi Rezo providing the

Secretariat support. The MIA delegation participated in both the BSSWG and the Ad-hoc Expert Group on Mutual Recognition Arrangements (MRA).

Various areas on the liberalisation of trade in services were discussed at the meeting, including follow-up actions to the recent ASEAN Summit that was also earlier held in Bali, as well as the recent ASEAN Economic Ministers Meeting (AEM). **AT**

IIUM Accounting Conference II

Theme "Islam and Accounting: Accounting Theory and Practice for a Different Worldview"

Date 16-17 February 2004

Venue Hotel Pan Pacific Glenmarie, Shah Alam, Selangor

The Department of Accounting, International Islamic University Malaysia will organise the IIUM Accounting Conference II on the 16-17 of February 2004 at the Pan Pacific Hotel Glenmarie, Shah Alam, Selangor. The theme "*Islam and Accounting: Accounting Theory and Practice for a Different Worldview*" is chosen with the objectives to provide a forum for academics, professionals, students, and others interested in understanding the interaction between Islam and Accounting; cater for the specific educational and professional accounting needs of Muslim countries and Islamic institutions; and promote and encourage accounting research to further enrich the development of Islamic accounting theory and practice.

The Conference committee has invited Prof. Rifaat Ahmed Abdel Karim, Secretary-General,

Islamic Financial Services Board (IFSB) to give a keynote speech. Some of the topics to be presented during the Conference based on the paper submission from scholars local and abroad are:

- A Comparison between Conventional Models of Auditing and the Islamic Model of Auditing;
- Enhancing Transparency of Islamic Banks: Risk Reporting Issues;
- The Audit and *Syari'ah* Expectation Gap in Malaysian Commercial Banks: Perceptions of Bank Managers and *Syariah* Advisors;
- Accounting Issues on *Takaful*: A Case Study of Two *Takaful* Companies in Malaysia;
- Islamic Accounting Research: An Evaluation and Critique;
- Accountability for Social Responsibility in the Islamic Banks;
- Islamic Pawn Activities: The Case of Malaysian Financial Institutions and Small Operators;
- Islamic Banks Financial Reporting in the light of Islamic Accounting Standard;
- Earnings Management Practices Between Muslims and Non-Muslim Managers in Malaysia;
- Stakeholder Theory: Toward an Integrative Model between Organisational Theory and Islamic Financial Reporting;
- Islamic Perspectives on the Accounting Practice of Fixed Assets Upward Evaluations;
- The Features of *Mudarabah* (Profit Sharing) Financing Contracts and their Impact on Accounting Policy Choice in Interest Free Banking;
- The Genealogy of Accounting Standards for Islamic Banks in Indonesia;
- Corporate Governance and Accounting Standards in Oman: An Empirical Study on Practices;
- DEA Applied to Financial Statements of Islamic Banking Schemes;
- What are the Impediments to

the Growth and Development of the Emerging System of Islamic Accounting Principles;

- Transparency and Disclosure in the Financial Statements of an Islamic Financial Institution: A Comparative Study;
- Objectives and Characteristics of Islamic Accounting: Perceptions of Muslim Accounting Academics;
- Accounting Principles and Models for *Zakah*;
- An Islamic Perspective of True and Fair View in Financial Reporting;
- Environmental Reporting of KLSE Listed Companies: A Comparison Between *Syariah* Approved and Non-Approved Companies. **AT**

For further information and registration, please contact Chairman of the Conference, Assoc. Prof. Dr. Abdul Rahim Abdul Rahman (abdulrahim@iiu.edu.my/03-2056 4774), or Conference Secretariat, Mdm. Putri Nor Suad (norsuad@iiu.edu.my/03-2056 4674) or Maslina Ahmad (maslina@iiu.edu.my/03-2056 4662). Registration form and details are available in the Conference website: www.iiu.edu.my/islamicacc. The normal registration fee is RM600 and early bird fee (before 1 January 2004) or group of five is RM550 per person. Special discounted rate is offered to students at RM300 each.

5th Asia-Pacific Journal of Accounting & Economics Symposium

Kuala Lumpur Malaysia, 5-6 January 2004

For the first time, the 5th Asia-Pacific Journal of Accounting & Economics (APJAE) Symposium which is being jointly organised by the Faculty of Accountancy, Universiti Utara Malaysia, the City University

of Hong Kong and the Hong Kong Polytechnic University will be held on 5-6 January 2004 at the Mutiara Hotel, Kuala Lumpur. This annual Symposium is regarded as one of the best academic account-

ing conferences in the Asia-Pacific Region and provides an ideal setting for scholars, academics and practitioners to discuss and exchange views on high quality submitted papers.

The Symposium will be divided into four main parts:

- 1 Research Forum;
- 2 Corporate Governance Forum;
- 3 Plenary Paper Presentations; and
- 4 Forum Papers Session.

During the Research Forum which will be chaired by Prof. Judy Tsui from The Hong Kong Polytechnic University, two eminent scholars; Prof.

Ross L. Watts from the University of Rochester and Prof. Katherine Schipper from the Financial Accounting Standards Board will deliver papers. Prof. Ferdinand Gul from the City University of Hong Kong will chair the Corporate Governance Forum and the speakers will comprise Prof. Dan A. Simunic from the University of British Columbia, Prof. Katherine Schipper, Dr. Tong Daochi from The Chinese Securities Regulatory

Commission, Dr. Chen Yugui from The Chinese Institute of Certified Public Accountants, Prof. Joshua Ronen from New York University and a prominent practitioner from Malaysia. Eight high quality papers have been accepted for the Plenary Paper Presentations as follows:

- Discretionary Accruals, Audit-Firm Tenure and Auditor Tenure: An Empirical Case in Taiwan;
- Management Earnings Fore-

casts and the Market's Reaction to Predicted Bias in the Forecast;

- Audit Quality and Post Earnings Announcement Drift;
- Transparency of Financial Reporting Before and After Asian Financial Crisis: An Empirical Study of Indonesia Company Practices;
- Are Big Four Audits in ASEAN Countries of Higher Quality than Non-Big Four Audits;

- Matching Delivered Performance;
- Taking the Oath: Investor Response to SEC Certification;
- The Effect of Ownership Structure on Firm Performance: Evidence from Thailand. **AT**

For registration and further details, please contact Padmini Pillai, Faculty of Accountancy, UUM (e-mail: padmini@uum.edu.my/Tel: 04-928 3904) or visit our website at www.spk.uum.edu.my/apjae



Accountants Must Change to Meet Future Challenges

For the region's accountancy profession to regain its reputation following global scandals, accountants must change the way they think and begin to act as leaders rather than wait for change to be imposed, ACCA's Senior Director in the Asia Pacific region has warned.

