

# Akauntan Nasional

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JAN/FEB 2002

## A NEW

# STRATEGIC DIRECTION FOR MIA



(Established under the  
Accountants Act, 1967)



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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* :

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

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## EDITOR'S NOTE

# Staying Ahead

**A**s I welcomed the New Year enjoying the spectacular fireworks light up the skies at Sunway Lagoon with hundreds of others, I couldn't help but feel a tinge of guilt knowing that 'fireworks' of a different kind were wreaking havoc on the lives of many in a country far away. It also made me feel extremely thankful for the peace we enjoy in this country, something a lot of us take for granted.

The Institute closed the year with the injection of fresh new blood into its Council following the conclusion of the 15th Annual General Meeting (AGM) — six new faces to be precise. The overwhelming turnout by members at the AGM was a welcomed change from the usual meagre few who barely meet the required quorum. However, this unexpected turnout may have resulted in some inconvenience and discomfort for some for which we deeply regret. The renewed interest in the Institute's role as the guardian of the accountancy profession is much appreciated and we look forward to your continued support.

Dr. Abdul Samad Haji Alias remains President by virtue of Sections 8 (1)(c) and 8 (4) of the Accountants Act, 1967, while Albert Wong Mun Sum was elected Vice-President by the new Council that held its inaugural meeting immediately after the AGM. In a related development, Datuk Ali Tan Sri Abdul Kadir, an appointed member of the Council, has resigned citing work commitments. The Council now consists of 29 members who represent various interest groups that include professional accountancy bodies, the industry, the academia, statutory bodies and the Government.

*Akauntan Nasional's (AN)* New Year resolve is simply to serve you better. To gauge your satisfaction and to improve ourselves, we have posted a simple questionnaire on the MIA website and hope that you will spare a few minutes of your time to answer the questions on-line. Your views and opinions will be the basis for our improvement measures. Also, in line with the Institute's new vision and mission statement, we are contemplating changing the Institute's logo as well as AN's masthead. In an effort to have a wider choice and varied ideas, we are organising a contest with attractive prizes for the winners. Please look out in our coming issues for details.

As we leave the year-end excitement and settle into the mundane pattern of passing through yet another year, why not do something different in an effort to make this year memorable? Perhaps a charitable act or taking the first step to mend a broken friendship may make this year a better year than the last. Whatever you choose to do, do give some thought to it, for your little extra effort may go a long way towards bringing good tidings to another. **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. All materials appearing in the *Akauntan Nasional* are copyright and cannot be reproduced in whole or in part without written permission from the Editor.

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

## VISION AND MISSION

### MIA's Vision

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

### MIA's Mission

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

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Location : Kuala Terengganu  
Chairman : Su Lim

# NOTICE TO ALL MEMBERS

## A Annual Subscription 2001/02

The Malaysian Institute of Accountants (Membership and Council) Rules 2001 came into effect on 9 November 2001 and the said Rules had, amongst other matters, provided for the annual subscription payable by Chartered Accountants. We wish to inform members that as the 2001/02 annual subscription of the Institute was due on 1 July 2001, the annual subscription payable by all members admitted before 9 November 2001 would be as provided in Section 29 (3) of the Accountants (Amendment) Act 2001 which stipulates that "... the annual subscription prescribed to be payable by a public accountant or registered accountant under the Accountants Rules 1972 shall continue to be payable until the Accountants Rules are amended."

However, the Council has resolved that for the next National Accountants Conference, all Chartered Accountants who were previously Public Accountants would be given concessionary rates in respect of the conference registration fees in view of the higher annual subscription payable by them for the year 2001/02, and as part of the Institute's efforts to enable more members to

comply with the Continuing Professional Education requirements as provided in the Institute's By-Laws (On Professional Conduct and Ethics).

## B Practising Certificates

Further to our Circular No. 22/2001 dated 8 December 2001 with regard to practising certificates, we wish to clarify the following :

- Members who were categorised as Public Accountants prior to the amendments to the Accountants Act 1967, in completing the Working Experience section of the Application For Practising Certificate form, would not be required to submit testimonials to support their application.
- All members who are currently in public practice are required to apply for the practising certificates latest by Thursday, 28 February 2002.
- The fees payable is RM250.00, which is for the period from 1 July 2001 until 30 June 2002. Please be informed that there would not be any probation of the fees payable as it is not provided for in the Act and the Rules. **AN**

## BY-LAWS (ON PROFESSIONAL CONDUCT AND ETHICS)

[REVISED JANUARY 2002]

The Council of the Institute is pleased to announce that on 29 December 2001, the Council approved the Institute's By-Laws (On Professional Conduct and Ethics) [Revised January 2002] pursuant to Section 10(a) of the Accountants Act 1967. The Revised By-Laws come into operation on **15 January 2002** unless otherwise stated. In addition, the Revised By-Laws revoke and supersede the existing By-Laws (On Professional Conduct and Ethics) [first issued April 1990 and amended from time to time].

The Revised By-Laws set the standards of conduct for members in view of the professional responsibilities and duties owed by all members whether in public practice or otherwise, to their clients, employers, the authorities and the public. In recognising the significant role played by the accountancy profession in society, the Revised By-Laws have been framed with the objective that members exhibit the highest standards of professionalism and professional conduct that are expected of the profession.

The Revised By-Laws extensively revise the existing framework on professional conduct and ethics applicable to members and contain several new provisions, including minimum guidelines on advertising and publicity. As such, members are required to thoroughly familiarise themselves with the Revised By-Laws and to ensure that they comply with the same.

As mentioned above, the Revised By-Laws

commence operation on 15 January 2002. However, in view of some of the new provisions in the Revised By-Laws, the Council has agreed to allow members a grace period for compliance in respect of **specific provisions** as follows :

### Revised By-Laws — Date of Compliance

- By-Law A-6.4 relating to Descriptions and Designatory Letters. *1 March 2002.*
- By-Laws B-1.1(1)(e), B-1.3(1)(b), B-1.4, B-1.7(1)(d), B-1.7(1)(h) and B-1.9(1)(d) relating to Professional Independence. *Financial periods commencing on or after 1 March 2002.*
- By-Law B-2.4(2) relating to Method of Practice. *1 September 2002.*

Save as set out above, members are required to comply with the other provisions of the Revised By-Laws commencing on **15 January 2002**. The Revised By-Laws can be viewed at or downloaded from the Institute's website at [www.mia.org.my](http://www.mia.org.my). Any queries on the Revised By-Laws should be forwarded in writing to the Institute or via e-mail to [mia@mia.org.my](mailto:mia@mia.org.my).

The Council of the Institute intends to issue the Revised By-Laws together with the Rules of the Institute by way of a CD-Rom and/or in print form, once all the Rules have been approved by the Minister of Finance and accordingly gazetted. Members will be informed in due course on this matter. **AN**



# MIA 15TH ANNUAL GENERAL MEETING

**T**he preceding year closed on a positive note for the Malaysian Institute of Accountants (MIA) with the election of six new members (*see pix*) to the Institute's Council at its recent 15th Annual General Meeting (AGM). A total of ten positions were up for contest at the AGM under the elected category as provided for under paragraph 2A of the 2nd Schedule of the Accountants Act 1967, read together with Section 8(1)(g) of the Act. Datuk Nur Jazlan Tan Sri Mohamed, Dato' Nordin Baharuddin, Damanhuri Mahmod, Raymond Liew Lee Leong, Lim Huck Hai and Manjeet Singh Santokh Singh together with incumbents Yang

Mulia Raja Dato' Seri Abdul Aziz Raja Salim, Lam Kee Soon, Yeo Tek Ling, and Nik Mohd Hasyudeen Yusoff secured the 10 highest number of votes from a total of 2,110 votes cast. These 10 Council members can hold office for a maximum period of four years.

Immediately following the conclusion of the AGM, the new Council held its inaugural meeting to elect its Vice President. MIA President, Dr Abdul Samad Haji Alias remained as President by virtue of Sections 8 (1)(c) and 8 (4) of the Act while Albert Wong Mun Sum (see picture) was elected Vice-President to take over from Yue Sau Him who did not seek re-election.



ALBERT WONG MUN SUM  
VICE-PRESIDENT

## NEW FACES IN MIA COUNCIL

DATUK  
NUR  
JAZLAN  
TAN SRI  
MOHAMED



DAMANHURI MAHMOD



RAYMOND  
LIEW LEE  
LEONG



LIM HUCK HAI



MANJEET SINGH SANTOKH SINGH

**Note : Pix of Dato' Nordin Baharuddin is not available**

# why the need for a New strategic direction for MIA?



Compiled and written by MIA Team

**W**hen MIA President Abdul Samad Haji Alias (Dr) stood up to address members attending the Institute's 15th Annual General Meeting (AGM) on 29 December 2001, he stood next to a white screen with the words, "Towards A New Strategic Direction for MIA." "Why the need to establish a new strategic direction for MIA?" was probably what went through the minds of more than 400 members attending the AGM held less than 72 hours before the close of Year 2001.

If there is one thing in the world that is constant, it is *change* and it is precisely this rapid, relentless and radical change that was the driving force that propelled the Institute to undertake the arduous task of charting a new strategic direction for the Institute and ultimately the accountancy profession. With major external and internal developments impacting the profession, there is an urgent need to safeguard and secure our advantage in the international arena.

## External developments

These include :

- Globalisation and liberalisation of the services sector under the World Trade Organisation (WTO), General Agreement on Trade in Services (GATS) and Asean Free Trade Area (AFTA);
- Drastic changes in business rules especially with the emerging technologies;
- Changing fortunes in global macroeconomic environment impacting an open Malaysian economy;
- Changes in scope, type, business arrangement and demand for accountancy services: e.g. provision of more value added services as business partners, strategic alliances and multi-disciplinary practices;
- Encroachment by non-accountants offering services similar to what accountants are offering;
- Devaluation of the image and prestige of the accountancy profession (e.g. in the US, the accountancy profession is no

longer a first choice profession); and

- Global regulatory changes (e.g. accounting for intellectual property, environmental accounting, etc).

## Internal developments

While the external developments can be categorised neatly into broad areas, the internal challenges appear to be much more complicated and difficult to address as these are direct issues that affect the Institute's ability to function effectively. These include :

- Structure;
- Funding;
- Relationship with key stakeholders;
- Secretariat;
- Members;
- Publicity and image;
- Change issue; and
- Accreditation.

## Structure

Whilst the Institute enjoys many advantages as a statutory body, its status has at times been a disadvantage due to the bureaucracy involved. Specifically, any change to the Accountants Act, 1967 can only be executed after Parliament has passed and gazetted the amendment. This lengthy process tends to delay prompt action, especially when the Institute needs to respond swiftly to the emerging trends in the global accountancy landscape. Enforcement of rules and regulation poses

yet another challenge to the Institute, as does the ability to be more proactive to the direction of Council. Despite the Institute's drive to achieve global standards, there is a lack of bench-marking with other global accountancy bodies in addition to a lack of enforcement of rules and regulations.

### Funding

Currently the Institute's major sources of income are from members' subscription and surpluses from Continuing Professional Education (CPE) courses. Although the Institute has always achieved a yearly positive net surplus in the past, it would need to source for additional funding in order to reduce the financial burden on members without compromising the quality of services to its stakeholders. In fact, the deployment of high-level action plans in line with the Institute's new strategic direction will not be possible without additional funding. Although the Institute is looking into the possibility of seeking government funding, it endeavours to remain a self-sustaining organisation, and hence alternative sources need to be identified.



### Stakeholders

Granted the relationship between the Institute's stakeholders (namely, professional accountancy bodies, institutions of higher learning, other regulatory and statutory bodies, government agencies and members in general) have improved tremendously over the past year, more can be done to enhance the communication barriers that still exist particularly with institutions of higher learning and the Government. Also, expectation gaps still exist between users and accountants particularly in the level



of understanding among employers, public groups and other key users on the roles of an accountant. In addressing this, the Institute is stepping up dialogues and joint programmes with the relevant stakeholders in addition to increasing collaboration with interest groups such as the Kuala Lumpur Stock Exchange (KLSE), Securities Commission (SC), Registry of Companies (ROC) and other professional accountancy bodies.

### Secretariat

Translating the direction charted by Council into concrete action is the Secretariat. As such, strengthening Secretariat support is crucial to the success of any strategic plan. Improvements in the following areas are in the pipeline : members' enquiry services, ISO certification for quality services rendered to members, organisational efficiency and effectiveness, staff training to improve their skills and capabilities, a review of the human resources policies, the inter-connectivity issue among stand-alone systems in the Secretariat, the working relationship between the headquarters and branches.

### Members

In the face of emerging trends in the accountancy profession and the liberalisation of trade in services, there is an urgent need to ensuring the marketability and exportability of members. In the Asean Framework Agreement in Services (AFAS), the Institute is working with the Ministry of International Trade and Industry to negotiate on the four modes of supply of services, i.e. cross-border supply, consumption abroad, commercial presence and presence of natural persons.

Further, although Malaysia allows the entry of qualified accountants from other

countries under the Accountants Act 1967, the same recognition is yet to be accorded by other countries to Malaysian accountants. Accordingly, the Institute would need to facilitate the appropriate process to enable its members to be recognised globally. Members on the other hand would need to beef up the delivery of more value-added and prompt services to remain competitive.

Other challenges such as the delicate issue of promoting unity in a diverse membership totalling 17,384 as of December 2001 remains. As members seem to be more loyal to their own professional bodies of origin, this will require the Institute to expend more resources and energy to motivate all its members to be equally loyal to both the Institute and their own professional bodies. In addition, there is a need to deal with the problem arising from members belonging to different professional

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“... the Institute seeks to create a positive perception of its value-added services that are beneficial to members and to work towards improving its members' standing globally.”

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bodies, especially those who are practising and non-practising.

### Publicity and Image

The Institute also seeks to create a positive perception of its value-added services that are beneficial to members and to work towards improving its members' standing globally. This is what the Institute aims to do by promoting greater awareness of its role and the role of accountants among the public and key stakeholders, and in the process eliminate the negative perception that the accountancy profession is unable to attract the most competent people.

### Issue of Change

Along with enhancing the image of the profession, the Institute will strive to instil the spirit of competitiveness in members. Members must face up to the realities of the changing global business scenario and discard the *'tidak-apa'* attitude if success is what they desire.



## Accreditation

Currently, there is no reciprocal recognition for MIA by other accountancy bodies. Although Malaysia allows the entry of qualified accountants from other countries, the same recognition is yet to be accorded by other countries. Notwithstanding this, mutual recognition tends to be a matter of negotiation between sovereign nations as well as political decisions. This is the case with the Asean Mutual Recognition Agreement (MRA), which would enable the mutual recognition of accountancy bodies within this region.

reflect the hopes and aspirations of the entire membership. Our balanced vision speaks of both the global and local focus.

“We do not intend to be any kind of business partner, but we aspire to be respected business partners,” the MIA President stressed. Here, it is recognised that the profession is constantly evolving and redefining its boundaries. Accountants are no longer limited to doing financial accounting, auditing or controlling functions, but have taken the role of business partners by providing more value-added services. As a statutory body, the

Surely the significance of the Institute’s mission statement cannot be lost to our readers. The quest to attain world-class status is not for personal glory but for the interest of all stakeholders, i.e. members in public practice, members from the public sector and institutions of higher learning, fellow regulatory bodies, professional accountancy bodies, investors and the general public. The MIA President urged members to be single-minded in ensuring the success of this mission.

Towards achieving the vision, the mission statement has been translated into the following core objectives, viz. :

- 1 To promote and regulate professional and ethical standards
- 2 To enhance competency through continuous education and training to meet the challenges of the global economy
- 3 To enhance the status of members
- 4 To lead research and development (R&D) for the enhancement of the profession
- 5 To inculcate a high sense of social responsibility



### From Challenges to Establishing a New Strategic Direction —

a new vision and mission

#### Our New Vision

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

What does this mean? Firstly, these are not mere words but carefully chosen words that

Institute will continue to discharge its functions by regulating and developing the profession as provided for under the Act. The Institute is committed to making this vision a reality.

#### Our New Mission

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

“Accountants are no longer limited to doing financial accounting, auditing or controlling functions, but have taken the role of business partners by providing more value-added services.”



These are the aspirations of the Institute and the profession, and to move purposefully towards this goal, several strategies have been crafted to not only deal with our challenges, but also help achieve these objectives.

<b>Strategy 1</b>	Enhance members' status
<b>Strategy 2</b>	Promote and monitor professional and ethical standards
<b>Strategy 3</b>	Maintain and strengthen relationships with key stakeholders
<b>Strategy 4</b>	Strengthen the Secretariat
<b>Strategy 5</b>	Drive to increase membership

These strategies are a kind of route map to guide the Institute towards the intended goal, and to implement each strategy, high-level action plans have been mapped out and prioritised.

On the whole members would need to see the Institute as a body with value-added benefits.

As for the action plans, they include expanding the knowledge and skill-sets of members by providing relevant CPE courses, conducting research and development, making experts available for queries, holding regular members' dialogues, promoting the chartered accountant brand and continue to participate actively in global accountancy bodies.

Within the Secretariat, emphasis will be placed on upgrading people skills and management capabilities, and reviewing the organisational structure with the possibility of making the Office of the Registrar to be full-time. In addition, efforts to further improve members' enquiries services by setting up members' call centres and assigning competent people to staff these centres will be given due attention. Also, the possibility of establishing a special members' service unit as well as e-service, and providing equal support to Branches and Centres to serve our members better will be looked at.

Despite an impressive annual membership growth rate of 10.49 per cent during 1996-2001, the Institute is determined to further expand its membership base

**“These are our aspirations, our desired dream, our desired destination. To turn these into reality, we the Institute invite the members to journey together with the Institute in our common goal to ensure the profession soars to greater heights.”**

*Abdul Samad*



through various means. This includes the possibility of enhancing the privileges given by the Institute similar to those given by other professional organisations and increasing the level of subsidy for CPE courses. In addition, various issues including the turnaround time in responding to members and their complaints, quality of front-line service, employees' competency skills and technical support will be dealt with.

Henceforth, to steer the above action plans into motion, a high-level Strategy Steering Committee has been put in place (chaired by the Vice-President and other Council members representing the interest of practitioners; members in commerce and industry; academicians; the public sector; and the Registrar representing the

Secretariat). In keeping up with the fluidity of the global business environment, the Committee will also review the Institute's strategies and action plans from time to time to ensure its relevance and to implement changes where necessary.

And so, the direction for the accountancy profession is clear. The monumental task ahead calls for strict discipline and hard work by all. *“These are our aspirations, our desired dream, our desired destination,”* said Samad when closing his keynote address at the AGM. The Institute, however, cannot realise its vision without the support of its members. *“To turn these into reality, we the Institute invite the members to journey together with the Institute in our common goal to ensure the profession soars to greater heights”* **AN**



# The Malaysian Self-Assessment System of Taxation

## Issues and Challenges

By Dr. Veerinderjeet Singh

EXECUTIVE DIRECTOR OF TAX SERVICES, ARTHUR ANDERSEN & CO.

& Renuka Bhupalan

SENIOR MANAGER OF TAX SERVICES, ARTHUR ANDERSEN & CO.

The self-assessment system in simple terms means that taxpayers will assess their own tax liabilities and that the tax authority will accept this as correct. This is in contrast with the traditional assessment system which requires the tax authorities to check and verify all tax returns. The tax authorities will, however, carry out routine tax audits on taxpayers to ensure that they are complying with the tax law.

