Akauntan Nasional

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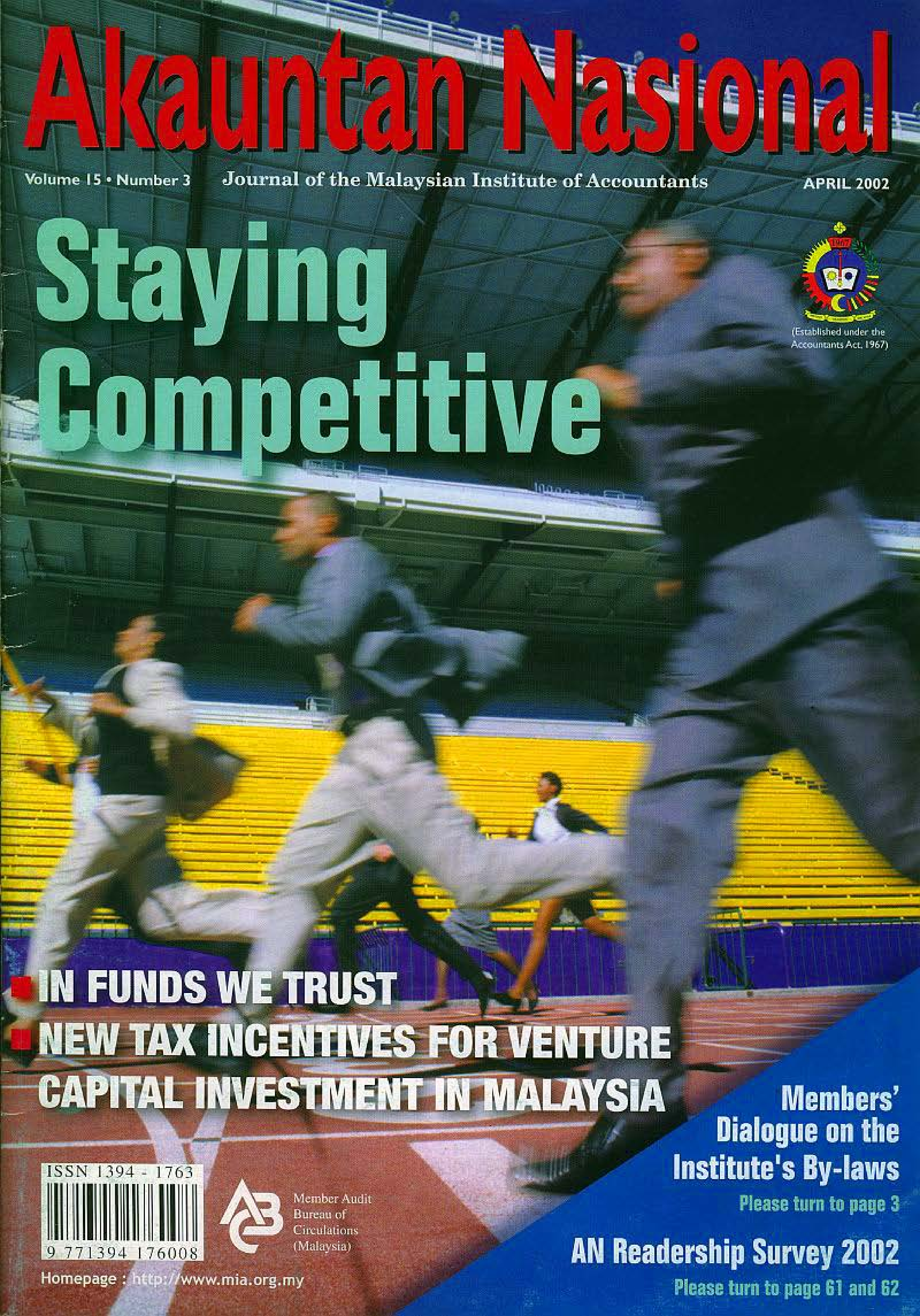
(Established under the Accountants Act, 1967)



Staying Competitive

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Members' Dialogue on the Institute's By-laws

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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* :

(a) To regulate the practice of the accountancy profession in Malaysia;

(b) To promote in any manner it thinks fit, the interests of the accountancy profession in Malaysia;

(c) To provide for the training and education by the Institute or any other body, of persons practising or intending to practise the profession;

(d) To determine the qualifications of persons for admission as members; and

(e) To approve, regulate and supervise the conduct of the Qualifying examination.

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FROM THE EDITOR

In Pursuit of Market Efficiency

In today's dog-eat-dog business environment, we have to work hard and smart to survive and prosper. No person or organisation is exempt from the workings of this internecine Darwinian process. And in this game of survival of the fittest, businesses must constantly enhance their effectiveness and efficiency in order to stay ahead of the competition.

But gaining a competitive edge is becoming more difficult day-by-day. Even if a company develops a groundbreaking product, it might wake up the next day confronted by a similar, or even an identical product. Recent history — just look at the personal computer and its army of cheap clones — has proven that competitive advantages won by way of product innovation are quite difficult to sustain in the long-run.

What, then, is the solution? The answer, seemingly, lies in core competencies. Nowadays, the only reliable rule of thumb for staying in top form seems to be : "Focus on what you do best". Each organisation has its own set of distinctive core competencies, which are different from those possessed by others. With its core competencies or unique capabilities, an organisation can differentiate itself from the rest of the herd in many ways. To use the metaphor of the PC once again, Dell Computers beat its rivals by focusing on its core competencies, which include extensive and cost-effective distribution as well as intensive Internet marketing and sales, i.e. the effective deployment of e-business strategies.

In addition, competitors will find it difficult to duplicate competitive advantages gained from our core competencies. To this day, Dell is renowned for its low-cost distribution and delivery network, which has not been successfully copied by its peers. Just like Dell, businesses can succeed by staying highly focused on a disciplined competitive strategy, built on the provision of value-added services and hard-to-copy knowledge.

In this April issue of *Akauntan Nasional*, we look at the readiness of small and medium-sized accounting practitioners in charting the volatile cyber-landscape, plus we examine the constraints that lie in the path of their willingness to embrace cyber-technologies.

One definite restriction lies in the deployment of Information and Communications Technologies. Across the board, accounting practitioners have a long way to go in leveraging ICT in their systems, operations and businesses. Various issues and problems linked to maximising the strategic use of ICT were raised by the key experts interviewed in the article entitled "Moving With Time'. In particular, "Moving With Time" zeroed in on the need to drive a key paradigm shift where technology is concerned. Modern accounting practitioners must tap into technology to deliver better services to their respective clients, thus maintaining their competitive edge in these challenging times. Members must realise that the key to future success lies in their ability to marry accountancy and IT skills.

Optimistically, while the ICT dilemma remains a vital concern, the Institute and the practitioners involved have suggested some valuable solutions to address the challenges of implementing ICT.

To quote one of our Council members, who spoke passionately on the need to embrace ICT in a recent press interview : "The Institute can only facilitate member firms to embrace IT. At the end of the day, it is up to their own initiative and choice if they want to do so. As a professional body, MIA needs to keep encouraging its members to move out from their comfort zone. The awareness is there but it is up to them to make the changes."

Along with ITC, e-business is a new culture poised to sweep the global marketplace. In e-business evolution, no industry or sector will be immune. AN

Editor

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 *Akauntan Nasional*. Why not drop us a line now?

CONTRIBUTION OF ARTICLES

The *Akauntan Nasional* 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.

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Akauntan Nasional

The *Akauntan Nasional* 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 journal 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.

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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

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IN LOVING MEMORY

It is with deep regret that the Institute informs members that Yue Sau Him, the former Vice-President of the council of the Malaysian Institute of Accountants (MIA), has passed away after a short illness on 8 April 2002.

Yue had contributed much to the development of the Institute since his election to the council in 1987. In September 2000, he was elected Vice-President and was re-elected in August 2001. He held the vice presidency until December 2001 when he did not seek re-election.

During his tenure as a council member, Yue had served on various committees including chairing the Investigation and Membership Affairs Committees besides being a member of the Financial and Management Accounting Committee, the Editorial Board and the Globalisation and Liberalisation Committee.

Yue also holds the singular distinction as the founding architect and president of CPA Australia, Malaysia Branch. He had worked tirelessly towards the advancement of CPA Australia in Malaysia, having held the Presidency for five years from 1993-1997. Despite stepping down, he still continued to serve on its Council as mentor and guide to a new breed of young accountants. In August 2001, Yue became the **first and only** Malaysian recipient of the President's Award, CPA Australia's highest award for excellence.

On the regional front, Yue was elected to represent Asia on CPA Australia's peak body, the National Council when the Asian Division was formed in 1996 and again in 1999/2000. He also served as President of the Asian Council from 1997-1998. In 1997, Yue was elected to CPA Australia's high profile National Education Committee.

His other accomplishments included being technical advisor to both the Education Committee of the International Federation of Accountants (IFAC) and the Confederation of Asian and Pacific Accountants (CAPA). Yue was also President of the ASEAN Federation of Accountants from 1996 to 1997.

It is clear to see that Yue was passionate about his vocation, having chosen to devote his life to the development of the accountancy profession in Malaysia. His numerous accomplishments speak volumes about him. Indeed, the MIA is proud to have served under the guidance of this distinguished gentleman. The MIA's council members, management and staff convey their deepest condolences to the family of Yue Sau Him. AN

NOTICE TO ALL MEMBERS

ROADSHOW ON BY-LAWS

(ON PROFESSIONAL CONDUCT AND ETHICS) REVISED JANUARY 2002

In view of the Institutes' revised By-Laws which came into operation on 15 January 2002, the President and Council Members of the Malaysian Institute of Accountants (MIA) will organise a nationwide roadshow, to meet and discuss matters pertaining to the Revised By-Laws.

The purpose of the roadshow, among others, would be to clarify and answer members' queries on the revised By-laws as well as to obtain members' feedback and views. In addition to this, the Public Practise Committee (PPC) of the Institute has also received requests from practitioners for dialogues on related issues affecting them.

Apart from this, the dialogue will also be used as a platform by the Institute to introduce its new strategic direction to members. MIA President, Abdul Samad Haji Alias together with the MIA Chairpersons will be present to brief members on some of the key issues pertaining to the Revised By-Laws at the following locations :

Location*	Date	Time
Kuching, Sarawak	Wednesday, 17 April 2002	3.00 p.m.
Kuala Lumpur/Selangor	Wednesday, 24 April 2002	3.00 p.m.
Penang	Wednesday, 15 May 2002	3.00 p.m.
Johor Bahru, Johor	Wednesday, 22 May 2002	3.00 p.m.
Kota Kinabalu, Sabah	Wednesday, 5 June 2002	3.00 p.m.

As for the other states, the Institute is currently working closely with the respective chairpersons to identify a suitable date and venue. Once confirmed, members will be duly informed. AN

STAYING COMPETITIVE

By Eddie Lee

After the recent Enron debacle, the future of small and medium practitioners can best be described as 'challenging'.

Times are a-changing. And without exception, the accountant's role is changing. Accounting professionals, especially small and medium-size accounting practitioners have over the past few years been challenged to move in tandem with the advancements in technology. Audit and tax compliance, the bread and butter of the profession as some observers claim, is now considered low margin. With approximately 80 per cent of the market cornered by the Big-Five or perhaps now — Big Four? after the recent Enron debacle, the future of small and medium practitioners can best be described as 'challenging'.

Raymond Liew, a council member of the Malaysian Institute of Accountants (MIA), concedes, "It is true to say that we are now in the economy of continual 'price shopping'," which he attributes to our Malaysian culture to shop for the 'cheapest.' While he agrees most of the firms are merely performing compliance work as required by the laws of the country or indeed by the rules and legislation of MIA, he says, "the two most important factors that make a firm stand out are the quality of service and the after sales service."

The problem is many accountants here are merely running their audit practices as their fore-fathers did. A common grouse among clients is that they only see their accountants twice a year — once to perform the year-end audit and the other for fee collection. When there is an urgent query by a client, a junior staff is normally assigned to deal with it. If this is the attitude adopted by local accountants, "how can they compete for bigger jobs with the 'big boys' let alone the smaller businesses," notes Liew.

In order to stay ahead, smaller accounting firms, Liew says, should provide value-added services like IT, consultancy, recruitment and financial planning, other then merely providing audit, accounting and tax work. These value-added services will not only help to maintain clients but allow the small and medium practitioners to compete with the 'big boys'. Equally, it is important for firms to provide all these services wherever possible, under one roof — be it Company Secretarial, Accounting, Audit, Tax,

"The Big-Five firms may dominate audit and tax services … however the market is big and growing. Each player needs to find a niché in the market place. There is room for everyone — the better and nimble players will thrive of course".

Lam Kee Soon, of K. S. Lam and Co.

"… it is true to say that we are now in the economy of continual price shopping … the two most important factors that make a firm stand out, are the quality of service and the after sales service."

Raymond Liew

IT, Consultancy etc.

"I would emphasise that being in the smaller league, we are not competing with the big firms in any way in so far as staff and office sizes are concerned. What is important is that we as small practitioners offer that special 'service' called personal touch that is lacking with the big firms," explains Liew. Personal rapport with clients is important as it builds up confidence and trust over time while the big firms merely send their 'staff members' to carry out the annual tasks with no continuity, i.e. different staff members year in year out.

"The big five firms may dominate audit and tax services," says Lam Kee Soon, of K. S. Lam and Co., and a fellow MIA council member, "however the market is big and growing. Each player needs to find a niché in the market place. There is room for everyone — the better and nimble players will thrive of course."

"Accountancy services are and will always be knowledge-based … the better one's knowledge is, the better one's services will be. We must be always up-to-date otherwise the market will make dinosaurs out of us. Hence we ought to find more efficient ways in doing our work," he says.

In light of the current economic scenario where staying afloat becomes the maxim, many businesses are moving away from the big five firms for these simple reasons — cost and service.

The Big-Five firms charge a premium for their services, and many businesses are feeling the pinch and in times like now, especially following the September 11 incident, where many of them are migrating to smaller firms, notes Liew.

Smaller firms must now improve on their services and widen their scope to include as many of the value-added services as possible, he adds. The Big-Five firms too are feeling the pressure of losing clients to the smaller firms.

Yet despite losing clients in this present business climate, the future of the Big-Five firms is rosy to say the least. They are already offering technology implementation in their suite of services. And that is where the big bucks are. Since technology continues to be an emerging industry that offers good growth prospects, a niché exists for public accountants who want to evolve in tandem with the knowledge-based economy or K-Economy.

The big question is, can the small and medium-size accounting practitioners become knowledge workers?

"Many believe it is not a question of should but when. In a K-economy, intellectual capital will become one of the most important intangible assets of companies, in particular knowledge-based companies," says Tan Boen Eng, the President of the Institute of Certified Public Accountants of Singapore (ICPAS).

Hence, future accountants will see their role changing from mere book-keepers to navigators, helping companies navigate and manage change in the K-economy through consultation and implementation services (of business software).

Admittedly, this is not an easy task, as it requires a change in mind-set. "Accountants must now adopt a change in mind-set and a change in management skills with the ability to use such change positively and with a better understanding of technological trend," explains Lam. "Mental barriers of technophobia need to be surmounted and replaced with a willingness to learn new techniques to widen their thinking spectrum."

"Modern accountants are very much technology savvy and they capitalise on the use of IT as a business tool to their own advantage," says Liew. "They adopt a more flexible mind-set especially the younger ones where they adapt to the ever-changing demands and trends of businesses. Furthermore, they are more creative unlike the accountants of the past."

In Malaysia, one way to venture into this new field is to get directly involved in the implementation and management of business applications. As value-added re-sellers of business accounting software, accountants will be trained to set-up, implement and manage business applications in clients' offices.

To accountants, the combination of technology plus their proficiency in accounting can be a powerful tool that allows them to leverage their newly-found skills to as many clients as they want. "After all, many of the accounting software are best understood by accountants," says Liew.

"If accountants are to provide compliance audit and tax work, shouldn't they be familiar with these softwares?" he asks.

To remain competitive, accountants must train themselves to use these softwares and assist their clients in its implementation. They must invest and involve their staff in such training exercises as these form part and parcel of value-added services.

Today, many practitioners are already involved in such high-value, premium services using software from companies like AccTrak21, which allows them to realise significant improvements to their bottom-lines when compared to their traditional jobs of performing book-keeping and tax compliance services. “The practitioners must be in the forefront doing strategic business accounting, helping companies to thrive and not merely surviving,” says Lam.

The supply and implementation of financial management systems are currently the domain of traditional re-sellers. Accountants, because of their backgrounds, are in an enviable position to make inroads into this lucrative market. For the courageous accounting practitioners who want to expand their horizons, the sky is the limit, so to speak. Accountants have the edge over traditional re-sellers as being a part of the inner circle in organisations, they have access to the top echelon of management where they act as confidential advisors, often influencing complete business planning and strategies. And in any company, technology is as important to a total business solution as financial planning or tax advice.

Good accounting knowledge, people skills and excellent project management are collectively a great fillip in the implementation of a financial management system. In other words, these qualities are required in every accountant. Companies would prefer to listen and receive financial management software advice from someone who knows and understands accounting concepts and the issues driving businesses than from someone who is only applying the latest technology, for technology's sake.

While client portfolios continue to grow, so too will the accountant's income stream from the sale of the business application, the fees derived from training clients, as well as recurring fees for the management support that ensures the smooth running of these business applications.

Small and medium-size accounting practitioners should forge ahead to take advantage of this New Economy to make good money. Only the new accountants, with new sets of skills, new qualifications and new modes for serving clients, will be ready to be thrust into the new era of business. In other words, adapt to change to stay ahead. AN

“The supply and implementation of financial management systems are currently the domain of traditional resellers. Accountants, because of their background, are in an enviable position to make inroads into this lucrative market. For the courageous accounting practitioners who want to expand their horizons, the sky is the limit.”

A Malaysian company, AccTrak21, a developer of business accounting software has developed products for accountants and company management.

One of its products, Health of My Business (HOMB), designed to be used together with AccTrak21 Business Intelligence and Accounting system helps to monitor the financial health of a company. It allows shareholders and management to have an overview of their company's health, identify critical signals in easily understood graphical formats, and lets them react quickly. It is a useful tool for owners, directors, management, CPAs and financial institutions as it can be set-up to work the way users want it.

AccTrak21 captures, stores, combines, summarises and organises financial information that users have entered to the database. HOMB then retrieves the required information and translates it into business intelligence while at the same time provides assistance in a variety of situations.

By using this software, accountants can also advise their clients in business management and provide value-added consulting services, thereby generating additional high-value revenue for their practices. Owners, directors, and management can find critical signals diagnosing the health of their businesses. They can react to business risks and trends by making timely and effective decisions.

AccTrak21 is becoming increasingly popular among the accounting fraternity locally and internationally and is currently enjoying good sales in the US, Australia, Britain and Malaysia. It has won top honours including the Pikom/*Computimes* Software Product of the Year and earned five-star rating from trade journals like *CPA Software News USA*.

Realising the high cost of software that may have deterred many small and medium accounting firms from using them, the company has devised alternate methods of distribution, such as rental. This affordable arrangement allows users to have the most advanced features for a small monthly fee.

IN FUNDS WE TRUST

Deriving benefits from investing in Unit Trust Funds

By Jeyapalan Kasipillai
SCHOOL OF ACCOUNTANCY, UNIVERSITI UTARA MALAYSIA
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Introduction

There are many kinds of financial instruments with varying degrees of volatility and risk that a person can invest in and one of them is the unit trust. Examples of unit trusts are "*Amanah Saham Wawasan* 2020", the recently launched "*Amanah Saham Malaysia*", "BHLB Pacific Trust" and "Kuala Lumpur Mutual Fund". Unit trusts compete among themselves for excess funds and retirement savings through sales pitches, performance claims and even high distribution payments.

A unit trust could be regarded as an investment vehicle that pools money from numerous investors to invest in a portfolio of shares, bonds, deposits and other risky instruments. Alternatively, a unit trust can be said to be an investment instrument, which collectively pools money from numerous investors with similar investment objectives to invest on a large scale in a diverse portfolio of securities such as shares, bonds and deposits. Unit trusts acquire funds from the public and corporate sectors. Unit holders will in turn obtain distributions in the form of dividends; interest income or both. Profits garnered from units sold are capital gains and hence do not attract income tax.

Unit trusts are open-ended funds when its capital is not fixed. A unit trust capital can grow or shrink depending on the demand for its units from investors. When demand for units are high, the capital of the unit trust expands; the capital base shrinks when investors redeem their investments. The management of the unit trust has the right to purchase back the units from the unit holders and sell them to new unit holders or present them to the trustee for cancellation.

Growth of Unit Trust Industry

According to the Bank Negara Report (2000), the unit trust industry continued to expand in 2000. The expansion was indicated by the growth of its four indicators, namely :

1. Number of unit trust management companies;
2. Number of funds launched;
3. Number of units in circulation; and
4. Number of accounts and net asset value.

The number of unit trust companies in 2000 was 34, an increase of one company compared to the previous year. There was a 17.8 per cent increase in the number of funds launched in the year 2000 (BNM 2000). The launching of 18 funds during 2000 has brought the number of unit trust funds to 119. During the first seven months of 2001, a further 14 funds were launched resulting in a total of 133 funds comprising 102 private and 31 Government sponsored funds (Economic Report 2001/2002). The units in circulation in 2000 recorded a tremendous growth of 21.3 per cent compared to 13 per cent growth in 1999. In terms of the number of accounts, the figure surged to 9.6 million accounts in 2000 from 8.9 million accounts in the previous year. As at the end of 2000, the 34 unit trust management companies managed 119 funds with a total of 9.6 million account holders. The net asset value to KLSE market capitalisation increased from 7.8 per cent in 1999 to 9.8 per cent in the following year. According to the Federation of Malaysian Unit Trusts Managers (FMUTM), the unit trust sector would strive towards a 40 per cent share of the total market capitalisation on the KLSE by 2020 (Deshi, 2001). This would imply that the industry would have to grow at a compounded annual rate of about 16 per cent over the next 18 years. *Permodalan Nasional Bhd* (PNB) alone has over eight

> "The rapid growth of unit trusts in recent years has generated greater employment opportunities in the securities market and assisted in the development of new financial products used for investment decisions."

million unit trust holders in total capturing nearly 60 per cent of the total unit trust market share.

The rapid growth of unit trusts in recent years has generated greater employment opportunities in the securities market and assisted in the development of new financial products used for investment decisions. Generally, there are three types of trusts : fixed trusts, discretionary trusts and unit trust.

Fixed trusts are trusts that are for named beneficiaries in defined shares. Beneficiaries are referred to as persons receiving benefits under a will. The trust instrument states the exact number or shares belonging to the beneficiaries. In fixed trusts, settlers will only transfer legal ownership of a property to the trustee after being convinced that the trustee is able to manage the asset in a profitable manner. In discretionary trusts, the trustee is given powers to decide on the share of the discretionary beneficiaries. However, the extent of powers given is limited. As mentioned earlier, unit trust refers to proceeds distributed out by an enterprise to those who have invested in the trust by subscribing to it in defined shares. The beneficial interest is divided into units and sold to investors who then become unit holders.