Allen Blewitt, ACCA's Executive Director-Asia Pacific, at the recent ASEAN Federation of Accountants (AFA) meeting in Bangkok said that the profession was going through one of its most turbulent times, with the region's accountants "inextricably part of the global process of coping with the unprecedented damage to accountancy's reputation."

In order to have a healthy future for accountants, particularly those working in small and medium practices, accountants must change their mindset, he said. They must start leading change; be innovative; differentiate the services and skills they pro-

vide; commit to continuously improve their skills; invest in technology; and reinforce and demonstrate a fundamental commitment to professional ethics. "There can be no veneer of ethics," he said.

There was no question that the profession's future will be more structured, more governed by predominantly global standards and more under scrutiny from various national and international oversight bodies. The long-held traditions of accountants and other professions to self-regulate are changing rapidly, he said.

"ACCA urges the profession to abandon its somewhat self-interested notion of self-regulation and accept a balanced approach to regulation and independent oversight," said Allen Blewitt.

Audit, at the heart of the profession, would be subjected to unprecedented scrutiny following Enron, WorldCom and HIH and auditors would have to expect to report, both on the indepen-

dence of their judgement and on a number of extra areas of corporate activity.

"Auditors will have to expect that they will be reporting on an organisation's internal control procedures, and will also have to move rapidly to embrace detection of fraud as part of their audit report, otherwise markets will continue to be sceptical about the value of audit," he said.

He said in three to five years and beyond, it was likely that risk management procedures and corporate governance would also be subject to some form of independent audit, as many companies want to demonstrate a commitment to the highest possible standards of corporate governance.

Research also suggests that audits may need to embrace a host of non-financial indicators, such as HR statistics, staff turnover, investment per staff member in training and research and development measures, such as time be-

tween concept of a product and its delivery to the market. There was also scope for new assurance on sustainability reporting.

The series of compliance hurdles, with huge fines and reputations at stake, which firms need to jump over, including corporations law, corporate governance, occupational health and safety, privacy legislation, trade practices legislation, consumer protection and environmental legislation, provided business opportunities to accountants in practice. But they must apply technology and train their staff and that of the employees of their clients to make a specialist niche of compliance management and reporting.

Allen Blewitt also urged future accountants to look at the area of financial planning and investment advice, an area which should have been their natural preserve, but because they held back, was being taken by alternative suppliers. **AT**

CIMA Announces Groundbreaking Alliance

Partnership with CMA Canada to benefit accountants worldwide

CIMA has announced a unique alliance between the only two bodies in the world specifically focused on management accountancy. The 33,500 Certified Management Accountants (CMA) in Canada and 60,000 CIMA members have formed an agreement where members of either body can enjoy a fast track to membership of the other, giving business accountants worldwide an unrivalled resource of technical and research content.

Claire Ighodaro, President, CIMA, said: "CMA Canada is the only other professional body in the world which awards a qualification in management accountancy, at a standard equivalent to CIMA. We are delighted to announce this alliance which will enable us both to promote man-

agement accountancy and support business accountants in the UK and Canada. We intend to build on this collaborative relationship by sharing resources to benefit business accountants and their employers worldwide."

CMA members in Canada will be eligible for associate membership of CIMA and enjoy the same benefits as current CIMA members, provided they can meet the same three years' practical experience requirements.

CIMA members will be eligible for membership of CMA Canada and enjoy the same benefits as current CMA Canada members, provided they can

demonstrate accreditation or certification requirements that are equivalent to the CMA Canada accreditation requirement and satisfy admission requirements set out by the provincial or territorial society in which they live or work. Steve Vieweg CMA FCMA, President and CEO of CMA Canada, added, "Membership in our respective organisations will open up new career opportunities for management accountants and enable them to provide the strategic leadership, financial prowess, resources and research to support businesses, government and academia." **AT**

President Stresses on CPE, Integrity and Professionalism

CIMA Malaysia Divisional President, Dato' Lee Ow Kim, urged CIMA members to embrace Continuing Professional Education (CPE) to enrich their technical knowledge and acquire soft skills. He said that CPE is a lifelong process and in the new business environment where changes occur all the time, CIMA members must be quick to learn and absorb new knowledge and skills. Listening attentively to Dato' Lee were 113 new Associates and Fellows of CIMA who received their membership scrolls during CIMA's Membership Graduation Ceremony at the Sunway Lagoon Resort Hotel last October. Together with families and loved ones, more than 450 people filled the ballroom to join in the joyous occasion.

Associates are students who have been admitted as members of CIMA after successful completion of the CIMA examinations and attainment of 3 years' relevant practical experience. Fellows have a higher

grade of membership, with an additional minimum of 3 years senior and strategic experience, normally at Board level.

Dato' Lee, in his Welcome speech during the graduation ceremony, said that the global challenges facing accountants today are numerous and it is important for CIMA members to have the right attitude towards self-development and to be motivated enough to learn new things. He cited examples of the changing roles of accountants as evident from "new job functions" being created for accountants such as the following:

- **International accounting specialists** who handle all aspects of international business such as overseas trade agreements and cross-border transactions
- **E-commerce consultants** who assess the financial impact and project potential returns on e-commerce ventures
- **Forensic accountants** whose role is to identify and prevent fraud.
- **Environmental accountants**

who address how companies can be both environmentally responsible and profitable.