Several countries globally, and indeed in the Asia-Pacific region have implemented this system of taxation. The broad rationale for the self assessment system of taxation would include the following factors :

- To improve compliance by taxpayers;
- To speed up the assessment process;
- To reduce compliance costs; and
- To facilitate collection of taxes

Clearly, these objectives are applicable to the Malaysian context. Each of the objectives above naturally follow from the other. Where tax payers are tax compliant, this would invariably result in a swifter assessment process, which would in turn reduce both the taxpayers' and tax authorities' compliance and administrative costs. The end result would facilitate swifter and easier collection of taxes by the authorities.

Malaysian companies have already started filing tax returns on the self-assess-

ment basis for the year of assessment 2001. The key question is whether the tax authority in Malaysia, i.e. the Inland Revenue Board (IRB), and Malaysian taxpayers are ready for this. This article addresses some of the challenges that will be faced by the IRB and taxpayers in Malaysia in the process of implementing the self-assessment system.

It is without doubt that a starting point in working towards the successful implementation of the self-assessment system is by improving taxpayer compliance.

### Tax Compliance

Traditionally, tax authorities have only recognised two policy variables in attempts to achieve taxpayer compliance. These variables, namely penalties and increasing the probability of detection, are called on each time non-compliance is perceived to be increasing. Revenue enforcement activities are only one of the options a government has in achieving taxpayer compliance. Compliance is a "behavioural matter" and compliance in the long run is likely only to be achieved with the co-operation of the taxpayers as well as tax agents/advisers, although corrective action by the authorities is necessary from time to time. Individual non-compliance might be reduced/prevented by heavy-handed methods adopted by tax authorities, but this is

The self-assessment system of taxation is operative in Malaysia for companies with effect from the year of assessment 2001. The system will be introduced gradually to cover different categories of taxpayers including individual taxpayers in the year of assessment 2004.

not advisable at the initial phase. Overall, compliance is likely to be best achieved when taxpayers accept the tax system, which brings up the age-old question of the fairness of the tax system. Steps that may be taken to improve compliance by taxpayers are as follows :

- Informing and educating the public on all aspects of tax administration including new laws and compliance activities through good public relations;
- Providing assistance to first time taxpayers and perhaps starting an education programme for students in their final year of school to prepare them for the self-assessment, system when they enter the work force;
- Evaluating existing tax forms to see whether there are better means of eliciting honest responses from taxpayers;
- Elevating services offered to the taxpayers to a higher organisational status within the tax administration so that servicing the taxpayers gets top priority;



- Improving the training given to staff providing assistance to taxpayers;
- Instituting public campaigns designed to foster compliance ethics, and
- Improving the quality of tax audits.

Acceptance by the taxpayers and the respect for the tax system are the key ingredients for maximum voluntary compliance. Further, the tax authorities must offer the taxpayers adequate services. In that way, taxpayers will understand the system better and not become victims of it by paying more than they should. To encourage voluntary compliance, the tax authorities should :

- Enforce a tax system that is user friendly and easy to comply with;
- Use tax audits and/or tax investigations to detect non compliance with the system; and
- Administer the law consistently, courteously, professionally and promptly.

A fairly efficient system of self-assessment will develop over several years, if these steps are carefully implemented. The end result of an efficient self-assessment system would enable the IRB to collect taxes in a cost effective way for the nation.

## THE ROLE OF THE IRB

Structurally, the IRB has, through corporatisation, evolved into an entity with some form of autonomy and decision making authority. It needs to adapt to this role and to the changes in the assessment system swiftly. The role of the IRB today can be effectively summarised (see diagram ) to encapsulate five key aspects — Laws, Systems, People, Service and Enforcement.

The IRB has a corporate vision to be “an organisation of people equipped, trained and committed to helping taxpayers and other clients carry out their responsibilities under the law”.

Is the IRB ready to do this? It is clear from recent developments, which will be discussed in more detail later, that the IRB is taking steps to ensure that it is able to implement its corporate vision. However, there are particular areas, which need to be focused upon by the

The IRB has a corporate vision to be “an organisation of people equipped, trained and committed to helping taxpayers and other clients carry out their responsibilities under the law”.

IRB. Listed below are some of the challenges that the IRB will face in achieving its corporate vision :

### Understanding Taxpayers

Arguably, it would be reasonable to state that most taxpayers are not focused on evading taxes and are indeed likely to want to comply with their obligations to the best of their ability. Where possible, they would engage tax professionals (i.e. tax agents) to assist them in this regard. Therefore, it is important that there be a level of mutual respect between the IRB and the taxpayer and or the tax agent. The IRB needs to always be approachable and to welcome queries constructively such that taxpayers feel they can seek clarification from the IRB as and when they need to do so. In essence, the IRB must be more service orientated. In assisting taxpayers, the IRB should also

endeavour to have an understanding of the taxpayers’ needs and businesses and to accept that each taxpayer is different. This does not mean that different taxpayers should be treated differently, but instead that the tax treatment of transactions could be different depending on the business of the taxpayer.

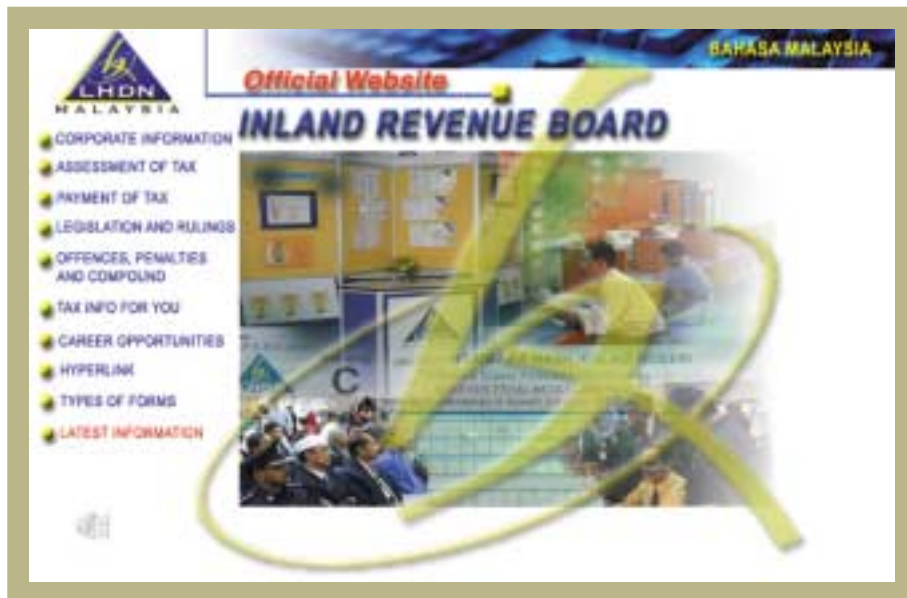
### Education

In order for taxpayers to understand their obligations and to file their returns accurately, they need to be more informed. To this end, the IRB needs to disseminate information to taxpayers, be it in the form of booklets or other such publications or dialogues, whereby taxpayers are made aware of recent case law decisions, the IRB’s interpretation of statutory provisions (in respect of provisions that are ambiguous), etc. The Public Rulings that have been issued by the IRB over the last year are very much appreciated and it is noted that these rulings have assisted taxpayers in having a better understanding of some aspects of the Malaysian tax legislation.

Further, the IRB’s website from which the taxpayer is able to access general information is both useful and user-friendly. Of course, the IRB should endeavour to







“... the IRB’s website from which the taxpayer is able to access general information is both useful and user-friendly.”

ensure that information is placed on the website on a more timely basis. In order to ensure that taxpayers and indeed the IRB’s work force adopt the same position on tax issues, the IRB should also develop the practice of issuing practice statements (as is done by some other revenue authorities in jurisdictions which operate a self-assessment system) or revenue concessions, where applicable.

The IRB must take steps to ensure that its own workforce is equipped with the necessary knowledge and expertise to assist taxpayers effectively. The need for a knowledge database accessible to IRB staff is an absolute necessity in the context of a K-Economy so that all levels of staff in the IRB are aware of guidelines, rulings, concessions, etc. It is also suggested that a joint committee be set up comprising of senior officials of the IRB and tax professionals to assist in advising the IRB on taxpayer assistance and education.

### Responsiveness

For the self-assessment system to operate effectively, responsiveness to issues and concerns raised by taxpayers, the tax profession and industry sectors is extremely important. The IRB has attempted in recent years to consult the tax profession on problems and concerns regarding several matters. This is appreciated and it is hoped that the tax profession and the

IRB will continue to work closely together.

However, aside from awareness, timeliness in dealing with such issues and concerns is vital to ensure the smooth operation of the self-assessment system. Steps need to be taken now in relation to developments that are affecting businesses globally as well as in Malaysia, for example, the taxation of e-commerce transactions. The Inland Revenue Authority of Singapore recently issued two guides/statements entitled “Income Tax Guide on E-Commerce” and “Exemption of Software Payments from Withholding Tax”. The contents of these guides/statements are relevant to Malaysia given the increasing trend of e-commerce transactions and usage of technology. To date, the Ministry of Finance and the IRB have been silent in this area, which leads to a level of uncertainty as to how e-commerce transactions should be taxed in the Malaysian context.

In dealing with such matters, it would be useful to have joint advisory committees set up comprising the IRB, tax professionals and representatives from relevant sectors of the economy. Such committees would be in a better position to address business and industry developments and to look into tax related issues. In Canada, for example, a joint advisory committee has been set up on international tax issues.

### Technical Matters

As with all legislation regardless of the jurisdiction, there will always be areas of uncertainty as to what the correct “technical” interpretation of the law is. To this end, the IRB should take an active role and provide taxpayers with clear guidelines as to how the IRB interprets these areas of uncertainty. Clearly, any such interpretation would have to be supported by the written law and case law precedents. As mentioned above, the recent Public Rulings issued by the IRB have been informative and helpful. It is hoped that the IRB will continue to issue such rulings to avoid the indiscriminate application of the law, and to create a greater awareness amongst taxpayers of the law, and where applicable, the IRB’s concessions. It should be noted however that there are several areas where technical positions have not been documented. Some of these areas are highlighted below :

- The issue of interest restriction and the attribution of restricted interest expense. To-date, the cases decided (*P Securities Sdn Bhd v. Ketua Pengarah Jabatan Hasil Dalam Negeri*<sup>1</sup> and *MP Holdings Sdn Bhd v. Ketua Pengarah Hasil Dalam Negeri*<sup>2</sup>) contradict the IRB’s guidelines;
- For the leasing industry, the issue of the allocation of common expenses between leasing and non-leasing activities. Again, case law in this area (*DL Sdn Bhd v. Ketua Pengarah Hasil Dalam Negeri*<sup>3</sup>) contradicts the IRB’s practice;
- For the financial services industry, the issue of the treatment of the amortisation of premiums/accretion of discounts on securities remains uncertain;
- Transfer pricing methods — although this is an area that the IRB is focusing on more regularly in tax audits and investigations, guidelines on acceptable transfer-pricing policies have yet to be issued.

Given that some companies have filed

<sup>1</sup> (1995)2 MSTC 2,256(SC)

<sup>2</sup> (2005)3,115(SC)

<sup>3</sup> (2000)MSTC 3,823(HC)  
(1997)MSTC 2,854(SC)



and others will soon be filing their first self-assessment returns, certainty as to the application of the law is vital.

The introduction of an advance ruling system is one that merits serious consideration by the IRB. To achieve this, the IRB should explore the possibility of outsourcing the relevant background research and drafting of rulings, in view of the lack of adequate manpower resources in the IRB. In Australia, the Australian Tax Office outsources the preparation of rulings with regard to the Goods and Services Tax.

### Administrative Matters

Aside from the above, effective administration of the system is vital to ensure maximum voluntary compliance by taxpayers. To start with, the return form itself should be user-friendly and easy to access via the IRB's website together with the relevant explanatory notes. It is noted that in designing the return forms for the self-assessment system, due consultation was sought. The IRB has provided a soft copy version of the return form, but not for the work-sheets not the attachments required to be completed and maintained under the self-assessment system. Given the intention to move towards electronic filing of returns in the future, it is important that the

soft copy version of the work-sheets and attachments be made available to enable taxpayers to prepare the returns efficiently. While these documents may not actually require filing with the IRB, these are nonetheless required to be kept by taxpayers. In addition, the Form R (the form for monitoring taxpayers' dividend franking balances) should also be available in this manner.

Before the administration can move to the eventual proposed electronic filing of tax returns, it is essential that the matters set out above be addressed. Having a soft copy version of all the relevant forms would reduce compliance costs in the future.

### Appeals and "Back-log" Cases

Under the self-assessment system, the responsibility for assessing tax liabilities rests with taxpayers. However, taxpayers would have difficulty in accurately computing their tax positions where they have outstanding appeals with the IRB in relation to earlier years of assessment. Indeed, there are many cases where the IRB has not yet been able to review returns for earlier years of assessment, which would commonly be referred to as "back-log" cases. It is, of course, noted that with respect to outstanding appeals, taxpayers are also to be blamed for occasions when they have been slow in responding to the IRB's queries and in lodging detailed appeals. However, the IRB too, due to the lack of resources or other factors, is at times slow to deal with such appeals, and "back-log" cases. It is essential that such appeals and "back-log" cases are dealt with speedily to allow both the IRB and taxpayers to focus on the successful implementation of the new tax system. Settlement of outstanding matters on a timely and reasonable basis is essential to encourage voluntary compliance.

**"Compliance is a 'behavioural matter' and compliance in the long run is likely only to be achieved with the co-operation of the taxpayers as well as tax agents/advisers..."**

In attempting to settle such matters and to reach resolutions, the IRB should endeavour to have an understanding of the overall facts and the prevailing business scenario. Taxpayers in turn need to be reasonable and to provide information promptly and accurately if they wish to see outstanding matters resolved. With self-assessment, taxpayers must realise that in the event of a tax audit, they would need to have information available immediately upon request by the IRB, and accordingly should ensure that supporting documentation and information is easily available and accessible at all times.

### Enforcement Policies

In order to ensure that taxpayers voluntarily comply with the law, and for the self-assessment system to function effectively, proper enforcement is vital. The system

therefore has to include an audit process as well as a penalty regime. The manner in which audits are carried out and penalties enforced must be both transparent and consistent.

Further, enforcement policies and strategies must be clear and should be communicated to taxpayers and tax professionals alike.

It is clear that the IRB has a crucial and significant role to play in implementing a successful and efficient self-assessment system. However, this responsibility also extends to tax professionals and taxpayers.

## THE ROLE OF THE TAX PROFESSIONAL

### Exercising Care

Tax professionals have a significant role in assisting taxpayers ("clients") in understanding their statutory tax obligations and meeting these obligations. The self-assessment system does not change the role of tax professionals per se, as tax professionals should at all times assist their clients in a professional and ethical manner. With the introduction of the self-assessment system, a new provision has been introduced in the Income Tax Act, 1961 which affects tax professionals and taxpayers alike. This is the much-debated sec. 114(1A). This provision imposes significant penalties on *"any person who assists in, or advises with respect to, the preparation of any return which results in an understatement of the liability for tax of another person ... unless he satisfies the court that the assistance or advice was given with reasonable care ..."*

This provision, apart from setting out the penalties, formally documents that tax professionals basically have a duty of care to their clients. Arguably however, this duty of care has always existed under common law, and tax professionals would exercise reasonable care in the course of providing their services. The Public Ruling 8/2000 on "Wilful Evasion of Tax and Related Offences" spells out this duty in the form of various examples, but does not define what is meant by the term "reasonable care". The question of whether or not sec. 114(1A) imposes a burdensome duty on tax professionals and the question of what is "reasonable care" is not discussed in this



article. Instead the focus here is that tax professionals must provide assistance to their clients by exercising due care. This would entail advising clients soundly as to the tax treatment of income, expenditure, incentives, and so on. This would also include reviewing documentation and questioning clients appropriately to ensure that reasonable and supportable tax positions are taken.

### Professional Conduct

The importance of tax professionals observing a professional code of conduct and ethical rules is necessary to ensure the successful operation of the self-assessment system. This clearly applies to the IRB as well as to tax professionals. To this end, it is desirable that a single professional or regulatory body be set up to regulate its members (i.e. the tax professionals). Such a step would ensure that there is consistency in the interpretation and application of the ethical guidelines/code of conduct. This body should have representation from the IRB, the Ministry of Finance and the tax profession. It should look into and govern matters of ethics, as well as matters concerning underlying qualifications required of tax professionals or tax agents. This would ensure that a certain level of quality is maintained and that taxpayers are represented effectively.

## THE ROLE OF taxpayers

### Honest Disclosure

The self-assessment system presupposes that taxpayers will be honest in preparing and filing their tax returns and if this basic premise does not exist, the system will not work. Taxpayers therefore have a duty to ensure that they provide full and honest disclosures in their tax returns.

### Education

Taxpayers will determine their own tax liabilities under the self-assessment system, and as mentioned above, in order to do this, they have to be well-informed. Ignorance of the law will not be an excuse in the event that the IRB discovers that returns have not been accurately filed. Therefore, taxpayers, should make a concerted



“... tax professionals must provide assistance to their clients by exercising due care. This would entail advising clients soundly as to the tax treatment of income, expenditure, incentives, and so on.”

effort to ensure that they understand both their tax filing obligations and the law as it applies to them. Where necessary, they should seek the assistance of tax professionals.

### Timeliness

Compliance by taxpayers requires them to be timely in filing returns, submitting estimates, making payments, etc. Taxpayers must assist the IRB in this regard and adhere to the time frames within which they are required to meet their obligations. Where taxpayers are remiss in doing this, it would be both unfair and unrealistic to expect a speedier assessment process. Having said this, it should be noted that with a time period of six months after the close of the financial year to file tax returns, it is quite obvious that there will be situations where there will be non-compliance with the filing deadline. The IRB should realise that within six months of the year-end, a company has to finalise the accounts, get the statutory audit completed, hold an annual general meeting to adopt the accounts, file the accounts with the Registrar of Companies (ROC) and then prepare a tax computation/return and submit it to the IRB. How can a company, which has yet to finalise its accounts and which has obtained an extension of time

from the ROC to file its audited accounts in, say, nine months after the financial year end, be expected to file a tax return (which has to be based on the audited accounts) within six months, of the year-end?

Finally, if tax instalments are being collected monthly, why is there an urgency to force the filing of tax returns within six months? Will tax audits be carried out on a timely basis and will taxpayers know for sure that their tax position has been finalised within six months (or a year) of filing returns?

### Accuracy

As part of the self-assessment system and mechanism for collecting taxes, taxpayers are required to provide the IRB with an estimate of the chargeable income and tax payable 30 days before the start of the relevant financial year. This requires taxpayers to forecast results with a reasonable degree of accuracy, which often may not be possible.

This requirement assumes that companies can forecast results with reasonable accuracy. In practice, this is often impossible. What is disturbing is that the estimate cannot be less than that of the preceding year of assessment. This seems to go against the very essence of self-assessment where taxpayers are empowered to



determine their tax liabilities.