Types of Unit Trust Funds

The investment objectives of the unit trust would determine the types of funds that are to be managed. Generally, the types of funds can be classified into five categories:

1. **Growth funds** — the objective of growth funds is to maximise long-term capital appreciation by investing in high-growth stocks.
2. **Income funds** — the objective of income funds is to preserve capital so as to ensure a steady stream of regular income for its investors.
3. **Balanced funds** — the objective of balanced funds is to moderate its risk exposure.
4. **Index Funds** — funds that invest in a portfolio to match that of the KLSE Composite Index. Index funds do not pick stocks or time the market. The portfolio turnover rate is exceptionally low because they are not traded. Their objective is to duplicate the stock market's yield and have an average risk equal to that of the overall market.
5. **Islamic Funds** — funds with the main objective of investing in a portfolio of "*halal*" stocks. This portfolio mix must comply with the principles of *Syariah* (Islamic Law). Such "*halal*" stocks will exclude companies involved in activities such as gambling, alcoholic beverages, and "*non-halal*" food products, which are prohibited under the principles of *Syariah* Law. Since *riba* or usury interest is not allowed under the *Syariah* Law, Islamic Unit Trusts will also have to avoid the incidence of "*riba*". Examples of Islamic funds are *Tabung Ittikal Arab Malaysian*.

These funds are generally exposed to varying risks, hence, the net asset value of funds fluctuate according to market conditions.

"The fund manager is also responsible for the day-to-day operations of the trust funds and makes daily decisions regarding investment issues on behalf of the unit holders."

Deriving Income from Unit Trust Funds

Since unit trust funds derive its income from various sources of investments, it can be classified into property trusts, equity trusts, and sectoral trusts, according to their business focus. The available funds can be invested in investments such as shares, properties, bonds and loan stocks. Excess cash can be deposited with financial institutions and investments can be made in government issued securities.

Property trusts are referred as such because investments are made primarily in the real property sector. Under the Security Commission (SC) Guideline, at least 75 to 80 per cent of the funds in these trusts should be invested in real property and the balance in liquid assets. Liquid assets consist of cash, deposits with commercial banks, merchant banks and discount houses, *Cagamas* bonds, Malaysian Government Securities, banker acceptance and negotiable certificate deposits. Common sources of income are : dividends, interest and rental receipts. Capital gains or losses would arise when there is a disposal of shares or sale of real property.

Organisation of a Unit Trust

The organisation of a unit trust consists of three parties : the company, the trustee, and unit holders. The obligations and rights of each of the three parties are recorded in a trust deed that they are bound into. The trust deed is designed in such a way as to protect the interest of the unit holders. The responsibility of each party is clearly defined in the deed.

The management of the company is responsible for the operation and administration of the unit trusts. The company will appoint a fund manager to administer and manage the fund with the principle objective of securing high risk-adjusted returns for the unit holders. The fund manager is also responsible for the day-to-day operations of the trust funds and makes daily decisions regarding investment issues on behalf of the unit holders. The fund managers too decide on the types of investment to venture in. Furthermore, it is the responsibility of the fund manager to inform the trustee on the company's policy decisions on investments as well as to prepare annual reports of the funds and payment of dividends to unit holders.

A trustee is a party that is independent from the investment management company. The responsibilities of the trustee are to govern the operations of the trust fund so that unit holders are protected from financial abuse. Furthermore, the trustee ensures that the investment management decisions made are in strict compliance with the regulatory requirements prescribed in the trust deed. A trustee also governs the assets purchased by the management company by acting as a custodian. Unit holders can acquire units of the unit trust at the launch price for new issues or at the daily quoted purchase price for secondary issues.

Deriving Benefits from Unit Trusts

There are a number of benefits from investing in unit trusts that are not available to investors who invest on their own. First, the investors can achieve diversification of their investment as the pooled resources are spread over a portfolio of financial assets. Secondly, the investors can obtain the services of experienced and professional fund managers. Thirdly, it offers the investors with liquidity since units in a unit trust can be easily disposed. Fourthly, unit trusts require low capital requirement enabling low-income investors to participate in unit trusts. The offer price during the launching period is RM1.00 per unit and individual investors are required to purchase a minimum of 100 units. Finally, unit trusts also offer easy access to foreign financial markets by investing overseas and also help to hedge against inflation.

A unit holder acquiring units in existing unit trusts incurs additional cost for the income of the trust accruing up to the date of purchase. This additional sum is part of the acquisition cost. Unit trusts, like other investments, are also exposed to risks. Investors would generally expect an investment with a higher risk to be compensated with higher returns. Thus, in evaluating the performance of the unit trust funds, it would be necessary to take into consideration the level of risk of the funds. The risk associated with each of the funds is measured by the standard deviation of the returns and the *Beta* (β), which measures systematic risk. Essentially, the *Beta* (β) represents a fund's volatility relative to that of the market portfolio. The market portfolio has a *Beta* of 1.0. Consequently, a fund with a *Beta* of greater than 1.0 is said to have a higher risk relative to the market, whereas a fund with a *Beta* of less than 1.0 is said to be less risky than the market portfolio.

Normally, unit trust prices tend to fluctuate in tandem with the general stock market conditions in the short run and hence there is no guarantee that investors will not lose money on their investments. The recent outcry by union officials objecting to the use of EPF funds by its members to acquire annuities stems from the volatile nature of investments made by unit trusts in purchasing shares for investments. However, in the long run, it is generally perceived that the short-term fluctuations in stock prices should even out and unit trust investments are expected to achieve overall positive capital appreciation.

New Guidelines

The unit trust sector in Malaysia falls under the supervision of the Securities Commission (SC) that was established in 1993. This commission regulates all matters associated with the establishment of the unit trust so as to prevent irregularities, approves the appointment of Trustees, Directors, Chief Executive Officers and Investment Committee Members.

In September 2000, the Securities Commission (SC) issued a set of guidelines (rules) on the distribution of returns by unit trust funds. The rules are meant to provide a 'Best Practice' policy framework to serve as a guide for management companies to determine the amount of distribution to be made by unit trust schemes. The SC's Practice Note 15 prescribes the following additional disclosure requirements as best practices :

- Any distribution by a fund should be tied to and reflect its objectives.
- Distribution made out of a fund should be sourced from its realised gains or income.
- There should not be any selective realisation of investments solely for distribution.

"The unit trust sector in Malaysia falls under the supervision of the Securities Commission… This commission regulates all matters associated with the establishment of the unit trust so as to prevent irregularities, approves the appointment of Trustees, Directors, Chief Executive Officers and Investment Committee Members."

Essentially, the new guidelines advocate the use of 'total returns' approach, which evaluates a unit trust fund's performance, based on its capital (price) portion and income (distribution) portion which it perceives as a better indicator of its performance. This approach is used to counter the misconception that a high distribution payout of dividend signifies a positive performance by a particular unit trust scheme. Moreover, the term 'distribution' instead of 'dividend' should be used for all payments made by unit trusts. This new ruling is effective from 1 January 2001. The financial statements of unit trust funds for the financial period or year ending on or after January 2001 should comply with the additional disclosure requirements.

> "… the new guidelines advocate the use of 'total returns' approach, which evaluates a unit trust fund's performance, based on its capital (price) portion and income (distribution) portion which it perceives as a better indicator of its performance.

Tax Incentives

In order to encourage the growth of unit trusts, the Government has offered numerous tax incentives to the unit trust industry. This section examines the package of tax concessions offered by the government to both unit trusts as well as to unit holders.

Exemption from Income Tax

The incentives include exemption from income tax on gains made by unit trusts from the realisation of investments and special deductions for qualifying capital expenditure. Deductions for certain operating expenses are also allowed subject to a minimum of 10 per cent and a maximum of 25 per cent of those expenses. Interest income received or credited to unit trusts by any bank or financial institution is exempt from income tax. The exemption will apply to interest income received by both unit trust and property unit trusts. Such income would also be exempted from tax when it is distributed to their unit holders.

A unit trust will be regarded as resident for income tax purposes when the trustee is resident in Malaysia. The income of the trust in respect of dividends from local companies and investment income, other than interest, is liable to income tax at the rate of 28 per cent. Since the dividend income received would have suffered tax (28 per cent) at source, no additional tax will be payable by the trust on the dividends. Furthermore, such tax or part thereof will be refunded to the trust if the total tax deducted at source exceeds the tax liability of the trust. Income of the trust in respect of dividends received from abroad are exempt from income tax. Unit trusts sponsored by the Federal and State Governments are entitled to income tax exemption on all income [See Income Tax (Exemption) (No 3) Order 2000]. Examples of government sponsored unit trusts are "*Amanah Saham Wawasan* 2020", "*Amanah Saham Bumiputera*" and the recently launched "*Amanah Saham Malaysia*".

Gains from Realisation of Investments

It was earlier pointed out that capital gains arising from the realisation of investments would not be regarded as income of a unit trust. Such gains are transferred to an exempt account. Any income distributed out of the exempt account to unit holders will not be subject to tax in the hands of the recipients. Income of unit trusts derived from abroad and remitted into Malaysia are also exempt from payment of income tax by the Income Tax Exemption (N0 48) Order 1997.

Nevertheless, profits on disposal of investments by unit trusts where the investments represent shares in real property companies are subject to real property gains tax (RPGT). This will ensure that although such gains are not chargeable to income tax, they may be subject to real property gains tax. A real property company is a controlled company, which owns or acquires real property shares in real property companies with a market value of not less than 75 per cent of its total tangible assets. A controlled company is a company which does not have more than 50 members and is controlled by not more than five persons. The RPGT rates applicable on such gains would depend on the following categories of disposal .

Category of disposal	Rate of RPGT (%)
Disposal within two years after date of acquisition	30
Disposal in the third year after date of acquisition	20
Disposal in the fourth year after date of acquisition	15
Disposal in the fifth year after date of acquisition & thereafter	5

Mergers of financial institutions that took place between 24 October 1998 to 31 December 2000 were exempt from RPGT [See Stamp Duty (Exemption) (No. 3) Order 2000].

The next section explains two special deductions that are provided for unit trusts, namely,

1. qualifying capital expenditure, and
2. permitted expenses.

The deductions lower the tax payable by unit trusts.

Special Deduction for Qualifying Capital Expenditure

The provisions under Sec 63A of the Income Tax Act explains how a special deduction for 'qualifying capital expenditure' incurred by a unit trust is computed. 'Qualifying capital expenditure' means capital expenditure incurred on the provision of machinery or plant used for the purposes of deriving rent from the letting of real property, including :

i) expenditure incurred on the alteration of an existing building for the purpose of installing that machinery or plant and other expenditure incurred incidentally to the installation thereof provided that such expenditure does not exceed 75 per cent of the aggregate of itself and any other qualifying capital

"There has been a spectacular increase in the number of unit trust funds launched and growth of units in circulation in Malaysia over the last couple of years. Investors can decide to choose from a variety of unit funds, for example, growth funds, income funds, Islamic funds, index as well as balanced funds … unit trusts has encouraged the development of new financial derivatives used for investment decisions."

expenditure; and

ii) expenditure incurred on preparing or levelling land in order to prepare a site for the installation of the machinery or plant provided that such expenditure does not exceed 10 per cent of the aggregate of itself and any other qualifying capital expenditure.

To qualify for the special deduction, the following conditions must be met :

i) the qualifying expenditure must be incurred by the unit trust;

ii) the unit trust must be the owner of the asset; and

iii) the asset must be used for the purposes of deriving rent from the letting of real property

The special deduction will be in the form of an allowance equal to 10 per cent of the qualifying capital expenditure made against the adjusted income from the source relating to the derivation of rental from the letting of real property. Unabsorbed allowances, however, will not be allowed to be carried forward to a subsequent year. Where at the end of the basis period for any year of assessment, the residual expenditure in relation to an asset in respect of which qualifying capital expenditure has been incurred is zero, or the asset is no longer owned or in use by the unit trust, no allowance shall be made to the unit trust for that year of assessment or subsequent years.

Special Deductions for Permitted Expenses

In determining the total income of a unit trust, a special deduction is given under Sec. 63B ITA in respect of the following permitted expenses :

a) manager's remuneration ;

b) maintenance of register of unit holders;

c) share registration expenses;

d) secretarial, audit, accounting fees, telephone charges, printing and stationary costs and postage.

The deduction is based on the following formula, that is :

A x B/4 C

where.

A is the total of the permitted expenses incurred;

B is the gross income consisting of dividend, interest and rent chargeable to tax; and

C is the aggregate of the gross income consisting of dividend (whether chargeable to tax or not).

The above deduction computed, however, shall not be less than 10 per cent of the total permitted expenses incurred. Where there is insufficient aggregate income, the amount unutilised cannot be carried forward to subsequent years of assessment. It becomes a permanent loss.

Taxation of Unit Holders

Unit holders are subject to income tax on their share of income from trusts that is distributed to them. The income distribution from trusts will include a tax credit in respect of the tax paid by the trusts. Unit holders will, therefore, be entitled to utilise the tax credit as a set-off against the tax chargeable on the income distribution received by them.

Distribution out of trust exempt income or gains from realisation of investments made to unit holders are wholly tax exempt. Finally, unit holders who have elected to receive their income distribution by way of new units are regarded as having purchased extra units and these fresh gains are not subject to tax.

Corporate unit holders who are resident in Malaysia are subject to a flat rate of 28 per cent on distribution of income from the trusts. The tax credit attached to the distribution of income is set-off against the tax payable. Resident individuals are, however, subject to income tax on their chargeable income at graduated rates varying from zero to 28 per cent (effective from year of assessment 2002). The tax credits attached to the distribution of income are deducted against their respective tax liability. Corporate unit holders who are not resident in Malaysia are subject to income tax at a flat rate of 28 per cent while non-resident individual unit holders are taxed at 28 per cent (effective from year of assessment 2002). The tax credit attached to the distributed income will be deducted from the tax liability of the unit holders.

Conclusion

There has been a spectacular increase in the number of unit trust funds launched and growth of units in circulation in Malaysia over the last couple of years. Investors can decide to choose from a variety of unit funds, for example, growth funds, income funds, Islamic funds, index as well as balanced funds. The growth of unit trusts has encouraged the development of new financial derivatives used for investment decisions. The industry itself can be viewed as a strategic sector in generating technical skills for the nation as a great degree of technical know-how involving risk management, use of actuarial science and Information and Communication Technology is involved. Tax incentives are increasingly used by policy-makers as a fiscal tool to garner investors to participate in the development of unit trust management companies. AN

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IN THE NEWS

MIA : Minority Watchdog Group Must Increase Profile

Badan Pengawas Pemegang Saham Minoriti Bhd, the minority shareholders watchdog group (MSWG), needs to increase its profile to help deter potential fraudulent acts by company management.

The Malaysian Institute of Accountants President, Dr. Abdul Samad Alias, said the control lies with MSWG.

"This is the body which can improve the financial transparency of listed companies by posing the right questions on behalf of shareholders at companys' AGMs". He made the comment in the wake of the collapse of the energy provider, Enron Corporation in the US, where investors were misled over the liabilities and derivative exposures which were unconsolidated in the group accounts. A loophole in US accounting standards for oil and gas companies which allowed for the non-consolidation of such losses under strict exemptions, resulted in the deceit.

Abdul Samad said : "While the de-consolidation of liabilities such as those observed in Enron is not allowed in Malaysia, the MSWG exists to continuously oversee the activities of managers in Malaysian companies." MIA Legal Manager, Shobini Mahendra, said company managers need to be continuously questioned even if they have not erred. Speaking in Kuala Lumpur last week, Abdul Samad said that the compulsory rotation of auditors and the appointment of auditors by regulators may not prevent another Enron debacle.

Moreover, the shareholders' right to appoint their own auditors at an AGM would also be compromised. MSWG Chief Executive Officer, Yusof Abu Othman, said not many realised that MSWG is not a regulator backed by legislation. "Nor is MSWG set up as a special purpose vehicle to question the management of listed companies. Our influence is a deterrent one and the offending company is subjected to the court of public opinion before the slower process of legal conviction is carried out". He added that investors may avoid the errant company's stock while bankers may withdraw financing.

Formed in August 2000, the watchdog body consists of five founding members - the Employees Provident Fund (EPF), Permodalan Nasional Bhd (PNB), Armed Forces Fund Board (LTAT), Pilgrims Fund Board (Tabung Haji) and the Social Security Organisation (Socso). The MSWG was set up as a non-profit organisation to protect the interest of minority shareholders and encourage investor participation in Malaysia's capital markets. It hopes to become the forum for minority shareholders in the context of the Malaysian Code of Corporate Governance, the Securities Commission's disclosure-based regime and Malaysia's Capital Market Master Plan. The MSWG had been expected to take direct action against the errant management of listed companies on behalf of aggrieved minority shareholders.

Source : New Straits Times, 1 April 2002

IAPC Meetings Open to Public in Bid to Promote Transparency

Beginning April this year, meetings of the International Auditing Practices Committee (IAPC) will be open to the public and its membership expanded to include members independent of the profession.

In a press conference conducted in conjunction with the IAPC meeting in Kuala Lumpur on 4 March 2002, IAPC chairman, Dietz Martin, said the decision was made to strengthen the processes and transparency of the work of the IAPC, which will be renamed the International Auditing and Assurance Standards Board in June.

Dietz Martin, IAPC Chairman

He said the three new independent members would represent the clients of IAPC, the standing committee of the International Federation of Accountants (IFAC). The IAPC has 14 voting members from 14 nations. Malaysia is represented by Sukanta Dutt, a partner of Ernst & Young.

Martin also said that IFAC and major firms would establish a Forum of Firms to improve the standard and consistency of audits of transnational entities around the world. To oversee IFAC's and Forum of Firms' activities, an independent review board will be set up.

Martin noted that all the changes taking place within IAPC and IFAC were deemed necessary to meet one major purpose — transparency. The Enron Corporation collapse has in some ways hurt public perception of auditors, making it even more crucial for accountancy bodies to assess what they can do to ensure the soundness of financial reporting worldwide. "It is difficult to fight such perception when it is not based on facts," said Martin.

The IAPC meeting which was held in Kuala Lumpur from 4 March until 8 March 2002 was jointly organised by the Malaysian Institute of Accountants and the Malaysian Association of Certified Public Accountants. Among others, the meeting in Kuala Lumpur discussed topics such as quality control, e-business, group audits, fair values, audit risk and fraud. In conjunction with the IAPC meeting, the MIA and MACPA also jointly organised a briefing session on 7 March to update members on current developments in auditing and reporting.

Source : New Straits Times, 5 March 2002

KLSE Starts Circuit Breaker Mechanism

The Kuala Lumpur Stock Exchange recently started a circuit breaker mechanism to enhance market stability and investor confidence.

In a statement released in Kuala Lumpur on 24 March, KLSE Deputy President (strategy and development), Abdul Hamid Sh. Mohamed, said that in meeting the deadline for the circuit breaker provision, the exchange took into account industry readiness for its implementation.

"The KLSE has undertaken various testing and simulations with relevant industry participants over a five-month period which, among others, covered key functions of the circuit breaker in the areas of trigger level alerts and halting mechanism," he said.

"In consultation with the Securities Commission and following an industry readiness review audit, it has been found that there is a high degree of readiness among industry participants."

The circuit breaker mechanism, announced by Prime Minister and Minister of Finance, Datuk Seri Dr. Mahathir Mohamad, when unveiling the 2002 Budget last year, will help to moderate excess volatility. Dr. Mahathir had said that the circuit breaker would provide investors breathing space before trading resumed, and maintain investor and market confidence, especially in an uncertain environment.

The circuit breaker will be triggered when the KLSE Composite Index (KLCI) declines by over 10, 15 and 20 per cent compared with the closing value the previous day. The trigger levels and trading halts of the circuit breaker will also apply for equity-linked derivatives on the Malaysian Derivatives Exchange.

Source : www.klse.com.my

Moderate 3.5 per cent Growth Expected

Bank Negara Malaysia expects moderate economic recovery this year with projected 3.5 per cent gross domestic product (GDP) growth, but it does not rule out stronger expansion if the external sector improves further. The central bank's forecast is lower than the projected four to five per cent growth made in Budget 2002 and slightly higher than the three per cent estimate by Prime Minister, Datuk Seri Dr. Mahathir Mohamad earlier this year.

Bank Negara governor, Tan Sri Dr. Zeti Akhtar Aziz, said the central bank's projection depends on the performance of the external sector, which is influenced by the performance of major economies. "We certainly see that there are positive indicators for recovery taking place, particularly in the US economy, which is our major trading partner.

"So, if we have better performance in the external sector, there could be better performance of the overall economy, in which case, there could be upside potential for the growth," she said after briefing the press on the Bank Negara Malaysia Annual Report 2001 in Kuala Lumpur recently.

Malaysia registered real GDP growth of 0.4 per cent last year amid weak external demand and global slowdown. In 2000, real GDP grew by 8.5 per cent, up from 5.8 per cent in 1999 and negative 7.8 per cent in 1998. Zeti said this year's economic recovery is expected to be gradual and modest, contributed by stronger growth in private consumption, a modest recovery in private investment, sustained public sector expenditure and moderate growth in exports. AN

Source : Bank Negara Malaysia

New Tax Incentives for VENTURE CAPITAL INVESTMENT in Malaysia

By Richard Thornton, TAX CONSULTANT

The Government, taking a long-term view with the intention of advancing Malaysia towards developed nation status, has identified the venture capital industry, as well as other areas such as the K-economy and Information and Communication Technology (ICT), as new growth sectors to spearhead the nation's economic growth.

Although a form of incentive for venture capital investment was formerly in place under the Income Tax Act 1967[1], it was found to be unsatisfactory and was withdrawn. In its place, new provisions have been introduced as PU Orders. Both of them were gazetted in July 2001. The Income Tax (Exemption) (No.3) Order 2001 is effective from year of assessment 2000, current year basis. This means that there is no gap between the application of the old provisions and the new, because the old provision was withdrawn with effect from year of assessment 2000, current year basis. However, the Income Tax (Deduction for Investment in a Venture Company) Rules 2001 are only applicable from year of assessment 2001.

To facilitate the administration of and application for the new incentives, the Securities Commission (SC) has been entrusted by the Government with responsibility for certifying that applicants have complied with the necessary conditions. The Certification Guidelines[2] subsequently issued by the SC can be downloaded from their website (www.sc.com.my).

Form of the Relief

The new incentive is quite different from the previous one. It takes two separate and distinct forms, which are mutually exclusive. One is an exemption of income for a venture capital company and the other is a tax deduction available to any company or individual with a business income source. In its two forms, the reliefs are complementary and many of the features are similar. The intention, in each case, is to provide an incentive for investment in a venture company.

> "Risk brings out the ingenuity and resourcefulness which ensures the success of enough ventures to keep the economy growing and secure."
>
> *Robert Rawls*

Meaning of a Venture Company

Many defined terms are the same for each form of relief. However, the key expression is venture company[3] (VC) because there can be no relief in either form unless there is a VC to invest in.

For a VC, there are three basic requirements. It must be :

1. Incorporated under the Companies Act 1965;

2. Resident in Malaysia for the basis year for a year of assessment; and
3. Involved in utilising the financing or funding at seed capital, start-up or early stage of one of the specified activities.

The specified activities are :

i) activities or products promoted under the Promotion of Investments Act 1986, including Multimedia Super Corridor status;

ii) technology-based activities as listed by MESDAQ;

iii) Industrial Research and Development Grant Scheme; or

iv) Multimedia Super Corridor Research and Development Grant Scheme.

The three stages of financing or funding mentioned above are important to determine whether a particular investment

[1] Section 60D of the Income Tax Act 1967, deleted by the Finance Act 1999 with effect from the year of assessment 2000.

[2] Guidelines for the Annual Certification for Tax Incentives for the Venture Capital Industry.