Dato' Lee also sent a strong message to CIMA members to have a high degree of integrity and professionalism in their chosen careers and to observe the CIMA Code of Ethics. He said, "As business models become more complex and financial transactions become more sophisticated, accountants must have a clear distinction between what is technically correct but ethically wrong."

The CIMA Membership Graduation Ceremony is an

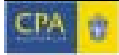


Wan Haslan Wan Hassan FCMA (right), one of the few who attained direct fellowship status, being congratulated by Dato' O.K. Lee FCMA, President of the CIMA Malaysia Division

annual event held to celebrate the attainment of Associate membership by CIMA Passed Finalists and to recognise the elevation of Associate members to Fellow status. **AT**



The smiles say it all for these new CIMA members



Gala Dinner Performances Wow Audience at State Conference

It was indeed an event to remember as Conference participants were treated to a night of entertainment by a medley of performances. Right from the

word go, the first rate entertainment kept the audience thrilled and asking for more. The night began with a spectacular dragon dance that saw



Two cheeky 'dragons' are at hand to receive the guests and participants

a luminous dragon prance about the stage as the hall was darkened for maximum effect. This was followed by an energetic modern dance, which was then ensued by an amazingly colourful collage of dance forms of all the major ethnic groups in Malaysia. The pulsating music coupled with the en-

ergetic movements of the dancers kept the audience enthralled. More was what the audience got when Malaysia's top performer Ning Baizura took to the stage. With her powerful vocals, Ning sang a medley of English, Malay and Chinese numbers that thrilled the audience to bits. **AT**



Conference Organising Committee member Kong Keong is delighted to pin a corsage on the clearly amused Ning Baizura

Winning Moments at Gala Dinner

Elwin Goh Kok Chye was announced the winner of an essay writing competition that will enable him to enjoy three weeks work experience with a reputable employer in Australia. Called the International Work Experience Programme (IWEP), it is a planned and structured work experience that provides exposure and understanding of work systems and processes of another country, in this case, Australia. The competition was open to CPA Passport members comprising undergraduates of Australian accountancy undergraduate programmes in Malaysia and accountancy undergraduate courses from Malaysian universities. Thirty students participated.

Rosita Ahmad and Dato' Mah King Thian were the proud re-

cipients of FCPA plaques during the gala dinner. A graduate of the Australian National University, Rosita, who made a special effort to return all the way from China where she is on assignment, is into her 16th year as a member, having joined in 1987. Her scope is internal audit and risk management, and her experience includes finance and banking. Meanwhile, Dato' Mah, who was unable to attend the function, is in commerce and industry and is a Chief Executive Officer cum Managing Director. He is a graduate of Monash University, Clayton and has been a member since 2001. Also at the dinner, Toh Hee Nam received acknowledgement as the longest serving CPA member in Ipoh. Toh who joined CPA in 1962 has been a member for 41 years. **AT**



Toh Hee Nam (far right), a CPA member for 41 years



Rosita Ahmad (far right) made a special effort to return from China for the evening



Elwin Goh (far right) will be spending three weeks in Australia

Non-Audit Firms Registered with MIA

FROM 1 TO 31 OCTOBER 2003

NON-AUDIT FIRM'S NAME NF NO

JOHOR DARUL TAKZIM

PS Phuan & Co 0442
62A, Jalan Abiad
Taman Tebrau Jaya, 80400 Johor Bahru
Tel: 07-339 6022 Fax: 07-335 3280
e-mail: brian@supreme.com.sg

TMY & Associates 0450
18-02, Jalan Titiwangsa 3/1
Taman Tampoi Indah, 81200 Johor Bahru
Tel: 07-241 4820 Fax: 07-241 4821
e-mail: joetmy@first.net.my

SC & Co. 0458
Suite 1304B, 13th Floor, City Plaza
No. 21, Jalan Tebrau, 80300 Johor Bahru
Tel: 012-720 5848
e-mail: sc6192@hotmail.com

KEDAH DARUL AMAN

BB Ong & Associates 0451
No. 15, Lebuhr Fairuz 1
Taman Arkid, 08000 Sungai Petani
Tel: 04-431 9901 Fax: 04-431 8292
e-mail: bb_ong@hotmail.com

MELAKA

SM Chew & Co. 0443
No. 64A, Jalan TKI6
Taman Kota Laksamana, Seksyen 1
75200 Melaka
Tel: 06-288 2585 Fax: 06-288 2585
e-mail: csm3899@tm.net.my

PERAK DARUL RIDZUAN

YK Ong Management Services 0462
88, Jalan Bercham
Taman Seri Dermawan, 31400 Ipoh
Tel: 05-548 0535 Fax: 05-548 0536
e-mail: elaineoyk@maxis.net.my

PULAU PINANG

Thompson Tan & Associates 0447
8, Jalan Maxwell
10000 Georgetown
Tel: 04-261 0450 Fax: 04-261 0450

SABAH

Law Kha Leong & Co 0441
Shoplot 6, 1st Floor
Taman Layang-Layang, Jln Kolam, Luyang
88300 Kota Kinabalu
Tel: 088-311 211 Fax: 088-264 721
e-mail: lawkl@tm.net.my

Chung & Co. 0448
P.O. Box 21292, Luyang
88770 Kota Kinabalu
Tel: 013-858 1289
e-mail: chungck3@bluehyppo.com

SARAWAK

Vivien Law & Company 0449
Lot 2164, 2nd Floor
Jalan Tun Ahmad Zaidi Adruce
Bormill Estate, 93150 Kuching
Tel: 082-241 163 Fax: 082-424 368
e-mail: vivienlaw@myjaring.net