If the requirement that the estimated tax liability cannot be lower than the liability in the preceding year of assessment is to stay, then due cognisance of the following must be taken :

- not all companies make profits all the time. Some sectors of the economy are subject to external factors in terms of prices and currency fluctuations. As such, there must be a provision (administrative or otherwise) to allow a company to forward a nil or low estimate even though there was tax liability in the preceding year of assessment;
- a revision of the estimate should be allowed quarterly or at least twice a year (preferably within the first six months and the next six months of the financial year). This will allow companies to incorporate recent developments in their profit/loss situation;
- the need to forward estimated tax liability will increase tax compliance costs and as such, flexibility must exist in the system; and
- it is inequitable to force a taxpayer to pay tax instalments for six months when the taxpayer can estimate that there is unlikely to be any tax payable for that year of assessment (due to the fact that the taxpayer expects losses to be incurred for the relevant year).

### Adequate Records

Tax audits will become routine and taxpayers need to adapt to this. Where tax audits occur, taxpayers will have to ensure that they have adequate records and documentation to support positions taken in their tax returns. The IRB has issued Public Rulings (Nos. 4/2000 and 5/2000) on "Keeping Sufficient Records". Taxpayers should ensure that they are familiar with the requirements as set out in the Public Rulings and adhere to these.

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*Note* : This article, reprinted with permission from *Tax Nasional* and CCH Asia Pte. Ltd., appeared in the 3rd Quarter/2001 issue of *Tax Nasional*. *Tax Nasional* is the official Journal of the Malaysian Institute of Taxation. The views expressed in the article are the personal views of the authors.

This article has been developed from the following sources :


- a) Presentation by Dr. Veerinderjeet Singh at the National Tax Conference 2001 on 3 July 2001.
- b) A chapter entitled "Issues Relating To Self Assessment in Malaysia" by Dr. Veerinderjeet Singh in a forthcoming book on Compliance Costs.
- c) "Self-Assessment System — Getting It Right" by Dr. Veerinderjeet Singh published by CCH in the *Malaysia Tax Briefing*, Issue No. 6, Jan/Feb 2001.

## conclusion

The self-assessment system should achieve its desired purpose if the above challenges are addressed and built upon. It is interesting to note that the Institute of Chartered Accountants of England and Wales launched a discussion document (on 20 October, 1999) which summarises a "ten point plan" towards a better tax system. These points, which are set out below are relevant to the successful implementation of the self-assessment system in Malaysia :

Statutory	All tax rules be must enacted.
Certainty	Applications of all tax rules must be certain.
Simplicity	Tax rules must be understandable and clear in their objectives.
Easy to collect and calculate	This would ensure minimal compliance and administrative costs.
Properly Targeted	Anti-avoidance rules/legislation should be properly targeted to close specific "loop-holes".
Constant	There should be minimum changes to underlying rules.
Consultation	Adequate time should be given and full consultation sought to ensure that legislation is properly drafted.
Regular Review	Rules should be reviewed regularly to ensure their continuing relevance.
Fair and Reasonable	Powers should be exercised fairly and reasonably with appropriate rights of appeal.
Competitive	Taxes while essential for raising funds for the government, must also be competitive in that these should be framed to encourage investment.

All of the above points are important in ensuring the success of the self-assessment system. As a starting point however, certainty of the law is of utmost importance and is the hallmark of an effective self-assessment system. The responsibility for attempting to achieve the level of desired certainty should be spearheaded by the IRB but should not rest on the IRB alone. The tax profession has a role to play by working closely with the IRB, and lending support to the IRB where possible. For the profession to assist in this regard, the IRB should continue to actively seek input from the profession.

While the IRB, taxpayers and tax professionals all have roles to play in ensuring the success of the self-assessment system, arguably, the most important role rests with the IRB. As mentioned at the outset, the IRB has a corporate vision of being an organisation of people equipped, trained and committed to helping taxpayers and other clients carry out their responsibilities under the law. To achieve its corporate vision, the IRB has to move towards becoming a modern tax authority, which is service orientated and enforces tax laws and collects revenue in the most cost effective way for the community in the context of the tremendous strides being made in the use of information technology. Tax professionals and taxpayers must also share this responsibility and assist, where possible, in enabling the self-assessment system to function effectively — we have to get it right! 



# Is Malaysia's economy on the rebound?

By Laila Khalid

**A**fter a delayed recovery, all eyes are now on the second half of 2002 as the earliest possible new target for turnaround in the US and global economy. Malaysia's own economic recovery is, itself, highly dependent on the rebound in the US economy.

While there are the usual concerns on the disbursement of funds and the speed in the implementation of various projects, the Malaysian Institute of Economic Research (MIER) expects the government's additional RM7.3 billion pump-priming measures and relaxed monetary policy introduced last year, to have more impact on this year's growth. Thanks to the fiscal pump-priming stemming from the RM7.3 billion packages, public investment is expected to increase by a strong 13.6 per cent.

MIER admits that the timely government intervention through fiscal stimulus prevented the Malaysian economy from slipping into a full-blown recession. It notes; "Due to the delays in implementing a fiscal stimulus and the little time remaining (in 2001), pump-priming will make more contribution to 2002's growth." With the US economy — following the tragic and despicable September 11 attacks on the World Trade Center and Pentagon — projected to only show some recovery in the second half of this year, MIER forecasts that Malaysia will likely post a modest GDP growth of 3.2 per cent in 2002.

In a New Year television interview, *Wawancara Bernama Dengan Perdana Menteri*, Prime Minister-cum-Finance Minister Datuk Seri Dr Mahathir Mohamad did not differ much from MIER's forecast. He said, "We believe we may achieve a growth of 0.5 per cent to 1.0 per cent in 2001 and



"Due to the delays in implementing a fiscal stimulus and the little time remaining (in 2001), pump-priming will make more contribution to 2002's growth."

for 2002, there is a possibility of a growth of about three per cent." By the same token, MIER foresees the Malaysian economy registering a marginal 0.3 per cent growth in 2001.

Projecting growth of between 3.3 per cent to 4.2 per cent, many economists consider the Prime Minister's 3.0 per cent forecast a realistic one. Says a stockbroking based economist, "At this point in time, the forecast, which is within market consensus, is achievable."

He adds, "It is good that Dr Mahathir has made it known to the public the latest government thinking on the economy. Peo-

ple do not have to wait until March or October anymore. Unlike before, things have changed very fast."

For the record, Dr Mahathir's three per cent growth forecast is a downward revision from an earlier official forecast of between 4-5 per cent growth. Likewise, his 0.5-1.0 per cent growth for 2001 is also a downward revision from an earlier government projection of between 1.0-2.0 per cent growth.

Economists concur that in the first half, growth of between one and two per cent, will come from the government's fiscal spending and consumer spending. In the second half, amid an expected US economic recovery, stronger growth of between four and five per cent is envisaged, with an additional boost from the external sector.

Available data so far suggests that Malaysia's fourth quarter growth for 2001 should be better than the third quarter. Contraction of exports has come down



from about 19 per cent in the third quarter to about 13 per cent in October and November. Likewise, for the same period, there has also been a marked improvement in imports — slowing down from about 20 per cent in the third quarter of last year to 8.6 per cent in November.

*The Asian Wall Street Journal* in its 4-6 January 2002 article “Malaysia Imports Beat Forecast” reported that economists have been watching for signs that declines in exports and imports are bottoming out. The smaller-than-expected drop in Malaysia’s November imports signals that some manufacturers may be gearing up for fresh orders, coupled with heightened domestic demand for imported products ahead of the December holidays”, *AWSJ* added.

It quoted Nizam Idris, a regional economist at Singapore’s IDEA global, “The recovery in imports is definitely welcomed, especially if it is led by a recovery in intermediate goods ... When imports of intermediate goods are better, this will be reflected in better production figures, or even better export

“The recovery in imports is definitely welcomed, especially if it is led by a recovery in intermediate goods ... When imports of intermediate goods are better, this will be reflected in better production figures, or even better export figures, in coming months ... Producers are getting a bit more optimistic, either because orders are on the rise, inventory levels need to be topped up, or both.”

*Nizam Idris, Regional Economist, IDEA global, Singapore*

figures, in coming months ... Producers are getting a bit more optimistic, either because orders are on the rise, inventory levels need to be topped up, or both.”

Meanwhile, the government’s desire for a more immediate impact on spending is reflected in Budget 2002.

For instance the one to two per cent income tax cut is putting money directly into consumers’ pockets. Civil servants, representing about 11 per cent of the workforce, are getting a half-month bonus along with a 10 per cent pay rise.

In terms of consumer spending and

credit demand, whilst people are a bit cautious on the retail side, analysts note that car and house sales are quite brisk. In some instances, 100 per cent housing loans are available for prospective house purchasers.

Figures on job vacancies, registered job seekers and those who are retrenched have also improved somewhat in recent months, suggesting that the labour market is still quite tight and unemployment is narrowing. What remains, says an analyst, is perhaps the yet to be completed consolidation in the banking sector involving

## GROSS DOMESTIC PRODUCT (1987 Prices), RM Million

							ECON. REPORT '01/02		BNM REPORT '00	MIER Nov '01		
	1995	1996	1997	1998	1999	2000	2001e	2002f	2001f	2001e	2002f	2003f
<b>Private Consumption</b>	81,981	87,609	91,385	82,031	84,719	95,086	97,244	100,293	101,071	96,322	100,657	108,005
(% change)	11.7	6.9	4.3	-10.2	3.3	12.2	2.3	3.1	6.3	1.3	4.5	7.3
<b>Public Consumption</b>	20,682	20,833	22,017	20,059	23,776	24,185	27,898	29,854	27,308	27,909	29,863	31,774
(% change)	6.1	0.7	5.7	-8.9	18.5	1.7	15.4	7.0	12.9	15.4	7.0	6.4
<b>Private Investment</b>	58,633	65,251	71,404	31,973	24,995	32,167	32,846	35,587	34,587	30,013	32,384	35,558
(% change)	28.1	11.3	9.4	-55.2	-21.8	28.7	2.1	8.3	7.5	-6.7	7.9	9.8
<b>Public Investment</b>	23,262	23,373	25,340	23,204	26,902	32,248	37,283	36,562	35,662	36,634	35,938	37,806
(% change)	11.3	0.5	8.4	-8.4	15.9	19.9	15.6	-1.9	10.6	13.6	-1.9	5.2
<b>Gross Fixed</b>												
<b>Capital Formation</b>	81,895	88,624	96,744	55,177	51,897	64,415	70,129	72,149	70,249	66,647	68,322	73,365
(% change)	22.8	8.2	9.2	-43.0	-5.9	24.1	8.9	2.9	9.1	3.5	2.5	7.4
<b>Change in Stocks</b>	90	-1,900	-279	-233	219	2,200	-1,930	0	1,086	-1,844	468	895
<b>Exports of Goods and Services</b>	161,856	176,792	186,499	187,415	212,484	246,773	223,993	235,797	259,086	214,199	223,410	246,868
(% change)	19.0	9.2	5.5	0.5	13.4	16.1	-9.2	5.3	5.0	-13.2	4.3	10.5
<b>Imports of Goods and Services</b>	179,878	188,666	199,655	162,212	179,778	223,294	203,750	213,748	239,009	193,241	206,007	231,757
(% change)	23.7	4.9	5.8	-18.8	10.8	24.2	-8.8	4.9	7.0	-13.5	6.6	12.5
<b>Gross Domestic Product</b>	166,625	183,292	196,714	182,237	193,317	209,365	213,584	224,345	219,791	209,993	216,713	229,149
(% change)	9.8	10.0	7.3	-7.4	6.1	8.3	2.0	5.0	5.0-6.0	0.3	3.2	5.7

p — preliminary; e — estimate; f — forecast

Source: MIER Forecast; Ministry of Finance, Economic Report 2001/2002 (October 2001); Bank Negara Malaysia, Annual Report 2000 (March 2001)



RHB and Arab-Malaysian. Once the economy recovers as expected, analysts reckon that employment will pick up towards the later part of this year.

Since external trade and foreign investment have a large share in Malaysia's GDP, it is very important to watch for developments in the US and Malaysia's other major trading partners.

In the third quarter of last year, the US GDP growth had crossed over into the negative territory, contracting by 0.4 per cent after a 0.3 per cent growth in the second quarter. Merrill Lynch predicted a US growth of one per cent in 2001. Meanwhile the International Monetary Fund has projected Japan to go into a recession, contracting by 0.5 per cent in 2001. It also reckons that the Euro area will see growth reduced markedly to 1.8 per cent in 2001, from 3.5 per cent in 2000.

Even so, barring major catastrophes like the profound escalation in the Middle East and the India-Pakistan conflicts, by the time we welcome the New Year, most analysts reckon that the downside risk is now limited. This no doubt assumes that uncertainties related to terrorism will be subdued and some normalcy will return. In the same vein, the assumption is that the Afghan war will not drag on for too long and would not get out of hand.

In the best case scenario, a bank-based economist says the economy is going to sur-

**“In the third quarter of last year, the US GDP growth had crossed over into the negative territory, contracting by 0.4 per cent after a 0.3 per cent growth in the second quarter. Merrill Lynch predicted a US growth of one per cent in 2001.”**



pass expectations. Drawing parallels with the post-1998 regional crisis, he notes that in 1999, whilst the average consensus was — one per cent and the government forecasting one per cent growth, GDP for the whole year turned out to be a solid 5.6 per cent.

The economist lists several reasons for his bullish outlook.

First, he reckons that the upturn in the electronic cycle is going to be stronger than expected. The confidence in the semiconductor industry is coming back while technology stocks are back in favour on the stock market.

Second, the multiplier effects from the hitherto under-estimated pump-priming measures will be greater than expected, with

distribution faster in the fourth quarter.

Third, the liquidity-driven economy will help consumption, as will the stock market's return to vibrancy, where the KLCI is expected to rise to the 800 level.

Fourth, since World War II, there has been positive economic effects in the aftermath of wars. As such, he believes that the US economy will recover much stronger than expected.

Fifth, the economist says the Malaysian economy in 2002 will also be boosted by regional recovery as evident by some of the latest numbers. Data from other countries in the region have re-ignited hopes of an imminent recovery in manufacturing production. **AN**

## current account balance & Macro indicators (RM Million)

	1995	1996	1997	1998	1999	2000	ECON. REPORT '01/02		BNM REPORT '00	MIER Nov '01		
							2001e	2002f		2001f	2001e	2002f
<b>Merchandise Balance</b>	97	11,088	10,274	69,216	86,049	79,247	69,175	73,775	71,165	71,982	67,268	62,642
<b>Exports (f.o.b)</b>	179,491	193,363	217,713	281,669	319,568	374,031	333,464	353,444	389,170	327,063	344,163	384,948
(% change)	20.9	7.7	12.6	29.4	13.5	17.0	-10.8	6.0	4.0	-12.6	5.2	11.9
<b>Imports (f.o.b)</b>	179,394	182,275	207,439	212,453	233,519	294,784	264,289	279,669	318,005	255,081	276,895	322,306
(% change)	24.5	1.6	13.8	2.4	9.9	26.2	-10.3	5.8	7.9	-13.5	8.6	16.4
<b>Services Balance</b>	-19,229	-18,371	-22,795	-22,339	-31,587	-39,766	-35,321	-36,133	-41,338	-35,734	-38,097	-42,293
(% nominal GNP)	-9.1	-7.6	-8.5	-8.3	-11.3	-12.7	-11.8	-11.1	-12.7	-11.3	-11.5	-12.0
<b>Current Account Balance</b>	-21,647	-10,226	-16,697	37,294	47,895	31,959	25,070	28,676	22,067	27,464	20,221	11,359
(% nominal GNP)	-10.2	-4.2	-6.3	13.9	17.1	10.2	8.4	8.8	6.8	8.7	6.1	3.2
<b>Inflation (% change in CPI)</b>	3.4	3.5	2.7	5.3	2.8	1.6	1.3	n.a.	1.5-2.0	1.5	2.3	2.8
<b>Unemployment Rate (%)</b>	2.8	2.5	2.4	3.2	3.4	3.1	3.9	3.9	3.1	4.0	3.9	3.6

p — preliminary; e — estimate; f — forecast; n.a. — not available

Source: MIER Forecast; Ministry of Finance, Economic Report 2001/2002 (October 2001); Bank Negara Malaysia, Annual Report 2000 (March 2001)



# The 2002 budget Proposals — An Analysis and Review Of Its Impact on Business Enterprises

By Choong Kwai Fatt

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## Introduction

The most honourable Prime Minister, Dato Seri Dr Mahathir, who is also acting as the Finance Minister had tabled the Finance Bill, 2001 during the 2002 budget on 19 October 2001. This article aims to analyse the impact of the budget proposal on business enterprises in general. Failure to respond to the budget changes may result in more income or service tax payable, or unnecessary penalties to be paid to the tax or Customs authorities.

## Threshold For Service Tax

Service tax is a form of indirect tax imposed on the consumers when they engage the services of professionals or consume food or beverages in hotels and restaurants. The responsibility of collecting the service tax is imposed on the business operator and a penalty would be imposed on them for non-collection or late payment of service tax to the Customs authorities.

The Service Tax Act, 1975, requires the business operator who has reached the threshold limit for a period of 12 preceding months to apply for the service tax licence and collect service tax. At the moment, the threshold setting is RM300,000 or RM500,000 depending on the type of business carried out. However, with effect from 1 January 2002, the threshold for businesses has been reduced to RM150,000 or RM300,000 accordingly, to include more business entities who are not liable to collect service tax to be within the service tax

net. The threshold comparison before and after the proposal is shown in Table 1, and the cut-off date is 31 December 2001 :

The determination of the threshold limit is by reference to the annual sales turnover during the preceding 12 months or part thereof by virtue of Regulation 3A of the Service Tax Regulation, 1975. In the event the preceding 12 months period from 31 December 2001 reaches or exceeds the new threshold limit, the business operator is required to apply for a service tax licence on 1 January 2002.



Service tax does not operate retrospectives. Once a service tax licence is obtained on 1 January 2002, then services provided or food or beverages sold on or after this date will be liable to a service tax of five per cent. The invoices issued will state separately the amount of service tax charged. Payment received for services rendered or food sold prior to 31 December 2001 is not liable to service tax.

Although the invoices issued contain the service tax amount, the business operator is only required to account for the service tax to the Customs authorities when the amount has been received from its customer. Service tax is on a received basis. There will be six taxable periods, comprising of two calendar months.

<sup>1</sup> Sec 16 of the Service Tax Act 1975.

TABLE 1 Type of business	Prior to 1 Jan 2002 (RM)	On or after 1 Jan 2002 (RM)
Legal Professional	300,000	150,000
Accounting	300,000	150,000
Engineering	300,000	150,000
Architectural, surveyor	300,000	150,000
Consultancy firms	300,000	150,000
Management company providing management services, project management or co-ordination services	300,000	150,000
Restaurants, bars, snack bars, coffee house in hotel having 25 rooms or less, outside the hotels and food courts, private clubs and advertising firms	500,000	300,000

Amounts received during the taxable period are required to be accounted to the customs authorities, latest by 28 days after the taxable period, failing which, a late payment penalty will be imposed<sup>1</sup>.

However, in the event that the amount of service tax is not received after 12 months from the invoice date, the business operator will be personally liable for the service tax amount and required to account for the service tax to the Customs office. In essence, the business operator is required to account for the service tax amount in the event there is a bad debt or non-recoverability of services rendered or goods sold.

Failure to obtain the service tax licence is an offence under the Service Tax Act, 1975 and shall be liable on conviction to a fine not exceeding RM5,000 or imprisonment not exceeding two years or both.<sup>2</sup> In addition, the operator will be liable for the non-collection of service tax plus the penalty on non-payment of service, which will be limited to 50 per cent of the service tax amount.<sup>3</sup>

A review of the annual sales turnover for the 12 month period or part thereof from 31 December 2001 is essential to ascertain the requirement of a service tax licence. Presently, the Customs Office requires three working days for the issuance of service tax licence, thus an application on 26 December 2001 is required.