[3] Paragraph 2 of the Income Tax (Exemption) (No.3) Order 2001 and Rule 2 of the Income Tax (Deduction for Investment in a Venture Company) Rules 2001.

qualifies or not :

1. *Seed-capital* — means financing or funding provided for the purposes of research, assessment and development of an initial concept or prototype;
2. *Start-up* — means financing or funding provided for product development and initial marketing;
3. *Early stage* — means financing or funding provided as :

a) capital expenditure or working capital to initiate commercialisation of a technology or product;

b) additional capital expenditure or additional working capital to increase production capacity, marketing or product development; or

c) interim funding for a VC expecting to be listed on the official list of a stock exchange.

The main significance of the three stages is to ensure that investors in a VC who come in late do not qualify for relief. Where an investor provides financing at stage 3(b) or (c) above, that will only be considered if he has started at seed-capital or start-up stage, unless the VC is involved in MESDAQ-listed technology-based activities.

The Exemption for a Venture Capital Company

A venture capital company, as opposed to a VC, is an investing company. A venture capital company[4] (VCC) means a company incorporated under the Companies Act 1965, a partnership, a scheme or an arrangement investing in a VC in the form of seed-capital, start-up or early stage financing. (Note that there is no requirement for the company or body to be a resident).

The exemption is granted from the year of assessment in the basis period for which the company commenced business or, if later, from the year of assessment 2000, current year basis, when the Order came into effect. The exemption period is a period of ten years or the life of the fund, if less. Statutory income of the company from all sources is exempted from income tax.

A loss on the disposal of shares in a VC sustained during the tax-exempt period can be carried forward to the post-exempt period. Although the Order makes no reference to gains on disposal of shares, it can be inferred that all gains are regarded as income and therefore treated as exempt from income tax. This is important because all exempted income is credited to an exempt account for the payment of exempt dividends on a two-tier basis.

For each year during the exemption period, a VCC must obtain a certification from the SC confirming that :

1. it has invested at least 70 per cent of its funds in VCs; and
2. (if a company) it has not invested in VCs which are its related companies at the point of first investment.

Presumably, the exemption will be withheld for the failure year, but not withdrawn for earlier years, if the certification cannot be given for any particular year. The meaning of related company is discussed below. Note that the restriction at (2) only applies at the point of first investment. This would allow a VCC to increase its stake in a VC at a later stage of financing.

The Tax Deduction for Others Investing in a Venture Company

This form of relief applies more widely than the tax exemption because it is capable of applying to any company or individual with a business source of income. Such a person, or indeed any other, may enjoy the benefits of indirect investment in VCs by investing in a VCC and enjoying tax exempt dividends. However, direct investment may give better relief because it is based on the whole cost of the investment. The relief is available from year of assessment 2001.

Who Qualifies for the Tax Deduction?

Eligibility is restricted to companies and individuals resident in Malaysia. Additionally, so far as an individual is concerned, he must have a business source of income in order to qualify. For this purpose, a company is not required to be incorporated under the Companies Act 1965. The normal income tax meaning for a company will apply, so that a foreign company resident in Malaysia can also qualify.

The deduction is not given to a company enjoying the income tax exemption for a VCC.

How is the Deduction Given?

A deduction is given for the amount invested in a VC in the basis period for a year of assessment in arriving at adjusted income. This means that it is capable of creating an adjusted loss if there is an insufficiency of income and capable of increasing a loss where there is a deficit of income before making the deduction. It also means that the deduction takes place before the offsetting of capital allowances, unabsorbed losses and reinvestment allowance if relevant.

The words of the Order refer to giving a deduction "in ascertaining the adjusted income of a company or individual resident in Malaysia"[5]. Companies and individuals often have different sources of income, for each of which the adjusted income needs to be calculated separately and the Order fails to make it clear how the deduction is to apply when there is more than one source or income. It is clear that the deduction is only intended to apply to business sources (It only applies to an individual if he has a business source) but where a person has two or more business sources, no guidance is given as to how to apply the deduction.

Conditions and Restrictions to Qualify for the Deduction

A company or an individual wishing to claim a deduction for an investment in a VC must obtain, for each year of assessment in the basis period for which an investment is made, a certification from the SC confirming that :

1. The investment is in the form of shares in a VC which at the point of acquisition are not listed for quotation in the official list of a stock exchange;
2. It is made for financing or funding at seed-capital, start-up or early stage of the VC; and
3. The VC is not a related company of the investor at the point of the first investment.

It should also be noted that the investment must be in the form of shares (not other forms of capital or loan) in the VC.

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[4] Paragraph 2 of the Income Tax (Exemption) (No.3) Order 2001.

[5] Rule 4 of the Income Tax (Deduction for Investment in a Venture Company) Rules 2001.

Disposal of Shares

Any gain on disposal of the shares in a VC, whether prior to or after quotation on a stock exchange, will normally be a capital gain to the investor and there is no provision for such a gain to be subject to tax. So far as the income tax deduction is concerned, no deduction is given for the cost of shares acquired which are disposed of in the same year of assessment and prior to listing on a stock exchange. However, a deduction is still given where the investment and the disposal take place in the same year, provided that the shares were not listed at the point of acquisition and the disposal takes place on or after listing.

Related Company

This has the meaning given by Section 2 of the Promotion of Investments Act 1986 :

Related company, in relation to a company, means a company :

a) the operations of which are or can be controlled, either directly or indirectly, by the first-mentioned company;

b) which controls or can control, either directly or indirectly, the operations of the first-mentioned company; or

c) the operations of which are or can be controlled, either directly or indirectly, by a person or persons who controls or can control, either directly or indirectly, the operations of the first-mentioned company :

Provided that a company shall be deemed to be a related company of another company if :

(a)(a) at least 20 per cent of its issued share capital is beneficially owned, either directly or indirectly, by that other company, or;

(b)(b) at least 20 per cent of the issued share capital of that other company is beneficially owned, either directly or indirectly, by the first-mentioned company.

The word "control" is not defined by the Promotion of Investments Act 1986 but can be construed in accordance with section 139 of the Income Tax Act 1965. However, the proviso above referring to 20 per cent beneficial ownership appears to override the general 50 per cent control position under the Income Tax Act 1967. It should be noted that a company can easily be a related company for this purpose, and therefore ineligible for either the exemption or the deduction, as the case may be, because it is only necessary to identify either "operational control" or "20 per cent shareholding control". Nevertheless, the "related company" concept cannot be applied to deny an individual investor a tax deduction for his investment in a VC because that concept only applies between two companies.

The SC has guidelines for the annual certification required by investors in venture companies and it can accessed on the SC website at www.sc.com.my.

Conclusion

These are attractive incentives to entice professional investors as well as non-professionals to encourage and support start-ups in fields of new advanced technology as well as in more mundane promoted activities and products. It is not only for venture capitalists. The ordinary company or individual with business income can take an exciting low-risk or high-risk stake in a fledgling activity and legitimately shelter a large slice of income from income tax. AN

EXAMPLE

Goodboy Sdn Bhd, a manufacturing company invested RM150,000 by way of shares in a VC during the year to 30 June 2001, its basis period for the year of assessment 2001. This amounted to 15 per cent of the issued share capital of the VC. In January 2002, it invested a further RM250,000 in the VC, which brought its shareholding up to 20 per cent. In March 2002, Goodboy sold its whole investment in the VC, prior to any listing on the KLSE, for a sum of RM500,000.

For its basis period for the year of assessment 2001, Goodboy had the following income etc, before any tax relief for the investment for that year :

	RM
Business adjusted income	100,000
Capital allowances — current year	40,000
Unabsorbed capital allowances — previous years	50,000
Interest — adjusted income	30,000

Solution

Subject to obtaining the necessary certification from the SC, Goodboy will calculate its tax for the year of assessment 2001 as follows :

Business adjusted income as given	100,000
Deduction for investment in VC	150,000
Adjusted loss	(50,000)
Interest — adjusted income	30,000
Current year loss	(30,000)
Chargeable income	Nil
Unabsorbed capital allowances carried forward	90,000
Unabsorbed loss carried forward	20,000

Although the increased holding (20 per cent) in the VC makes it a related company of Goodboy, this will not prevent the new investment of RM250,000 from qualifying for a deduction as the companies were not related at the point of first investment. What will disqualify it, however, is the disposal of the holding within the same year of assessment as the acquisition and prior to listing on a stock exchange.

Note : This article has been developed from the following sources : a) An article submitted to the Association of Chartered Certified Accountants for publication in their Student Newsletter and b) A section entitled "Invest in a venture company" in a new book *100 Ways to Save Tax in Malaysia* by the same author.

WORKPLACE STRESS

Causes, Consequences and Why it Concerns Managers

By Wong Mun Fai & Wong Mun Ping

Stress is an everyday occurrence in one's life. It is the wear and tear on one's body caused by pressures and problems one experiences in day-to-day life. In general, stress is perceived to be an unpleasant effect that has a negative impact on performance. However, research shows that stress is not entirely bad (Hellriegel, Slocum & Woodman, 1995). In fact, depending on an individual's ability and method of coping, a certain degree of stress is essential for survival in life. As such, stress can mean different things to different people.

To understand stress, one needs to explore the various definitions found in a multitude of research and professional literature. However, this can be a complicating task as there are many different versions of definition for the word 'stress'. Fortunately, recent publications have been able to define stress as either a *stimulus* or a *response*, which in turn categorises virtually all existing definitions (Ivancevich, Olekalns & Matteson, 2000).

A *stimulus* definition regards stress as actions, situations or events that bring about physiological and psychological reactions. These actions, situations or events are known as stressors that cause stress. On the other hand, a *response* definition views stress as a reaction to some stimulus called stressors.

In an organisation, many things or events can potentially cause stress to an employee. Depending on the severity and duration of these stressors, the physical and/or mental health of the employee may be threatened in a harmful way. As such, if workplace stress is not properly managed, it will have serious negative impacts on an organisation as it results in stress-related absenteeism, lateness and lower work performance (Obrart, 1995).

To enable effective management of workplace stress, there is a need to identify and recognise various forms of stress. According to Ivancevich *et al.* (2000), there are three types of work stressors; these include physical environment, individual, and group and organisation. However, other authors have identified more causes of work stress and these will be discussed in the following paragraphs.

Physical Work Environment

The work environment can be a major cause of stress. This is particularly the case for blue-collar workers. Due to the nature of their job, blue-collar workers are regularly exposed to excessive noise, inappropriate lighting, extreme temperatures, crowding, toxic/chemical substances and overexertion. For example, high levels of noise will damage the middle and inner ears and eventually impair hearing (European Agency for Safety and Health at Work, 2000).

Work Overload

In times of economic slowdown and widespread retrenchment, many employees are finding themselves overworked due to increasing demands from work such as having too much to do or working long hours. This happens because there are now less people doing the same amount of work. In order to keep their jobs, some employees are struggling to cope with the situation and this results in stress. Employees who are experiencing work overload over an extended period of time can lead to burnout (Thomas, 1997).

Time Pressures

Time pressure represents another form of stress caused by increasing work demands and it occurs when employees are required to meet tight deadlines on work. Stress related to time pressure can also develop when there is too much to do in the same amount of time, as some employees are finding themselves having insufficient time to complete a job. The stress caused by time pressures can also lead to burnout if employees are constantly required to work against time.

Physical Danger

Physical danger is normally inherent in a blue-collar workplace. This is evident by the injury rate of approximately 10 per cent, as reflected in the national statistics on occupational injuries compiled by Human Resources Development Canada (1999). Due to the nature of jobs, injuries caused by falls from heights, falling objects or operating machinery are not uncommon in workplaces like construction sites, production lines and mining fields. These dangers can pose potential threats and are therefore the main cause of stress for blue-collar workers.

Role Ambiguity

This occurs when employees do not understand what is expected of them, the objectives of the organisation, or the scope and responsibilities of the job. Employees who suffer from role ambiguity are more likely to experience lower job satisfaction, a greater incidence of job-related tension, greater feelings of futility and lower levels of self-confidence (Kahn, Wolfe, Quinn, Snoek & Rosenthal, 1964).

Role Conflict

At times, an employee may face situations where he/she is expected to meet the demands from two supervisors, with each expecting something that is conflicting in nature. Role conflict will lead to lower job satisfaction and eventually result in stress mainly among white-collar workers. This is confirmed by Cooper & Smith (1986).

Responsibility for People

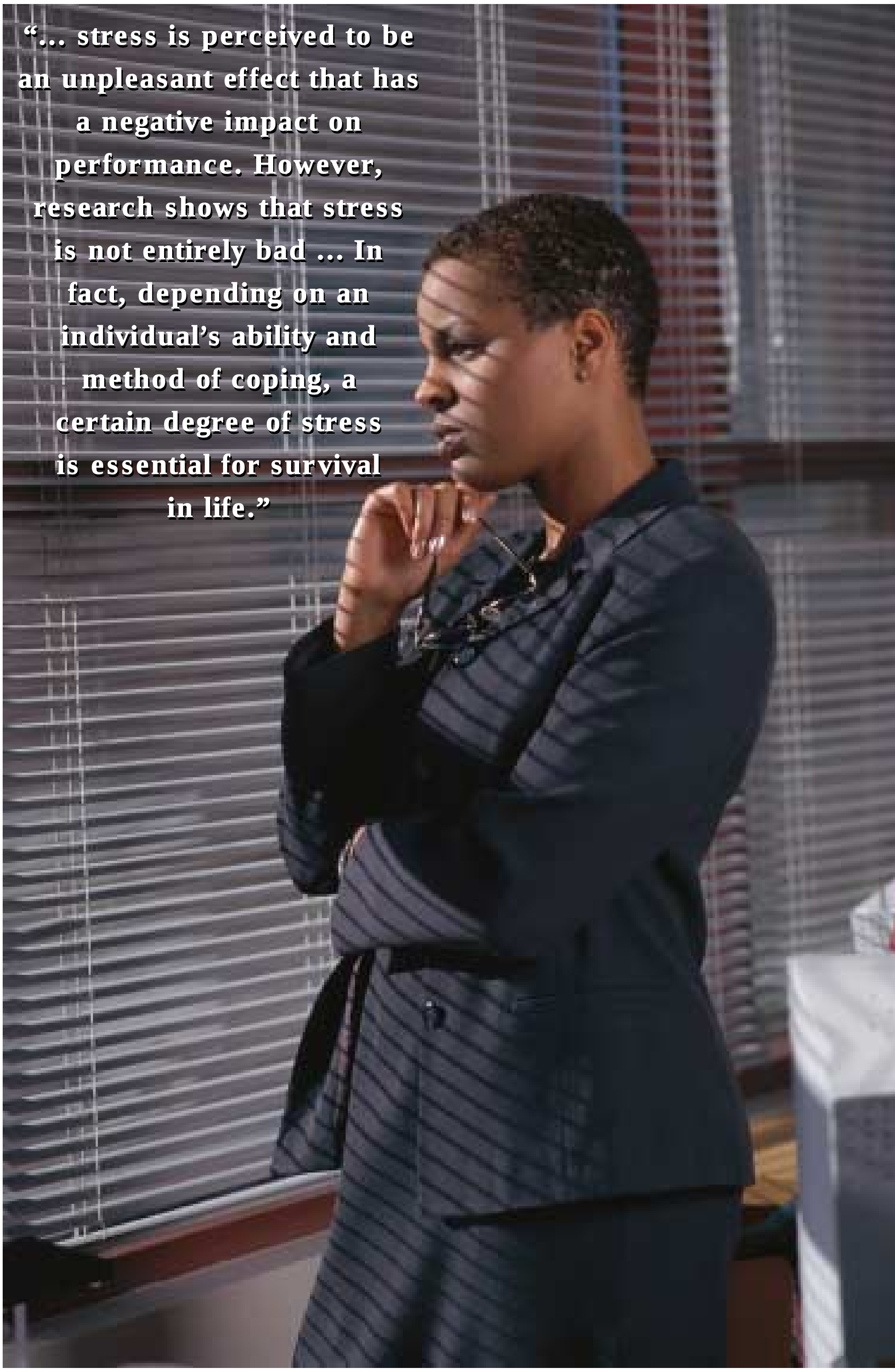
This has been identified as a cause of stress. In general, responsibility for people, compared to responsibility for things, is likely to lead to a greater degree of stress (French & Caplan, 1970).

Underpromotion and Overpromotion

These are usually jointly termed as status incongruity. A promotional lag over a prolonged period of time may lead to some mental instability. For example, a study of naval personnel revealed that promotional lag was significantly related to psychiatric illness (Arthur & Gunderson, 1965). On the other hand, a faster-than-expected promotion will create a situation where there is a mismatch of skills and work and thus impair the ability to perform. Both the above situations cause stress.

Lack of Job Security

In times of economic recession, some organisations may implement aggressive cost-cutting strategies that includes the reduction of the workforce. This will inevitably lead to massive job losses, thus causing stress to employees of the organisations. Stress is exacerbated when organisations expect commitment from their employees at this critical time. In fact, job insecurity is a greater cause of stress for most employees. This was reflected in a study conducted by The University of Hong Kong in respect to stress among Hong Kong Chinese caused by anxiety



over the return of Hong Kong to China (Chan, 1992). This event, though isolated, may have changed the business friendliness of Hong Kong, which affects the continued operation of multinational corporations on the island.

Thwarted Ambition

Ambitious and aggressive employees are keen to be involved in significant and challenging assignments in the organisation to demonstrate their capability and accomplishment. Apart from achieving job satisfaction, employees perceive such involvement and accomplishment will increase the chances of career advancement. As a result, when employees are deprived of the right to involvement, they will experience low job satisfaction and this will lead to stress.

Poor Relations With Boss, Subordinates or Colleagues

This represents another key source of workplace stress because it will bring about poor communication, thus resulting in insufficient co-ordination and co-operation at work. Individuals who are unable to maintain good relationships at work will normally suffer stress as work relations have an impact on the promotion and survival of individual employees (Gmelch, 1982).

Difficulties in Delegating Responsibility

When managers cannot carry out all the work especially the routine tasks, they need to delegate. There are instances where delegation cannot be made due to fear of losing status and fear that the tasks cannot be properly accomplished as intended. Therefore, managers who have difficulty in delegating responsibilities face stress.

Little or No Participation in Decision-making

Lack of participation shows a strong relationship with job dissatisfaction thus causing stress. On the other hand, employees who are given greater opportunities to participate in decision-making will normally have a higher level of job satisfaction and self-esteem (Spector, 1986).

Office Politics

When individuals or groups use strategies to achieve personal goals instead of organisational goals, they are said to be engaging in office politics. In such situations, other individuals or groups who do not involve themselves in office politics are perceived to be in disagreement and feel stress. The degree of stress will intensify in the event that the strategies are also supported by authority.

"… acculturation stress … when employees of one organisation are required to interact with employees of another organisation and adapt themselves to a different culture, management practice and even social system."

Technological Changes

The introduction of information technology to organisations has caused widespread concern among employees. Some are concerned that they will become redundant while others are concerned that they will undergo ongoing training to cope with technology advancement. For example, most employees these days are swamped by loads of information generated by e-mails, faxes, voice mails and multiple sources of data throughout organisations. This is made worse by poor planning that usually overlooks the human factor in the implementation process. As a result, technological changes can also cause stress to employees.

Organisational Climate

This is also an issue of major concern because stress can happen if there is extreme competition and poor communication among employees. Besides, an organisation that adopts an authoritarian and threatening management style is generally more stressful to work in.

Acculturation Stress

In recent years, with a growing number of cross-national corporate mergers and acquisitions gradually taking place around the globe, a new form of stress has been developed; namely acculturation stress. This form of stress arises when employees of one organisation are required to interact with employees of another organisation and adapt themselves to a different culture, management practice and even social system.

Having identified the various sources of workplace stress, it is now appropriate to discuss the consequences of stress in relation to its negative impact on organisations.

According to Ivancevich *et al.* (2000), stress has an impact on both individuals and organisations. Depending on their characteristics, stress consequences can be classified as psychological, cognitive, behavioural, physiological, and organisational. These various types of consequences will be discussed in the following paragraphs.

Psychological Consequences

As a result of a prolonged experience of stress, an individual will suffer from frustration, anxiety, apathy, lowered self-esteem, aggression and depression. This will lead to the development of physical diseases due to hormonal changes that suppress immunological processes (Krantz, Grunberg & Baum, 1985). From a health standpoint, this will make an individual more prone to illness.

Cognitive Consequences

This is represented by poor concentration, the inability to make sound decisions, mental blocks and short attention span. If an employee constantly experiences any of the above symptoms, his work performance will be affected. In the long run, this will also affect the employee's career advancement opportunity in an organisation.

Behavioural Consequences

Observations show strong relationships between work stress and behavioural patterns such as alcohol and drug abuse, emotional outbursts, excessive smoking, procrastination, impatience, quickness to argue, withdrawal or isolation from others, neglect of responsibility and impulsive behaviour. In the long run, the drastic change in behaviour will cause damage to one's health.

Physiological Consequences

These relate to increased heart rate and blood pressure, increased blood glucose levels, dryness of the mouth, sweating, hot and cold flashes, fatigue, insomnia, frequent illness, indigestion and gastrointestinal ailments. Increasingly, there is evidence indicating a strong relationship between work stress and heart disease (Schuler, 1980).

Organisational Consequences

The most direct impact of stress on organisations is the high costs resulting from increased spending on stress related issues or lower earnings due to low productivity. As such, absenteeism, increased turnover, low productivity, and increased recruitment and training costs for new employees have become one of the major concerns of management in order to ensure business profitability.

"As a result of a prolonged experience of stress, an individual will suffer from frustration, anxiety, apathy, lowered self-esteem, aggression and depression."

Regardless of the distinction between individual and organisational consequences as outlined above, the ultimate consequences of stress are always associated with losses or costs, which can be measured in dollar terms. These losses or costs can be perceived and categorised in the following manner.

To the employers, these costs can be expressed as loss of productivity, legal penalties, investigation of incidents and claims, rehabilitation and retraining costs, damage to machinery, equipment and tools, disruption to production and service delivery, poor judgment and decisions by employees, and loss of goodwill and corporate image (Bohle & Quinlan, 2000).

To the employees, these costs can be measured as loss of earning potential, time taken to seek medical treatment, disruption and burden to family relationships, loss of morale, reduced social interaction and social status (ibid.).

To the community, these costs can be expressed as health and medical costs to the taxpayers, community service costs, concessions offered to the disabled, costs associated with the promotion of Occupational Safety and Health organisations (ibid.).

If only such costs can be accurately measured and presented to organisations, as the management of most organisations are either not aware of or are slow to recognise the drastic consequences of workplace stress. As the saying goes, prevention is better than cure seems to be the strategy in managing workplace stress.

So far, we have discussed the various causes of work-related stress. We have also looked at the ways these stresses affect employees and organisations. To provide a better understanding of why managers are concerned with the issue of stress in organisations, we will now discuss how the concerns arise.

To recap, most workplace stresses have negative impacts on an organisation. Some impacts are quantifiable such as loss of production and declined earnings, while others are non-quantifiable such as loss of goodwill and corporate image. Nevertheless, both forms will eventually lead to increasing costs of running a business.

For example, stressed employees have a higher tendency of not turning up for work. Salary will continue to be paid during their absence. More often than not, medical expenses will be incurred if these employees seek medical treatment.

Stressed employees also have a higher turnover rate. Employees who have been trained over a long period of time, at great costs leave an organisation as a result of unresolved occupational stress. The subsequent recruitment and training of new employees will incur huge costs to the organisation. Besides, training of new employees will cause disruption to work.