SELANGOR DARUL EHSAN

No.1 Management Services 0445
9, Jalan SJ5, Taman Selayang Jaya
68100 Batu Caves
Tel: 03-6258 5559 Fax: 3-6258 5559
e-mail: ngooilin@yahoo.com

WTW & Co 0446
6, Jalan Seri Cheras 7
Taman Seri Cheras, 43200 Cheras
Tel: 03-9080 1549

Thaya, Lee & Associates 0452
Unit 227, Block A, Damansara Intan
No. 1, Jalan SS 20/27
47400 Petaling Jaya
Tel: 03-7727 7871 Fax: 03-7118 2887
e-mail: thaya_r@tm.net.my

S. M. Saw & Associates 0453
28, Jalan Dagang 2
Taman Dagang Jaya, 68000 Ampang
Tel: 03-4292 4862 Fax: 03-4292 4862

W. S. Wong & Co 0454
No. 29, Jalan PJU 3/18H
Damansara Indah Resort Homes
47410 Petaling Jaya
Tel: 012-202 5530 Fax: 03-6156 5132
e-mail: wirawong@yahoo.com

A M Chu & Co 0456
113, Jalan SS 24/1
47301 Petaling Jaya
Tel: 03-7804 5392 Fax: 03-7806 1130

TCS & Co. 0457
No. 40, Tingkat 1
Jalan Mendaling, 43000 Kajang
Tel: 03-8736 9597 Fax: 03-8736 9597

C. K. Yong & Associates 0461
68-2, 1st Floor, Jalan PJU 8/5 B
Bandar Damansara Perdana, Bukit Lanjan
47820 Petaling Jaya
Tel: 03-7726 2331 Fax: 03-7728 2331
e-mail: yck126@tm.net.my

WILAYAH PERSEKUTUAN

Y. H. Goh & Co. 0440
2/1A, Jalan Pandan 2/1
Pandan Jaya, 55100 Kuala Lumpur
Tel: 03-9282 2288 Fax: 03-9284 5195
e-mail: gyh@yahoo.com

Jason Chui & Co. 0444
No. 8-3A, Jalan Pandan 3/2
Pandan Jaya
55100 Kuala Lumpur
Tel: 03-9284 8785 Fax: 03-9284 3518
e-mail: jason.chui@mailexcite.com

CTC Associates 0455
Lot 2-3-30, 3rd Floor,
Wisma Rampai, Jalan 34/26
Taman Sri Rampai, 53300 Kuala Lumpur
Tel: 03-4142 3677 Fax: 03-4143 3787
e-mail: citychee@tm.net.my

Sat & Associates 0459
10, Lorong Setiabistari 2
Damansara Heights, 50490 Kuala Lumpur
Tel: 03-2093 2030 Fax: 03-2095 0298
e-mail: satvinder_singh_gill@hotmail.com

Chin Nyook Chin & Co. 0460
35-1, Jalan 3/36, Bukit Sri Bintang
Kepong, 52100 Kuala Lumpur
Tel: 03-6277 6112 Fax: 03-4296 3729
e-mail: ncchin@pc.jaring.my

Audit Firms Registered with MIA

FROM 1 TO 31 OCTOBER 2003

AUDIT FIRM'S NAME AF NO

MELAKA

(Conversion From NF 0359)

Joo Ee, Choon & Associates 1508
25, Jalan PE 8, Taman Paya Emas
Paya Rumpit, 76450 Melaka
Tel: 06-312 3543
e-mail: jooeechoon@hotmail.com

PERAK DARUL RIDZUAN

Rajagobal And Company 1509
507, 5th Floor
Perak Kaying Association Building
114, Jalan Sultan Yussuf, 30000 Ipoh
Tel: 012-3545763
e-mail: suntharamsunthari@hotmail.com

SELANGOR DARUL EHSAN

(Conversion From NF 0323)

Thaya Rani & Associates 1506
Unit 227, Block A, Damansara Intan
No. 1, Jalan SS 20/27
47400 Petaling Jaya
Tel: 03-7727 7871 Fax: 03-7118 2887
e-mail: thaya_r@tm.net.my

M.S. Tan & Co. 1507
24, Jln SS 2/17, 47300 Petaling Jaya
Tel: 03-7876 3716 Fax: 03-7876 3716
e-mail: muisiang@tm.net.my

YC Lee & Co. 1511
No. 10, Jalan Awana 1
Taman Cheras Awana, Bt 9 Jalan Cheras
43200 Cheras
Tel: 012-2812975 e-mail: daniel7273@msn.com

SKL & Co. 1512
27A-1 Jalan SS 24/11
Taman Megah, 47301 Petaling Jaya
Tel: 03-7804 9743 Fax: 03-7804 5279
e-mail: skl_00@hotmail.com

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Accountants Today is the official publication of the Malaysian Institute of Accountants (MIA) and is distributed to all members of the Institute. The views expressed in this magazine are not necessarily those of the MIA or its Council. Contributions including letters to the Editor and comments on articles appearing in the journal are welcomed and should be sent to the Editor as addressed below. All materials appearing in the *Accountants Today* are copyright and cannot be reproduced in whole or in part without written permission from the Editor.

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Malaysian Institute of Accountants
(Established under the Accountants Act, 1967)

VISION AND MISSION

MIA's Vision

- To be a globally recognised and respected business partner committed to nation-building

MIA's Mission

- To develop, support and monitor quality and expertise consistent with global best practice in the accountancy profession for the interest of stakeholders

MIA BRANCHES

State : **Johor**
Location : Johor Bahru
Chairman : Soh Siong Hoon, Sam

State : **Kedah & Perlis**
Location : Alor Setar
Chairman : Chan Boon Jiun

State : **Kelantan**
Location : Kota Bharu
Chairman : Billy Kang

State : **Melaka**
Location : Melaka
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State : **Sarawak**
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State : **Terengganu**
Location : Kuala Terengganu
Chairman : Su Lim

Practice What You Preach

The procession starts right before Merdeka celebrations and ends with the passing of Chinese New Year. No, I am not talking about 'Ops Sikap' and 'Ops what-nots' trying to reduce accident rates. I am talking about the plethora of corporate advertisements wishing season's greetings, which comes with messages that espouse the need for unity, tolerance and understanding the concept of harmonious living.