### Lifting the Corporate Veil

The Income Tax Act, 1967 (the Act) acknowledges the separate legal entity between the company and its shareholders and employees. A company is a chargeable person under the Act and is responsible to account its income tax on the chargeable income derived by the company on each year of assessment. Section 75 of the Act requires directors of the company, the company secretary, the managers or principal officers of the company to ensure smooth compliance of the income tax assessment and payment to the tax authorities. The existing law merely requires these officers to ensure the company complies with the payment of tax to the tax authorities and nothing more.

Clause 6 of the Finance Bill, 2001 however imposed an onerous responsibility on



these officers to be personally, jointly and severally liable for the payment of income tax of the company to the tax authorities, despite the fact that they may have been acting *bona fide* in the operation of the company or there is no admitted evidence of fraudulent acts.

The impact of this legislation has a far-reaching effect. In the author's opinion, these officers should only be personally accountable if there is evidence to show that there exists a fraudulent act or wilful evasion of tax. A mere negligence or error should not be a reason to hold them personally liable, as after all they are only employees of the company. In the mean time, this legislation may result in more directors seeking for professional indemnity insurance to mitigate the risk and such steps will no doubt increase the operating cost of the company.

### The Abolishment of Bonus Restriction

The excess of two months bonus payable to an employee is not tax deductible in the accounts of business enterprises, whether sole proprietor, partnership or companies.<sup>4</sup> In order to accelerate local spending and to increase productivity, employers are now able to reward employees excess bonus without the concern of the non-tax deduction of excessive bonus. The legislation however takes effect from year of assessment 2002, which is not timely. The period

for year of assessment 2002 refers to the calendar year 1 January 2002 to 31 December 2002 or the financial year ending 2002, for business enterprises who have opted for the non-31 December year-end. This would mean that the company that closes its accounts on 31 December would continuously suffer from this bonus restriction if the bonus is paid in the year 2001.

The abolishment of bonus restriction may be a christmas gift if the Finance Minister had announced it to take effect from year of assessment 2001 instead of 2002. This will be timely, as the business operator or even the employees require the incentive to face these unpredictable economic times especially after the September 11 incidents.

### Practical Training Deductions

An expense must satisfy the 'wholly and exclusively' test and must not be prohibited by the Act in order to rank for deduction against the gross income of a source in order to arrive at an adjusted income. There must exist a correlation between the incidents of expense of the production of gross income.<sup>5</sup> As Malaysia's economy depends on the achievement of full employment, the Government has taken steps to retrain the unemployed citizens and equip them with new skills to fill up the required vacancies. Business enterprises are urged to support the government in this retraining scheme, thus they will be given a business deduction if they incur expenditure in the provision of practical training in Malaysia to the non-employee who is a tax resident in Malaysia.

The author has doubts about the response of the business enterprises as this participation involves expenditure in training the non-employee. Their priority will be to focus on training employees in order to fine-tune or increase their productivity

<sup>2</sup> Sec 29 of the Service Tax Act 1975.

<sup>3</sup> See Choong Kwai Fatt, *Malaysian Taxation - Principles and Practices* (2001) 7<sup>th</sup> ed chapter 36 page 601-617 for details.

<sup>4</sup> Sec. 39(1) (h) of the Act. Inserted by Finance Act 578/1998 to take effect from 17 Oct 1997 as a step to curb the financial crisis.

<sup>5</sup> See Sec 3, Sec 34 and Sec 39 of the Act. A detailed discussion of the deduction of business can be found in Choong Kwai Fatt, *Malaysian Taxation - Principles and Practices* (2001) 7<sup>th</sup> ed chapter 15 p 228-262.

<sup>6</sup> Sec 39(1) (k) of the Act.



or expertise to increase profitability. Even if they are willing to engage in these social responsibility projects, they will be motivated instantly if the deduction is in the form of a double deduction of expense or even triple deduction of expense.

### Increase Limits of Lease Rental

Lease rental on motor vehicles is accorded a revenue expense if it is incurred 'wholly and exclusively' for the production of income. The amount of lease rental for passenger vehicles would be restricted to RM50,000 in aggregate per motor vehicle<sup>6</sup>. This refers to vehicles used by the employees or even directors of the company. No such restriction on amount, if it applies to commercial vehicles such as lorries, buses or vans, which are used directly for transporting the goods of the business to the

clients.

It is proposed that the threshold limit of passenger cars be increased to RM100,000 if the said motor vehicle has not been in

use in the business and the cost of the said passenger vehicle does not exceed RM150,000. In the event the said vehicles exceeds RM150,000, the threshold remains at RM50,000. This is to encourage the business enterprises to acquire local automobiles such as Proton Wira, Kembara or Perdana through leasing as these cars are below RM150,000. In the event the business enterprises go for a Mercedes or BMW, then they will be deprived of deduction of lease rental to RM50,000.

### Reduction of Personal Tax Rate

Malaysian individuals are not motivated to work hard as the marginal tax rate is too high — 29 per cent, if the chargeable income exceeds RM150,000. Top notch professionals or high networth individuals may even use a company to shelter their tax as the

TABLE 2

### Comparison of individual income tax rates under the existing and proposed tax structure

Chargeable Income Tax Brackets (RM)	Tax Rates (%)	
	Present	Proposed
1-2,500	0	0
2,501-5,000	1	1
5,001-10,000	3	3
10,001-20,000	5	3
20,001-35,000	9	7
35,001-50,000	15	13
50,001-70,000	20	19
70,001-100,000	25	24
100,001-150,000	28	27
150,001-250,000	29	27
Above 250,000	29	28

TABLE 3

### Tax Savings By An Individual As A Result Of The Proposed Tax Structure

Chargeable Income Brackets (RM)	Present Position			Proposal				Savings (%)
	Tax Rates (%)	Tax Payable (RM)	Tax After Rebate of RM350	Tax Rates (%)	Tax Payable (RM)	Tax After Rebate of RM350	Tax (RM)	
1-2,500	0	—	—	0	—	—	—	—
2,501-5,000	1	25	—	1	25	—	—	—
		25	—		25	—	—	
5,001-10,000	3	150	—	3	150	—	—	—
		175	—		175	—	—	
10,001-20,000	5	500	—	3	300	—	—	—
		675	325		475	125	200	62
20,001-35,000	9	1,350	—	7	1,050	—	—	—
		2,025	1,675		1,525	1,175	500	30
35,001-50,000	15	2,250	—	13	1,950	—	—	—
		4,275	4,275		3,475	3,475	800	19
50,001-70,000	20	4,000	—	19	3,800	—	—	—
		8,275	8,275		7,275	7,275	1,000	12
70,001-100,000	25	7,500	—	24	7,200	—	—	—
		15,775	15,775		14,475	14,475	1,375	8
100,001-150,000	28	14,000	—	27	13,500	—	—	—
		29,775	29,775		27,975	27,975	1,800	6
150,001-250,000	29	29,000	—	27	27,000	—	—	—
		58,775	58,775		54,975	54,975	3,800	6
above 250,000	29	—	—	28	—	—	—	—

company only pays tax at 28 per cent, coupled with the imputation benefits<sup>7</sup>. Malaysian citizens are required to work harder to build the nation in this time of downturn in the economy and it is good that the Government addressed this issue by lowering the personal tax rate by one to two per cent and to bring the top marginal tax rate to 28 per cent to be on par with the company's tax rate.

This benefit however takes effect from the year 2002, which would mean that individual income earned in 2001 continues to be taxed at the higher rate. The author regrets that the Finance Minister is not bold enough to lower the top tax bracket to 25 per cent and the threshold on chargeable income to RM400,000 instead of the proposal of RM250,000. The author is confident that if the amount of chargeable income can extend to RM400,000 with the tax restricted to 25 per cent, more top professionals are willing to work hard and spend more to boost the growth of the Malaysian economy. Such a step will also attract foreign expatriates working in Malaysia to transfer their knowledge and join the effort in building the economy. Government revenue may be reduced by the drastic cut in income tax rate but it will be balanced through the collection of income tax from a larger group (more people, Malaysian and expatriates) on more income (through hard work) and not ignoring the service tax on consumer spending. It's therefore an appeal to our Finance Minister to re-look at this issue before the proposal turns into the Act.

Tables 2 & 3 shows the pre and post reduction of income tax rate of an individual for easy reference.

### **New Appeal Procedures for Stamp Duties**

A new Section 38A was introduced to the Stamp Act, 1949 to allow the Collector of Stamp Duties in the first instance to review the assessment of stamp duties. The taxpayer however is required to pay the stamp duties first even though he is appealing. This is to prevent taxpayers using the appeal procedure to defer the payment of stamp duties. The notice of appeal together with the grounds of appeal must be filed within 30 days from the date of notice of assessment. The Collector of Stamp Duties is re-

quired to review the appeal and notify the taxpayer on his decision. However, there is no time limit imposed on the Collector to carry out such a review of an appeal and this would be a disadvantage to the taxpayer as he had already paid the stamp duties. A delay in the decision may affect his cash-flow, given the fact that the rate of stamp duties is as high as three per cent in the case of acquisition of real property.

The taxpayer can further make an appeal to the High Court within 21 days after the notification from the Collector in the event that he is dissatisfied with the Collector's decision. He, however, can require the Collector to state and sign the case setting forth the question upon which his opinion was required and the decision made by him for the consideration of the High Court.

Presently, the appeal of stamp duties has to be carried out through appeal to the High Court and the Collector of Stamp Duties has no jurisdiction to hear any appeal<sup>8</sup>. The new appeal procedure allowing the Collector of Stamp Duties to carry out the review and adjust the stamp duties accordingly would no doubt streamline the appeal and expedite the stamp duty cases. However, given the fact that there is no time limit imposed on the Collector to carry out the review may be seen as a shortcoming. It is therefore hoped that an amendment be allowed for the taxpayer to appeal to the High Court in the event the Collector of Stamp Duties fails to carry out the appeal within three months from the date of notification of an appeal submitted to him.

### **Withholding Tax Exemption**

Withholding tax is imposed on payment to non-residents<sup>9</sup> who derive interest income, royalty income or special classes of income in Malaysia. The rate is either 10 per cent or 15 per cent on the gross amount payable to a non-resident person.<sup>10</sup> As this non-resident person normally carries out business outside Malaysia, the Act imposes that the payment of withholding tax lies on the payer who credits or pays the amount to the non-resident and he has to account for the withholding tax to the tax authorities within one month from the date of the payment or the crediting of it. In essence, the non-resident merely receives the net amount, after the deduction of withholding tax.

In the event the non-resident requires the payer to absorb the withholding tax and they wish to receive the amount gross, free from Malaysian tax, then the amount received by the non-resident would be deemed net. A re-gross of the amount is required to have the correct amount of withholding tax be determined and then accounted for to the tax authorities. In this situation, the cost would be much higher.

In order to encourage more non-residents to carrying on trading with Malaysia or to relieve the payer from absorbing the withholding tax, the Government has abolished the withholding tax of 10 per cent on :

- (a) lease rental payment to non-residents by shipping companies on rental of ISO containers;
- (b) royalty payment to non-residents by educational institutions for franchised education scheme programmes if such programs are approved by the Minister of Education.

These exemptions take effect from 20 October 2001.

### **Conclusion**

This budget benefits most sectors generally although it is not generous enough in certain areas. Nonetheless, the author believes they will have an impact on the economy, especially in increasing local spending. One should always be grateful and mindful that something is better than nothing. Together everyone should work harder, spending more locally and have confidence in our economy to prevent it from deteriorating. We should move ahead towards 'Wawasan 2020'. Malaysia Boleh! AN

<sup>7</sup> Imputation benefits is a tax avoidance scheme to return the tax paid by a company to individual shareholders as tax refund if the top marginal tax rate of such individual is below 28%. The mechanism can be found in Choong Kwai Fatt, *Advanced Malaysian Taxation — Principles and Practices* (2001) 5t ed chapter 33

<sup>8</sup> see Sec 39 of Stamp Act 1949

<sup>9</sup> non resident is defined in Sec 7 and 8 of the Act.

<sup>10</sup> Sec 109, 109B of the Act. See Supra n 4 p 544 - 550

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# Taiwan Gets the green light

Taiwan got the green light in the middle of September to join the World Trade Organisation (WTO), a day after China was approved, officials said. A WTO working party on Taiwan's accession package gave formal approval in a closed-door session to a deal struck by negotiators on Monday — the same day as China's own entry accord got formal backing. The carefully pre-arranged moves were under a longstanding accord that respected the sensitivities of the two Asian neighbours.

"With Chinese Taipei's membership the WTO has taken yet another step towards achieving universal membership," a recent AP report quoted WTO Director-General Mike Moore as saying. Terms for the admission of Taiwan were completed 18 months ago, but the final decision was delayed because of the 1992 understanding that China would join first.

The recent decision has been seen as a way for both China and Taiwan to be formally approved for membership at a meeting of trade ministers planned for Doha, Qatar, in November. Beijing has been said to be very happy with the accord ending its 15-year battle to join the WTO as a "win-win" outcome that will benefit economic development in China and other members of the global trade body. However, a senior Chinese leader has been quoted saying that WTO membership would also bring "severe challenges" as China prepares to integrate itself with the world economy.

Gao Yan, a spokesman for the Ministry of Foreign Trade and Economic Cooperation (Moftec), described the conclusion of China's WTO talks as a "win-win" result that will be conducive to the economic development of both China and other WTO members.

She said China will strictly follow WTO rules after it becomes a full member. The commitment was also underscored by Foreign Ministry spokesman Zhu Bangzao. "After becoming a member, China will follow the principles of the WTO to improve its market mechanism that goes along with international practices," he said at a press conference. The *Beijing Evening News*

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**"The WTO is like a big country market. Not joining it, China is like a nervous hawk who takes flight every time the inspectors come around."**

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celebrated the news with a full-page report.

It also quoted China's chief WTO negotiator Long Yongtu as saying: "The WTO is like a big country market. Not joining it, China is like a nervous hawk who takes

flight every time the inspectors come around." China's main trading partners yesterday said the Asian giant's WTO entry would

boost the world economy and drive economic reform in China.

But Li Ruihuan, a Politburo member of the Chinese Communist Party, said big challenges awaited China.

Stiff competition from foreign rivals may hurt Chinese state-run companies, triggering closures and mass layoffs. Professor An Yufa, an agricultural economist at the China Agriculture University, said that agriculture is facing a major crisis. "The state will have to phase out its subsidies to peasants because they are against WTO rules. The peasants will feel the mounting pressure," he said. In industry, the car sector faces grim times.

Zhang Yu, an associate at the Beijing office of leading market-research firm Automotive Resources Asia, said the car-parts industry will be hardest hit if it cannot adapt within the five-year phase-in period for tariff reductions. **AN**

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**"With Chinese Taipei's membership the WTO has taken yet another step towards achieving universal membership,"**

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# Setting Sail in the same boat

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Recognising relationships between motivational orientation and academic performance among students from two different races.

## Abstract

Using McClelland's theory of needs, this study examined the motivational orientation of need for achievement (nAch), need for power (nPow) and need for affiliation (nAff) of 110 Malay and Chinese undergraduates. A motivational profile of nAch, nPow and nAff were identified for Malay and Chinese students. The study examined whether there were significant differences in nAch between Malay and Chinese students. The study also determined if there was a relationship between nAch and academic performance (CGPA) for Malay and Chinese students. The study found Chinese students had higher nAch and nPow compared to Malay students. Malay students had higher nAff compared to Chinese students. No significant relationship between nAch and academic performance for Malay and Chinese students were found.

## Introduction

McClelland (1961) in the theory of needs identified three important needs that help understand an individual's mo-

tivation. These needs are achievement (nAch), power (nPow), and affiliation (nAff). The need for achievement is the drive to excel and succeed in any undertaking. The need for power is the desire to make others behave in a way that they would not otherwise have behaved in. The

1975). Research done in organisations has examined the importance of need for achievement and need for power in entrepreneurial behaviour (McClelland & Winter, 1969; McClelland & Burnham, 1976). The need for achievement and power was found to be associated with successful en-

“McClelland (1961) in the theory of needs identified three important needs that help understand an individual's motivation ... Need for achievement — the drive to excel and succeed in any undertaking. Need for power — the desire to make others behave in a way that they would not otherwise have behaved in. Need for affiliation — the desire for friendly and close interpersonal relationship.”

need for affiliation is the desire for friendly and close interpersonal relationship. These three needs are not mutually exclusive but the most dominant need may determine the motivational outlook of an individual (Yassin & Stahl, 1990).

The motivational theory of needs has been extensively researched and documented by McClelland (1961, 1966, 1970,

entrepreneurial behaviour and economic achievement. The need for achievement and power has also been shown to influence managerial effectiveness in organisations (Cummin, 1967, Durand, 1975, Harrel & Stahl, 1981; McClelland & Boyatziz, 1982). Stahl (1983) investigated the predictive power of the need for achievement and the need for power on





managerial performance. His study found that high managerial performance was associated with high nAch and high nPow. In a study among undergraduates at a US university, Stahl and Harrell (1982) investigated the relationship between the need for achievement and academic achievement as measured by the cumulative grade point average (CGPA). They found a significant relationship between nAch and academic achievement.

In Malaysia systematic research on the need for achievement and academic achievement between the various races is not well documented. A cursory examination of the academic achievement of undergraduates in Malaysian public universities indicates the dominance of Chinese students. The relatively poor performance of Malays in the academic field has been a major topic of discussion in political and academic discourse. One reason cited for the underperformance of Malays in the academic field is the lack of need for achievement (Ali, 2000). This study attempts to investigate the relationship between the need for achievement and academic performance of Malay and Chinese

students. A comparison between Malay and Chinese students was carried out because the academic performance of Chinese students dominantly surpassed that of the Malays. This study has three objectives. The first is to assess the motivation orientation profile of nAch, nPow and nAff of Malay and Chinese students. The second is to determine whether there are significant differences in nAch between Malay and Chinese students. Finally, the study will determine whether there is a relationship between nAch and academic performance of both Malay and Chinese students.

### Methodology

A survey to assess the motivational orientation profile was carried out among 300 third and fourth year University Utara Malaysia Malay and Chinese undergraduates. The Job Choice Exercise (JCE) developed by Stahl and Harrell (1982) was used to assess the motivational orientation of students in terms of need for achievement (nAch), need for power (nPow) and need for affiliation (nAff). The development, validation and reliability of the JCE

is well documented by Stahl and Harrell (1981, 1982) and Stahl (1983). The JCE consisted of 24 hypothetical jobs, which are described in terms of nAff, nPow and nAch criteria. Figure 1 (see page 38) shows a job sample from the JCE. The statements “establishing and maintaining friendly relationships with others” assess nAff; “influencing the activities or thoughts of a number of individuals” assess nPow; and “accomplishing difficult (but feasible) goals and later receiving detailed information about your personal performance” assess nAch. The weighting assigned to each of the three criteria is either very high (95 per cent) or very low (five per cent). The respondents are required to make decisions about the attractiveness of the hypothetical job (Decision A). The “Further Information” and “Decision B” scales are fillers. The respondent’s decisions are regressed on the three criteria. The resultant beta weight is determined as the motive measure. One advantage of the JCE is that individual random data can be highlighted and subsequently eliminated through a test for non-significant regression equation (Harrell and Stahl, 1981;

**FIGURE 1** Sample of Job from JCE

**JOB NO.1**

In this job, the likelihood that a major portion of your duties will involve :

establishing and maintaining friendly relationships with others is (95 per cent)	VERY HIGH
influencing the activities or thoughts of a number of individuals is (95 per cent)	VERY HIGH
accomplishing difficult (but feasible) goals and later receiving detailed information about your personal performance is (95 per cent)	VERY HIGH

**DECISION A.** With the factors and associated likelihood levels shown above in mind, indicate the attractiveness of this job to you.