In some cases, a well-trained employee may eventually breakdown if he or she suffers extreme stress on the job. This will disrupt the workflow of the organisation. In the case of a senior level executive, making poor or wrong decisions as a result of stress will cost the organisation lots of money, thus reducing operating profit and hampering organisational growth.

Due to the nature of stress, which is often disguised in a number of illnesses and behavioural disorders, the real costs of mismanaged stress are usually hidden in an organisation. Some studies show that the costs of stress are of real concerns in the US as they have reached an alarming state.

1. Stress related claims now cost US organisations 10 per cent of their annual earnings (Knotts, 1996).
2. Each year, approximately US$26 billion is paid out in disability claims related to stress (ibid.).
3. Absenteeism results in four per cent of the work hours being lost, translating into millions of dollars each year (ibid.).
4. Heart disease is related to the loss of 135 million workdays each year, and alcoholism costs US industries approximately US$20 billion each year (ibid.).
5. Mental illness such as depression which can be a result of workplace stress, costs the US economy about US$30 million annually (ibid.).
6. Stress on the job costs businesses more than US$150 billion per year and stress-related disability cases have doubled in the last 10 years (Krivyanski, 2001). This includes salary for sick days, hospitalisation, outpatient costs and costs related to death.
7. Over the past 25 years, health-benefit costs to employers have increased by more than 800 per cent (Greenberg, 1983).

Organisations that do not address workplace stress tend to incur higher operating costs. Higher operating costs lead to organisations implementing cost-cutting measures that in turn result in further work stress. During the rationalisation process, managers are used as tools by the organisations to maintain profits and reduce stress among employees.

Therefore, managers are concerned with the issue of stress in organisations for a number of reasons.

1. Managers are entrusted by senior management the duty to reduce operating overheads of the organisation that are partly resulting from escalating costs related to stress.
2. Managers want to create a pleasant workplace for the employees so that productivity is maximised. Leading a highly productive team says a lot about the capability of the managers.
3. Managers want to manage and reduce their own stress first. Some managers build up stress when they see the level of stress growing among employees in the organisation. The performance of these stressed employees will have a negative bearing on the managers in respect of their managerial skills. Most managers do not like to be perceived that their management styles cause stress in the organisation.
4. Managers want to reduce workplace stress to a tolerable level to ensure that the organisations are not subject to compensation claims and lawsuits which may render them paying out substantial amounts of money.
5. Managers prefer to recognise stress in the early stage when it is still manageable. When stress grows beyond a manageable state, the remedial actions required and costs incurred will be far beyond the imaginable amount.
6. Managers are also aware of the hassles in training new employees to cope with high staff turnover rate. The training process requires financial outlay from organisations and causes disruption to work. If the disruption is not well managed, a backlog of work will build up and create further stress for managers.

On the contrary, being concerned with workplace stress is not about eliminating it altogether. In fact, a moderate amount of stress in specific situations can improve performance. Therefore, too much or too little stress is of concern to managers.

Managers also want to retain a little stress in jobs to ensure that jobs are not stressful but challenging enough thus giving a greater sense of achievement to employees among other things. Instilling adequate stress into jobs will induce a positive attitude towards the jobs, thus boosting productivity. This is a very judgmental issue and requires managers to fully understand both the employees and the jobs before a challenging job can be designed.

Stress has become an everyday word in all walks of life. There is no way of eliminating it other than managing it with care. It is the by-product of the high expectations we demand from ourselves, without which we would not have progressed to where we are today. AN

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PLANNING FLEXIBILITY in Management Decisions

By Davis Sharpe

Managers often find themselves confronted with situations that raise the question : "what if ...?" or "what can go wrong?" By deliberately trying to identify potential problems at the onset, the Manager will prevent many and compensate for many more. This is called *contingency planning*, and right next to this in the armour of any Manager looking to be successful must be : **FLEXIBILITY**

A major challenge in management is in avoiding pat answers to everyday questions. There is nothing so dull, for you and your team, as pulling out the same stock answer to every situation. It is so wrong : each situation and each person, is unique and no textbook answer will quite be able to embrace that uniqueness. However, you are the Manager, and you have to judge each situation with a fresh eye, and you have to create the correct response. In such situations, your common sense and experience are your best guides in analysing the problem, and in evolving your response.

Even if the established response appears suitable, you might still try something different. Charles Darwin showed us a way in his evolution theory. By trying variations upon standard models, you evolve new and potentially fitter models. If they do not work, you do not repeat them (unless they are in other altogether different circumstances); if they work better — then you have successfully adapted and evolved.

This deliberate *flexibility* is not just an academic exercise to find the best answer. The salient point is that the situation and the environment are continually changing; and the rate of change is continuously increasing with advanced technology. If you do not continually adapt to accommodate these changes, then the solution, which used to work (and which you still habitually apply) will no longer be appropriate. You must be prepared to experiment otherwise you will become the 'dodo'. A lack of flexibility will cause stagnation and inertia. Not only do you not adapt, but the whole excitement of your work and your team diminish as fresh, innovative, ideas are either lacking or lost.

Without detracting from the main work, you can exercise flexibility — stimulate your team with *changes of focus*. This includes drives for specific quality improvements, mission statements, team building activities, delegated authority, and so on. You have to decide how often to "raise excitement" about new issues. Whilst it is true that too many focuses and innovations may distract or prevent the attainment of any one; on the other hand, changes in focus keep these flexible concepts fresh and maintain the excitement.

By practising this philosophy yourself, you also stimulate fresh ideas from your team, because now they see that it is a normal part of the team practice to adopt and experiment with innovation. Thus not only are you relieved of the task of generating the new ideas all by yourself, but now your team also acquire ownership in the whole creative process.

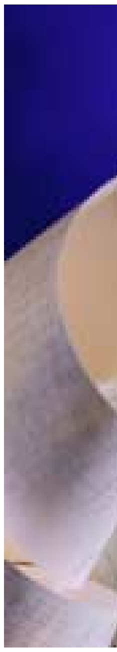
The really good news is that, sometimes, even a lousy choice of focus can have a beneficial effect, as shown here:

- E. Mayo and others conducted some famous experiments in management studies between 1927 and 1932 at the Hawthorne works of the Western Electric Company in Chicago. The study was originally motivated by a failed experiment to determine the effect of lighting conditions on the production rates of female factory workers.
- This experiment "failed" because when the lighting conditions were changed for the experimental group, production *also* increased in the control group where no changes had been made.
- Essentially, Mayo took a small group of workers and varied different conditions e.g. number and duration of breaks, shorter hours, refreshments, etc., to see how these actually affected production.
- The problem was not that production was unaffected but rather that whatever Mayo did, production increased — even when conditions were returned to the original ones, production increased.
- After many one-to-one interviews, Mayo discovered that the principal effect of his investigations had been to establish a team spirit amongst the group of workers. The girls (six) who had formally worked with large numbers of others were now a small team, they were consulted on the experiments, and the researchers displayed a keen interest in the way the girls were working and feeling about their work. Thus the girls' own involvement and the interest shown in them were the real reasons for increased productivity!

By providing changes of focus you can build and motivate your team. If you show through these changes that you are actively working to help them work, then they will feel that their efforts are recognised. If you also include their ideas in the changes, then they will feel themselves to be a valued part of the team. If you pace these changes correctly, you can stimulate team spirit and continually increase productivity. And notice, this is not slaving driving. The increased productivity comes from the enthusiasm of the workforce — they actually want to work better.

Believe this : In management there is always a distant tune playing in the background. Once you hear this tune, you will start humming it to yourself — in the shower, in the boardroom, on the way to work, when watching the sunrise. It is a simple tune, which repeats again and again, in every aspect of your managerial life, and the title of the tune is "Flexibility"! AN

What Types of Financial Planning Services Does Your Firm Intend to Provide to Your Clients?



By Yap Ming Hui

In a financial planning seminar that I had conducted for a group of business owners recently, I was asked by one of the participants — "Nowadays, there are so many people who carry a financial planner's name card. How do I know which one is genuine and which is not? In fact, this is not a new question that I have encountered. With so many entrants into the financial planning industry in the past few years, it is understandable why the public at large has developed such confusion. I am sure that as recognised professionals, accountants do not want to end up being doubted by their clients on their professionalism when they offer financial planning services.

The point lies in not whether the person is a genuine financial planner or not, but what types of financial planning he/she is providing. If the financial planner is performing certain levels of financial planning activities, it is only fair that he/she is recognised as a financial planner. The difference only lies in what types of financial planning services are being provided.

As such, we should ask ourselves what types of financial planning services do we intend to provide for our clients. To maintain your professional image, I am sure that it is important to provide financial planning services at the value and quality that is in line with your professionalism. What I intend to do in this article is to share with you some types of financial planning services being offered in the market. As a possible entrant into the financial planning industry, you will then ask yourself, "What types of financial planning services does my firm intend to provide to our clients?" and make a decision on it.

In Malaysia, besides pure financial product sellers, the types of financial planning services can be broadly categorised as follows.

Single-Product Financial Planning

Single-product financial planning services helps the clients to plan for specific financial concerns from the financial product perspective. Examples of such type of services are insurance planning, unit trust investment planning, shares investment planning, will-writing planning or others. In most cases, financial goals that can be achieved with the relevant financial product are analysed and clients advise accordingly. For example, if family financial security in your absence were your financial goal, the financial planner would perform the necessary analysis and let you know how much insurance coverage you need. This type of financial planning works best if the prospective client has already decided to purchase certain financial products, but is not sure how much and how? Most of the professionals and institutions that claim to offer financial planning services are very qualified to provide this type of financial planning. This may be the easiest way to get your financial planning practice started. However, you may want to consider whether this type of financial plan fits into your professional firm's image well.

Comprehensive Financial Planning

Comprehensive financial planning services help clients plan their finance based on their financial goals. This type of service addresses retirement, children's tertiary education, estate planning, medical expenses and other financial goals of the client. When there is a gap that has been identified, action would be recommended to narrow or eliminate the gap. Most of the professionals and institutions that claim to offer financial planning services should be able to provide this type of service.

However, it is important to note that comprehensive financial planning does not necessarily mean integrated planning. In other words, this type of financial planning can only show the client his/her retirement planning status in isolation to other financial goals and objectives. Various financial goals and analysis are not linked in a whole picture. As such, the client would not be able to know how by providing more or less the limited financial resources to one particular financial goal impacts the other financial goals and objectives. If the client


is looking for a financial planning service that is able to help weigh and balance his/her limited financial resource against multiple financial goals from this type of provider, he/she may be disappointed.

Comprehensive and Integrated Financial Planning

The main advantage of this service is the total financial picture provided for a person to know where he/she stands against various financial goals set based on the limited financial resources. As such, he/she would be able to understand how the extra provision of financial resources for one financial goal will affect other financial goals. For example, the client would be able to know how the provision of financial resources to achieve four children's tertiary education funding will affect resources available to attain his desired retirement lifestyle. Another example commonly faced by my clients is how would the provision of financial resources to build their dream bungalow affect their other financial goals.

Such types of financial planning services would allow your clients to decide on how to balance the achievement of various financial goals with their limited resources. If he/she knows that 100 per cent achievement of his/her children's tertiary education funding would allow him/her to achieve only 40 per cent of his/her retirement goals, the client may review the children's tertiary education goals to increase achievement of the retirement goal. Due to the fact that most of us are always dealing with limited financial resources, this type of financial planning provides the closest support for your financial decision-making in a real world.

In most cases, this type of financial planning service also provides the projected cash flow, income and balance sheet statement for at least the next five years. Such information is important to help you understand and manage your finance better. In most situations, the providers of such services charge fees for the work they perform. If you intend to charge a fee for your financial planning practice, this is the minimum level of service you should start with.

Despite the various advantages to the consumer, the relevance and impact of this type of financial planning is very much discounted if the client is a business owner. This is due to the fact that this service only focuses on the client's personal finance, but not his/her business at large.

Comprehensive and Integrated Financial Planning for Business Owners

My business owner clients always share with me their frustration on how limited the personal financial planning service can be for their overall financial position. According to them, business interests almost, without fail, form the largest percentage of their net-worth. As such, if business financial planning were not properly taken care of, good personal financial planning would not make much difference as far as overall finance is concerned.

For business owners, proper financial planning strategies and leverages to support a business expansion plan is crucial. Financial planners who provide this type of service would be able to give advice on corporate financing, corporate restructuring and other corporate strategic works to support a client's business plan. With the integration of both personal and business finance, there is definitely better possibility for optimum utilisation of financial resources. If the client is a business owner, the effectiveness of financial planning is very much limited if his/her financial planner is not able to provide this type of service.

If you plan to offer a financial planning service, what type of financial planning service to provide is probably the first and most important question to answer. Take a look at your target market. What is their background? What types of financial planning service do they expect? Once you have decided on the type of financial planning service your firm intends to provide, only then should you think about how to deliver it to your clients. AN

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Towards Electronic Filing System

By Lai Ming Ling
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This article aims to stimulate the reader's interest and provide some insight into the e-filing system, to highlight the potential benefits and considerations, administration and compliance issues that may arise pertaining to the e-filing system initiated in the Malaysian tax setting.

Introduction

The advancement of Information and Communication Technology (ICT), particularly Internet technology has profound implications on the tax administration system and tax practice. Specifically, it affects the way tax administrators collect and manage taxes (Owen, 1993; Tanzi, 2001), and changes the way tax practitioners run the tax practice (Hicks & Rubenstein, 1996; Holub, 1998). Worldwide, tax authorities and tax practitioners are being challenged to maintain a modernised, efficient and responsive tax administration system. Accordingly, in harnessing the opportunities available with Internet technology, several overseas tax authorities in countries such as the US, Canada, the UK, Sweden, Netherlands, Norway, France, Italy, Republic of Ireland, Australia, New Zealand, Japan, Singapore, Brazil, South Africa and Chile have embraced electronic tax administration systems.

Electronic Tax Administration

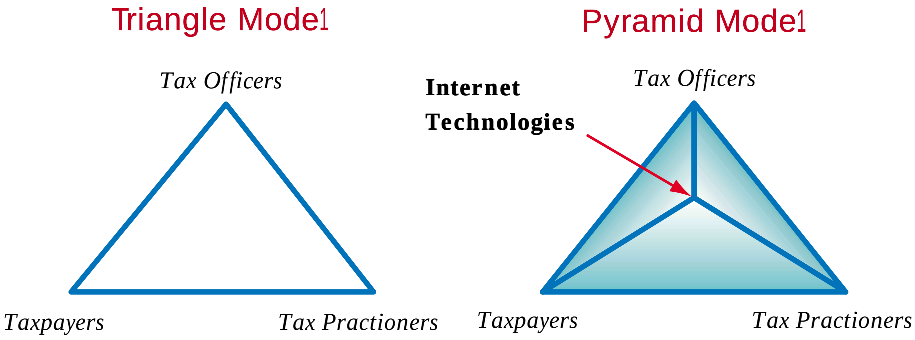
The Federation of Tax Administrators of the US defines electronic tax administration (ETA) as the use of electronic technologies to coordinate the business process of a tax agency and its customers (i.e., taxpayers) and third parties such as tax practitioners to achieve the goals of effective tax administration and voluntary tax compliance (FTA, 2001).

One of the main features of ETA is the electronic filing (e-filing) system. The e-filing system encompass the use of Internet technologies and the World Wide Web for a wide range of tax administration and compliance purposes. It comprises of the e-filing technology, electronic communications, e-tax payment, e-tax products and services. The e-filing system integrates tax preparation and tax filing. Taxpayers (and tax agents) can file tax returns and information electronically via the enabling Internet technology. When a taxpayer files a tax return electronically to a processing centre of the tax agency's computer system, the computer will check for mechanical and technical accuracy before accepting it. An online acknowledgement of receipt will also be issued automatically. E-filing is a more effective way of filing tax returns than mailing; it is fast, secured and accurate as compared to filing paper returns. Besides e-filing services, other administrative uses of the ETA centre are the areas of providing online customer service and taxpayer account maintenance.

"electronic tax administration … the use of electronic technologies to coordinate the business process of a tax agency and its customers, and third parties such as tax practitioners to achieve the goals of effective tax administration and voluntary tax compliance".

The experience of overseas tax administrators, for example the US, Australia and Singapore, in implementing electronic tax administration, show that there are considerable benefits to be gained by all parties concerned. One key benefit, which is rightly pointed out by the Federation of Tax Administrators in the US, is that electronic tax administration revolutionises how taxpayers (and third party) transact and communicate with the tax agency. Figure 1 depicts the relationship between the actors before and after the implementation of ETA.

FIGURE 1



Source : Adapted and Modified from Parasuraman (2000, p. 308)

From Figure 1, it can be seen that with the use of Internet technology as the medium of communication, the relationships between the three actors are interactive, multiple, close and working together in compliance. Such productive interactions between taxpayers and tax administration partners have the potential to create significant multiplier and network effects. Besides this, there are other benefits of ETA to tax authorities, taxpayers and tax practitioners. They are briefly discussed as follows.

The Inland Revenue Service (IRS) of the US, for example, experienced considerable gains in administrative costs. Efficient online data transfer brought significant cost savings. "The Inland Revenue Service found that the cost of processing an electronically filed return was only three US cents, whereas the costs of a paper return was US72.5 cents" (CCH Tax Focus, 1988, as cited in James and Wallschutzky, 1993, p.403). Further, the IRS found that the "error rate in the assessment of electronically filed returns was a mere three per cent, compared to a rate of 17-20 per cent on paper returns" (James and Wallschutzky, 1995, p.21). Accordingly, Charles Rossotti, the top officer of IRS honestly admitted that only e-filing technology would enable the IRS to process millions of returns every year, and the paperless system reduces the administrative burden of processing tax information (Government Executive, 1999). Whilst, the Australian Tax Office also reported that they experienced substantial improvements in speed, accuracy and efficiency of return submissions and assessment since the implementation of e-filing in the 1990s (James and Wallschutzky, 1993). Additionally, Bird and Oldman (2000) reported that the move to embrace the electronic tax administration by the Singapore government made the tax administrative process more efficient and saved millions of dollars each year. The potential exists for improved administrative efficiencies in the mail, cashiering, data entry, account maintenance and filing functions. Furthermore, as the e-filing system required less time and staff effort, staff can be re-deployed for providing better taxpayer service, and 'back-end' auditing and investigation.

Overall, benefits of the e-filing initiative to tax administrators are many. Key benefits are :

- Time saving in processing;
- Cost saving in stationery, postage and storage;
- Improved accuracy and administrative efficiencies;
- Enhance public image and reputation;
- Improved record-keeping and data mining;
- Providing added service to clientele;
- A competitive advantage over other agencies who do not embrace the electronic administration system; and
- Increased level of service provision to overseas counterparts.

The main benefit of the e-filing facilities to taxpayers is the speed of getting refunds of tax. For example, in the US, the waiting period for getting a tax refund via electronic medium was reduced by up to three weeks as compared to traditional paper filing. Whilst, in Australia, a return can be processed and assessed within two weeks if lodged electronically (James and Wallschutzky, 1993). Furthermore, the experience of the Inland Revenue Authority of Singapore also shows that the e-filing technology has made it easier for Singapore taxpayers to obtain quick access to information concerning tax laws and changes to regulations, and thus made tax compliance easier for the taxpayers (Bird and Oldman, 2000). The use of the Internet can reduce time consuming visits and phone calls to the tax office, and also other possible postal disruption due to postal strikes (Crowe, 1992). In addition, with the enabling technologies, taxpayers are able to seek online consultation services, gain access to more timely information from the website and rectify or change the tax return electronically; hence any problem arising may be resolved without having the need to go to the tax office (James and Wallschutzky, 1993; Kana, 2001). The key benefits to taxpayers are :

- Time saving as tax returns are filed online and on time;
- Quicker turnaround time regarding refund, rebates and queries;
- Greater accuracy, reduce arithmetic errors in returns;
- Minimise risk of penalties due to errors or late filing;
- Convenient and easy to use;
- Greater flexibility interacting with tax agency, 24 hours, 7 days a week and 365 days a year access to the online service;
- Acknowledgement of receipt online as compared to no acknowledgement of receipt when tax return is mailed by post; and
- Detailed record of all interaction with tax agency.

Meanwhile, tax practitioners enjoy numerous benefits from the e-filing technology as well. At the start, tax practitioners in Australia were granted one extra month on their lodgement period as an incentive to adopt e-filing ((James and Wallschutzky, 1993). In addition, tax practitioners found that the availability of 24-hours a day, 7 days a week computer access to the tax office and automatic electronic acknowledgement of the receipt of return has created added value to routine client services (Holub, 2001; James and Wallschutzky, 1993; Kana, 2001). Besides this, the sophistication of computer software programs are able to check the tax return for logic and arithmetic errors, as well as any missing information, thus eliminating human theoretical and computational errors during tax preparation, before the tax return is accepted and submitted (Kana, 2001). New technologies help tax practitioners to work faster and smarter, and enable them to mind historical client data in countless ways (Holub, 2001). Consequentially, some tax practitioners reported that their office management efficiency has increased with the help of computer technologies, and they have also received fewer inquiries from clients and tax authorities (James and Wallschutzky, 1993). The main benefits of the e-filing system to tax agents and accounting firms are :

- Increased clientele and increased business income;
- Minimise risk of errors in tax preparation and submissions;
- Increased level of service provisions to clientele;
- Improved service quality and speed;
- Competitive advantage over other practitioners not using the e-filing technology;
- Improved office management efficiency;
- More up-to-date client record maintenance;
- More attractive working environment as tax preparation is integrated with tax filing. It is online and on time.

New technologies help tax practitioners to work faster and smarter, and enable them to mind historical client data in countless ways … Consequentially, some tax practitioners reported that their office management efficiency has increased with the help of computer technologies,”

Revolution in the Malaysian Tax Administration System

Recently, the Malaysia Inland Revenue Board (hereafter, IRB) have started reforming the tax administrative policies to embrace the e-filing system progressively (Bernama, 2000; Cheong, 2001; Pardas, 2001; *Sun*, 2001). The IRB is developing the e-filing software and planning to put the service on trial by early 2002. For a start, the IRB is conducting a pilot project to facilitate the e-filing of corporate tax returns operated by five major accounting firms in Malaysia. If successful, e-filing will be extended to other corporate citizens. Subsequently, it is hoped that individuals could submit their self-assessed tax returns electronically in 2004.

The main purpose of the IRB in embracing electronic tax administration is to improve customer service and facilitate tax compliance through system improvement. With the e-filing system, Malaysian taxpayers and tax agents can file tax returns electronically via the enabling Internet technologies, rather than through mail or physically visiting the tax office. This may eventually make the art of filing tax returns as easy as possible. For the tax agency, the use of e-

> "With the e-filing system, Malaysian taxpayers and tax agents can file tax returns electronically via the enabling Internet technologies, rather than through mail or physically visiting the tax office. This may eventually make the art of filing tax returns as easy as possible."

filing technology and the built-in sophisticated computer software program is able to check the tax return for logic and arithmetic errors, thus eliminating human computational errors and the need to scan written tax forms manually. With a shorter and faster turnaround time regarding assessment, queries and rebates, IRB hopes to reduce paper work and free up about 80 per cent of its staff for tax auditing and investigation purposes. Whilst, with the electronic payment service, IRB can receive tax and other payments online, thus reducing routine manual processing and cutting down transaction costs. Essentially, the IRB is aiming to integrate its self-assessment system with the government's web gateway and to establish a well organised and effective revenue administration system.