This is the bit where my simple brain seems to malfunction as I have massive difficulty in understanding these messages, their sincerity and most importantly do these corporate entities practice what they preach.

Let us not beat around the bush. If you have huge pots of money to spend on public relations and advertising campaigns, it is not difficult to come up with, what on the surface, looks like a brilliant advertisement ingrained with messages that seek to teach the unenlightened among us. Is it really that?

Let me blabber on. I find it very amusing that season's greeting wishes seem to either at best portray a sense of feel good that perhaps is never there or at worse accentuate stereotyping what is endemic in our society based on ethnic diversity.

Companies talk about the need for diversity, unity and fairness for all in their corporate advertisements but in reality these very companies' employment policies are questionable when it comes to diversity.

We all have heard about companies that spend millions on national adverts preaching unity and equal opportunities but then somehow fail to deal with employment applications in a just and fair manner unless of course if one is applying to 'gazetted' and stereotyped positions offered based on ethnicity.

For the life of me I cannot fathom the excitement on the lack of equality in the police and armed forces and lamenting the lack of participation from certain races when there are many other sectors littered with the same inequality but not addressed even though many are 'dying' to join these sectors.

Companies wish to send out greeting messages but the insinuation in some adverts ends up offending certain communities and questions are then asked in parliament. There is nothing clever in offending people by stereotyping them.

I have queried these companies regarding their corporate adverts that do not jive with what they really practice when it comes to staff and consumer matters. Yes, you've guessed it, not even once have I managed to solicit a reply from these so-called public unity advocates. Perhaps they do not have an answer or just do not give two hoots about explaining themselves.

The point is why are we resorting in trying to pull wool over our eyes when we should be working to correct the weaknesses in the efforts to increase unity and cooperation among us. Soundbites are cheap and grossly inadequate in unity promotions.

I for one do not think that race diversity is the reason for lack of unity or the spirit of multiculturalism. It is due to our ingrained prejudices and applied practices of these intolerances. More often than not, these lead to stereotyping that prey on our fear/suspensions.

This partiality or partisanship is the cause of many ills of our suspicious minds. We label each other in terms of race based on stereotyping. Worst of all, we preach and spread that very destructive prejudice to those under our control or influence.

If you look at countries that are inhabited by only one race, they have their fair share of trouble and disunity. Look at Iran and Iraq; the different sects of the same religion have a habit of killing each other. Look at Northern Ireland; neighbours have been setting off bombs in each other's backyards just for believing in different methodology of the same religion.

Therefore it is not race, gender, religion or class that sparks violence and stops unity efforts rather mankind's lack of respect and mutual trust. We have a compelling need to classify others according to our own warped thinking. To do that, we choose whatever available differences to set ourselves apart from our neighbours.

If we cannot find something major even the minute differences will be latched upon to lead a crusade against others. Each and every single one of us is a product of the Almighty and it is not our place to comment on the differences to mask our own insecure nature.

The main issue is that people in positions of power or influence such as parents, teachers, sports coaches, priests, politicians and even couples do not or fail to realise the importance

of what they preach and practice. These thoughts and actions most certainly will impart on to the flock unwittingly and then spread that narrow mindedness on to others.

It is not good enough to talk about unity and the spirit of cooperation during celebrations only but that is exactly what we do. People harp on certain themes after being reminded only due to the appropriateness of seasonal celebrations. Unity should be a permanent and continuing feature. It is not a fashion item.

Unity is not about visiting each other during festive celebrations and commenting about how delicious the food is. Unity is not about attending high society functions and commenting on each other's jewellery and branded handbags. Unity is not about wearing other cultural costumes to work.

Unity is about seeing each and everyone else as a person who has the same needs and wants like the rest of us. Unity is about the spirit of togetherness in everything we do as a society so all of us benefit from a full unity philosophy in practice.

Do we mix well among our brothers and sisters of different races? Do we visit each other during normal times? Do we pick up the phone and talk to friends when we do not need anything at all from them. I believe most of us, me included, fail to undertake anything to promote in our own way a continuing culture of 'prosper thy neighbours' in the broad sense of that word.

We have achieved much due to the vision of our forefathers and the need to progress in society. I believe that the need for uplifting of economic well-being is the reason for our unity rather than unity that is driving our economic success.

Next time some one annoys us, let us start by thinking that is because he or she is a half brained complete imbecile rather than because he/she belongs to a particular race. In the meantime please practice what you preach. We have a long road to travel though.

Radha K. Vengadasalam

CHARTERED ACCOUNTANT, PETALING JAYA

The writer is a MIA member. He can be contacted at ashapr@pc.jaring.my

What the Accountants Say

Even Good Things Can Get Better!

■ *The new ACCOUNTANTS TODAY masthead is a far cry from what it was before. However I do still feel there's room for even more creativity. The design can be jazzed-up more so as not to look too mundane. I'm definitely one who believes first impressions count ... so seeing a beautiful face on the front cover did do wonders! Also the current*

coverage of topics is definitely more relevant to the profession of accountancy compared to the articles the magazine featured before. One last thing, it's high time to change the MIA logo — it looks too much like a school badge! And when it is re-designed, sticking to simplicity is always the safest way to go.

— **David Tiang, Kuching**

And the List of Compliments Goes On ...