-5	-4	-3	-2	-1	0	+1	+2	+3	+4	+5
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**FURTHER INFORMATION ABOUT JOB #1** If you exert a great deal of effort to get this job, the likelihood that you will be successful is MEDIUM (50 per cent).

**DECISION B.** With both the attractiveness and likelihood information presented above in mind, indicate the level of effort you would exert to get this job.

0	1	2	3	4	5	6	7	8	9	10
Zero effort to get it					Great effort to get it					

Stahl and Harrell 1981, 1982). Since the respondents were more conversant in Bahasa Malaysia, the JCE was translated into that language. The Bahasa Malaysia version of the JCE was then translated back into English to ensure both the versions corresponded in text and meaning. The respondents were also requested to provide demographic data and cumulative grade point average (CGPA). The CGPA based on a 4-point scale is a measure of the academic performance of the students at University Utara Malaysia. The CGPA is used as a measure of academic achievement in this study.

From a total of 300 Job Choice Exercise Questionnaires distributed in the survey, 116 questionnaires were returned giving a response rate of 38.7 per cent. However only 110 completed questionnaires were usable as six respondents were found to provide random data, which was highlighted through a test for non-significant regression. The respondents to the survey consisted of 57 Malay (51.8 per cent) and 53 Chinese (48.2 per cent) students. The data on the academic performance of the respondents is shown in Table 1.

**TABLE 1**

Academic Achievement (CGPA) of Students				
	3.75 - 4.00	3.00 - 3.75	2.50 - 2.99	2.00 - 2.49
<b>Malay</b>	0	21	28	8
<b>Chinese</b>	3	49	1	0
<b>TOTAL</b>	3	70	29	8

**Results**

Table 2 summarises the motivation orientation profile of the students. Chinese students have higher nAch (0.39) than Malay students (0.37). Chinese students also have higher nPow (0.15) than Malay students (0.10). Malay students however, were found to have higher nAff than Chinese students. An independent t-test was used to examine whether there are significant differences in the three motives between Malay and Chinese students. The results indicated no significant difference in nAch ( $t = 0.346, p = 0.73$ ), nPow ( $t = 0.667, p = 0.51$ ), and nAff ( $t = 0.772, p = 0.47$ ).

A one-way ANOVA was carried out to examine the relationship between nAch and CGPA for Malay and Chinese students. The results suggested no significant relationship between nAch and CGPA for Malay [ $F(2,57) = 0.223, p = 0.8$ ] and Chinese [ $F(2,53) = 0.076, p = 0.9$ ] students. Table 3 provides the mean and standard deviations of nAch for different levels of CGPA for Malay and Chinese students. Interestingly though, the findings indicate that the nAch of students with lower CGPA is higher than that of students who achieve a higher CGPA, for both Malay and Chinese students.

**TABLE 2**

Comparison of nAch, nPow and nAff Between Malay and Chinese Students						
	nAch		nPow		nAff	
	Mean	SD	Mean	SD	Mean	SD
<b>Malay</b>	0.37	0.34	0.10	0.38	0.46	0.31
<b>Chinese</b>	0.39	0.29	0.15	0.40	0.37	0.34

**TABLE 3**

Descriptive Statistics of nAch and CGPA for Malay and Chinese Students						
CGPA	Malay			Chinese		
	N	Mean	SD	N	Mean	SD
3.75 - 4.00	—	—	—	3	0.33	0.506
3.00 - 3.74	21	0.33	0.428	49	0.39	0.288
2.50 - 2.99	28	0.39	0.298	1	0.41	—
2.00 - 2.49	8	0.38	0.259	—	—	—





## Discussion

Based on the results of the motivation-orientation profile, one may conclude that Chinese students are achievement and power orientated and Malay students are affiliation oriented. However, the results of the study show no significant differences in nAch, nPow and nAff between Malay and Chinese students. The study also found no significant relationship between nAch and academic performance for both Malay and Chinese students. This finding is not consistent with Stahl and Harrell (1982). In their study among American undergraduates, Stahl and Harrell (1982) found a significant relationship between nAch and cumulative grade point average (a measure of academic performance). Stahl and Harrell (1982) also found American management undergraduates had nAch of 0.44. In comparison, the nAch of Malay and Chinese undergraduates is lower than the nAch of Americans undergraduates. The findings of this study indicated two things. First, Malay and Chinese students have similar nAch. Second, despite the wide gap in academic achievement between Malay and Chinese students, no significant relationship between nAch and academic performance was found for both races. The findings of this study suggest that although there are differences in academic performance between Malay and Chinese students, these differences are possibly not due to a lack of a need for achievement (nAch), which is an inhe-

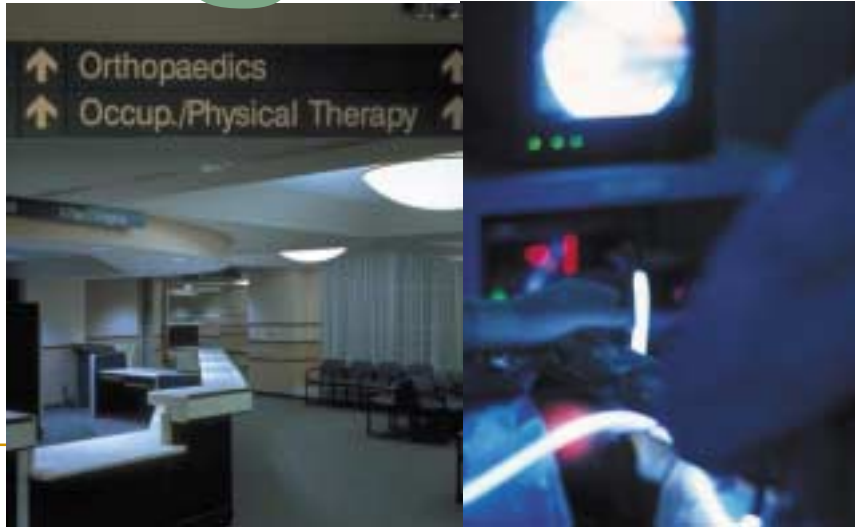
rent internal motivational state. Therefore, although Malay students have poor academic performance at university in comparison to Chinese students, they are not lacking of a strong nAch to excel in their studies. This is evident from the comparably close nAch between Malay (0.37) and Chinese (0.39) students obtained in this study. Thus the difference in academic performance between Malay and Chinese students is not due to an inherent internal motivational force such as the need for achievement, but perhaps due to some external factors. What these external factors may be will require an in-depth study to identify them. One possibility may be to look at how affirmative action programmes in education for Malay students probably is making them complacent in competing with their peers from other races especially the Chinese. A strong need for achievement coupled with a competitive spirit may be just what is needed to push Malay students to excel in academic performance. Since this study was carried out among students from one university, the findings are not generalizable. A broader study including students from other universities is needed to further attest these findings. Nevertheless, it is necessary for educational policy makers to devise strategies to harness the strong nAch inherent in Malay students to propel them to attain higher levels of performance in their studies as to be comparable, if not better, than the achievement of Chinese students. AN

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# Preparing for Rainy Days

By Parimala Maheswaran



In line with the government's future plans to privatise our medical facilities and treatment, there is bound to be an accelerating and alarming hike in medical fees including hospitalisation and surgical treatment. In Malaysia, the issue of health insurance is interpreted as a source of health care financing. At the moment, only those who can afford or those whose companies' are willing to sponsor or contribute partially towards payment for their medical treatment and hospitalisation, seek treatment from private medical centres. Apart from this category of people, those who own health insurance policies also are able to seek treatment from these private medical centres.

However, there are some technical difficulties in establishing who will be covered by the health insurance scheme. Premiums can be easily collected from salaried workers but how is the government to collect premiums from padi planters, hawkers, the unemployed, etc? What about those who cannot afford to pay?

Taking into consideration the government's plan to privatise medical treatment and hospitalisation in this country, they would have to come forth with some sort of compulsory national health insurance plan like that practised and implemented in the UK. Having a national insurance policy coverage would certainly eliminate many difficulties that the government may be facing at the present time. The government sees compulsory health insurance as

a means of reducing the government's burden in financing health care. Also, the method used in financing health care goes to the root of how distribution of health care services would be done. Chances are when health care funding is controlled by a democratic government on behalf of the entire population, the greater the chance for a more equitable distribution of health care resources and services. Health planning should extend to include the private sector so as to integrate and control the private sector and bring it within the jurisdiction of the national health-planning programme.

Health insurance be it compulsory or voluntary, essentially guarantees payment for doctors and hospitals alike. Considering the fact that payment will be made on the basis of services rendered, this would serve as an incentive for doctors and hospitals to increase the quality of their own services rendered.

A national health insurance policy coverage should come into force from a certain time period or it ought to commence from the time a baby is born. This would enable the government to obtain accurate statistics and information on the types of diseases/illness that the country's citizens may have. By possessing such vital health information, the country would be better equipped to deal with the variety of diseases/illness that may be plaguing its people. Effectively, the nation's health care would be better man-

aged and more funds can be allocated to carry out medical research to combat the myriad of diseases that are lurking within the realm of mankind.

By possessing an accurate account of the nation's health statistics, the premium for a national based comprehensive health insurance plan can be calculated more precisely and fairly in order to ensure that each policy would have adequate overall annual limit in the schedule of benefits. The category of people who are less healthy or have some serious lingering health problem would definitely be subjected to a loading, i.e. a higher premium would be charged. A higher premium is due from these high-risk health policies in order to compensate for the medical charges that may be forthcoming.

The pioneering movement that the government recently introduced was the first National Health Insurance Programme, which carries a premium for as low as 35 sen a day. This health insurance plan is rather comprehensive and the key feature in this policy is that in order for an insured to make a claim, the insured must be confined to the hospital as an in-patient for at least 12 hours. As in all general rules, there are exceptions and in this case, if the insured is involved in an accident, then no admission is necessary as a prerequisite to make a claim. In essence, this policy does not provide coverage for any sort of outpatient treatment. As such, the Sihat Malaysia policy is aptly categorised as an individual/family hospital & surgical insurance



policy. Most people would be misled as to the type of coverage afforded by this policy if they failed to pay attention to the exact meaning of the words 'hospital and surgical



insurance policy'. As such, a potential purchaser of any insurance policy must always read and understand the 'policy jacket', i.e. the stipulated terms and conditions of any insurance cover that they intend to buy and not necessarily fall prey to the persuasive words of their agents. More often than not, their agents fail to highlight the salient points of the policy's terms and conditions by consciously omitting to do so with the hope of selling the said policy. In cases where the agents themselves are not aware of the policy terms and conditions, they would fail to inform the potential insured of their benefits and other applicable exclusions under the said policy.

The proposal form for this policy is rather comprehensive in terms of assimilating information about the potential insured especially in terms of his/her medical history. The problem frequently encountered is that many potential insured fail to truthfully disclose the very essence of their 'known' medical condition at the time of purchasing this policy. Contracts of insurance especially for health policies are those requiring the element of *uberrimae fidei* or of utmost good faith to be fulfilled. The contract is voidable if a party fails in preliminary negotiations to disclose a fact material to the risk. In a case of the potential insured attempting to purchase a health insurance policy, knowledge of the material facts relevant to his health would only be confined to the person seeking insurance. Hence, it is very important for

the party seeking insurance to disclose all relevant material facts relating to their health in order for the contract of insurance to be legally binding. Should the relevant insurer

later find out that the particular policyholder had withheld relevant material facts, they are at liberty to declare the contract null and void.

Although the proposal form is not a contract of insurance, it is however, a very concise piece of risk evaluation on the part of the in-

surser to decide if they should accept or reject the potential policyholder based on the given information.

On the part of the policyholder, the proposal form provides a clear picture of the schedule of benefits provided by the policy, the available plans and their co-relating premiums and also the relevant applicable exclusions.

The Sihat Malaysia policy jacket illustrates and specifies all the applicable terms and conditions in regards to the policy. The policy jacket although rather lengthy, is very specific in terms of coverage and the types of diseases/illnesses that it clearly excludes. Looking at the way this hospital and surgical insurance plan was drafted, it is justifiable to comment that it is a prudently drafted policy. The statistics that are obtained here, especially on the claims ratio from each and every insurer, would prove to be useful for the government, if and when they attempt to formulate and implement a compulsory national health insurance scheme. The premium rates to be charged would be more accurately reflected as they would be able to measure the accuracy of the premium rates charged under the Sihat Malaysia scheme as a test run in determining a fair and adequate premium rate to be subsequently charged should our government follow through with the intention of introducing a national health insurance scheme.

The questions that still remain unanswered are whether health insurance policies would actually encourage or discourage

a more equitable distribution of health care services. What will the impact on its access be, both geographically and socially? Health insurance and 'fee for service' will make private practice more lucrative, causing more government medical personnel leaving for private practice. As such, those who are not insured or who are unable to purchase insurance for private health services (in the case of compulsory health insurance) would have to deal with a more polarised situation wherein the better-equipped, better-staffed private sector would certainly cater for the more affluent and the less well-off public hospitals left to cater for the poor and those who cannot afford to pay.

Further, if private health care services were only concentrated in urban areas, what would people dwelling in the rural areas opt for? As such, it would be fair to comment that in this context, health insurance would hardly cater for the lower income groups and those in the rural areas!

The main objective of implementing a national health insurance scheme would be to restructure the present health care delivery system such that it will be more attractive for medical and paramedical personnel, besides electing to serve in the rural areas and among the poor and disadvantaged category of the population.

## Conclusion

Before formulating a comprehensive national health insurance scheme, it should be given due consideration and careful planning as to the method to be employed in financing health care. In order to implement a proper national health insurance scheme, the government should extend its circles of discussion and dialogue to include parties from all ranks, backgrounds and sectors to draw feedback. Community participation in health care discussions, debates and decisions should be welcomed in order to help shape a balanced primary health care concept. This will foster a dynamic spirit of cooperation among themselves and will naturally lead to an improved well-being as they will realise that they ultimately have control over their own health and well being, thus undoubtedly enhancing the quality of life. AN

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# MASB 2

## Inventories : An Analysis

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### ABSTRACT

In 1999, the Malaysian Accounting Standards Board (MASB) issued several financial accounting standards, one of which was MASB 2 on Inventories. This was a follow-up from the earlier step taken by the Board in which it had adopted 24 of the extant International Accounting Standards (IAS) and the Malaysian Accounting Standards (MAS) issued by the Councils of the Malaysian Institute of Accountants (MIA) and the Malaysian Association of Certified Public Accountants (MACPA), prior to the establishment of the MASB. Similar in objective to the article written earlier on MASB 1,<sup>1</sup> this article also attempts at an analysis and a review. It seeks to examine the standard, focusing on the associated strengths and the weaknesses.

### INTRODUCTION

MASB 2 is an adapted version of IAS 2 (revised) issued by the International Accounting Standards Committee (IASC) in 1993. The new IAS 2 with the simpler title *Inventories*, grew out of the original version IAS 2, entitled *Valuation and Presentation of Inventories in the Context of the Historical Cost System*. This original version was adopted by both the MIA and MACPA as an Approved Accounting Standard<sup>2</sup> in Malaysia effective 1975. In 1994, on the basis of the IAS 2 (revised), the Council of MIA issued an Exposure Draft [ED SI 2 (revised)] and in 1996, IAS 2 (revised) was issued as an Approved Standard which became effective in 1997. As stated under paragraph 3, MASB 2 now "supersedes International Standard IAS 2 ... and International Accounting Standards IAS 2 (revised)". Except for a few additions and alterations, MASB 2 is virtually a reflection of IAS 2 (revised). So although the focus here is specifically on MASB 2, the comments made may also apply to IAS 2 (revised) where applicable.

It is intended to begin by having an overview of the standard, looking at the areas covered therein. Next, the standard is examined in more detail focusing on each of the topics covered under the standard.

### DISCUSSION

#### General

Overall the standard covers various important topics under inventory quite extensively. It begins by outlining the objective of the standard, followed by a discussion of the scope covered therein. Then the essential terms are defined. The measurement aspect is then discussed covering the various costs concerned including the costs of purchase and cost of conversion. The determination of cost on the basis of the flows of cost is then covered focusing on the different methods. The valuation aspect focuses on net realisable value. It then goes on to discuss when the related inventory assets are to be recognised as an expense. The standard ends with a discussion on the disclosure of the inventories in the financial statements.

#### Objective

The objective of the standard is spelt out thus, "The objective of this Standard is to prescribe the accounting treatment for inventories under the historical cost system ... This standard provides practical guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realisable value. It also provides guidance on the cost formulas that are used to assign costs to inventories." Indeed, the topics covered in the standard do satisfy the major part of the objective.

#### Scope

The objective as quoted above is to be read in conjunction with the scope provided in the subsequent four paragraphs. The standard is meant to apply in the preparation of financial statements in the context of the historical cost system in accounting for inventories with three exclusions, namely first, inventories in the form of work in progress arising under construction contracts including directly related service contracts which is covered under MASB 7. Secondly, the standard excludes financial instruments, and finally it excludes farm livestock, agricultural and forest products and mineral ores, "to the extent that they are measured at net realisable value in accordance with well established practices in certain industries."

Paragraph 2 concerning exempt enterprises is a departure from IAS 2 (revised) and the related approved accounting standard. This paragraph states that exempt enterprises need not comply with paragraphs 37(d), 37(e), 39, and 40 of MASB 2. Paragraph 3 states that MASB 2 has superseded the two earlier standards mentioned above. The elaboration of exempt enterprises in paragraphs 7, 8, 9 and 10 is unnecessary and it may even be distracting. This is because such definition and explanation has been adequately covered under MASB SOP 1. What is needed is just a brief reference to that document.

<sup>1</sup> MASB 1 : An Analysis, *Akauntan Nasional*, Nov/Dec 2000 and January 2001.

<sup>2</sup> The term *Approved Accounting Standards* are defined in the Financial Reporting Act 1997 as accounting standards which are issued or approved by the Malaysian Accounting Standards Board.



## Definition

The definition of inventories as set out in paragraph 5 is quite comprehensive, covering the items for the merchandising as well as the manufacturing business. Such is also the definition of the term net realisable value, which is “the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale”.

Paragraph 6 which serves as logical supplement to the definition, is concerned with the items to be included as inventory. While the inclusion of the merchandising and manufacturing items as inventory is quite normal, the inclusion of the costs of

such as “held for sale” and “in the process of production” imply the tangible and physical substance characteristics of inventories.