Thus far, it is apparent that the e-filing initiative is an inevitable progression in the way IRB conducts its tax related activities in the foreseeable future. The e-filing system is critical to the overall mission of IRB in revolutionising how taxpayers (as well as other tax administrative partners) transact and communicate with the IRB, including how they file their tax returns, pay what is owed, and receive the assistance and information that they need to comply with the tax laws. Undoubtedly, the growth of the e-filing system can shift critical resources from processing paper to providing customer service for the tax administrators. Nevertheless, the move of the IRB to embrace the e-filing system gives rise to a few questions :

- What has been the response of the Malaysian tax community towards e-filing technology?
- Are Malaysian tax communities prepared to use the new tax technology?
- Are the tax officers ready for the strategic business plan to implement e-filing systems nationwide in the foreseeable future?
- Are Malaysian taxpayers ready for the new technology of e-filing?
- Are the local tax practitioners prepared for the changes that are sweeping the tax field?
- What are the compelling incentives that the IRB could offer to taxpayers and tax practitioners to encourage them to change from paper filing to e-filing?
- What are the determinants of technology acceptance and usage among tax user groups?
- How to persuade or encourage users (e.g. tax officers, tax practitioners and taxpayers) to use the e-filing system voluntarily, efficiently and effectively?

Collectively, it leads to the question : what are the potential tax administration and tax compliance issues that may arise pertaining to the e-filing system in the Malaysian tax setting?

Towards the E-filing System : Some Considerations

James and Wallschutzky (1993, 95) state that taxes should be easy to administer and easy to comply with. If compliance burdens are excessive and the costs of administering the tax are unreasonable, the tax will fail to serve its intended function as a reliable source of revenue. On the other hand, James and Nobes (1998, p.39) pointed out that when the administration of an existing tax system is changed, or a new tax is introduced, both the taxpayers and the authorities face costs of adaptation to the new system. The authorities can suffer higher administration costs while taxpayers need to bear additional compliance costs. Peha and Strauss (1997) explain that a desirable tax system should meet several administrative goals (among others): it should be certain and inexpensive for taxpayers (as well as tax representatives) to comply with and inexpensive for tax administrators to run, while raising needed funds to support public services. The cost burdens of the e-filing system include both the upstream (i.e., forms development and distribution) and downstream costs (i.e., taxpayer contacts and compliance, electronic tax training and tax practitioners supports). In this respect, the e-filing system may turn out to be expensive to administer for the tax agency and also costly to comply on the part of taxpayers and tax representatives, if it is not managed properly. Therefore, the trade-off between costs and benefits need to be carefully analysed and evaluated. The IRB needs to let the taxpayers and tax practitioners know the clear benefits and incentives of compliance, as well as the cost of compliance in order to capture their interests and encourage take up.

Prior studies of Alm (1991) and Alm *et al.* (1992) found that the taxpayer exhibits a remarkable diversity in compliance behaviour. Alm (1991) affirms that tax compliance is a "behavioural matter", and argues that any serious effort to improve compliance must begin with improving taxpayers' attitudes and behaviour. Empirical survey on the US taxpayers' shows that taxpayers vary widely in their attitudes, technology readiness, acceptance and utilisation of tax filing technologies (Walsh and White, 2000). Findings showed that some of the taxpayers in US do accept the e-filing system conceptually but are still wary of it, due to several reasons. Among the main concerns are general low confidences over taxpayers' authentication, privacy and security issues pertaining to e-filing technology. Survey results also show that taxpayer groups vary in their technology readiness and willingness to automate, especially older taxpayers and pensioners who are much more comfortable handling paper filing and are accustomed to paper products. This indicates that even taxpayers in the developed countries such as the US are still ambivalent towards e-filing technology. Taxpayers do accept e-filing conceptually, but are still wary of it, particularly when it comes to personal finances, privacy and security issues pertaining to electronic transactions.

On the other hand, in the tax compliance settings, the tax practitioners are an important third party, together with taxpayers and the tax revenue authority in a tax system of voluntary compliance. A great number of taxpayers deal with tax agencies through their tax practitioners (Burnette, 1998). Prior studies of Newberry *et al.* (1993) found that paid tax representatives account for a significant percentage of tax returns files. Burnette (1998) affirmed that a great number of taxpayers deal with the tax authority through their tax practitioners. As the tax practitioners have the acquired technical knowledge and professional experience in liasing with tax authorities relative to ordinary taxpayers, there is a tendency for taxpayers to seek practitioners' assistance for filing returns. Particularly, when dealing with complex tax situations and when tax law is ambiguous under the self-assessment regime and the e-filing system, more taxpayers, who can be in the fear of penalties, are turning to tax professionals for help (Kocakulah and Gower, 2000; Marshall *et al*, 1997). Additionally, the increased complexities of the tax system, audit anxiety, and time constraints have also led to an increased demand for professional tax assistance (Collins *et al.* 1990; Hite and McGill, 1992, Schisler, 1994). As a result, tax professionals are in the capacity to exercise a strong and direct influence on the compliance and tax administration process (for example, Andreoni *et al.* 1998; Erard, 1993). The e-filing system can only work effectively with the assistance and cooperation of tax practitioners. Accordingly, the IRS is counting on tax accountants to promote the e-filing of tax returns (Kahan, 1999, p.69). Thus, in a similar vein, the IRB is also counting on Malaysian tax practitioners to promote the e-filing system. It shows that local tax practitioners are in the capacity to exercise strong and direct influence on tax administration and compliance processes in the e-filing initiative.

However, it is noted that traditionally, accountants and tax professionals were slow to convert to the newer technologies until their worth was proven and their reliability was fully documented (Kocakulah and Gower, 2000; Skillman, 1998). Specifically, Skillman (1998) asserts, "A major obstacle remains, the CPAs attitude towards e-filing. Accountants as a group don't see what's in it for them" (p.12). He observes that accountants (and tax accountants), as a group, apparently do not see that the conversion to e-filing offers that much to them in return for their investment in the software (and possibly hardware) needed to convert to the medium. Recently, Mok and Yu (2001) reported that the Malaysian accounting profession is in acute shortage of IT expertise. In this respect, it is unclear if the local tax professionals are ready to embrace e-filing technology voluntarily.

Clearly, creating a modernised, efficient and responsive tax agency is the goal of every tax office. However, Burnette (1998) pointed that in handling the e-filing initiative, one of the most important constraints is the administrative capacity of the tax authorities. Even in a developed country such as the US, the Chief Information Officer of Inland Revenue Service admitted that "When it comes to the IT world, we're pre-eminent in tax administration; we're not pre-eminent in information technology … Regrettably, the IRS currently lacks the necessary critical mass of experience and qualified information technology management and staff to effectively partner with the private sector in such a vast undertaking [of modernisation]" (Skillman, 1998, p. 14). In terms of manpower resources, the tax revenue department is generally suffering from the shortage of IT workforce (see IRB annual reports). Therefore, the move of the IRB to introduce the e-filing system in the foreseeable future gives rise to the concern, does the tax office have the required tax and IT capabilities to handle tax documents electronically, and at the same time, to provide high quality electronic customer service to taxpayers, as well as to support the tax agents simultaneously?

In the US, Charles Rosotti, the top officer of the IRS, made an honest and succinct remark on the move to embrace e-filing system by the Congress. He opines, "Upgrading the systems will be like rebuilding Manhattan while we're still living in it" (Kocakulah and Gower, 2000, p.24). Moreover, it is worth noting that in 1997, the World Bank (see http://www.worldbank.org/publicsector/egov/taxadmin.htm) pronounced the tax computerisation project in Thailand as a failure due to the lack of funding plus the default of software providers. Furthermore, until today, the e-filing system in the UK still attracts much criticism and is plagued with problems (Accounting Web, 2001, 2002). In essence, the transition from paper filing to e-filing is potentially plagued by administration and compliance problems.

Despite the fact that the IRB is going to harness the Internet technology in modernising the tax administration system in the foreseeable future, little is currently known about how the Malaysian tax officers, taxpayers and tax professionals will react to the e-filing system, and what are their perceptions, attitudes and technology acceptance toward the use of the e-filing system. Therefore, in charting a path for the future, the e-filing system is a strategy that needs thorough planning and considerations. There is a need for :

- A clearer understanding of users' readiness, attitudes and acceptance toward the new ETA system;
- A greater accountability of IRB and the government authorities to make technical corrections to a number of tax laws and make substantive legislative chances to provide greater taxpayers' protection and enhance taxpayers' rights in the electronic world;
- Increased number of skilled staff to manage and deliver the e-filing services effectively;
- A greater investment in tax software research and development to suit the Malaysian tax settings;
- Increased emphasis in taxpayers' education program, to include basic computing and Internet skills;
- Integrating tax subjects with tax software and relevant tax technology in accounting education;
- More continuous professional development courses to be conducted by professional bodies at no cost or at minimal fees to educate and equip local accounting and tax professionals on IT innovations;
- A well-managed tax website that is truly creating value added service to Malaysian communities;
- More effective marketing and promotion strategies to send out messages that e-filing is quick, easy, accurate, convenient, rewarding, reliable and secured;
- Enhanced confidentiality and security in handling taxpayers' data and information
- Clear incentives (monetary and non-monetary) for taxpayers and tax agents who take up the e-filing;
- A project risk analysis to identify the potential administrative and compliance constraints that may arise.

Conclusion

Though, on a wider view, the highest standards of tax administration can only be achieved if the modern method of data transmission is exploited, and it is undoubted that the e-filing system is a positive and inevitable progression in the Malaysian tax administration system. However, learning from experience of overseas counterparts, the move to embrace the e-filing system is not hassle free and well accepted by all parties. The e-filing system may offer potential benefits to improve performance efficiency and compliance efficiency, but the benefits gained may be obstructed by end users' unwillingness to accept and use the available electronic services. Worldwide, tax users' resistance and under-utilisation of the e-filing technology remain the greatest concern and it stills plagues the tax agencies. Users' resistance is partly due to the complexity in the tax system, misconceptions of tax users about e-filing technology, perceived usefulness, cost of compliance, data integrity, confidentiality and security issues, and also partly due to the electronic administrative capabilities of tax officers and tax practitioners. Furthermore, given the non-mandatory nature of the e-filing initiative, IRB cannot prevent taxpayers and tax representatives from filing with paper form. If less tax users use the e-filing system, the overall mission of IRB to achieve administrative compliance efficiency in the electronic tax filing, electronic tax payment and tax administration processes may be hampered. Besides the financial, legal and technical considerations, the attitudes and behaviour of bureaucracies, taxpayers and tax professionals may also frustrate the attempt to achieve the desired administrative compliance efficiency.

Justice Holmes once asserted, "Taxes are what we pay for a civilised society". It is imperative to maintain an effective tax administration system in the electronic world, in order to manage the tax collection in a fiscally responsible way, and at the same time, to best serve the needs of Malaysian society. There is a practical need for the e-filing system to be acceptable by the tax paying public and tax practitioners. The effectiveness and to what extent it is used, very much depends on end-user's attitudes and acceptance toward the tax technology. If the e-filing system is generally believed to be secured, convenient and a useful method as compared to the manual system, then it may encourage voluntary take up and increase administrative compliance efficiency. It is of the opinion that the most fundamental risk such as Web security issues must be properly addressed, and a clearer understanding of users' needs and acceptance may boost the success rate of the e-filing system. AN

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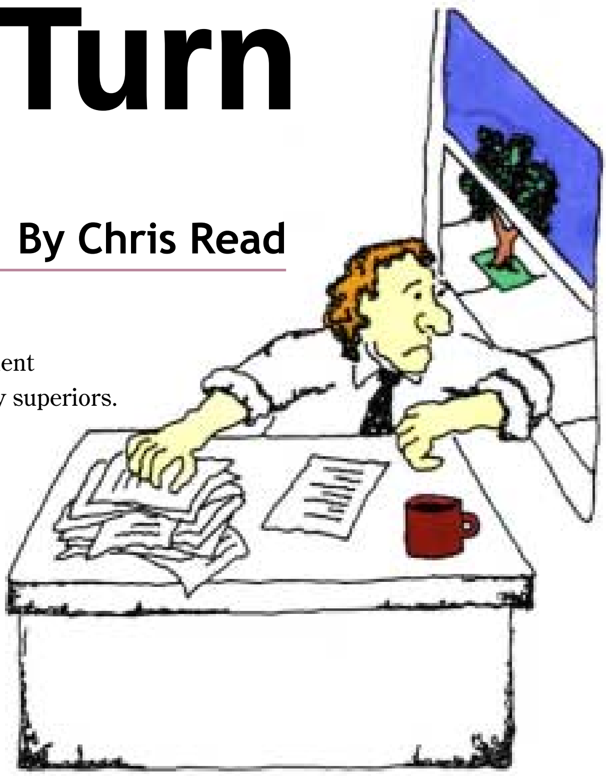
Note : For more reference materials please contact the writer at laimingling@yahoo.com

Does Work Turn You On?

By Chris Read



1 Do you need the alarm clock to get you started for the day?

a. I am lost without the alarm clock.
b. Not really I wake up naturally and at the right time to!
c. Yes, just in case I oversleep, precautionary!

2 What is your typical breakfast?

a. Continental for me — fresh fruit juice, cereal and toast.
b. Plain coffee or tea is all I need.
c. A slice of toast as I make a mad dash for the car!

3 Do you take time and pay attention to dress for work?

a. Yes, but I make it easy by laying out my clothes the night before!
b. No and it is such a bother, I never seem to find anything clean or pressed.
c. Sometimes and these moments are always difficult, as I can't decide!

4 Are you frequently late for work?

a. Never, I am always there before my colleagues.
b. Not often, but on a few occasions there have been delays.
c. Yes, as I frequently miss the public transport I depend upon.

5 What is your first agenda at work?

a. Need you ask? A cup of coffee/tea and a cigarette sets me up!
b. I go through my personal correspondence, including my e-mail.
c. Oh … I have a good chat with my friends, before the routine work.

6 Do you find it difficult to get into the swing of work?

a. Yes, mornings are not easy — I tend to daydream.
b. No, I enjoy challenges and get things done easily.
c. Only if there are frequent interruptions from my superiors.

7 Do you believe in long lunch breaks?

a. At least an hour, as I go out of the building for hawker food.
b. Yes, why not? The longer, the better it is!
c. No, I just have a sandwich at the work table.

8 Are you prepared in advance for important office meetings?

a. No, I come unprepared and I pick things as the meeting progresses.
b. Yes, I ensure I have all my facts and figures — all the information I need.
c. I try to get organised, if time permits.

9 Do you especially long for the weekend break?

a. Yes, I start thinking about the weekend — even on Monday!
b. Only, if I have a special function or event I have to host or attend.
c. No, the weekend will come as usual — work is work!

10 What do Back-to-work Monday mornings feel like?

a. Gosh I dread them; it's such a grind to get cranked up — Black Mondays!
b. Oh I love Mondays — they put new zest into work after the weekend rest!
c. Usually I cope, unless work has been going badly — then I am not too enthused.

CALCULATE YOUR SCORE

1.	a. 0	b. 10	c. 5
2.	a. 10	b. 0	c. 5
3.	a. 10	b. 0	c. 5
4.	a. 10	b. 5	c. 0
5.	a. 0	b. 10	c. 5
6.	a. 0	b. 10	c. 5
7.	a. 10	b. 0	c. 5
8.	a. 0	b. 10	c. 5
9.	a. 0	b. 5	c. 10
10.	a. 0	b. 10	c. 5

66-100 : Keen, ready to work; you have ability to concentrate and accomplish; you set a good example!

36-65 : Like most employees you are usually focussed and prepared to work; you tend to drift if things are going badly at the office — wishing you were somewhere else!

0-35 : You would be a nightmare to your employers! Always late, disorganised and your mind is on other things, not work. You need to develop a complete change of attitude and the present employment is not right for you! Remember if you continue with this attitude, there may not be any job opportunities left for you! AN

Car-less in KL

By Sue Chuah

I must be one of the very few city-folk who do not drive despite the fact that I can afford to own a car. My non-driving state began two decades ago when I inevitably failed my first and only (so far) test after fumbling through the lessons during which I literally gate crashed my instructor's new Datsun (Nissan) Sunny. On his parting advice and my own loss of nerves, I gave up driving for a while. With the advancing years and increase in road traffic, my reluctance (to drive) grew. Recent frequent occurrences of accidents and road bullying/rages put paid my decision not to join the motoring multitudes.

Nowadays, it seems that practically everyone, housewives and students inclusive, has no qualms in getting behind the steering wheel. While providing transport, the car has also become a status symbol. In the eyes of our materialistic society, a person's success and wealth is often determined by the type of vehicle one owns : average working class — Proton series; high salaried yuppies — Japanese makes; senior executives — Volvos; tycoons — Benzes/BMWs. Affluence and one-up (wo)manship has further induced many owners to change cars as soon as new versions appear on the market. Thus, I am out-of-league in my circle of car-connected kith and kin who pooh-pooh my fear of driving while marvelling at how I survive being car-less in KL.

All these years, I managed to get by and about with lots of flexibility plus loads of patience via car-pooling as well as taking the public transport. As a lifetime passenger, I have had my share of problems overriding the singular privilege of being chauffeured. These involve adapting to the driver's convenience, being thick-skinned enough to 'beg' for a ride (from acquaintances and not-so-obliging colleagues) and ranking low on the social outing list of friends as well as relatives. During my working days, I used to arrive at the office even before the building elevators began operating, as my spouse cum driver had to start his job early. Eventually, I got accustomed to the unearthly hour and enjoyed having breakfast in the office at a leisurely pace while reading the morning papers. Being one of the few early birds in the company, I had the distinction of commencing work right on the dot while the majority of the staff were either late (invariably caught in jams) or came in 'on time' but dawdled with buying breakfast and visiting the washroom before settling down.

The real hassle with not having my own transport was when I had to hitch rides back after attending work-related evening functions. It was agonising to have to impose on my colleagues' kindness when home was (still is) located in, the then out-of-the-way (pre-Kesas/LDP), Puchong. Ironically, the current highway accessibility does not seem to improve my popularity, as most folks tend to shun the ubiquitous toll booths as well as the bewildering slipways and U-turns. In fact I had difficulty giving directions on the new route, which is a constant challenge to my few visiting family members and friends.

Topping my travel tales is my ever-exasperating experience with taking the taxi. Firstly, the so-called service is rarely available even with call cabs when required during peak hours.

Then, there are those taxi drivers who prefer to have their pick of passengers, favouring foreigners and distant destinations such as the airport. What baffles me is that some of these operators opt to drive along empty refusing to be flagged down and steering clear of jam-prone roads. I mean which of our city routes is not traffic laden and since the itinerant cabby is bound to be caught, would it not be more rewarding with running meters?!

Fortunately, for me, the need to travel by taxi is limited and only as a last resort. There is always our good old omnipresent bus to the rescue. In recent years, bussing has become a breeze thanks to the revamped Cityliner and Intrakota services, a boon to the car-less community. Whenever feasible or necessary, I prefer to travel by bus which is more reliable than the Ringgit-ravenous taxicab. Often, when stuck in bumper-to-bumper crawls, I revelled in the comfort of my high seat surveying the streets and literally looking down on the car occupants confined in the relatively cramped interiors of their lower vehicles. Certainly, all road travellers irrespective of transport mode are not exempted from the infamous jams, a fact in favour of my don't-driveability.

With the advent of the LRT, commuting in the city is a cinch. This cost conducive conveyance, which cuts across town in minutes, is every commuter's choice and cool (quite literally) way to go. Judging by the full station car parks, it is also a hit with road weary drivers frustrated by the shortage of office parking lots as well as excessive attendant rates.

Generally, I am of the heresy that not driving has more pros than cons. There is none of the daily stress that drivers have to deal with : manoeuvring the swarming streets; fighting and waiting for parking spaces; fretting and fussing over the car's condition.

From the financial point of view, owning a car is a liability what with rising maintenance costs plus tax and insurance impositions. On a daily basis, drivers have to put up with the obligatory tolls and exorbitant parking fees as well as cater to their machine's petrol guzzling needs. Additionally, there is the nagging nightmare of the automobile breaking down on car-clogged roads or in the middle of nowhere. Additionally, drivers plying our crime-infested city have to face the risks involved with parking at secluded spots or solitary night driving.

Contrary to popular belief, the credo "Have wheels will travel" does not apply to the majority of urbanites especially jam-scarred veterans who drive mainly out of sheer necessity. The more practical ones opt for car-pooling, going by public transport specifically LRT while limiting use of their vehicles to non-peak periods and weekends. In fact, non-drivers enjoy more mobility than hassle-prone car owners at crowded shopping malls as well as concerts, conventions, festive and sports events like the recent 21st SEA Games. Even going to such mundane places as the Sunday neighbourhood market and weekly *Pasar Malam* poses parking problems for driving die-hards. This fact brings me one up over my well-wheeled sister (her family of four has each a car for their individual use) who rarely ventures further than her home/work territory and has not yet been to most parts of central happening KL which is becoming a pedestrian's paradise.

Hence, having one car in the family is adequate (our growing girls think otherwise) for me although it entails essential route juggling plus time planning for all concerned and often making do with public transport. Apart from the aforesaid cost cutting and stress saving, sharing the same car promotes togetherness, which tends to be lacking in most multi-vehicle families whose members hardly see each other despite staying in the same house. In the wake of career commitments, such dysfunctionality is common and frequently leads to estranged relationships among loved ones.

Health wise, I can proudly pronounce that I am quite fit (without vigorous exercise or enrolling at the gym) from years of walking instead of going around on wheels. So long as our city roads remain congested, I rejoice in not contributing another car to the chaos and resultant pollution. To qualify my statement, I do declare that I have no regrets not driving in KL. AN

The Observatory Hotel, Sydney, NSW, Australia

On Top of the World

By Elaine Martin

Ever wanted to walk into one of the world's top hotels, hand your credit card to the receptionist and ask for the best room in the house? We find out the best places to stay when money is no object.

They used to be referred to as the Presidential Suites and were once the exclusive haunt of Heads of State, royalty and Hollywood film-stars. These days they are just as likely to be the choice of successful business people, pop-stars and celebrity heart-throbs.

Guests book these spectacular suites for the privacy as well as the cachet they offer. Adjoining rooms are often requisitioned for the rest of the VIP entourage, turning whole floors into exclusive retreats for the rich and famous.

With a price tag running into US$1000s a night, just what do these pampered travellers get for their money? Bed and breakfast in the *Presidential Suite* at the Copacabana Palace in Rio de Janeiro, Brazil, starts at US$1,500. The suite comes complete with a terrace offering stunning views over Copacabana Beach, its own kitchen, a butler and bathtubs positioned to make the most of the seascapes below. The decoration includes antique prints, original works of art and exotic carpets.

On a practical note, all telephones have two lines and voice-mail. There is also a VCR, CD player and computer power supplies and connections.

For those off-duty moments, occupants can enjoy a 35' by16' swimming pool set aside for the exclusive use of the occupants of the hotel's all-suite sixth floor.

One of the most romantic suites on offer anywhere in the world has to be *The Guiness Suite* at the Hotel Cipriani in Venice. Chandeliers of local Murano glass, a marble bathroom and Jacuzzi make a perfect setting for a romantic interlude.

The Guiness Suite "B" has some hidden surprises — a spiral staircase leads from the suite to a roof-terrace offering breathtaking views of Venice's famous lagoon and St. Mark's Basin, while a second private passage allows guests direct access to the hotel's Olympic-sized swimming pool.