■ *"Hey guys, I'm writing in to say my piece. First thing on the list of compliments is that ACCOUNTANTS TODAY is a very catchy name as are the articles now featured. They are not too technical and that's a good thing as it makes overall reading more pleasurable. One article I truly enjoyed was 'A Windy Situation' as I fly very often and believe me, the facts in that article will certainly come in handy. The piece on 'Directors' Remuneration' and the issue of transparency was an eye-opener. And now for the biggest compliment — the attractive covers with Janet Khoo (July 2003 issue) and Wenddi-Anne Chong (September 2003) were excellent ... the magazine certainly brightened up the office environment!"* — **Lim Huck Hai, Kuala Lumpur**

A Great Read Cover to Cover!

■ *"Thank you for the more colourful and informative ACCOUNTANTS TODAY magazine. The name itself is upbeat and contemporary! My association's magazine, MICPA pales in comparison. ACCOUNTANTS TODAY features articles of the new current business era that is more related to our everyday life. Thank you also for dropping from your content list, issues that are too technical! The interviews with entrepreneurs and technopreneurs were very helpful as was the article on Financial Planning. And I must say, the feature on businessmen who made it big like Tony Fernandes of Air Asia was really great stuff. Finally, the write-up on the MIA Toastmasters Club as a value-added activity for members gave a new perspective to toast-mastering altogether. 'Romancing your inner-self' was a fantastic headline — it is nice to know we can inject romance into our somewhat boring profession! Kudos to the MIA Editorial Board for the great work."* — **Chiah Soo Yee, Selangor**

Like a Breath of Fresh Air!

■ *"This is what I call a complete makeover! ACCOUNTANTS TODAY is totally new in outlook, totally invigorating and totally exhilarating! The magazine has so much more relevant information I almost depend on it to do my work well. Dare I say compared to our CIMA magazine, which is very much UK-based, ACCOUNTANTS TODAY deals*

with more local news such as local personalised financial planning practices that go beyond traditional accounting issues. This is a new perspective that I gladly welcome. Also the new name makes a better impact. I look forward to every issue now."

— **Joshua Khoo Keng Boon, Kuala Lumpur**



out by creating automated, pre-approved catalogues for routine purchases that they can update electronically and integrate with their accounting side.

Traditional ERP or CRM programs do not generally include a contract repository or modules for monitoring pricing, rebates and chargebacks or compliance with the revenue recognition rules of the SEC's SAB 101 (see "Automated Contracts Make Revenue Recognition Easier"). Goldman Sachs estimates ERP systems cover only 20 to 30 per cent of the needs of most enterprises. "What's evolving now is much more customised to individual company needs," says NCMA's Couture, "and not just an add on to ERP systems."

Pricing varies greatly from one vendor to another and depends on the client's size and the extent of its contract relationships. Vendors generally charge for their products through a licensing fee, which allows the customer to try out elements of different systems. Some providers also offer contract hosting arrangements for midsize and smaller clients that do not want to maintain the hardware and software in-house, a service known as application service provision, which runs the client's contract data on the host's own systems for a monthly fee.

I-many, for example, typically charges in the US\$125,000 to US\$130,000 range for projects with midtier to smaller companies, while a large company with a high volume of sales typically pays US\$1 million to US\$2 million — and as much as US\$4 million if it purchased a full set of product suites or modules. DiCarta's average pricing is roughly in the same range — about US\$150,000 for a small company with perhaps 10 users to license the software, and as much as US\$1.5 million to US\$2

million for a Fortune 1,000 company that plans to use the software enterprise wide. Both companies calculate maintenance costs — instances when the vendor makes modifications or adjustments to fix glitches — at about 20 per cent of the licensing fee. I-many also offers "value-based" deals in which the company pays a reduced licensing fee and I-many receives a portion of

whatever savings the company achieves by using the system.

Efficiency and Competitive Advantage

Automation forces companies to carefully analyse how they negotiate and implement contracts — a process that by itself can help the organisation create better, more efficient procedures. Contract management systems tie executives

and negotiators directly into the negotiating process and give them access to contract language the company considers standard and acceptable. Negotiators do not have to sit in the same room; they can hash out contract terms in an instant-messaging environment. Afterwards, the system can initiate a series of notifications to ensure the terms of the deal are carried out according to the contract's timetable.

Some companies like their systems to contain "version control," which allows them to keep multiple versions of the same agreement from circulating while it's making the rounds, notes Rubin. "If more than one party has access to the contract, you can lock it down so that no one else can make changes while you're working with it," she says. "And the system maintains all previous versions, so you can see all changes up to the final version."

Companies can purchase another modular component, called revenue manager, with the ability to highlight wording that might trigger revenue recognition, such as acceptance clauses, exclusivity and extended payment terms. Some automated contract management systems make calculations showing the seller when it can recognise revenues under SAB 101. The software can check for specific types of revenue recognition fulfilment, such as whether the seller was able to

Automated Contracts Make Revenue Recognition Easier

Contract pricing agreements, like everything else in the business-to-business world, are becoming more complex. While contracts stipulate terms of delivery and acceptance, accounting standards in such critical areas as revenue recognition are tightening and require ever more scrutiny by CPAs. The SEC's SAB 101, *Revenue Recognition in Financial Statements*, a set of guidelines that went into effect late last year, specifies when a company can realise revenue on its books from the sale of a product or service. In some situations and particularly for certain industries such as software, instead of booking the revenue as soon as the product is shipped, the seller now must wait until it is installed. To win an exception from such rules, the seller must provide "vendor specific objective evidence" showing why a different standard is appropriate. "That means the price charged must be the company's price, and not an average price for similar companies," says Mary Barth, CPA, the Atholl McBean professor of accounting at the Stanford Graduate School of Business, and also a member of diCarta's board. "The company must be able to show it is already charging the same price to other customers, or that the price is well established and unlikely to change."

Assembling all the data required to establish vendor specific objective evidence that entitles a company to an exception from SAB 101's revenue recognition rules would be impossible for many companies unless those data were accessible electronically and linked to specific contracts, observes Barth, "The bottom line is that SAB 101 has put a much higher premium on knowing *exactly* what terms you've agreed to," says Barth.