The discussion under paragraph 6 on what is to be included in inventory is confined mainly to those items of inventory that the company has in its possession. But it is not uncommon for companies not to be in possession of goods but has legal title to them, such as *goods in transit* from the supplier under which, the term of the transportation or shipping agreement is such that title passes to the buyer when the goods are delivered to the transportation agent. Other examples are *sales on approval*, *conditional sales* and *goods on*

present location and condition”. The definition is all embracing and does not distinguish between merchandising and manufacturing inventories. Usually the two different types of inventories are distinguished. Because merchandising inventories consist only of one category, the related cost is usually called *inventory cost*. Manufacturing inventories consist of three categories, namely raw materials, work in process (work in progress) and finished goods and the related cost is usually referred to as *product cost*.

An alternative to the way inventory cost is presented in the standard (where merchandising and manufacturing inventories are not distinguished) is to discuss mer-



the service provider as inventory is quite odd. As explained under a later paragraph (para.19) the “costs of a service provider consists primarily of the labour and other costs of supervisory personnel, and attributable overheads”. Indeed, these costs are assets because they have future economic benefits to the service provider, and thus they may appropriately be deferred to the future period. The inclusion of the costs of a service provider seems odd because the revenue of a service provider is usually recognised on the basis of a percentage of completion method as quite clearly provided for in MASB 9 paragraph 21. As such the related costs should be immediately matched against the related revenue in the same period. Even if for some good reasons these costs are deferred, still they should not be classified under inventory in the balance sheet. This is because they do not meet the definition of inventories. Inventories as rightly defined under paragraph 5 refer to items which are tangible and have physical substance. The phrases

*consignment* which are not yet sold by the year-end and are being held in the premises of the consignee.

## Measurement of Inventories

Paragraphs 11 through 33 are concerned with the measurement of inventories. Inventories are measured at the lower of cost and net realisable value. Net realisable value (NRV) is a reasonable basis for the determination of market value. The use of cost and market is practised throughout the world, in the US, Europe (Fourth Directive of the European Community) and of course, the IASC. In the US, NRV is taken as an upper limit for the determination of the market. The minimum limit is NRV minus an amount that approximates a normal profit margin on inventory sales. However, in practice, the term market is often taken as NRV.<sup>3</sup>

The cost of inventory is defined as that which “comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their

chandising inventories first because it is the simpler of the two. Then the manufacturing inventories are discussed focusing on the distinction between product cost and period cost with some mention of the three categories of manufacturing inventories. The discussion on product cost should begin with the cost of raw materials, which is calculated on exactly the same basis as the cost of purchased merchandising inventory including the cost of transportation and insurance, purchase discounts and purchase returns and allowance. The discussion on raw materials first is important because it serves as the basis for the subsequent discussion on the conversion costs. The discussion on the costs of conversion, in the absence of the costs of raw materials, as in the standard (paragraphs 14 through 16) makes it rather incomplete because product costs consist of the costs of direct material, direct labour and manufacturing overheads.

<sup>3</sup> See Spiceland *et al* (2001), *Intermediate Accounting*, 2<sup>nd</sup> Ed., p. 382, McGraw Hill.

In the standard, period costs are discussed under the title, "Other Costs" (paragraphs 17 and 18). In paragraph 17, it is stated that "Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition". The paragraph does not give many examples apart from mentioning that it may be appropriate to include non-production costs or costs of designing products for specific customers in the cost of inventories. The standard does not seem to provide much guideline as to when such non-production costs may be capitalised and thus become a part of product cost.

There are actually several non-produc-

tion costs that should in theory be capitalised. Two examples are the related expenses of the purchasing department, and the interest costs incurred to finance the purchase. The former is seldom included for two reasons, first because of the difficulty of allocation; second because the related amount to be capitalised is seldom material. The latter is a more important issue but there is no mention of borrowing cost in the standard.

There are different views regarding the treatment of borrowing cost. The IASC in its IAS 23 (revised) stated that, "Borrowing costs are not usually capitalised for inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis (paragraph 11). In paragraph 22, it is stated that, "Borrowing costs should be capitalised as part of the cost of an asset ... that require a substantial period of time to get them ready for their use or sale". This is similar to the FASB stand in the US. For projects that operate along the line of process costing,

for example motor vehicles, such costs should not be capitalised, on the basis of cost benefit ratio, that is, because the cost of providing such information far outweighs its benefit. But for projects done under a long term job costing, for example shipbuilding, such costs should be capitalised, if material. The inclusion of this issue in the standard is important.

Under paragraphs 22 through 27 the techniques for the measurement of cost are discussed. Four methods of inventory costing are covered, namely specific identification, FIFO, weighted average, and LIFO. The specific identification method is mandatory under the standard in accordance with the conditions stipulated,

that is, if "the items of inventories are not ordinarily interchangeable and goods or services produced and segregated for specific projects ...". FIFO and weighted average seem to be the preferred methods for inventories that do not fall within the above specific identification category. LIFO is an allowed alternative as the title suggests but the word "should" rather than "may" in the paragraph concerned (paragraph 26) seems to put LIFO at the same preference level as LIFO and the weighted average. Further, an additional note that LIFO might not be acceptable for income tax purposes is not included in the standard. This was included in the MIA issued standard, IAS 2 (revised) under its Notes and Exceptions.

The preference for FIFO and average cost is consistent with the practice in most countries. In the UK and France, LIFO is not allowed. In countries where LIFO is allowed, it is not allowed for income tax purposes. The US is the only major country where LIFO is used on a widespread

basis.<sup>4</sup>

Net realisable value is discussed at length under paragraphs 28 through 33. There is not much to comment on here except for paragraph 32 concerning the valuation of materials and other supplies held for use in production. Two rules are set on the basis of which the valuation on materials and supplies are to be determined. First, the materials and other supplies are to remain at cost if the ultimate finished goods are expected to be sold at or above cost. Paragraph 32 states, "Materials and other supplies held for use in the production of inventories are *not* to be written down below cost if the finished goods in which they will be incorporated

are expected to be sold at or above cost". The phrase "not to be written down below cost" implies that even if the replacement cost (RC) of the materials and supplies falls below cost, their valuation will remain at cost so long as the expected selling price of the finished goods to which they contribute, is at or above cost. This is quite straightforward. The next rule stipulates the condition when the materials and supplies are to be valued below cost, which is when the NRV of the ultimate finished goods falls below cost. It reads: "However, when a decline in the price of materials indicates that the cost of the finished goods will exceed net realisable value, the materials are written down to net realisable value". The above rules for the determination of material and supplies valuation may cause some difficulty especially in the situation where gross margin is low causing the expected selling price to be quite close to cost

<sup>4</sup> See, for example, Chasteen *et. al.* (1998), *Intermediate Accounting*, 6<sup>th</sup> Ed., p. 497





which is to be expected with the fall in the replacement cost of materials. Assuming first, the situation where cost equals the expected selling price (as incorporated in the first rule), then NRV is already below cost, having taken into consideration the cost of disposal. In this situation both rules seem to apply, which means both cost and replacement cost may be applicable for the valuation of materials and other supplies. As a matter of fact, this difficulty will exist in all situations where the disposal cost exceeds gross margin, for example, when the cost is RM25, the expected selling price is RM27 and the NRV is RM24. Does the paragraph mean to give greater weight to the second part, that is, if NRV of the finished goods falls below its cost, then the materials and supplies must be written down even if its selling price is equal to or exceeds cost? If this is so then that intention is not clear. It would perhaps be much easier if there is only one rule, preferably the second rule.

Another thing that may be missing in this part of the standard, is that there is little mention on how to deal with the work in process when there is a decline in the replacement cost of materials. A guideline similar to the one on "materials and other supplies" discussed above should also be included for "work in process".

### Recognition as an Expense

Paragraphs 34 through 36 are concerned with the recognition of inventories as an expense when the goods are sold in the following period. This part seems clear except for the second part of paragraph 34 which reads: "The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, should be recognised as a *reduction* in the amount of inventories recognised as an *expense* in the period in which the reversal occurs". This part is rather difficult to understand. It seems to say that both the fall and the rise in the value of inventories are to be treated as expenses. Could this be an error in the standard? Would it be more meaningful if the words "reduction" and "expense" are replaced with the words "increase" and "gain" respectively? This should then be consist-

ent with the word "income" as shown in paragraph 37(d).

To treat the reversal of the write-down of inventories as a reduction in the cost of inventories is to cause an upset to the corrective action that comes naturally under the circumstances. The reduction in the valuation of inventories to NRV in the previous period causes a decline in the income of that period. However, the effect in the following period upon income is reversed, increasing income by the same amount as the decline in the previous period, thus the effect after the two year period is zero. The reversal of the write-down as suggested in the standard may cause an upset to the corrective action mentioned above. Moreover, any such reversal as suggested in the standard seems superfluous and out of the ordinary practice.

The usual practice seems to be that the beginning inventory whether at cost or at NRV is left in the book as it is until the end of the year. By that time it does not exist any more because it has been turned into cost of goods sold. The new set of inventory resulting from the year-end inventory count is then valued again on the basis of the lower of cost or market and the process is thus repeated.

### Disclosure

The last topic dealt with under the standard is Disclosure covering paragraphs 37 through 43. The disclosure requirement is detailed and rather demanding. However, a major disclosure requirement seems missing, that is, whenever a change in inventory method is made, the *nature* of the change, and the *effect* of the change if material should be disclosed. Although this seems to be covered in a general sense under paragraph 55 of MASB 3, it should, nevertheless, be included specifically applicable to a change in the inventory method as an extension to 37(a).

### SUMMARY AND CONCLUSION

MASB 2 is an adapted version of IAS (revised). The standard was issued as far back as 1993 by the IASC and adopted by MIA in 1997. Except for the paragraphs on exempt enterprises, MASB is

the same as IAS (revised) with little change. In general, MASB 2 has provided little advance from that which had been adopted earlier by MIA. It is virtually the same standard.

The contents of the standard are quite straight forward, although there seems to be a few minor problems. Amongst these are first, in determining the items to be included in inventories (paragraph 6), there is no mention of those goods that the company has legal title but is not in possession, for example *goods in transit*, *goods on consignment*, *sales on approval* and *conditional sales* etc. Second, it is considered odd that the cost of a service provider is included as inventory (paragraphs 6 and 19). This does not seem consistent with MASB 9 paragraph 21 which provides that service revenue is usually recognised on the basis of a percentage of completion method. The related expenses are therefore appropriately matched against the revenue so determined.

The valuation of materials and supplies inventory of a manufacturing company poses another problem (paragraph 32). There seems to be some difficulties, for example, in the situation where the expected selling price of the ultimate finished goods equals cost. In general there would be difficulties when gross margin is low causing the cost of disposal to exceed the gross margin.

Another problem is concerned with the reversal of the write-down of inventories arising from an increase in net realisable value in the following period (paragraph 34), which seems to say that both the write-down as well as the reversal are to be treated as a reduction in the value of inventories. This part does not seem to be consistent with the provision of paragraph 37 (d).

Apart from the above problems, MASB 2, just like its predecessor Approved Accounting Standard IAS 2 (revised) has been useful in providing a guideline on inventories. <sup>AN</sup>

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*Note* : Dr. Shaari Isa acknowledges the comments by Associate Professor Dr. Susela Devi in the writing of this article.

# Committed to Success

By Nirmala Ramoo

**A**sk 10 young accounting graduates what their career choice is and chances are 9 out of 10 will not list internal auditing as their pursuit. Traditionally seen as the least glamorous branch of the accountancy profession, internal auditing is perceived to be a difficult vocation by many. That may be the general perception but not so for Wee Hock Kee, the proud recipient of the 2001 award for Internal Auditor of the Year. Wee's passion for his job was evident when AKAUNTAN NASIONAL interviewed him recently. "I was fated to be in this profession as I am very 'passionate' about my job", said Wee.

Now, how many people have you come across who can claim to have a passion for their jobs? Small wonder then that at the relatively young age of 36, Wee was sought by AstraZeneca Plc (AstraZeneca), one of the top healthcare companies in the world, to set up its internal audit division for the Asia Pacific region. Quite an achievement considering the fact that AstraZeneca is a world class company, a 'darling stock' in the London Stock Exchange with an annual turnover of US\$18 billion. His excellent credentials coupled with his exuberance for the profession convinced his prospective employers to allow him to set up AstraZeneca's regional audit division in the Klang Valley despite the fact that the company's regional office is based in Singapore. As regional audit director, a position he has held for the past four years, Wee oversees the internal audit functions in Japan, Korea, Hong Kong, Taiwan, India, Indochina, Singapore, the Philippines, Australia, New Zealand and most recently South Africa. With only eight members in his team, how does he get the job done?

"Size is no longer an issue", said Wee. Apparently staffing does not play a very important role in terms of numbers now in the internal audit profession as the profession

In an exclusive interview with *Akauntan Nasional*, Wee Hock Kee, 2001's recipient of the Internal Auditor of the Year award, explains why internal auditing is the profession of choice for him.



Wee Hock Kee ... delivering the corporate governance and control agenda

has moved away from the traditional sort of compliance base. "We look at high level controls. We look at the business risk in an organisation", he added. In explaining the strongly embedded internal control culture in AstraZeneca, he said the audit team worked very closely with the company's external auditors as an assurance provider to management. "As control drivers, we help management to develop the first line of control by training their internal control compliance executives and managers to take responsibility to discharge the first line of control. We have done a lot in terms of educating line managers from the internal audit perspective by conducting awareness programmes and corporate governance workshops. We now have a very matured control environment where managers take full ownership over their line of control. They work very closely with us in delivering the corporate governance and control agenda in AstraZeneca", said Wee. Obviously the audit team at AstraZeneca is on the right track as the company recently won the CFO Europe Award in the Risk Management category, in addition to earn-

ing a listing on both the London based Footsie Four Good Index and the US Dow Jones World Sustainability Index which list companies that have attained a high level of transparency, social accountability and disclosure.

Wee started his career with Fraser & Neave as an internal audit trainee and within 12 months was made a full-fledged internal auditor, a feat that usually takes between three to four years. ICI, which was then a global leader in the manufacturing industry, saw Wee's potential and enticed him with the opportunity to audit the company's Asia-Pacific division. He was given the unenviable task of setting up the internal audit department in Japan, a country known for its aversion to the functions of an internal audit department. Despite the obvious difficulties culturally and in winning public acceptance, Wee took to his job with gusto and his perseverance prevailed. "I think I did very well in making a major breakthrough in terms of gaining acceptance in Japan", he said with obvious pride. Indeed, within three years of joining ICI, he



went on to notch another feather in his cap. As quality manager for the internal audit department, Wee was instrumental in the department achieving the ISO 9002, a rarity in the internal audit circle.

Guinness Anchor beckoned with a plum opening for Head of Audit. As usual, Wee's trademark enthusiasm and passion shone through and internal auditing became a key function in the company. *"My strength,*

*apart from technical skills, is coming in, setting up the internal audit department and raising the profile of the department. You need to sell the importance of the internal audit function to management",* he explained. Carrying this philosophy into his next job with Singapore based Cycle and Carriage Ltd, Wee who was stationed in Kuala Lumpur managed to win back a lost contract within months of joining

the company. *"My predecessor was doing a policeman's job and in the process a lot of people were not too happy. What I did was to move away from this image and play the role of a business partner with management",* he said. Obviously, this tactic worked well, as internal audit became a highly visible function in the company. *"I get a lot of satisfaction from being able to raise the profile of the internal audit department within an organisation to one with high visibility",* said Wee.

From the world of multinationals, Wee next forayed into a totally new area, to work for a Malaysian entrepreneur, first as an internal auditor and then as his special assistant. *"Unlike multinationals which are highly regimented and regulated, here I had to learn to manage the ambiguities. This experience was invaluable to me",* Wee said in describing his three-year experience with the company. However, the world of multinationals was his destiny and when AstraZeneca presented an irresistible challenge to Wee, he seized the opportunity to work with one of the top pharmaceutical companies in the world. Astra was a well

known pharmaceutical company in Sweden with over 40 years of experience when, in the early 1990's, it merged with Zeneca, formerly ICI, to forge a formidable partnership that has gone on to become a multi-billion dollar enterprise today.

In describing the contributing factors to his achievements to date, Wee said a thorough knowledge of the business is an important attribute for a successful internal



*Wee receiving the coveted award from the Auditor-General, YBhg Dato' Dr. Hadenan Abdul Jalil*

auditor. *"You cannot pretend to know the nature of an organisation's business if you want to audit a company successfully. To know a business well, one must go into the market to learn." As the business area demands very high output in terms of audit report, internal auditing is not confined merely to the compliance and assurance process but also the business mastery part. In pointing out the shortcomings of many internal auditors, he said many times due to a lack of business knowledge the audit recommendations given by auditors are merely a repetition of their audit findings.*

*"To know a market, one must be prepared to roll up the sleeves and move into the market place together with the sales people to understand the ethical issues at hand",* he stressed. Another fundamental factor for a successful internal auditor is to master strong soft skills when dealing with people. *"One has to take into account emotional and sometimes political sensitivities in order to gain the auditee's trust and to avoid stepping on the wrong toes",* he cautioned. Of course when called in to do an investigation, it is a different ball game altogether.

*"In an investigation, there is no such thing as a business partner. When you have to hit, you must hit. So, a good auditor must be able to play a dual role, when required, with equal ease",* said Wee.

His advice to upcoming accountants — *"Make internal auditing your first choice in your career as this profession gives you a tremendous opportunity to learn. In addition, you have visibility as you get to interact with*

*senior management — a good opportunity for upward career movement."* With the new wave of corporate governance and the Kuala Lumpur Stock Exchange's listing requirement on internal audit, Wee is confident the profession has a bright future. *"What we need is top internal audit professionals in order to raise the standard of the profession."*

Despite holding a high profile job that requires him to be abroad

on a regular basis, Wee, who is a former member of the Board of Governors of the Institute of Internal Auditors Malaysia (IIAM), is keen to be actively involved in the development of the profession in the country. *"I would like to be invited back to the Board of Governors of IIAM as this will enable me to share my international exposure in this field through dialogues with young upcoming internal audit practitioners. I would also like to talk to university students to explain both the challenges and the excellent opportunities for them within the profession",* he offered.

The future looks bright for this father of two strapping young boys aged 10 and 13. As part of AstraZeneca's global group internal audit management team, Wee's visibility to the top management is undeniable. *"AstraZeneca has a high regard for people and believes in developing people with high potential. They recognise you",* he said, referring to the fact that AstraZeneca is looking for a suitable upward position for him within the organisation in recognition of the high level of performance he has demonstrated these past four years. **AN**

# Starting a Financial Planning Business

By Yap Ming Hui

Starting a financial planning business takes more than just accounting knowledge. Some tips.

Since the last interview entitled “Why Should Accountants Make It Their Business” in the October issue of *Akauntan Nasional*, our company’s website, [www.whitmanindependent.com](http://www.whitmanindependent.com), has received more than 30 incoming inquiries about starting up a financial planning business. In responding to the inquiries, I had the opportunity to meet up with numerous accounting firm owners, many of whom are keen to extend financial planning services to their existing clientele and beyond. However, most of them are also overwhelmed by the complexities involved in starting up and running a competitive and profitable practice.

In my opinion, there are eight critical success factors required in starting up a financial planning business.

In my opinion, there are eight critical success factors required in starting up a financial planning business.

## 1 A practical business model to jump-start your financial planning business

The most important decision to make when starting up a financial planning business is what kind of business to be in. In short, what is the business model? Is it going to be product-based or process-based?

Being product based would mean starting with one or two financial products or services first. After familiarising yourself with some financial planning experience, you would then want to move on to the comprehensive process.