A full American breakfast is included in the equally spectacular price of Lira 7,400,000.

Views are something of a must for VIP suites. The two *Penthouse Suites* at the legendary Mount Nelson in Cape Town would be hard to beat, on this score. Their private terraces enjoy magnificent vistas taking in Cape Town's most famous landmarks — Devil's Peak, Table Mountain and Signal Hill.

The suites are available as two or three bedroom accommodation and have a kitchenette for in-room dining and entertaining. To put the icing on the cake, or rather the goosedown on the bed, guests are offered a choice of pillow types.

Prices for a Penthouse suite start from R6,585.00 per room per night on a room only basis.

The land down-under isn't one to stint on luxury bolt-holes either. The *Observatory Suite* at Sydney's Observatory Hotel has a magnificent four-poster bed, *en suite* bathroom with wall to wall marble and, in the sitting room, sumptuous sofas and armchairs clustered around a white marble antique fireplace. It also boasts a mahogany dining table with Queen Anne chairs guaranteed to impress guests, friends and acquaintances, and send the message that anyone staying here has really arrived.

Discerning guests can expect to layout at least Aus$2,000.

Reids Palace in Madeira is something of an elder statesman in the hotel world. It was here that Churchill laboured over his memoirs. The suite used by the great man is named after him and is the last word in Madeiran luxury.

Churchill memorabilia is off-set by Chinese wallpaper and embroidered silk curtains. Latter-day statesmen pondering their memoirs or anyone with a spare Esc320,000 in their pocket, can enjoy the dramatic views of the Atlantic Ocean crashing below the cliffs from the suite's private terrace.

Churchill didn't confine himself to Madeira of course, he was a travelling man and made his mark on many a hotel not least La Mamounia in Marrakech. Morocco's best known hotel has also named its top suite after him and filled it with the kind of furniture he would have favoured, including a regency desk, and mementos of his time in Morocco, In one corner stands Churchill's easel with an unfinished painting of the Mamounia gardens that he loved to paint.

Overlooking the Place de la Concorde, just a stone's throw from the Champs Elysees and Paris's most exclusive shops, the Hotel de Crillon's, *Grand Bernstein Suite* is a top class stunner. Situated on the building's fifth floor, the suite's 1,400 square-foot terrace offers some of the best views anywhere in the French capital.

Inside, the suite doesn't disappoint either. State-of-the-art technology controls the air-conditioning, lights and multi-media accessories in each room. Recently redesigned by Sybille de Margeries, furnishings and décor borrow heavily from the 17th and 18th Century.

There are four poster beds, marvellous *'trompe-l'oeil* ceilings, sculptured wood-panelling and richly coloured fabrics. There is a sauna, a jet-tub and even a private bar with cigar humidor. A snip at FF80,000 a night.

Rocco Forte, son of the legendary hotelier Sir Charles Forte, knows a thing or two about luxury hospitality, so it's not surprising that his rapidly growing new hotel group RF Hotels boasts a string of outstanding suites. The exquisite interiors are all decorated under the discerning and elegant eye of Rocco Forte's sister Olga Polizzi.

At RF Hotels' The Balmoral in Edinburgh, *The Scene & Crombie Suite* represents 145 square metres of sheer luxury. In Manchester, Olga Polizzi has created the Charles Forte Suite at the brand new Lowry Hotel for the city's visiting VIPs. Combining the latest technology with traditional elegance, the suite's living room boasts a plasma screen television and a Grand Piano.

In Rome, the Hotel de Russie has two top of the range suites — *The Popolo Suite* overlooking the Piazza del Popolo and the *Picasso Suite* with a view of tranquil gardens and fountains. At the Hotel Savoy in Florence, the Polizzi magic is again at work in the less than romantically named *Repubblica Suite* while at the newly refurbished Astoria in St Petersburg, overlooking St Isaac's Square the two bedroom Presidential suites are setting a new benchmark for luxury in Russia's most sophisticated city.

Next to come on-line will be RF's Hotel Amigo in Brussels which promises to capture the imagination of even the most jaded Eurocrat.

In demand and in the news is Dubai's magnificent Burj Al Arab all-suite hotel. Set on its own man-made island, lying some 280 metres off-shore, it represents the ultimate haven for the super-rich. All the suites are magnificent and enjoy a dedicated butler service. Azul Bahia granite has been imported from Brazil, Stycharario marble from Carrara of the type favoured by Michaelangelo, and rare Sicis glass from Northem Italy. No expense has been spared.

The Royal and Presidential suites are even more spectacular — resembling sumptuous mini-palaces. Rotating beds, private cinemas and dressing rooms larger than the average hotel room are just a few of the extras guests enjoy. The Burj Al Arab, with its distinctive sail-like design has set the course for top of the world hospitality. Set seemingly adrift in the Arabian Gulf, this stunning development has spectacularly thrown down a challenge to hotel operators around world to top this if they can. AN

The Hotel Cipriani in Venice, Italy

A luxury suite at the Mount Nelson Hotel in Cape Town, South Africa

International Auditing Practices Committee

Both the Malaysian Institute of Accountants (MIA) and the Malaysian Institute of Certified Public Accountants (MICPA) were honoured to be given the privilege to jointly host the International Auditing Practices Committee (IAPC) meeting in the city from 3-8 March 2002.

IAPC is a standing committee of the International Federation of Accountants (IFAC), and works to improve the degree of uniformity of auditing practices and related services throughout the world by issuing pronouncements on a variety of audit and attest functions and promoting their acceptance worldwide. Both MIA and MICPA are member bodies of IFAC.

The IAPC's 14 voting members include Malaysia's Sukanta Dutt, a partner with Ernst & Young and a Council Member of MICPA, who has served as a member since mid-2000. Other voting members are from Australia, Brazil, Canada, China, Denmark, Germany, Japan, Mexico, the Netherlands, Spain, South Africa, the UK and the US. Technical advisors and IAPC staff were also present.

Items discussed on the agenda during the meeting were Quality Control, e-Business, Group Audits, Fair Values, Audit Risk and Fraud.

A welcome dinner was hosted for the foreign delegates and their spouses as part of the week's events organised for IAPC. The dinner was held at the Saloma Bistro and Theatre Restaurant on Monday, 4 March 2002. It was indeed a great honour to the accountancy profession to have YBhg Dato' Mohd Azlan Hashim, Executive Chairman of the Kuala Lumpur Stock Exchange grace the function. His presence

From right ... MIA Council member, Beh Tok Koay and President, Abdul Samad Alias receiving the delegates at Saloma Bistro

From left ... Dietz Martin, Abdul Samad and YBhg Dato' Mohd Azlan Hashim

MICPA's Executive Director, Tan Shook Kheng (left) exchanging pleasantries with two of the IAPC delegates

Bamboo Dancing ... MIA's Executive Director, Ho Kong Moi (second from right) confidently placing her right foot between the bamboo poles. Partially hidden is MIA Council member Manjeet Singh

From left ... Oh Chong Peng, former MICPA President; Datuk Dr. Hadenan Abdul Jalil, Auditor-General; Abdul Rahim Abdul Hamid, MIA Council member and YM Raja Datuk Arshad Raja Tun Uda, Chairman of MASB

(IAPC) Meeting in Kuala Lumpur

not only added to the significance of the event but also demonstrated Malaysia's support for the objective of the IAPC to improve the standards and quality of auditing practices throughout the world.

In conjunction with the meeting, MIA and MICPA also organised a seminar for the local profession to update members on current developments in auditing and reporting. The seminar titled *New Developments and Update on International Standards on Auditing* was held on Thursday, 7 March 2002 at Hotel Nikko and was attended by over 150 participants.

Of course, it was not all serious stuff and to make our foreign delegates' stay in Malaysia a memorable one, a tour of the historical town of Melaka was organised. Delegates had a glimpse of the rich influence of the Dutch and Portuguese and a taste of *Peranakan* cuisine which marries the best of local Malay delicacies with the flavours of Chinese cuisine and a dash of fiery Portuguese influence.

Abdul Samad (left) presenting a memento to Dietz Martin. Looking on is Vicky from MICPA

Looking good ... From left : Susan Dutt, Sukanta Dutt and Yeo Tek Ling

Not for the faint hearted ... the Saloma Dancers mesmerising the audience with their routine performance

Sporting chaps ... from left : Dietz Marting, Chairman of the IAPC and Lam Kee Soon, MIA Council member giving the Bamboo Dance a try

Guest of honour, YBhg Dato' Mohd Azlan Hashim (centre) being greeted by MIA Council member Dato' Syed Amin AlJeffri

The IPAC delegates at a Peranakan restaurant in Melaka

73RD AND FINAL INTERNATIONAL AUDITING PRACTICES COMMITTEE MEETING

The 73rd and final International Auditing Practices Committee (IAPC) meeting was held in Kuala Lumpur from 3 - 8 March 2002. (IAPC has been renamed the International Auditing and Assurance Standards Board). The meeting was hosted by the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants.

Discussions focused on the development and revisions of guidance in many areas, including the following :

- **Quality Control** — discussion focused on the development of quality control standards as a separate set of standards. It was agreed that the illustrative examples of quality control procedures should be removed to the current standard.
- **Fraud** — the Committee was introduced to the exposure draft of the new US standards on fraud. IAPC is to submit a comment letter to the AICPA if changes are deemed necessary to take the international environment into account.
- **Audit Risks** — discussion focused on the changes to the audit approach as well as the inclusion of extended description of internal control and governance mechanism in the standard. The draft standard is divided into three documents — *Assessing the Risk of Misstatement, Audit Procedures and Evidence.*
- **Auditing Fair Value Measurements and Disclosures** — the Committee agreed with the sub committee's decision that the document should be issued as a separate standard and not a practice statement supporting *ISA 540 — Auditing of Accounting Estimates.*
- **Moderate Assurance** — it was decided that the documents should be drafted in terms of the practitioner obtaining assurance and providing a report on the work carried out.

Among the standards that will be considered for revisions are ISA 230 "Documentation", ISA 610 "Considering the Work of Internal Auditing", ISA 920 "Engagements to Perform Agreed Upon Procedures" and IAPS 1000 "Inter-Bank Confirmation Procedures".

IAPC also discussed the progress of the Group Audits project and the comments of the Consultative Advisory Group. The proposed scope of the standard is still being debated. AN

Cambodia Keen to Learn from MIA

MIA's knowledge and expertise sought to help develop accountancy profession in Cambodia

The Malaysian Institute of Accountants' (MIA) experience in developing and regulating the accountancy profession in the country has caught the attention of Cambodia. His Excellency Ngy Tayi, the Under-secretary of the State Chairman of the Cambodian Accounting System Reform Ministry of Economy and Finance, has approached MIA to explore the possibility of getting the Institute's assistance in developing the profession in that country. Tayi who led a five member delegation to Malaysia called on the Institute on 12 March 2002. He was received by MIA's president, Abdul Samad Haji Alias; Vice-President, Albert Wong; Council members, Abdul Rahim Abdul Hamid and Lam Kee Soon; and Executive Director, Ho Foong Moi.

One for the album ... (L-R) Ghanty Sam, Nguon Socheat, Cambodian official (1), H.E. Ngy Tayi, Cambodian official (2), Abdul Samad Haji Alias, Albert Wong, Abdul Rahim Abdul Hamid, Lam Kee Soon, Ho Foong Moi and Shobini Mahendra

MIA officials together with the Cambodian delegation during the meeting

Tayi said the accountancy profession is one of the areas identified by Cambodia in its move to develop various strategic areas in its economy in light of the current shift towards globalisation. He said Cambodia is keen to tap into MIA's experience and expertise in this area and hopes to foster mutual co-operation, which will be the impetus to develop a long term relationship between the two nations. "We strongly believe our relationship will expand and strengthen through this co-operation", said Tayi

"The intensification of globalisation has geared us towards reconfiguring our accounting method for a well accepted and standardised system", said Tayi. Currently, Cambodia is believed to follow the French accounting system, which is not consistent with the rest of the Asean countries. Furthermore, there is no designated body similar to MIA to monitor and regulate the profession in that country. In this respect, Tayi, is seeking MIA's expertise to set up a regulatory body similar to the Institute. "We can acquire valuable knowledge which can then be shared with our people. We hope to develop a good accountancy framework which can be a key element in developing Cambodia's economy and business opportunity," he said.

Closer Relationship ... MIA President, Abdul Samad Haji Alias receiving a momento from H.E Ngy Tayi

During the meeting, the Cambodian delegation was briefed on the accounting and auditing practises in Malaysia as well as the role of the Institute as the regulatory body. Abdul Samad affirmed the Institute's commitment to the spirit of Asean friendship and co-operation. He said MIA would be happy to assist and lend support to its Cambodian counterparts in their mission to develop a strong and well-organised accounting framework, through a broad-based, multifaceted and mutually advantageous arrangement. Among the possible areas identified by both parties are in training and education where Cambodian students can either be offered places at Malaysian institutions of higher learning or undergo training at the Institute. AN

MIA PENANG BRANCH

Penang CPE Sub-Committee

The MIA Penang Branch Committee supported by its proactive Continuing Professional Education (CPE) Sub-Committee has lined up a series of evening talks to supplement the programmes organised by the Head Office's CPE Department in meeting the many and varied needs of members in the region. For registration and enquiries on the evening talks, please call the branch staff at 04-229 4203 or e-mail mianb@po.jaring.my.

MIA Penang CPE Team: Ng Swee Weng (Chairman), Danny Tan Boon Wooi, David Hor Kwai Keong, Prof. Madya Dr. Hasnah Haron, Low Hun Seng, Ooi Foo Kim, Oon Hooi Khee, Tan Leong Theng, Steven Teh Eng Hin (ex-officio).

CALENDAR OF EVENING TALKS

Date	Topic	Honorary Speaker	Venue
March 21	MASB 25 : Income Taxes	Ng Swee Weng Partner, KPMG	Disted Stamford College (Top floor)
April 4	Venture Capital	Chok Kwee Bee, Executive Director BI Walden Management Sdn Bhd	MIA Penang Office
April 18	An Overview: Fund Raising From The Debt Capital Market and Private Debt Securities	Michael Ng, Associate Director Debt Capital Market Arab-Malaysian Merchant Bank Bhd	MIA Penang Office
May 2	Discussion on Management In The 21st Century	Yap Soon Hin, Managing Partner Horwath Teoh Yap	MIA Penang Office
May 16	Fair Value Accounting	Danny Tan Boon Wooi, Partner DTF Consulting	Disted Stamford College (Top floor)
June 20	MASB 27: Borrowing Costs	Executive Director or Manager PricewaterhouseCoopers	Disted Stamford College (Top floor)

Reinforcing Ties Between MIA and IRB Penang Branch

The Malaysian Institute of Accountants (MIA) Penang Branch led by its Chairman, Steven Teh paid a courtesy call on the recently appointed Head of the Inland Revenue Board (IRB) Penang, Wong Poh Lam. During the meeting, Wong spoke on the challenges ahead in the self-assessment regime and the need for closer cooperation between IRB officers and tax professionals. He said closer cooperation was necessary to create greater awareness on tax audit and proper record-keeping especially to the non-corporate sector for mutual benefits and for the betterment of the nation.

The Branch Committee members also met Latifon Panjang Ahmad who recently assumed the office of Deputy IRB Branch Head. She graciously accepted MIA's invitation to sit on the Penang MIA Branch Taxation sub-committee chaired by Fan Kah Seong.

Fostering closer rapport (L-R) ... Richard Oon; Fan Kah Seong; Retnasamy, IRB Public Relations Officer; Andy Chew; Wong Poh Lam, IRB Branch Head; Albert Yeoh; Puan Latifon, IRB Deputy Branch Head; Prem and Steven Teh

Evening of Contests

The Malaysian Institute of Accountants (MIA) Northern Branch Toastmasters Club held its 3rd In-house International Speech Contest and Table Topic Contest on 28 February at the MIA Penang office.

Lee Min On articulated on the importance and relevance of risk management in our daily lives besides the business and corporate sector, in his speech entitled "Risk Management — Buzzword of the Wise". He won the International Speech Challenge Trophy sponsored by Neoh Chin Wah, past council member of the Institute.

Meanwhile, Chan Choung Yau was adjudged the Champion in his two minutes impromptu response to the table topic, "One Man's Meat is Another Man's Poison".

Both winners will proceed to represent the Club in the N5 Area Contest. Some of the audience who were present at previous years' contests commented that the standard of the contestants have improved — a testimony of Toastmasters training!

The MIA (Northern Branch) Toastmasters Club welcomes all MIA members, accountancy graduates and students. It meets every 2nd and 4th Thursday at the MIA Penang office (behind Citibank) from 8 p.m. to 10 p.m. on the 1st Floor, Menara Penang Garden, 42A Jalan Sultan Ahmad Shah, Penang. Free admission for guests.

The winners ... Lee Min On (4th from left) and Chan Choung Yau (5th from left) with some of the contestants

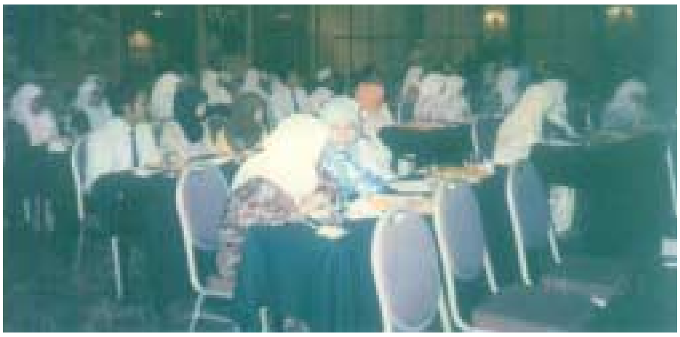
MIA MELAKA BRANCH

Seminar on Taxation and Prospects of the Accountancy Profession in the Future

MIA Melaka Branch kicked off its year 2002 activities by organising a joint tax seminar with Kolej Islam Melaka (KIM). The seminar which also touched on the future prospects of the accountancy profession drew over 100 participants from KIM, Kolej Matrikulasi Melaka, Royal Custom and Excise Department, and other government departments.

The seminar was officiated by Dato' Ahmad bin Hamzah, the

Sitting from L-R ... Prof. Dato' Dr. Yusuf bin Hashim, Rector of Kolej Islam Melaka; YB Datuk Haji Ahmad Hamzah, Chairman of State Committee in Industrial Development, Science and Technology; Lee Hin Kan, Chairman of MIA Melaka Branch; Baharudin bin Mohd. Yusuf, Treasurer of KIM and Abdul Rahman bin Karim, Registrar of KIM having a brief discussion after the opening ceremony of the seminar



Some of the participants at the seminar

(pix left) Mohd Arif Yuss, Vice-Chairman, Public Practice, Tax, Company Law, Insolvency and Internal Audit Sub-Committee attending to questions by participants. Next to him is Piong Yew Peng, Vice-Chairman, Education and Membership Sub-Committee

Melaka State Committee Chairman for Industry, Science and Technology. KIM's Rector, Dato' Professor Dr. Mohd Yusuf Hashim thanked the MIA Melaka Branch for the collaboration and indicated that KIM would like to invite MIA for future events and also encouraged his students and staff to participate in programmes organised by MIA.

MIA Melaka Vice-Chairman, Abd Halim Husin spoke on the *Future Prospects of the Accountancy Profession* while Piong Yew Peng (Vice-Chairman of Education and Membership Sub Committee) and Arif bin Yusa (Vice Chairman of Public Practice and Tax Sub-Committee) acted as panellists during the seminar. Ramadas (IRB Melaka Head of Company) and Puan Norazah (IRB Melaka Public Relations Officer) spoke on the Self-Assessment System and Current Year Assessment System. AN

Abd Halim Husin, Vice Chairman of MIA Melaka Branch presenting his topic

Forum on Opportunities for MIA Members to Develop New Practice Area

The Melaka Branch Committee organised a member forum, on 20 February 2002 at the City Bayview Hotel, to explore the various practice areas which MIA members may branch into to provide value-added services to their clients.

One of the possible practice areas which the MIA Melaka Branch brought to members attention is the area of Financial Planning. In this fast evolving commercial world, the demand for consultants providing comprehensive and integrated consultation in respect of wealth accumulation and preservation, investment, insurance, taxation, and retirement and estate planning for individuals is increasing at a phenomenal rate. These consultants should possess a broad knowledge-base in personal finance topics such as investment, insurance, taxation, estate and retirement planning, among others, and are commonly referred to as Financial Planners. In the not too distant future, single need providers such as insurance agents, unit trust agents, etc. will be obsolete and the personal financial planning market could be dominated by Financial Planners. Financial Planning presents an attractive area for public accounting practitioners to diversify into due to the following factors :

- The accounting practice already possesses an existing pool of clients for the public practitioner to market his/her financial planning service and add value to the clients

- The public practitioner should be knowledgeable in areas such as investments, taxation and other financial and commercial matters. There-

Some of the more than 60 participants listening to the explanations given on CFP programmes during the seminar

Patrick Wong, Chairman of Public Practice, Taxation, Company Law, Insolvency and Internal Audit Sub-Committee gave the opening speech. Next to him is Lee Hin Kan, Melaka Branch Chairman fore, diversifying into Financial Planning should not present a major difficulty.

- Financial Planning also provides an opportunity for non-practitioners to venture into this specialised field.

For the benefit of MIA members in Melaka, the Melaka branch committee has invited several full-time practitioners in Financial Planning from Kuala Lumpur possessing the CFP qualification to brief them on the demands and prospects of this specialisation.

Patrick Wong, Chairman of the Public Practice, Tax, Company Law, Insolvency and Internal Audit Sub Committee, chaired the session and Roland Lee, CFP presented at the seminar, which attracted more than 60 participants.

Lee Hin Kan, MIA Melaka Branch Chairman congratulated the Public Practice, Tax, Company Law, Insolvency And Internal Audit Sub-Committee for organising the seminar and mentioned during the opening speech that more seminars, forums, evening talks and other activities will be organised under various sub-committees in the future for the benefit of the Branch members. AN

Roland Lee, CFP explaining the advantages of the CFP conversion programme to participants

Courtesy Calls by Sabah Members

The Sabah Branch Committee led by Chairperson, Alexandra Thien called on the Vice-Chancellor of UMS, Mayor of DBKK and the Sabah Chief Minister recently. The main objective of these calls was to introduce the Sabah representatives of MIA, the national accountancy body to the educators, ministry and authority and to discuss ways that the Sabah Branch can work together.

Prof. Datuk Seri Panglima Dr Abu Hassan Othman, Vice-Chancellor of UMS, proudly introduced the RMI.2 billion world class university to the Sabah Branch Committee. Present at the meeting were Hela Ladin M. Dahalan, Registrar of UMS, Assoc. Prof. Dr. Syed Azizi Wafa, Dean School of Business & Economics and Rasid Hj Mail, Deputy Dean of School of Business & Economics. UMS aims to produce the first batch of accounting students in 2002. The Sabah Branch agreed among other issues, to assist in co-ordinating industrial training for UMS students in public practice before graduation.

Kota Kinabalu Mayor, Kol. Datuk Hj Abd. Ghani bin Hj Abd. Rashid agreed totally that the public should be aware that only qualified accountants can provide professional services like auditing, book-keeping and tax consultancy. He said he will look into the matter of the issuance of trade licences by the City Hall to those who are not qualified. Datuk also welcomed accountants to serve on his working committee of the City Hall. AN

Alexandra Thien presenting a MIA plaque to YAB Datuk Chong Kah Kiat

Kol. Datuk Hj. Abd. Ghani bin Hj. Abd. Rashid receiving a memento from Alexandra Thien

Sabah Branch Committee members in the UMS Conference room

Snakes & Ladders, Anyone?