Automation helps companies get the most out of their contracts in other ways. With notifications flagged electronically to the right executive when a portion of the deal is subject to automatic renewal, it's less likely the company will lose revenue by neglecting to invoke this clause. Also timely notifications can prevent the company's missing a rebate payment—an important consideration, as rebate agreements are becoming a more frequent feature in contracts. Plus, executives know ahead of time when a deliverable is due, leaving less room for a due date to go by which could give a customer grounds to cancel the deal.

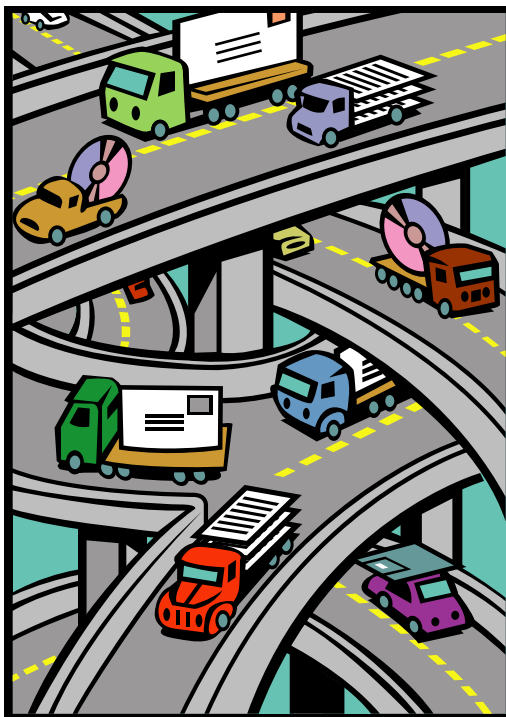
make a reasonable estimate of the probability of non-payment.

An automated warning system can also alert a sales rep who may be about to make a deal with one client that disrupts a relationship with another before it's too late. "A slight change in price could easily cause you to give a new customer a lower price than any of your other customers," Christiansen says. "You may then have violated a pricing status agreement with another, much bigger client." An Internet-based link to a company's library of contract terms and conditions can prevent such a situation from arising as soon as the wording hits the page and before a handshake with the new customer — instead of later on, when your company's lawyers review the deal and a lawsuit may be coming.

Besides creating greater efficiency, automation may offer a competitive advantage by reducing cycle time to completing the contract negotiations, says Andersen's Miles. By making the company's contract library accessible and facilitating messaging and notifications between the negotiator and key executives, automation shortens the cycle. That makes companies that have learned how to do so more attractive as negotiating partners, Miles says, because standard clauses are automatically included in the contract or are available from the contract library. Sales reps and executives can then spend less time wrestling with the basic parts of the agreement.

Several vendors offer a database module that gives sales reps the ability to mine the company's past contracts using word or category searches to compare the terms they are discussing with those used in past deals.

The negotiation module contains standard contract clauses the negotiator can use to assemble the contract. Any of these clauses can be tagged so that if one of them is added, the CEO — or another officer — is automatically e-mailed to authorize its inclusion. Instructions can be attached, such as "for negotiation" or "accept/decline only." The module can also contain examples of similar language from other contracts the company has signed, noting when and if such language is acceptable.



"Besides creating greater efficiency, automation may offer a competitive advantage by reducing cycle time to completing the contract negotiations ..."

No Package is Perfect

One of the goals of integrating the contract management process into a company's operations through automation is to eliminate human error. But these systems can just minimise errors by assuring that each person who needs to approve an aspect of a contract, or make sure one of its obligations is fulfilled, is kept in the loop.

For those who think the software can do everything, it's possible to build a workflow that is too elaborate, cautions Rubin. "If your system has so many ticklers for so many people that you tickle them to death, they may start to ignore their notifications," she warns. When companies' automated contract management systems don't run smoothly, it's usually not the software causing the problem but the workflow process it was built into. "If a company has no firsthand knowledge of how this kind of system works, a successful implementation will depend on how well the company prepared for it and tailored it for its internal use," says Ireton. "That's why bringing all the departments that will be affected by the new system into the implementation process is crucial."

If a company brings in an outside consultant to implement the system, that person's understanding of the company's internal procedures will be critical as well, Ireton adds. Otherwise, the company can end up having to retool the basic workflow that the automated system is supposed to follow or add modules that should have been installed in the first place. If the former situation occurs, the additional time and effort can mean refitting the system from top to bottom, at heavy additional cost.

Once an automated contract management system is in place, however, it becomes much like any other piece of software — an intellectual asset over which the company has only partial control. Companies that use them are vulnerable to the vendor's going out of business and no longer being able to sup-

port the software. While no disasters have occurred yet, Rubin says some companies are asking their vendors to place a copy of the source code for their system in escrow, so that the company can retrieve it should the vendor close its business.

Automation cuts costs and improves revenue. Savings can come from reducing pricing errors, mistaken payments, operating and processing costs and personnel. Revenue rises when companies streamline claims processing and improve vendor and customer relations and compliance, according to "Technology: B2B Software," a Goldman Sachs report released last February.

Corporate CPAs and financial managers know efficient contract management can be a key to a better bottom line. Automating the process empowers companies and their workers and takes the guesswork out of managing business agreements. **AT**

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Competition and Access Pricing in Telecommunications

By Tengku Akbar Tengku Abdullah

The Malaysian Communications and Multimedia Commission (MCMC) has recently published a public consultation paper on effective competition in the access network. We note that effective competition is a mechanism to stimulate development and growth of the communications and multimedia industry.

It must be lauded that MCMC is very serious in pushing for effective competition policies whereby industry players either owners of access networks or access seekers will be able to operate on a level playing field. The opening of access to networks on a level playing field to all telecommunications and media operators alike will definitely benefit final consumers.