Alternatively, you might jump straight into process-based financial planning. However, despite the fact that it is more professional and client-centric, you must be able to manage the diversity and complexity of

very experienced in providing financial consulting to clients, financial planning — especially personal financial planning advisory — requires a slightly different set of processes. According to the International Association



for Financial Planning, there are six steps in a professional financial planning process :

- Establishing and defining the client-planner relationship;
- Gathering client data, including goals;
- Analysing and evaluating clients’ financial status;
- Developing and presenting financial planning recommendations and/or alternatives to achieve financial

comprehensive financial planning here.

How is your service going to be compensated? Through fees, commissions, or a combination of both?

In order to charge fees and remain profitable, you would need to be sure that there are sufficient clients who are willing to pay for your advice.

How you make all these decisions is all about balancing your client’s expectations and keeping your financial planning business profitable. The thing to remember here is that the way you deliver financial planning must add value to your clients, while at the same time providing reasonable revenue to your firm.

## 2 A tested and proven financial planning process to deliver integrated and total financial advice

Despite the fact that most accountants are

cial objectives;

- Implementing the financial planning recommendations; and
- Monitoring the financial planning recommendations.

In actual practice, an accountant would require a tested and proven financial advisory process to be able to deliver integrated and comprehensive advice. Undeniably, it would take some time and effort before you can design and deliver a process that lives up to your clients’ expectations of service standards.

Next comes the million-dollar question : How are you going to full-proof your process professionally without starting with your existing clients? Alternatively, you may want to acquire the tested and proven process from established financial planning companies, which, of course, comes at a price.



**3 A complete range of financial services and products to support financial plan implementation, local and international**

One of the most important values offered by financial planning is the range of alternatives or a combination of alternatives in addressing a financial need. As an effective financial advisor, you must have access to various financial products and services, not only in terms of information and knowledge but also in the ability to help the client in the implementation.

The range provided must be measured against two considerations; the diversity of different products, and the choices of different companies. In other words, your recommendations must go beyond unit trusts or life insurance. In addition, as far as unit trusts or other products are concerned, you must also not limit yourself to the choices of one company alone as it is not possible for one company to provide all the best funds under one umbrella. It is critical to understand that the effectiveness of your financial planning process will be largely discounted if you only have a limited range of solutions. As a professional advisor, it is very unfair to deny your clients the privilege of a complete range of financial solutions.

**4 Professional training and education for the continuous upgrading of financial planning knowledge and skills**

A financial advisor does not stop learning after completing his or her professional qualification in financial planning. In fact, it is mandatory for every financial planner, either CFPs or ChFCs, to complete a certain number of hours in continuing professional education.

Most important of all, the financial planning profession in Malaysia is new and evolving. In order to keep your financial planning knowledge and skills up to date, you must continue to train and educate yourself. Undeniably, this is going to be one of the most challenging tasks for an accountant who also plays the role of personal financial advisor. Besides the accounting knowledge and development, he or she must also put in extra effort to constantly remain updated on the latest developments in financial planning.

**5 Multi-disciplined professional advisory support to provide comprehensive and holistic advice**

Financial planning advice is seldom limited to the financial field of expertise alone. More often than not, the client's unique financial situation may require the expertise of other professionals such as lawyers, tax consultants, corporate trustees, property valuers, investment advisors and so on. As a result, you must establish a reliable professional network in order to bring in the required expertise as and when required. It is important to note that not every lawyer, tax consultant, corporate trustee, property valuer or investment advisor is suitable to be on your advisory panel. It is, hence, your duty to confirm that the selected professional is experienced and competent in his or her respective field. Otherwise, you run the risk of invoking the clients' ire if things do not turn out well with the recommended professional. Preferably, the selected candidate also understands and appreciates the process and mechanism of financial planning so that he or she can fit in his/her expertise according to the overall financial plan. It is only through the combined and coordinated effort of various professionals that we can help our clients make decisions with their total financial picture in mind.

**6 Financial advisory credential building to gain trust in delivering financial planning service**

In the eyes of your clients, you may be a very experienced and competent accounting professional. They may trust you on everything you say about accounting matters. However, you must not assume that they will do the same when you offer them financial planning advice. Your ability to convert the existing clients into financial planning clients is very much dependent on how they recognise your credentials as a personal financial advisor. I know of some accountants whose clients tell them everything about their business, but nothing about their personal financial matters. In order for them to trust you to do the job as well as other professional financial advisors, you must work on building your credentials in financial planning. Of course, credentials do not come overnight. Alternatively, an accounting firm may borrow the required credentials from an established financial planning company by initiating some forms of professional affiliations or strategic alliances.

**7 Marketing and selling activities to generate enough qualified leads for financial planning clients**

Unless you have more than enough existing clients who want you to provide them with financial planning services, you would still have a marketing and selling job to do. However, being a regulated professional, an accountant is normally not so much exposed to marketing and selling. There are many ways and methods to attract financial planning clients, from cold calling to warm referrals. It is totally up to you to evaluate which methods fit you best.

**8 Market research and product selection support to ensure quality and up-to-date financial information**

Having the access to various options of financial products and services is a good start. However, you will need to do more than that to deliver quality service. One of the main reasons why a consumer looks for a financial advisor is because he or she is overwhelmed by the choices and information he or she has. You need the support of a reliable research system to pick the products that are of competitive value to the client. For example, there are more than 100 unit trust funds in Malaysia. How are you going to recommend the right fund based on the client's situation without proper research support?

And, the choices will not stop growing. In the US, there are more unit trusts or mutual funds than the counters listed on our stock exchange. One day, we too will develop to that stage. There is no way a person can practise financial planning without proper research support.

The eight factors listed above are definitely not exhaustive. However, they constitute some of the areas which I personally think are very critical in setting up a successful financial planning practice. Any accounting firm that is able to address the above issues effectively will definitely have a good head start in its financial planning business. However, if you feel you are still uncertain as to how to jump-start your financial planning business, then it is only logical that you approach an established financial planning company for advice. [AN](#)

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*Note:* The writer is the Managing Director of Whitman Independent Advisors Sdn Bhd and he can be contacted via e-mail at yapmh@whitmanindependent.com or www.whitmanindependent.com

# Using Customer Information to Increase Sales



In days gone by, a corner shop owner may have known that one customer always bought milk on a Friday and another bought fruit on a Wednesday and he'd make use of the power of this knowledge. But imagine tracking the entire history of your customers commerce today. Impossible? Not with the help of IT.

**T**ools exist that enable you to capture detailed information about your customers and clients. The first and essential tool you need is a customer database. A database will help you organise a collection of information and let you view that data from a number of different angles.

You can then make prudent decisions based on your analysis of facts which will greatly improve targeting and marketing.

A database can be used to store a wealth of facts about customers: their names, addresses and telephone numbers, but also other information such as purchas-

ing records and credits status (do they pay on time?). If you collect other details such as their age, gender, hobbies and special interest, you can also add these to your data. This can add the 'personal touch' to your business dealings. Surprising your customers with gifts based on your knowledge of their preferences, for example, may help win new or repeat orders.

Database information should be made available to all company personnel who deal with customers. Why? How impressed is a customer when they ring up and get a 'don't know' to their question about their account or a service? By shar-

## CASE STUDY : Sam Fogg Rare Books and Manuscripts

**S**am Fogg Rare Books and Manuscripts deal in illuminated manuscripts from all over the world, covering the earliest works to around 1580.

The business is well known in the art and antique world, and sells its products to an international customer base, which includes museums and universities.

As business grew, the company began to experience difficulties keeping track of ever-increasing information on the three or four thousand items of stock and customer records. "It sounds like a cliché, but there wasn't logic to it," explains Marc du Ry, IT co-ordinator for the company. "The system spread over several floors, and into several filing cabinets."

### Database Management

Marc has recently introduced a database system which logs stock levels, based on two networked PCs running Windows 95, Microsoft Office and the

Microsoft Access database software. "I think that for me," says Marc, "the main issue was getting a grip, or staying in control, really getting a view of what was going on; and because the stock was so multifarious, to start ordering the whole thing."

The database is now becoming a reliable memory for the company. The system is used to log customer details, which can be easily updated and turned into a mailing list, and is also being used in the preparation of product catalogues, with product descriptions transferred directly to the word processor.

### Gaining Knowledge

Marc has spent about four months working part-time on the system. He admits that he didn't spend a great deal of time planning the project, however, from the outset he knew more or less what he needed to achieve.

Some of the changes he has implemented have been the result of learning

more about the business, "not that the nature of the business changes, but the knowledge applied in running it, as well as applying the software, does"

### In Control

The system has had a dramatic impact on administration. "It is much easier to find things, because information is now laid out in one place in a fairly logical way." It has also greatly assisted in tracking, grading and targeting enquiries, and in responding to customers.

The system also allows the company to do different kinds of analysis and reporting, and has already thrown up some interesting information from an accounting point of view. Says Marc: "I think all of us like to have an objective reference point. And we're certainly more in control."

**Sam Fogg Rare Books and Manuscripts**, 35 George Street, London W1R 9FA. Tel : 0171-4952333.



ing customer information, issues can be solved more speedily and a higher level of service can be offered.

You will, however, need to adhere to the provisions of the Data Protection Act when handling such sensitive information.

### Integrated Information

Integrated software applications can ensure that all staff work with the same customer files. For example, a customer service team might use a database for product orders, while accounting staff may be using a spreadsheet to plot figures. It is important that these two applications integrate harmoniously, so that the accounting team can process invoices for the orders created by the customer service team. Applications such as the Microsoft® Office suite provide this capability.

E-mail also allows employees to share customer information instantly and can be used at home or on the road. Several email systems allow you to create 'public folders' for sharing information. If customers send complaints or questions via email, these can

"By sharing, customer information issues can be solved more speedily and a higher level of service and professionalism can be offered to your client."

be put into a public folder accessible to all employees, enabling them to address customer needs promptly and efficiently.

Alternatively, an intranet can be used to share and update customer information within the business internally. Some companies put customer data onto their Web site, so that the client can view progress of their order.

With all your company information stored on your database you could even prepare for your customers a CD offering a full description of the services or products you offer. A good information-sharing system can ensure consistency in employee-customer relationships.

### Co-ordinating Diaries

If you've arranged a meeting with an important client it can be very frustrating to discover that half of your team can't make

it. The time and energy spent trying to coordinate and reschedule such a meeting could have been put to much greater use!

However, if everyone in your office used a scheduling application, you could instantly set up a meeting and avoid availability problems not to mention double booking complications. Combined with a network, this would allow you to view all the attendees' diaries together, on screen. Microsoft® Outlook, for example, allows workgroup and individual information management.

### Keeping Track

You need to be able to track customer orders effectively. Keeping paper files of shipping and work orders is a potential disaster waiting to happen. Job tracking software can perform this task, and be shared over a network by all employees. AN

## CASE STUDY : Pongees Ltd.

**P**ongees Ltd. is a silk importer, converter and exporter. Established in 1929, Pongees supplies a number of different industries that require high quality silk products, including television, film, theatre, haute couture, bridal houses and interior design companies. In a highly competitive environment, where designers are renowned for calling several suppliers simultaneously for samples, speed of response is vital.

### Server Power

Recently, the company introduced a Microsoft client server environment using Windows® 95 and NT workstations connected to a Windows® NT server, which replaces an earlier mainframe and dumb terminal system. For this environment, the company uses a major database application, Tex 2000.

"Tex 2000", says managing director John Godley, "allows us to be more reac-

tive in distributing samples, the 'lifblood' of our business. It plays a great part in categorising, controlling the stock and calculating prices all of which saves us time and increases accuracy."

It allows the monitoring and analysis of supplier prices, Pongees' sales, assessment



of customer profiles, purchasing and financial management and the monitoring of cloth shrinkage levels. The database is also highly integrated into the accounting system, which reduces clerical work and increases reliability.

### Access to Information

One of the key criteria for the system was to provide people with the right sort of information, where and when they needed it. Consequently, the database has been set up so that it can be accessed remotely by using Microsoft's Remote Access Server (RAS). This means that the sales team can access important information even when they are visiting suppliers based in China, India, Japan and France. Pongees is now thinking of creating a more restricted version which could be used directly by customers and suppliers; and they are also

considering making this available via the internet.

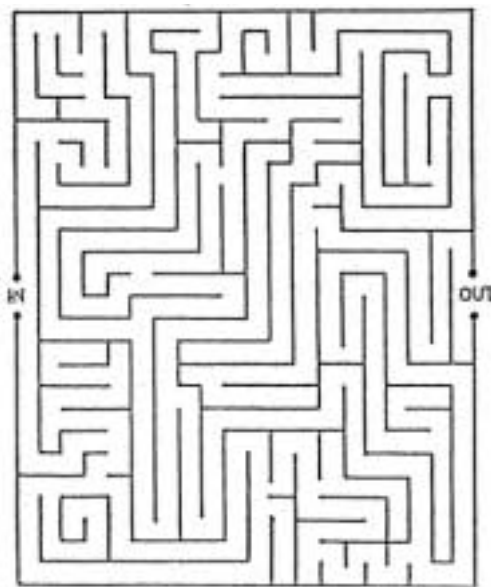
The database system can also handle EDI transactions, so that purchase orders, shipping details and invoices can be processed electronically.

# Do You Use TIME EFFICIENTLY?

By Jane Sherrod Singer UNIVERSITY OF CALIFORNIA, US

A wise Frenchman once said : "You are not born for fame if you don't know the value of time." Some people treat time as a rare commodity by pigeon-holing their activities while others gyrate around, getting very little done as the clock ticks on. The secret lies in the ability to organise efficiently the 24 hours in each day, the 60 minutes in each hour, down to the 60 seconds in each minute. The ability to use time well applies to business personnel, the man and woman at home, and the student at school. This test, devised by Jane Sherrod Singer, M.A. Psychology and Education, will help you assess your time-organisation score.

**1** Take all the time you want. Using a pencil or your finger, go through this maze, starting on the left side "IN" until you reach the "OUT". Keep track of the number of times you come to a dead-end.



ANSWER THE FOLLOWING QUESTIONS YES OR NO.

**2** Do you make lists of things to do, purchases to make, places to go?  
Yes \_\_\_\_\_ No \_\_\_\_\_

**3** Does it bother you if your watch runs too fast or too slow?  
Yes \_\_\_\_\_ No \_\_\_\_\_

**4** Do tasks often take longer than you anticipated?  
Yes \_\_\_\_\_ No \_\_\_\_\_

**5** Can you usually estimate the time correctly (within 15 minutes)? without looking at a timepiece?  
Yes \_\_\_\_\_ No \_\_\_\_\_

**6** Do you live by a fairly well-set schedule for rising, meals and going to bed?  
Yes \_\_\_\_\_ No \_\_\_\_\_

**7** Before falling asleep at night or rising in the morning, do you plan the day to come in terms of things to be done?  
Yes \_\_\_\_\_ No \_\_\_\_\_

**8** Are you usually punctual for work and appointments?  
Yes \_\_\_\_\_ No \_\_\_\_\_

**9** Do you often have the feeling of panic because you think you have things to do than time to do them?  
Yes \_\_\_\_\_ No \_\_\_\_\_

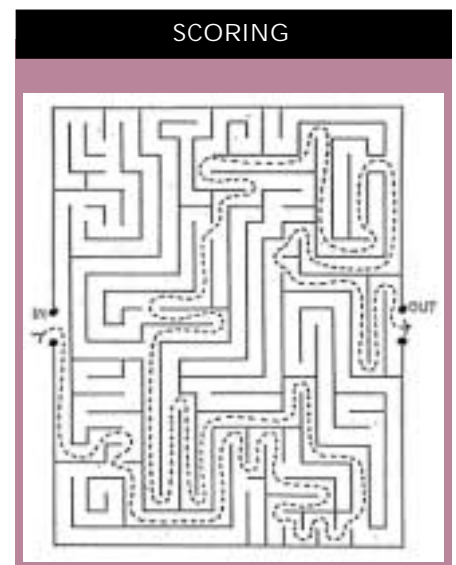
**10** Do you waste time in trying to find things such as keys, the correct folder of correspondence, the mate to your pair of shoes?  
Yes \_\_\_\_\_ No \_\_\_\_\_

**11** In your business (office, home or school) do you find yourself taking prolonged time for breaks such as coffee, cigarettes, cokes, or sessions in the rest room?  
Yes \_\_\_\_\_ No \_\_\_\_\_

**12** Do you often spend long sessions on the telephone talking to friends about little or nothing?  
Yes \_\_\_\_\_ No \_\_\_\_\_

**13** Whether in the office, at home or in school, do you have the tools of your trade near at hand and readily available?  
Yes \_\_\_\_\_ No \_\_\_\_\_

**14** Are you prone to daydream?  
Yes \_\_\_\_\_ No \_\_\_\_\_





SCORING

1. If you went through the maze from IN to OUT and came to five or less dead ends, give yourself 5 points. (Under psychological test conditions, it was found that those who could look ahead and anticipate the next move usually used time efficiently. Those who hastily ran the maze were often stopped and actually required longer time to solve the problem than the more methodical testees, thus proving Benjamin Franklin's adage, "Haste makes Waste.")

2. YES — 5 3. YES — 5

4. NO — 5 5. YES — 5

6. YES — 5 7. YES — 5

8. YES — 5 9. NO — 5

10. NO — 5

11. NO — 5 (One study showed that a heavy smoker expended as much as two hours a day reaching for, lighting, smoking and extinguishing cigarettes.);

12. NO — 5 13. YES — 5

14. NO — 5

HIGHEST POSSIBLE SCORE ON THIS TEST IS 70.

ANALYSIS

**55-70** : People who attain this score are generally adept in the efficient use of time. They are well-organised and, because of that quality, are seldom thrown off when emergencies come up. They seem to have reserve time to expend and fit the statement, "If you want something done, ask a busy person."

**30-50** : This is an average rating. Testees in this range often profit by taking the time to analyse their activities and way of life. One housewife saved hours over a month's time by putting her most-used paring knife on a magnetised wall board instead of in the drawer with the other cutlery. A business executive moved his most-used file cabinet from the outer office into his own, thus saving time and steps.

**0-25** : Those who score in this bracket do not use their time efficiently. They tend to run around in circles and are often the first to complain bitterly that they don't have time.

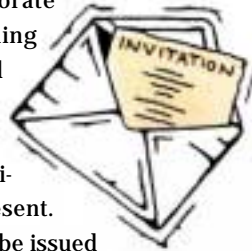
# Let the Party Begin

By Anis Ramli

**T**he end of the year usually signals a round of parties and merry-making. With invites to reply, dress codes to adhere, and the ever-changing rules for dinner parties to figure out, many of us will be left confused to the proper kind of behaviour. Here's a roundup of simple ways to mind our manners and be that perfect guest or host.

**RSVP**

It must be said that RSVP hasn't really caught on with our culture. However, within the corporate circles, responding to an RSVP could reflect positively on you as well as the institution you represent.



An RSVP should be issued ideally as soon as the invite arrives and, if a deadline is given, before then. Previously, a confirmed RSVP always means that the host can expect the person to come. Recently however, many people prefer to accept an invite immediately, although they may or may not turn up for the event. Professional party organisers often prepare for a fallout of 30 per cent. For the individual host, they can still anticipate the guest's turn up until about 15 minutes before the end of the party in which it will become clear that the person will not be coming.