Sabah members and their families relaxed for fun and board games at the branch office in Kota Kinabalu. Participants revealed their childish streak as they tried their luck at Snakes & Ladders with their wild screams of despair when they landed on the wrong square. More serious members challenged each other in a game of Chinese Chess while others showed off their finger skills at Carrom. Branch Chairperson, Alexandra Thien was pleased with the turnout on the first meet and on presenting prizes to the winners, emphasised the importance of fellowship and interaction among members. She hoped the Sports and Social Committee will maintain this activity on a regular basis and encouraged others to join in. AN

Chang Yu Chuk (Committee Member, seated right) and Chung Chui Kin (Member, seated left) engaged in deep concentration at Chinese Chess

Snakes & Ladders in progress

Ahmed Farouk (member) being challenged by Philip Yong (Sports and Social Chairman)

Lutong Under Privileged Students Get MIA Assistance

Yong Nyet Yun and Tan Siew Bee spearheaded the challenge of *Accountants Care Too* campaign in Miri. Forty-seven less privileged pupils of Lutong Chung Hua received school uniforms, books and stationery worth RM5,000 donated by the 12 Miri Chapter Committee Members. Headmaster, Wong Sing Cheng said each recipient was recommended by the school and was screened before being accepted into the MIA K2 programme. He reminded the pupils that being poor should not be a stumbling block for them to pursue an education and the fact that accountants care and think of their hardship should prompt them to strive for excellence. AN

Seated with the 47 pupils, principal and teacher (3rd row L-R) are Committee members Christopher Sim, Tan Siew Bee, Andy Chia, Wong Sing Cheng, Yong Nyet Yun and Sim Yong Liang

Xmas and Hari Raya Gifts for Sarawak General Hospital

More than 150 soft toys were donated by members and friends to support the continuing *Accountants Care Too* project of the Sarawak Branch Social Sub-Committee. A little bit of joy was shared with all the children warded in the Sarawak General Hospital on 22 December in conjunction with the Christmas and Hari Raya festivities and celebrations. Branch Chairman, David Tiang was particularly pleased with the good response and contributed its success to the hard work of the Branch Committee and Sub-Committee who went all out to solicit for and collect the 150 toys, then wrap, carry and distribute the 150 toys. It was rewarding to see the appreciation from patients and parents alike, and one of them even sang *kuch kuch hota hai* and was rewarded with a second present. AN

Collection from one of the many donors, Arther Anderson & Co represented by Peter Chin (L) and Farehan Hussin (R)

Teo Kin Mia and Charles Lee wrapping toys in the MIA office

A big welcome by sisters and nurses at the hospital

A child patient stretches out both hands eagerly to get his present from Thomas Law

Clapping to the Kuch Kuch Hota Hai sing-a-long

A job well done says David Tiang to Vivianna Law and Connie Edwards, both members of the Social Sub-Committee

New and Old(er) Members

The first activity for the Year of the Horse in Sarawak was the annual CNY fellowship gathering at the Kuching Office. The Sarawak Branch welcomed new and older members during the fellowship where members were invited to the first presentation of new CA certificates and new Practicing certificates. One of Sarawak's most senior members, Tiong Mee King was present

New member, Huong Hie Hee receiving her certificate

Tiong Mee King (Member) stands proud with David Tiang

at the ceremony to receive his new CA certificate from Sarawak Branch Chairman, David Tiang. AN

Group photo of members and committee at the Kuching Office ... (Seated L-R) Salty Hii, Jenny Lau, Huong Hie Hee, Tiong Mee King, Aini Yusoff and Lim Cho Seng (Standing L-R) Bernard Foo, Wong Joo Hua, Chin Chee Kang, Charles Chin , Si Kiang Seng, David Tiang, Yeo Ah Tee, Richard Kiew, Chei Jee Kong, Mark Kueh and David Lau

Bintulu Chapter Does MIA Proud

Since the formation of the Bintulu Chapter in the Sarawak Branch barely two years ago, the Chapter Chairman and Committee Members have done much to promote the Institute and the role of accountants in this little coastal industrial community with 44 registered MIA members

In answer to the call for charity, the Bintulu Chapter continued with the *Accountants Care Too* campaign and donated school uniforms, bags and shoes to the needy students of SRK Sebiew Chinese.

Ngu Woo Hieng handing the donated items to representatives from SRK Sebiew Chinese

Ngu Woo Hieng, Bintulu Chapter Chairman put his committee to the challenge and they organised the first members dinner recently in a local restaurant which was attended by 100 members and guests. Guests at the dinner were David Tiang, Sarawak Branch Chairman and Abdul Halim bin Omar, IRB Bintulu. David Tiang was extremely pleased that he was able to attend the function. He nearly did not make it to Bintulu as it was raining that afternoon and all flights to Bintulu were delayed or cancelled. MIA members waited patiently for more than an hour for the talk by

Members with Committee and guests at the Bintulu Chapter dinner

the Sarawak Branch Manager on the Revised MIA By Laws. With the venue literally next door to the Bintulu airport, members were relieved to hear the sound of the airplane landing to confirm the arrival of the Branch Chairman and Branch Manager.

Members and family were thrilled with the number of sponsored prizes for the lucky draws and table draws. Dinner Organising Chairman and Master of Ceremonies, Chieng Eu Hea, encouraged members to participate in a acting memory game and a colour memory game. MIA member, Tang Lang Ngie and colleague Lisa Loi from ABC Construction Sdn Bhd entertained participants with a popular Chinese song. AN

David Tiang congratulating lucky member, Hilda Jerman

Appreciation to AbduI Halim bin Omar by Ngu Woo Hieng (L) witnessed by David Tiang

CIMA

CIMA President Visits Malaysia

CIMA Malaysia Division recently played host to its President, Bruce Epsley, from the UK, who was on a working visit to Malaysia from 22-28 February. He was accompanied by Sonia South, Personal Assistant to the Director of Corporate Development.

Epsley's meetings with members, students, college/university representatives and key employers in Kuala Lumpur and Penang will prove useful in formulating strategies to meet the market demand for the CIMA qualification in the international arena. In a move to make the CIMA examination more flexible, computer based assessment (CBA) was introduced to students in Malaysia following the launch of the CBA Centre by Epsley at the CIMA office in Petaling Jaya. Based on the feedback received, students, college representatives and employers welcomed the introduction of CBA as a means of completing the Foundation level of the CIMA examination in a much shorter time and thereby fast-tracking to the Intermediate level.

During the dinner cum dialogue with CIMA members, Epsley took the opportunity to present an award to Chan Li Yee who obtained the highest marks worldwide in the Financial Reporting (UK Standards) paper in the November 2001 examination.

Courtesy visit to the Deputy Finance Minister ... (L-R) Lim Eng Seng, FCMA; Yeo Tek Ling, ACMA; Sopiah Suid; YB Dato' Chan Kong Choy, DSAP DPMS; Bruce Epsley, FCMA ATII and Tuan Haji Muztaza Mohamad, FCMA

Other highlights of the Presidential visit included courtesy calls on Puan Siti Maslamah Osman FCMA (Accountant-General of Malaysia), YB Dato' Chan Kong Choy (Deputy Finance Minister) and YB Tan Sri Dr Koh Tsu Koon (Chief Minister of Penang). On the last day of his visit, Epsley hosted a lunch at Carcosa Seri Negara for the Presidents of the various professional bodies. AN

CIMA Implements Computer-Based Assessment

The Chartered Institute of Management Accountants (CIMA) has again met the needs of employers and students alike in its usual innovative style, this time by becoming the first accountancy body to implement web facilitated computer-based assessment (CBA) as part of its professional qualification — a highly accessible and flexible means of examination.

CBA allows students to access exams at permanently established venues, meaning that students, when they are ready to sit for the assessment, do not have to wait for the traditional twice-yearly paper-based exams. The CBA Centre in Malaysia, housed at the CIMA Divisional office

Bruce Epsley (left), President of CIMA launching the CIMA Computer-Based Assessment Centre in Petaling Jaya, was launched on 25 February 2002 by Bruce Epsley, President of CIMA, who was on a 5-day visit from the UK.

The CBA is an alternative route to taking CIMA's paper-based examination at the *Foundation level*. The CIMA qualification comprises three levels of study — Foundation, Intermediate and Final. Students have a choice of taking the CBA at any day during the working week or sitting for the traditional exam held in May and November. The cost is the same for CBA or the paper-based exam. If successful with CBA, students can then proceed to the Intermediate level of the examination. To sign up for CBA, a CIMA student only needs to call the CBA centre and fix a suitable date and time to sit for any Foundation level paper.

Students will receive their CBA results immediately. They will also get an 'on-the-spot' percentage breakdown of how well they did in each particular segment of their assessment. If they fail, they can address any weaknesses and re-sit as soon as they consider they are ready.

A fully functional CBA software demonstration, based on selected questions from the May 2001 examinations, is available on the CIMA website at www.cimaglobal.com/cba. Students wishing to sit for the CBA are advised to familiarise themselves with the software, its screens and navigation tools, before undertaking formal live assessments.

The CBA system was piloted successfully in the UK and Sri Lanka and may soon prove popular with Malaysian students who wish to complete their professional education in a shorter time. CIMA plans to extend this facility to other colleges teaching the CIMA programme.

Find further information on CBA at : www.cimaglobal.com/cba AN

CIMA Signs MOU With Systematic Penang

The Chartered Institute of Management Accountants (CIMA) recently signed a Memorandum of Understanding with Systematic Business Training Centre of Penang to provide a CIMA Pre-requisite Programme for SPM school leavers who seek to qualify as Chartered Management Accountants.

Comprising of four papers, the 6-month CIMA Pre-requisite programme offered by Systematic Penang will prepare SPM school leavers for higher level professional studies. Upon completion of the CIMA Pre-requisite Programme students can further their studies by pursuing the Foundation, Intermediate and Final levels of the CIMA examination. Alternatively, they can choose to do the Year 1 and Year 2 of the Systematic Advanced Diploma in Accounting and Finance (SADA) programme. Students who pass all the Year 1 and Year 2 SADA exams will gain direct entry to the Final level of the CIMA examination. Under the MOU, Systematic Penang and CIMA will also jointly organise workshops and other activities to promote the CIMA qualification. AN

Pak Mei Yoke (Principal of Systematic Penang) exchanges the signed MOU with Sopiah Suid (Divisional Director of CIMA)

List of New Books, Conference Papers and Working Papers Available in the MIA Resource Centre

GAAP 2001 : A Survey of National Accounting Rules Benchmarked against International Accounting Standards, edited by Christopher W. Nobes, London : Andersen, BDO, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG, PricewaterhouseCoopers, 2001.
Call No. : 657.0218 GAA

Introducing GAAP 2001 : A Survey of National Accounting Rules Benchmarked against International Accounting Standards, edited by Christopher W. Nobes, London : Andersen, BDO, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG, PricewaterhouseCoopers, 2001.
Call No. : 657.0218 GAA

Wonderful Malaysia Berhad Annual Report 2001 : Incorporating Illustrative Financial Statements, Kuala Lumpur : KPMG, 2001.
Call No. : 657.3 WON

Statement on Auditing Standards No. 610 (Revised) : Communication of Audit Matters to Those Charged with Governance, London : The Auditing Practices Board, June 2001.
Call No. : 657.45 COM

Practice Note No. 22 : The Auditors' Consideration of FRS 17 'Retirement Benefits' — Defined Benefit Schemes, London : The Auditing Practices Board, June 2001.
Call No. : 657.33 AUD

International Auditing Practices Statement 1004 : The Relationship between Banking Su-

pervisors and Banks' External Auditors, New York : International Federation of Accountants, December 2001.
Call No. : 657. 833 INT

International Auditing Practices Statement 1006 : Audit of the Financial Statements of Banks, New York : International Federation of Accountants, International Auditing Practices Committee, December 2001.
Call No. : 657. 833 INT

IFAC Code of Ethics for Professional Accountants, New York : International Federation of Accountants, Ethics Committee, November 2001.
Call No. : 657 INT

Discussion Paper : Anti-Money Laundering, New York : International Federation of Accountants, January 2002
Call No. : 364.168 INT

CFO 2010 : The Role of the Chief Financial Officer in 2010, New York : International Federation of Accountants, Financial and Management Accounting Committee, December 2001.
Call No. : 657. 834 INT

Articles of Merit : 2001 Competition, FMAC Articles of Merit Award Program for Distinguished Contribution to Management Accounting, New York : International Federation of Accountants, Financial and Management Accounting Committee, November 2001.
Call No. : 658. 1511 INT

MASB Standard 25 : Income Taxes, Kuala Lumpur : Malaysian Accounting Standards Board, 2001.
Call No. : MASB 25/2001

MASB Standard 26 : Interim Financial Reporting, Kuala Lumpur : Malaysian Accounting Standards Board, 2001.
Call No. : MASB 26/2001

MASB Standard 27 : Borrowing Costs, Kuala Lumpur : Malaysian Accounting Standards Board, 2001.
Call No. : MASB 27/2001

MASB Standard i-1 : Presentation of Financial Statements of Islamic Financial Institutions, Kuala Lumpur : Malaysian Accounting Standards Board, 2001.
Call No. : MASB i-1/2001

Piawaian MASB 7 : Kontrak Pembinaan, Kuala Lumpur : Malaysian Accounting Standards Board, 2001.
Call No. : MASB 7/99 (BM)

Findings of the Field Trials of the Independent Professional Review : A Research Study Prepared by the Auditing Practices Board, London : The Auditing Practices Board, November 2001.
Call No. : 657. 45 AUD

Malaysia Industry, Investment, Trade and Productivity Performance : Third Quarter 2001, Kuala Lumpur : Ministry of International Trade and Industry, 2001.
Call No. : 332.609595 MAL

AUDIT EXEMPTION FOR PRIVATE LIMITED COMPANIES

By Nor Azimah Abdul Aziz

Introduction

The question of whether small private limited companies should be subject to the same audit requirement as the larger companies has been increasingly raised especially in view of the rapid change in other jurisdictions such as the UK and Australia which have adopted the audit exemption policy.

The above issue had also been raised in a dialogue between MIA's Penang Branch and the Registrar of Companies held in Penang sometime last year on the initiative for company law reform, where the Registrar did not deny that, the issue of audit exemption for small private companies and dormant companies is one of the areas under review.

This paper attempts to explain our present audit requirement under the Companies Act, 1965, view the legal framework in other jurisdictions in respect of exemption of audit provisions, examine the various surveys conducted at the respective jurisdictions and finally submit an observation on this issue.

The Present Regulatory Requirement

Section 169(1) of the Companies Act, 1965 (the Act) requires the directors of every company to lay before the company at its annual general meeting (AGM) a duly audited profit and loss account and balance sheet made up to a date not more than six months before the date of the AGM.

The Act under Section 174(1) also requires an auditor to report to the members on the accounts which are required to be laid before the annual general meeting and on the company's accounting and other related records. While, Section 174(2) stipulates that the report must state the auditor's opinion on whether the accounts and any consolidated accounts of the company are properly drawn up :

- So as to give a true and fair view of the matters required by Section 169 to be dealt with in the accounts or any consolidated accounts (Section 174(2)(a)(i));
- In accordance with the provisions of the Act (Section 174(2)(a)(ii)); and
- In accordance with applicable approved accounting standards (Section 174(3)(a)(iii)).

Further to the above, Section 174(3) provides that an auditor has a duty to form an opinion as to each of the following matters :

- Whether the auditor has obtained all the information and explanations he required (Section 174(3)(a);
- Whether proper accounting and other records (including registers) have been kept by the company as required under the Act (Section 174(3)(b));
- Whether the returns received from the branch offices of the companies are adequate (Section 174(3)(c)); and
- Whether the procedures and methods used by a holding company or a subsidiary in arriving at the amount taken into any consolidated accounts were appropriate to the circumstances of the consolidation (Section 174(3)(d)).

Also, under Section 174(8) of the 1965 Act, the auditor has a duty to report to the Registrar in respect of other breaches of the Act by the company, and if the auditor is satisfied that the matter will not be adequately dealt with by comment in report or by merely bringing the matter to the notice of the directors.

The Position in Other Jurisdictions

United Kingdom

The audit exemption legislation came into effect on 11 August 1994[1]. A small company is entirely exempt from audit requirement if its turnover is not in excess of £90,000 and its balance sheet totals are not more than £1.4m. Larger companies will also be exempt if the directors ensure that a compilation report is prepared and they satisfy the following criteria :

- turnover in excess of £90,000 but not more than £350,000 (£250,000 for companies that are charities);
- gross assets of not more than £1.4m; and
- the company is not a public company, part of a group, or subject to a statute-based regulatory regime.

There is an overriding proviso that holders of 10 per cent or more of a company's issued share capital may require an audit, although they must notify the company at least one month prior to the year end.

The compilation report has to be prepared by a suitably qualified accountant; who need not be an auditor, but must be a member of one of the chartered institutes in the UK, who is entitled to engaged in public practice and is independent of the company.

In July 2000 the turnover threshold was increased from £350,000 to £1m. the Department of Trade and Industry (DTI) also announced that it intends to eventually raise the threshold to £4.8m. in line with the maximum threshold permitted under the European Union (EU) law.

United States of America

The situation in the US is unique, where there is no statutory audit requirement for all companies, regardless of size other than listed companies as the Securities & Exchange Commission (SEC) requires all listed companies to have their financial statements audited. Despite this, it is understood that most unlisted companies are audited because of the need for independent appraisal for the benefit of third parties like bankers and other creditors.

Australia

The Corporations Law, vests powers upon the Australian Securities Investments Commission (ASIC) to grant audit relief to companies "… where auditing would provide little benefit to the stakeholders or to the general public, to avoid the substantial costs associated with having their accounts audited"[2]. The exemption of audit will be given on a case to case basis, upon application by the directors of the respective company. The conditions (under ASIC's Policy Statement 115) for the above application includes :

i. The directors and shareholders of the company must pass unanimous resolutions that the company's financial report should not be audited (which must be passed within three months immediately before, or one month after the beginning of the financial year);

ii. Unqualified solvency statements that the company will be able to pay its debts as and when they become due and payable are required for every year ending on or after November 1996;

iii. The company's total liabilities must not exceed 70 per cent of its total assets, excluding intangibles. Where the entity is required to prepare consolidated financial statements, the same liability to assets ratio must not be exceeded in relation to those consolidated financial statements. Furthermore, the ratio must be satisfied at the end of each quarter during the relevant financial year, at the end of the relevant financial year and at the time the unanimous resolutions are made; and

iv. The financial report must be prepared by a prescribed accountant (as defined by ASIC).

The Value of Audit

The main justification put forward for audit exemption for small entities in the UK and Australia is that, it is generally assumed the present requirements place a burden on small entities which is not offset by the value gained by the users of the accounts. The other argument in support of the exemption of audit is that, for small entities the directors and shareholders are the same people and therefore the audit check on directors is seen as redundant.

However, careful consideration is needed in determining whether the above justifications could support the implementation of the audit relief regime into our legal system. The size and nature of the economies of these developed countries, the mature stage of their accounting and financial reporting, the long histories of accounting standard-setting and the long standing disclosure-based nature of their regulatory systems are factors that contribute to the adoption of the audit relief policy in those countries.

While in Malaysia, the position is on the contrary. Especially with the current newly developed regulatory framework which is just moving towards the full disclosure based regime and significant emphasis being given upon corporate governance issues, makes it difficult to find justification in implementing the audit exemption regime into our present legal framework.

In Singapore, the Institute of Certified Public Accountants of Singapore (ICPAS) conducted surveys in September and October 2000 sending them to the following member groups to gauge their viewpoints on the issue of audit exemption[3] :

- Members of the Association of Banks in Singapore;
- Members of the Association of Small & Medium Enterprises;
- Members of ICPAS in industry (not employed in audit firms);
- Practising members of ICPAS (auditors); and
- Members of ICPAS employed in audit firms.

The results of the above survey clearly indicate the value an audit adds to a set of financial statements. The responses received in the survey suggest that not only does the audit add credibility, it also increases the accuracy of the information provided to stakeholders, improves controls within the company, provides a channel for small and medium-sized companies to seek advice and assistance from their auditors, aids companies in the raising of

1 Andrew Cutter & Neil Marriot (1997), "The Impact of the Small Companies' Audit Exemption : Some New Evidence" *Journal of Applied Accounting Research*, Vol. IV, Issue 1, September.

2 "Audit Relief for Large Companies", *Australian Accountant*, August 1996.

3 ICPAS *Submission On Audit Exemption For Private Limited Companies — Incorporating Findings and Analysis of Survey Results*, December 2000.

finance and capital and acts as a deterrent against fraud. Further to the above, government agencies can rely on the independent review and thus, administrative costs to manage the information will be minimised.[4]

The findings of the above survey also does not support the argument that audit is a financial burden. The survey results show that typical audit fees are between 0.1 per cent and 0.5 per cent of a company's turnover. Savings from not having an audit in any one year may result in higher audit fees for the year when the company disqualifies itself by crossing the exemption thresholds, or when an audit is, requested by its business partners or lenders. This is so, as the absence of a history of audit increases the costs of an audit when required.[5]

The survey also highlighted that, in the absence of an audit, the Inland Revenue Authority of Singapore (IRAS) may incur additional enforcement costs to compensate for lack of audit and that tax revenues may even be compromised. The respondents also agreed on the following :

- Inadequate or poor financial management is a major contributor to company failure in private limited companies.
- Audit of financial statements inculcates honesty and integrity in a company's management and assurance of the quality of accounting information placed on public record.
- Consistency in financial reporting in published accounts from year to year and entity to entity can only be assured if financial statements are subject to audit.
- Statutory audits are necessary to enforce statutory obligations, which are placed on companies and their directors in exchange for limited liability protection.

Nevertheless, the majority of respondents agree that there is a need to exempt dormant companies from the audit requirement.[6]

A survey was conducted in the UK[7] which examined the value of an audit, based on a questionnaire survey of a representative sample of 385 directors of small companies which had a turnover between £0.5 m and £4.2 m, the latter being the upper level of EU's 1999 definition of a small company. A significant percentage (63 per cent) of these companies, who would be exempted if the turnover threshold were raised to £4.2m, said that they would continue to have their accounts audited. It is likely therefore, for these companies, the benefits of having an audit outweighs the cost. The survey also indicated the following findings :

i. that having an audit improved the quality of information contained in the statutory accounts and acts as a valuable check on internal books and records; and

ii. that audit is a factor that increases the usefulness of the accounts for companies that give a copy of the statutory accounts to the bank and other lenders, wherein banks are a major source of finance to small companies and key users of small company annual accounts in their assessment of the risk.

On the issue of costs savings, an earlier survey[8] by The Federation of Small Business has indicated that companies with turnover between £150,000 and £350,000 pay average audit fees of £565 plus average accountancy fees of £1250. This suggests that the abolition of mandatory audit will result only in moderate savings to small businesses.

Meanwhile, in Hong Kong, the proposal for audit exemption was rejected by its government due to the following reasons[9] :

1. There are many users of financial statements other than the shareholders.
2. The removal of the mandatory audit, coupled with the absence of minimum capital requirements would leave creditors with practically no protection.
3. The costs of audits cannot be considered in isolation. Naturally, there will be savings of audit fees if the audit requirement is removed but the savings will not be significant. If financial statements must comply with General Accepted Accounting Principles then professional accountants will be needed to assist in their preparation.
4. The Committee concluded that it is not right to leap from the fact of savings of some audit fees to the conclusion that there will be a net reduction in the cost of doing business because :

- As companies go back and forth from the audit system, the absence of a history of audit increases the costs of audit in the years when it is required;
- Similarly, the absence of a history of audit increases the costs of audit when the company needs to raise capital; and
- The enforcement costs of the Inland Revenue Department will be raised if it has to compensate for the audit.