MCMC has defined access network as the subscriber network at the last mile connecting the customer to the local switch or exchange. The access network for fixed services can be considered as the most relevant access network that can offer multiple services utilising the existing network components. MCMC noted that the access network for fixed services collectively connects (as at December 2002) 19 per cent of the country's population to the fixed service. By virtue of that connection, 11 per cent of the population is linked to

the dial-up Internet access service and about 20,000 people linked to the broadband services (Digital Subscriber Line Services). The number of customers connected to broadband service in the country is very low (less than 0.1 per cent) in comparison to the Republic of Korea (21.3 per cent), which has the largest broadband penetration rate in the world. Based on the present penetration rate in the country coupled with a small number of service providers, there is a lot of potential for growth in the industry if players can offer high quality services to consumers.

Competition

Given the high and sunk cost investment in network facilities, not many operators are willing to risk their money investing in these facilities particularly if the payback periods are very long and uncertain, and technology obsolescence is very rapid. It has been noted that telecommunications networks exhibit technical characteristics, which appear to make them natural monopolies. The introduction of such competition in the access networks may be a waste for society, as several parallel networks of this type compete with each other.

The natural monopoly argument makes monopoly the most efficient market structure for providing access to networks. Natural monopoly is said to prevail when a single firm can supply output to the market at lower cost than any combination of firms. Investments in network, for example investment in telecommunications' transmission equipment, is expensive, and given the risk of such investments, firms have to evaluate the benefits and risks of building such networks.

In a discussion related to a local fixed network operation which is considered to



have the most widespread natural monopoly cost conditions, the existence of fixed connection costs to both fixed and mobile networks makes it very costly to have more than one telecommunications cable going into a given premises. If, for example, a network operator has already laid a cable, the laying of a new cable by a cable network operator for supplying its own television and telecommunications services will make the asset of the former 'stranded'. This is because the original cable no longer generates revenue for the first network operator.

The more people subscribe to a service, the more existing consumers benefit from network externalities. The network externalities found in telecommunications services fall into two types. The first is the 'call externality' in which a caller provides benefits to the called party, who does not pay for those benefits. The other is the 'network externality' in which existing subscribers receive benefits without paying any additional charges when they are able to make calls to, and receive calls from, new subscribers. An example of network externality in the telecommunications services is basic voice telephony whereby consumers are able to communicate with a large number of people. This characteristic of the telecommunications industry and the costliness for a consumer to be connected to more than one network explain why network interconnection is important. Only with full network interconnection can consumers enjoy the full benefits of freely communicating with other people in other public networks at a lower cost.

Access Pricing

The opening of access to a network, however, has created the problem of access pricing. When a network operator provides access (to its customers) to other network operators, the level of access charges is a vital issue if the network industries are to support competition. The access-pricing problem has created a dilemma. Setting too low a price may encourage inefficient entrants to operate. Setting too high a price may bleed the access seekers to their death.

One way to solve the problem with access pricing is to set 'floors and ceilings' between which prices are allowed to vary. This can be done by the combined use of incremental-cost floors and stand-alone cost ceilings on

prices. Incremental cost (IC) means the increase in cost as a result of producing a further output in addition to the existing output while stand-alone cost (SAC) refers to the hypothetical cost of producing each output in isolation from the other outputs. These floors and ceilings may apply not only to individual products but also to groups of products. A major advantage of these IC and SAC tests is that they do not require information on demand, yet allow assessment of whether products are sources or recipients of cross subsidy.

Another method of access pricing is the use of the market determined efficient-component pricing rule (M-ECPR) which prices

... the existing access network should be equipped with the latest and the best technology available in the global market.

the inputs by summing the element's direct economic costs and opportunity costs to the incumbent firm. In the context of the telecommunications industry, the opportunity costs of providing an unbundled network element (UNE) equal to the revenues that can be generated by the use of that element given the presence of all market alternatives minus the direct economic costs.

The opportunity cost of an input equals the value of its best alternative use, which varies over time. If an input has a market value, the market price of the input is the best guide to its economic value, which results from fundamental supply and demand forces. When an input does not have a ready market value, its value should be imputed by its value in its best alternative use.

The M-ECPR methodology calculates the price of an input that reflects market opportunity cost. This methodology is a public-interest approach to the problem of how a regulated firm should price an input that it sells to a competitor. If a firm produces an input and sells it to another firm, the economic cost of the input is equal to the direct cost of manufacturing the input together with the earnings foregone elsewhere by making the sale. That reasoning underlies the M-ECPR formula, which is access price equals to incumbent's incremental cost of "access" per unit plus the incumbent's opportunity cost of providing the unbundled input.

The M-ECPR methodology imposes a constraint on the magnitude of opportunity costs.

In the absence of market alternatives that offer end consumers prices which are below the incumbent local exchange carrier's (LEC) retail rates, the opportunity costs to the LEC of providing the UNE are equal to the foregone revenues which are based on its retail rate less ICs. When the market alternatives are present, their prices determine the opportunity costs of the UNE.

In the context of the telecommunications industry, the M-ECPR methodology shows that the correct measure of the incumbent LEC's opportunity costs of selling a UNE is the difference between the service market price and its ICs. Correctly calculated, the M-

ECPR puts market limits on the contributions of revenues to forward-looking common costs.

Conclusion

In conclusion, we believe that Malaysia does not need many access network operators as the investments in these network infrastructures are huge and sunk and the returns take a long time to realise. What can be done is that the existing access network should be equipped with the latest and the best technology available in the global market. Access seekers should be given access to the network on a level playing field with the access network owner and the access to network pricing should be just and equitable. There has been an instance when an access seeker, which uses the dominant access network, has been unfairly charged to the extent that it could not make profits. The access to the network charge formed a substantial part of its direct cost and also its total cost. Clearly the current access to network price charged to this particular access seeker is unjust and unreasonable. This does not augur well for the telecommunications and media industry that is trying to encourage new entrants to spur positive competition. To overcome the pricing problem, the M-ECPR methodology can provide a just and equitable pricing to the parties involved. **AT**

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