Conclusion

In view of the above discussion it is submitted that the mandatory audit requirement for companies be retained, as can be seen from the surveys conducted in Singapore and the UK, the cost of audit is neither significant nor is it financially burdensome. It is an undisputed fact that audit requirement has an important role in corporate governance. Especially in our present corporate environment, after the outbreak of the Asian financial crisis in 1997, our corporate regulatory framework has been extensively developed with emphasis on strengthening the corporate governance provisions. Also, the recent move towards disclosure based regime to regain foreign investors' confidence makes it difficult to justify the adoption of the audit exemption policy.

The economic, business practice and corporate legal framework in this country are still being developed and still at its infancy stages. The experience in the developed countries may not be applicable in Malaysia. However, this is a preliminary paper on this issue, perhaps a further detailed study needs to be conducted or a survey similar to those done in the UK and ICPAS will be desirable in determining whether we should or should not adopt the exemption of audit regime into our present legal system. AN

Note : Members/readers are invited to raise their views/comments on this issue. Please mail, e-mail or fax your written views/comments to the secretariat at : azimah@mia.org.my or Fax : 22731016.

[4] ibid.

[5] ibid.

[6] ibid.

[7] Jill Collins, Robin Jarvis & Len Skerratt (2001), "Size and Value of the Audit", *Accounting & Business*, Nov/Dec, p. 41.

[8] Gemmell J, (1994), "Half a Million Escape the Audit Net", *Accountancy*, February, pp. 70-71.

[9] The Report of the Standing Committee on Company Law Reform on the Recommendations of a Consultancy Report of the Review of the Hong Kong Companies Ordinance, February 2000.

Kuala Lumpur Stock Exchange

Circuit Breaker

Members are hereby informed that the KLSE has since implemented the *Circuit Breaker* mechanism on 25 March 2002, with the main objective of enhancing market stability and investor confidence.

The Circuit Breaker provides a market-wide approach to manage the downward movement of the barometer index, i.e. the KLSE Composite Index (KLSE CI) by halting trading temporarily. The main benefit of the *Circuit Breaker* is to provide the opportunity for greater information dissemination to all market participants, including investors, to make well-considered investment decisions. AN

Annual Dialogue

The KLSE will be holding its next Dialogue with the Institute in early August 2002. In this regard, members are invited to submit their views, comments and issues to the Institute by **Monday, 20 May 2002** via fax or e-mail to :

Mr Johnny Yong / Ms Janet Leong
Fax no. : 03-22741783
E-mail addresses : *johnny@mia.org.my* or *janet@mia.org.my*

The Institute looks forward to receiving your comments and suggestions.

AN

KLSE Circuit Breaker

The Kuala Lumpur Stock Exchange (KLSE) recently introduced the Circuit Breaker with the main objective of enhancing market stability and investor con fidence. To allow members to understand better the system, we listed below some key points, which have been prepared by KLSE for your reference.

Q : What is a Circuit Breaker?

A : A Circuit Breaker is a market-wide approach to managing downward movement of the barometer index by halting trading temporarily in the entire market during normal trading hours, during which time information is disseminated to all market participants.

Q : When will the Circuit Breaker be triggered?

A : The Circuit Breaker will be triggered when the KLSE CI declines by 10, 15 and 20 per cent below its closing index of the previous market day.

The Circuit Breaker will be triggered under the following conditions :

KLSE CI	Trading Halt	
1 KLSE CI falls by more than 10% but less than 15% of the previous market day's closing index.	Trading is halted for 1 hour if Circuit Breaker is triggered before 11.15 a.m. or 3.45 p.m.	Trading is halted for the rest of the trading session if Circuit Breaker is triggered at or after 11.15 a.m. or 3.45 p.m.
2 KLSE CI falls by an aggregate of, or to more than, 15% but less than 20% of the previous market day's closing index.	Trading is halted for 1 hour if Circuit Breaker is triggered before 11.15 a.m. or 3.45 p.m.	Trading is halted for the rest of the trading session if Circuit Breaker is triggered at or after 11.15 a.m. or 3.45 p.m.
3 KLSE CI falls by an aggregate of, or to more than, 20% of the previous market day's closing index.	Trading is halted for the rest of the day.	

Q : Why was it decided to fix the trigger levels at 10, 15 and 20 per cent decline of the KLSE CI from the previous market day's closing index?

A : The trigger levels decided for the Circuit Breaker have been found to be the most effective in meeting the objective of addressing excessive market volatility.

This finding is supported by a study of KLSE CI movements over a period of time that included instances of a sudden and sustained decline in the KLSE CI and a comparative study of international best practices in effecting Circuit Breakers in other exchanges.

Q : How do you calculate the trigger levels for the Circuit Breaker?

A : There are three trigger levels for the Circuit Breaker which are based on a 10, 15 and 20 per cent decline of the KLSE CI from the previous market day's closing index. The following example illustrates how the trigger levels are calculated.

Assuming the closing index of the KLSE CI on 30 July is 600 points. The Circuit Breaker trigger levels for 31 July will then be calculated based on the 30 July closing index using the predetermined percentage levels of 10, 15 and 20 per cent for each trigger level. The resulting index levels derived from the calculation will then be the effective trigger levels for the day (31 July).

Once the KLSE CI declines by the respective trigger levels, trading on the stock market will be halted temporarily.

TABLE 1

Assuming the previous market day's closing index is 600 points

Trigger Level and Percentage	Index Points Decline	KLSE CI Circuit Breaker Threshold	Trading Halt Duration
Level 1 — 10%	60	540 points	1 hour
Level 2 — 15%	90	510 points	1 hour
Level 3 — 20%	120	480 points	Rest of the day

In the example, the first level Circuit Breaker will be triggered at a 10 per cent decline of 60 points in the KLSE CI closing index of 600 points. For the second level Circuit Breaker (15 per cent), the decline will be 90 points while for the third level Circuit Breaker (20 per cent) the decline will be 120 points.

Therefore, if the KLSE CI declines below the previous market day's closing index to or below :

- 540 points — trading is halted for one hour or for the rest of the trading session if triggered at or after 11.15 a.m. or 3.45 p.m.
- 510 points — trading is halted for one hour or for the rest of the trading session if triggered at or after 11.15 a.m. or 3.45 p.m.
- 480 points — trading is halted for the rest of the day

Q : How many times can the Circuit Breaker be triggered during the day?

A : There may be four situations where the Circuit Breaker could be triggered during the day based on the KLSE CI's previous market day's closing index, i.e. a decline of :

A) 10%, 15% and 20% B) 10% and 20%
C) 15% and 20% D) 20%

Thus, the situations show that the KLSE CI could decline in :

- a staggered manner as in (A); or
- abruptly as in (B) from the 10 to 20 per cent level bypassing the 15 per cent level, (C) 15 to 20 per cent bypassing the 10 per cent level and (D) straight to 20 per cent bypassing the 10 and 15 per cent levels

In addition to the above, there are two more conditions for the Circuit Breaker framework :

1. **Trading halts for each trigger level will occur only once during the trading day.**

For instance, if the previous day's KLSE CI is at 1000 points and it drops to 855 points (breaching the 10 per cent trigger level), trading will halt for one hour. If the KLSE CI goes up again during the day to 1020 points and then drops to 870, the first level trading halt (i.e. at 10 per cent) will not be triggered as it had already been triggered. This condition applies to all the four situations mentioned above.

2. **If the KLSE CI breaches a trigger level bypassing a lower level, the level bypassed will not be triggered during the trading day.**

This condition describes the example in (C) above where the KLSE CI falls abruptly to 15 per cent bypassing the 10 per cent trigger level. In this event, the trading halt in respect of the 10 per cent level decline will not be triggered at all during the day.

Q : What aspect of trading will the Circuit Breaker affect?

A : The Circuit Breaker mechanism will only halt trading temporarily when it is triggered. All clearing, settlement and depository operations will function as normal.
For example, if the Circuit Breaker is triggered at 10:00 a.m., all trades matched as at 10:00 a.m. will be cleared and settled as normal according to the T+3 settlement system. All unmatched orders keyed in prior to 10:00 a.m. will continue to be matched after the trading halt.

During a halt in trading, the following are permitted through SCORE in accordance with the Rules of the KLSE :

- Entry of limit orders
- Amendments to contracts but limited to the client codes only
- Reduction in quantity of orders; and
- Cancellation or withdrawal of orders

Q : In the event the Circuit Breaker is triggered, what would happen to the investor's orders?

A : All matched orders will remain valid. Unmatched orders entered into the trading system will continue to be in the order queue when the Circuit Breaker is triggered at the 10 and 15 per cent levels.

Unmatched orders will be removed from the system when the Circuit Breaker is triggered at the 20 per cent level, or when trading halts for the rest of the trading session.

No market orders may be entered into SCORE upon a halt in trading. However, market orders entered into SCORE prior to a halt in trading in a particular trading session, shall remain valid for that trading session only.

Q : How would investors know that the Circuit Breaker has been triggered?

A : Investors will be informed upon the trigger of the Circuit Breaker through immediate dissemination of public announcements by KLSE through various sources - the media, the internet at the KLSE website at www.klse.com.my and stockbroking companies

Upon the trigger of the Circuit Breaker and the commencement of the trading halt, investors will also be informed on the appropriate date and time for the resumption of trading.

Q : What should investors do when the Circuit Breaker is triggered?

A : When the Circuit Breaker is triggered, investors should continue to keep themselves updated and informed by continuing to access all possible sources of information available.

In this manner, investors will be able to assess and review prevailing conditions based more on information, and less on market trends and speculation, in order to make well-considered investment decisions once trading resumes. AN

INSOL Annual Regional Conference

Beijing 9-11 October 2002

The Conference Chairman Alan Tang of Grant Thornton, Hong Kong looks forward to welcoming you to the INSOL Annual Regional Pacific Rim Conference, which will be held at The Kerry Centre in Beijing.

The Technical Programme, which has been compiled by a sub-committee Chaired by Joe Bannister of Lovells, will cover a number of topics including the Ansett Story, the Asia Pacific Rim Restructuring Industry, Law reforms in Asia, Consumer Credit and Utility Industry Problems.

The main hypothetical will cover a multinational group in difficulty with domestic insurance operations in Australia, a manufacturing joint venture in China and property owned in Hong Kong by a subsidiary. The session will consider the problems of taking control of assets in different jurisdictions, the differing approaches to recognition in China, Hong Kong and other jurisdictions and the potential impact and ways of dealing in a workout or liquidation with rules preferring local creditors.

The Main Technical Programme is preceded by an open Academics Meeting and a closed Lenders Meeting on the 9 October. For further information on these meetings please contact INSOL International.

There will be ample opportunity to network with your colleagues and make new business contacts at the Welcome Reception on the evening of 9 October and during the Conference lunches and coffee breaks. In addition the Gala Dinner will be held at the Great Hall of the People on the evening of Friday 11 October.

Thanks goes out to the firms supporting the conference through sponsorship which includes:

Grant Thornton — Main Sponsor, RSM Nelson Wheeler — Welcome Reception, PricewaterhouseCoopers — Gala Dinner and general sponsors including CCIF Corporate Advisory Services Ltd, Financial Times, Johnson Stokes & Master, Kartini Muljadi & Rekan, Kennic H. L. Lui & Co.

For more information visit the INSOL Website at www.insol.org or contact Tina McGorman on (+44) (0) 20 7929 6679 or e-mail : tina@insol.ision.co.uk AN

IFAC Board Focuses in Restoring Public Confidence in the Accountancy Profession

At its meeting in Tunisia in March 2002, the International Federation of Accountants (IFAC) focused on advancing initiatives to strengthen the international accountancy profession. These included approval of the following :

- A project focused on restoring the credibility of financial statements in the global marketplace. The project will address worldwide problems, issues, and best practices in the areas of financial and business reporting, corporate governance, and auditor performance. It will be developed by a task force comprised of members representing IFAC, audit committees, boards of directors, the investment community, and financial management. Members of the task force will be named in the next few weeks.
- Members of the newly formed International Auditing and Assurance Standards Board (IAASB). To ensure increased transparency in the auditing standards-setting process, the composition of the IAASB includes practicing accountants, academics, and representatives of the business community and public (governmental) sector.

In addition, the Board completed its discussions on the central provisions of the constitution of the Forum of Firms. Formal approval of the constitution is expected in the next few months. Membership in the Forum is open to firms that conduct transnational audits and requires a commitment to adhere to IFAC's auditing, ethics, and quality control standards.

Board members also renewed their support of the work of the Small and Medium Practices Task Force and their efforts to meet the needs of small and medium-sized practices, an important constituency of IFAC member bodies. AN

IFAC Board Names Members of New International Auditing Standards Board

The International Federations of Accountants at its board meeting recently in Tunisia announced the name of members for the International Auditing and Assurance Standards Board (IAASB).

IAASB, which replaces the International Auditing Practices Committee, is responsible for establishing International Standards on Auditing for the world's accountants. Its members include practicing accountants, academics, and representatives of the business community and the public (governmental) sector.

"The technical range and experience of these members and their knowledge of the marketplace's needs and concerns will help to ensure that the IAASB functions efficiently and operates with the public interest in mind," said Aki Fujinuma, IFAC President.

Members of the IAASB are :

Dietz Mertin (Chairman), *Germany*

John L (Arch) Archambault, *US*

Roger Dassen, *Netherlands*

Denis Desautels, *Canada*

Richard (Dick) Dieter, *US*

Ana Maria Elorietta, *Brazil*

Denise Esdon, *Canada*

Jan Bo Hansen, *Denmark*

Gen Ikegami, *Japan*

Suresh Kana, *South Africa*

John Kellas, *UK*

Ian McPhee, *Australia*

Edmund (Randy) Noonan, *US*

Ian Plaistowe, *UK*

Roger Simnet, *Australia*

Roberto Tizzano, *Italy*

Gerard Tremoliere, *France*

Yang Zhiguo, *China*

The IAASB will be supported by IAASB Technical Director Jim Sylph along, with a staff of technical managers.

The IAASB is committed to improving the transparency of the international auditing standards setting project. Therefore, earlier this month the body has launched a dedicated web site (www.iaasb.org) through which visitors may obtain information about its work program, projects in progress and upcoming meetings. Visitors may also register online to attend IAASB meetings, which are open to the public beginning with its June 14 meeting in Mexico City. AN

IFAC Issues New Paper on E-Business

A new paper on E-Business, which was issued by the International Federation of Accountants (IFAC) recently, presents certain risk management aspects of e-business relevant to accounting and financial reporting from a managerial perspective.

Entitled *E-Business and the Accountant : Risk Management for Accounting Systems in an E-Business Environment*, the paper may be downloaded at no charge from IFAC's website at www.ifac.org/store or purchased in print for US $25 plus shipping through the online bookstore.

Directed to the management of organisations, including accountants, *E-Business and the Accountant* points out how e-business changes the way business is conducted and that e-business consequently introduces new risks that enterprises may need to address by implementing a technology infrastructure and controls to mitigate those risks. The paper points out that e-business and its technological environment will have a significant impact on accounting systems and the evidence available to support business transactions which, in turn, will lead to changes in the accounting records maintained and accounting procedures followed.

The document notes that accountants and auditors may be faced with new challenges and may need to apply new techniques in an e-business environment, such as the development of accounting systems based on the business processes employed, to ensure that transactions are appropriately recorded, are in compliance with local and international legislation and regulations, and meet current and evolving accounting standards and guidance.

To help minimise risks in relation to these issues, the paper provides a useful framework of concepts with which accountants and others can analyse e-business from an accounting point of view. It includes best practice guidelines on e-business accounting principles and criteria, such as accounting information security and accounting information processing, and presents criteria for a functioning accounting system. An appendix features a glossary of IT terms to assist management and accountants in dealing with e-business issues, vendors and clients. AN

Ian Ball Named CEO of IFAC

The Board of the International Federation of Accountants (IFAC) has appointed Ian Ball as the organisation's new Chief Executive. With the appointment, Ian will be responsible for providing the strategic and management direction of IFAC, an organisation that represents over 150 accountancy bodies in 114 countries and is the voice of the international accountancy profession.

Dr. Ball's appointment as Chief Executive comes at a time when IFAC is strengthening its public interest initiatives. These include expanding the scope and transparency of its international auditing standard-setting activities, undertaking initiatives to encourage improved corporate governance, and establishing a quality assurance and practice review regime for firms that conduct transnational audits.

Commenting on the appointment, IFAC president, Aki Fujinuma said that, "Ian is ideally suited to lead IFAC during this challenging time for the accountancy profession," Aki also added that, "His extensive experience in the accounting profession, strong relationships with international organisations, and demonstrated ability to work with governments worldwide will enable him to build the partnerships necessary for IFAC to carry out its mission."

Dr. Ball is currently principal of Public Sector Performance (NZ) Ltd, which he founded in 1995. The company specialises in the design and implementation of public sector management systems and in customised public sector management training. In this capacity, he has provided services around the world, including many developing countries, where he obtained first-hand knowledge about the concerns of accounting professionals and the users of financial information. He also holds a position of Professor of Accounting and Public Policy at Victoria University of Wellington where he has taught undergraduate and graduate courses in accounting and public management.

Prior to establishing his consultancy practice, Dr. Ball served as Central Financial Controller of the New Zealand Treasury where he was responsible for the design and implementation of financial and public sector management policy in the New Zealand government. He has also been actively involved in IFAC, having served on its Nominating Committee and as Chairman of the Public Sector Committee (PSC). During his tenure as PSC Chairman, Dr. Ball launched one of IFAC's most significant projects — the Public Sector Standards Project. The project is designed to enhance the accountability and financial management of governments worldwide through the development of an authoritative set of independent financial reporting standards for government.

"Ian's professional achievements have earned him respect for his work in the standard-setting and compliance fields," pointed Aki.

"Additionally, he brings to the Chief Executive role viewpoints that are independent of any firm or corporate affiliation. Such independence is critical in today's environment."

Dr. Ball holds a Doctorate degree from the University of Birmingham, England and a Bachelor of Commerce and Administration (with First Class Honours) in Accountancy from Victoria University of Wellington, New Zealand. He is a member of professional accountancy bodies in New Zealand, Australia and the UK. AN

Newell Rubbermaid Drops Andersen as Auditor

Andersen's run of bad news continued recently as Newell Rubbermaid, the US diversified manufacturer, said that it would drop Andersen as its auditor and appoint Ernst & Young as a replacement.

In a report published in the *Financial Times* on 1 April, the management of the company has stated that the decision to change accountants was made to ensure that Newell Rubbermaid's shareholders continue to have the utmost confidence in the integrity of the company's financial statements.

Andersen is fighting to restore its reputation in the wake of criminal and civil investigations into its audit of Enron, the collapsed energy trader. Andersen admitted that staff in its Houston offices, where Enron is based, had shredded thousands of documents, possibly after the firm had received a subpoena from the Securities and Exchange Commission.

Clients have defected in droves. In March, Andersen lost Merck, the US pharmaceuticals giant; Freddie Mac, the US housing finance institution and Delta AirLines. AN

Brussels Set to Recommend Rotation Rules for Auditors

Senior partners working on audits should be changed periodically, but there should be no compulsory rotation of audit firms, according to a report by the *Financial Times*, Brussels.

In a series of best practice recommendations due out in May, the European Commission is also expected to stop short of calling for sweeping restrictions on the non-audit services of accounting firms.

The guidelines are the first attempt to set European Union wide standards on auditors' independence and follow the scandal involving Enron and Big Five auditor Andersen. The 'rules' will be voluntary initially.

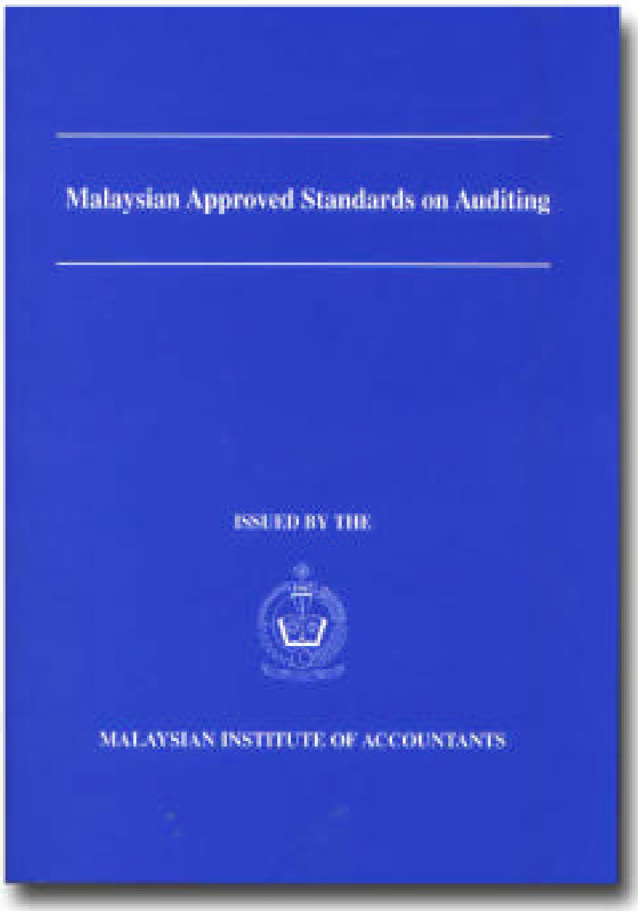
The code is expected to call for senior partners on an audit engagement to be rotated at least every seven years, in line with professional requirements in countries such as Britain.

This follows claims that the long-standing association between Enron and Andersen could have jeopardised the independence of the firm's work.

However leading auditors will be relieved at the Commission's decision not to recommend compulsory rotation. Accountants argue this would damage the quality of audits, as firms are most vulnerable when they have little experience of how their clients work.

The Commission's guidelines, drawn up before December's collapse of energy trader Enron, have been reviewed in the light of the criticism of Andersen, the company's former auditor. AN

Malaysian Approved Standards on Auditing (MASA)



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The 2nd publication of the Malaysian Approved Standards on Auditing

The 2nd publication of the Malaysian Approved Standards on Auditing incorporates all International Standards on Auditing and International Auditing Practice Statements approved by the Council of the Malaysian Institute of Accountants until March 1999.

These standards should be read in conjunction with A — Preface to Approved Standards on Auditing, AI 100 — Preface to International Standards on Auditing and Related Services; AI 110 — Glossary of Terms and AI 120 — Framework of International Standards on Auditing.

These standards are mandatory for all members who assume responsibilities as independent auditors to observe in respect of the conduct of their audit under all reporting frameworks.

An update to the Malaysian Approved Standards on Auditing will include the following International Standards on Auditing issued by the International Auditing Practices Committee :

ISA 100	—	Assurance Engagements
ISA 260	—	Communications of Audit Matters with Those Charged with Governance
ISA 505	—	External Confirmations
ISA 570 (new)	—	Going Concern
IAPS 1010	—	The Consideration of Environmental Matters in the Audit of Financial Statements
		Glossary of Terms (revised)

Students, members and non-members can now order their individual copies of the MASA at the above mentioned rates, subject to stock availability.

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