**Dress code**

In the past, the term 'black tie' often meant that the women should wear a gown or something long. With fashion evolving so much in the past few years, it is now no longer required for women to be in long dresses. As long as you're dressed up and don't look like you just stepped out from the office, you should be fine. National

costumes like the *baju kurung*, *cheongsams* and *saris* have become synonymous with the term and are generally accepted. As for the men, it is still okay to swap the dinner jackets for the batik shirts, as long as they're long-sleeved. Even when the party is not work-related — and doesn't specify a dress code — it is still nice to dress up and look presentable. When in doubt, ask your host. The same goes for costume parties. Turning up as yourself in a non-attire will not only spoil the mood, but is considered rude to the host organising it.

**Empty-handed or Bear Gifts**

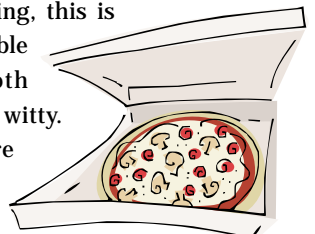
Generally, you should not feel obliged to bring anything since you have been invited to the party for yourself.



Asking the host for what you ought to bring is also not recommended, as this will only put the host in a difficult situation — he can only say no. If you do want to bring something, consider an expensive champagne that the host may keep as a gift or open up immediately. A bottle of wine might not be a good idea either because it may or may not go with the food served. The best, of course, is to return the hospitality and invite the host to your dinner.

**Frozen Food and Ready-to-eats**

Depending on the kind of dinner that you're hosting, this is still acceptable and can both be fun and witty. The rule here is never to serve bad



food. If you can't cook but you want to have the traditional three-course meal, buy out and complement it with a good wine or fantastic table setting. These days, you can get fabulous dinner and table ideas from magazines even if you can't afford a caterer.

You also don't have to break your neck-serving people. It is fine to ask your guests to help or clear. As a guest, it is also correct to get up and clear the plates, but don't hover around the kitchen unasked. You should also eat properly and appreciatively. If you are on a diet, be quiet about it. Never let your host feel inadequate or uncomfortable.

### When to Leave

It's like a domino effect — when one person leaves, the rest will be sure to follow. In this case, take your leave quietly and quickly and try not to break up the party. Although there is no set time to leave, take a hint from your host. If the drinks supply is cut off, it means that the party is over. If you need to leave less than an hour into the party, let your host know early so he can make the necessary arrangements, like promptly sitting everyone at the table so you can start dinner immediately.

### Accepting Via Fax or e-mail

Faxes and e-mails are work tools and considered inappropriate in private life. Do not reply by fax even to a work-related invitation. And in this increasingly impersonal and frantic world, a handwritten thank you note, sent the next day, would be more appreciated. **AN**



# On the Job

By Leyla Swan

Redundancy is becoming increasingly common, but it is still one of the most stressful events you can expect to experience in your life.

**W**hen my friend Peter was made redundant, he laughed. A successful journalist with more than 15 years and countless front-page scoops under his belt, he thought his editor was playing a practical joke on him.

"I couldn't believe it," he says. "Then he told me that sales and advertising revenue had been falling and he had to cut costs by what he called downstaffing. When I left

ers in its investment banking operations. Brunswick, one of the most successful public relations companies in London with clients ranging from Marks and Spencer to British Airways, recently made 20 people redundant, including two partners.

However, the fact that redundancy is increasingly common does not make it any easier to deal with. Indeed, it is one of the most stressful events you can expect to



his office, I kept expecting someone to shout out 'fooled you, fooled you.' But of course no one did. It was only when I noticed another journalist packing up her desk that it slowly hit me that it was real and I wasn't the only one."

No one is immune to redundancy, no matter how powerful, well qualified, experienced, feared or well liked in the office or boardroom. In October 2001, British Telecom announced that it was cutting thousands of jobs, just days after German banking group Commerzbank broke the news that it was to axe 3,000 jobs, including bank-

"No one is immune to redundancy, no matter how powerful, well qualified, experienced, feared or well liked in the office or boardroom."

experience in your life, alongside moving house, divorce, and the death of a loved one. Disbelief can turn into denial, anger, grief, or depression. The loss of a regular income and sense of purpose often deliv-



ers a body blow that leaves the ego reeling, affecting you emotionally, socially, financially and sometimes even physically.

My father, for instance, had worked for Telecom for his entire working life when he accepted voluntary redundancy in his early 50s. Although he had moaned about his job every single day for 30 years, he suddenly felt bereft and insignificant. He put on weight and his health suffered until he decided to take control and start up his own business. Peter, too, grew depressed. "I felt like a failure," recalls the 37-year-old. "It just never crossed my mind it would happen to me. I found it hard to get motivated again and after being turned down for a couple of jobs I felt useless, like nobody wanted me."

Employers do not always improve matters. Some deliver the bad news by simply telling workers their services are no longer required, asking them to clear their desks,



and escorting them from the building, which can leave employees feeling as if they have done something wrong. Others are more sensitive. If you are fortunate enough to work for a company that offers a counselling service, retraining or assistance finding another job, grab the opportunity with both hands. It will help.

Whatever you do, says London-based career consultant Suzanne Collier, try to maintain your self-control. After all, you'll need a good reference if nothing else.

"Although you may feel sorely tempted, do not delete all the records from the office com-

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... plan your days and make sure you have a routine. When you are not working on your CV or scouring the job pages, make sure you exercise. This is a good outlet for all your pent up emotions, keeps you looking and feeling good about yourself, and gets you out of the house and away from too much navel-gazing or television."

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puter, load a computer virus, or damage the company, its records, equipment or fellow staff ... You have to accept the decision that has been made, however unfair or shortsighted you may feel that decision to be."

There are positive steps you can take in the wake of redundancy to cushion its impact. The first step is to reorganise your finances. You will need to register as unemployed and apply for benefits — don't make the mistake of assuming you'll soon find another job. You might not and benefits can take a long time to come through.

"Inform your bank or building society, and anyone that you are scheduled to pay money to on a regular basis, of your new situation," says Collier. "They should be understanding. If you renegotiate payment plans or budget accounts, make sure that you can afford the new repayments and then stick to them. The last thing you need is to have your telephone or electricity cut off because you did not inform them of your change in circumstance."

Take a long, hard look at your past three bank statements and try to identify what payments you can suspend or stop.

"The second step is to plan your job search programme. List all the companies, agencies and contacts that you wish to follow up and organise them in order of priority. For example, registering with employment agencies is quick and easy, so do them first. Then consider who else might be likely to help you find a job. Use whatever contacts you have: you can be sure if the situation were reversed, they would use you."

Collier recommends trying to apply for at least three jobs or sending out three speculative letters each week: one on a Monday, one on a Wednesday and one on a Friday. That way, if you receive a rejection letter, you can focus on the other applications rather than dwelling on being turned down.

"It is often said that finding a new job is a full-time job in itself. Now you have the

opportunity to devote your time to it, treat the challenge as you would a work project."

Perhaps the most important thing to remember is to plan your days and make sure you have a routine. When you are not working on your CV or scouring the job pages, make sure you exercise. This is a good outlet for all your pent up emotions, keeps you looking and feeling good about yourself, and gets you out of the house and away from too much navel-gazing or television. Collier recommends reading motivational books and using the time to catch up on household tasks that you have been putting off.

"If you are unsure about your next career move, take time to reassess what it is that you want to do." She says. "Think about the things that you enjoyed in your last job, about your likes and dislikes. Do you like working in a team or do you prefer working on your own? Do you like sitting at a desk? Do you like being in a corporate environment or do you prefer to be in an informal workplace?"

"Think about what you want to do in a new job — the same thing or something different? If you had not been redundant, what would your career plan have been? Where did you want to be in five years' time and how were you going to get there? Why should this temporary glitch hinder your career plan?"

My father went back to his first love, music, and is now a self-employed musician, performing at dinner parties, weddings and launches. After a year of interviews and rejections, Peter is now writing for another newspaper, although his relationship did not survive. With at least another 20 years of work ahead of him, he now expects to be made redundant at least once more during his career. But he says he has learnt his lesson and will not take it so personally next time.

"Remember that this is temporary," agrees Collier. "Jobs get made redundant, not people. Use this time to step off the treadmill of work for a while and reassess where you really want to be." **AN**

# Big Business

One day a heated argument took place among three workmates as to who was truly indispensable for the survival of the human race.

Said the heart, "I work tirelessly. I collect low-oxygen blood from the body and send it to the lungs. I then receive oxygen-rich blood from the lungs and pump it to the entire body. Even at rest, I continuously pump 60 to 100 times a minute. If I stop, the tissues are dead!"

Said the lungs, "Indeed, heart, you do pump blood to and from me and I don't deny you work very hard. But you see, you are only a conduit for the conveyance of blood. It is I who does the actual work of exchanging unwanted carbon dioxide for oxygen."

Came the turn of the rectum. Said the rectum rather diffidently, "I know people speak about me in a hushed tone as though they are ashamed of me. My task may be lowly but my motivation is a lofty one. Do I not provide the contemplative moments and thereby become the catalyst for revolutionary ideas and solutions to complex problems without which life is really not worth living?"

And so the argument went on and on.

## Contemplative Elimination

To be fair, the rectum and anus may be the butt of many a joke but which one of us can honestly say we do not appreciate such time for contemplation? No matter how harassed we are, the time we spend in contemplative elimination is sacred to us and no one can intrude into this space.

The large intestine (colon) which includes the rectum and anus is sometimes referred to as the body's master eliminator responsible for the evacuation of solid waste. When waste material is not expelled from your body you begin to suffer the discomfort of constipation.

## Constipation Can Be Real Or Imaginary

Constipation is not a disease but a condition in which you have infrequent or uncomfortable bowel movements. Sometimes it is just a sense of incomplete elimination after a bowel movement.

The question is "What is normal bowel

By Ooi Beng Choo  
PROHIGHWAY HEALTHCARE



movement? Does it have to be a daily affair?" Many people, doctors included, believe that bowels should be moved every day, failing which you are considered constipated. I believe you can even have a constipated look, whatever that means!

The truth is there is no medical support for the contention that bowel movement must be daily. So if you have not moved your bowels today don't fret and don't rush to the pharmacist for a laxative. Anything from once a day to three times a week is normal so long as it is regular and there are no unusual symptoms like rectal bleeding or abdominal cramps.

## Common Causes of Constipation

Constipation usually begins gradually and can persist for months or years. You don't need an extraordinary event to bring on constipation. Many things which we know and take for granted, can cause constipation such as the following :

- A diet low in fibre high in fats.
- Lack of exercise.
- Insufficient fluids, especially water, has a dehydrating effect.
- Certain drugs such as aluminium hydroxide (found in over-the-counter antacids), bismuth salts, iron salts, anti-cholinergics, narcotics, various tranquillisers and sedatives can slow down the passage of stools.
- Abuse of laxatives including enemas can be

habit forming and over time can damage nerve cells in the colon and so interfere with the natural ability of the colon to contract.

- As you age your metabolism rate slows down resulting in slacker muscles and reduced intestinal activity so that bowel movements become less regular.
- Ignoring the urge to have a bowel movement can lead to no urge at all and end up with constipation.
- A not so obvious cause is irritable bowel syndrome. This is a condition where spasms in the colon affect bowel movements, usually with constipation alternating with diarrhoea, abdominal cramps, bloating and gassiness.
- Diseases such as Parkinson's disease, multiple sclerosis, diabetes, spinal cord injury and stroke.
- Chronic idiopathic constipation, a rare condition, is probably due to colonic inertia (the nerves and muscles of the colon do not work normally) but may also be related to multiple problems.

## Relief for Constipation

Most cases of constipation can be self-treated.

- Eat regular meals. Do not skip breakfast.
- Eat sufficient fibre — 20 to 35 grams a day. Fibre is that part of fruits, vegetables and grains that your body cannot digest. Fibre binds to water and results in softer, bulkier stools. So don't miss out on fresh fruits, vegetables (e.g. cabbage, carrots, brussels sprouts, asparagus), whole grains and beans.
- Exercise daily. You will notice the times you are bed-ridden are also the times you suffer from constipation. Those of you who are familiar with yoga exercises will remember the 'waddle like a duck' exercise, meant specifically for the relief of constipation. It's simple though not very elegant. Squat on the floor and start walking all over the room. It'll be more fun (and more effective?) if you also repeat "quack! quack!"
- Drink water — plain 'sky juice' — at least eight 8-ounce glasses a day. Other liquids like juices and clear soups are additional.
- As far as possible avoid laxatives and enemas. They are habit forming. If you feel you need one, consult your doctor.
- Do not ignore the urge for a bowel movement.
- Set aside time for undisturbed visits to the toilet, perhaps after breakfast or dinner. AN



# Pastimes ... Present Times

By Sue Chuah

**D**espite the constant challenges and constraints in our lives, most of us find time to indulge in hobbies. These personal pursuits provide, in addition to obvious enjoyment, momentary respite from the realities and stress of modern day living. They vary from the common/popular movie-going; reading; shopping; TV viewing to active games/sports and travelling. The indulgences can be as mundane as napping or pottering about the house (especially for career folks with erratic and exciting schedules who are rarely home) or cultural as in painting; attending art exhibitions; plays or concerts. For thrill-seekers today, the sky is the limit: abseiling; bungee-jumping; motorbike/car-racing; mountain-climbing; parachuting/skydiving; white-water rafting, you-name-it ...

This writer's interests are no different from the average working person with time and financial constraints. Movie-going tops the list of my recreations these days relegating one-time favourite, reading. My reel-life romance started way back as a child growing up amidst a proliferation of films churned out by Shaw Brothers and MGM studios. Living in the vicinity of two cinemas, at the time, further propagated the habit and watching two movies every other week was the norm. Aside from entertainment and escapism, the films offered me a colourful insight of eras and events beyond my reach/time. Certainly no amount of Geography/History lessons would have educated and enlightened me as much as viewing, on panoramic screens, rich epics like *Ben Hur*; *Cleopatra*; *Dr Zhivago*; *Lawrence of Arabia*; *Inside Forbidden City*; *Soong Sisters*; *The Last Woman of Shang*; *The Last Emperor*; *The Last of the Mohicans*; *The English Patient* and, more recently, *Gladiator*.

As a matter of fact, my proficiency in spoken Mandarin is credited to my previous addiction to Taiwanese silver-screen

dramas and not due to the infrequent POL classes that I attended in school. It was during the heydays of 'Eastern' movies that I cultivated an unusual (being English-educated) and lasting penchant for Chinese culture/language.

As 'chips of the old block', my off-spring are film fans too with family outings usually spent at the Cineplex's where the magic of moviedom is enhanced by state-of-the-art digital sounds and special effects (plus jumbo-sized buckets of popcorn!). For us, neither the exorbitant prices of tickets nor the advent of home movies and VCDs can beat the charisma of the cinema (with its wide screen and distinct ambience).

A former bookworm, I presently confine my readings (regrettably) to the daily newspapers and the occasional magazine. This is certainly a far cry from my school days when I would spend all my leisure time browsing through the bookshelves at the British Council and USIS (now, Lincoln Resource Centre). A perfect afternoon then would be spent pouring over glossy publications such as *Life* and *National Geographic* plus at-the-time exclusive English/American newspapers. For less serious literature, my favourite haunt was the neighbourhood bookstand, which offered reading on rental. This was where Mills & Boons paperbacks by romance queens' Denise Robins and Barbara Cartland ruled alongside *Beano/Dandy* as well as *Marvel* comics.

These days, I seem to have developed a phobia for academic tones and thick novels while preferring easy reading picture books. I guess the years of handling staid business correspondence coupled with a hectic and career-governed lifestyle have taken its toll on my once voracious reading appetite. However, having just been 'prematurely retired' from full-time employment, I am now cashing in on the current craze created by Kinokuniya, MPH and Popular Bookstores to recapture my

bibliophilic bliss.

Window-shopping is a perennial favourite pastime, which seemed to grow from strength to strength over the years. The mushrooming newfangled malls and burgeoning avant-garde outlets during the last economic boom certainly contributed to my enthusiasm. Aside from the aesthetic aspects of taking in the kaleidoscopic sights and updating my fashion sense, I find it stress-relieving just strolling among the shops. I would be equally at home wandering through open stalls in Chow Kit Road/Petaling Street; lost amidst the artistic & cultural profusion of Central Market/Square; revelling in the contemporary opulence of KLCC Suria/Sunway Pyramid and succumbing to shopper-mania at MidValley/Mines Shopping Fair. This interest is even more rampant during my annual travels abroad (despite the tight schedule) when sightseeing is tied-in with shopping. Often, I would be rewarded with some real bargain items (albeit, off season) and rare pieces of merchandise.

Another plus factor from these sprees (which may take up a whole day) is that the walk-about form the only aerobic activity partaken by this writer who has an aversion towards exercise. However, the eventual aching limbs and sore feet are a small price to pay for the visual feast cum mental diversion offered by the multifarious displays and riot of colours.

Writing is another dormant pastime, which I hope to revive to a financially fulfilling hobby.

Presently, the enthusiasm to write is tempered with loss of literary touch and need of language update. While previously (pre-race era) my mental creativity would pour forth freely, nowadays I often require great effort to pen my thoughts, relying on the ebb and flow of my musings. Nevertheless, with perseverance, I should realise my dream of becoming a freelance writer. AN

# Experiencing the Beauty of Gua Tempurung

By Nirmala Ramoo

**M**ention the word 'cave', and the images of dark, damp chambers leap to the minds of genteel folk, while to others, the mere mention of 'cave' brings a rush of adrenaline with visions of fun and adventure. As for me, while I will be wrong to profess to being an outdoors fiend, I do delight in the occasional trudge in the wilderness.

One such occasion was my recent venture into *Gua Tempurung*, literally meaning

communists planned some of their most daring attacks on the British, proof of which is etched on the walls of the cave.

Situated in Gopeng, a 24km drive from Perak's capital Ipoh, *Gua Tempurung* is located just off a little *kampung*. Road signages leading to the site are adequate and strategically placed so there is little chance of missing the turnoff. The tarmac road leading to the cave from the *kampung* merges into a laterite road that can get a little tricky on rainy days if you are not driving a four-wheel drive. It being a wet day, my little

'*Kembara*'

were several guides to lead separate parties into the cave and the students were not in my party. I found myself in the company of pleasant folk with the majority of them having faded memories of school bells and homework nightmares.

In exploring the cave, there are several packages to choose from,



Photo courtesy of Tourism Malaysia

'Coconut Shell Cave', in the state of Perak. Malaysia's topography with its series of marble and limestone formations has some of the most spectacular caves in the world. One such cave is *Gua Tempurung* which forms part of an intricate system of caves that meanders the Tempurung Mountain. While *Gua Tempurung* does not enjoy the same attention as its world-famous cousin, the Mulu Caves in Sarawak, it has its own distinctive character having earned a certain notoriety as a hideout for communist insurgents during the country's Emergency period from 1948-60. It is from here that the

did the job quite nicely earning itself a good engine and undercarriage wash upon my return from the trip.

Perhaps it was just the usual weekend crowd or perhaps it was the good response to the 'Cuti-Cuti Malaysia' campaign. Whatever it was, the *Gua Tempurung* registration counter that day was swarmed by noisy students from the nearby school, *Sekolah Menengah Yuk Choy*. Being much too old to enjoy the boisterous company of these enthusiastic teenagers, I dreaded the possibility of having to bear with high-pitched squeals and endless laughter over the next couple of hours in the cave. Luckily, there

priced according to the extent of the cave one chooses to see. Along with the rest of the team members in my party, I opted for the Grand Tour at RM22 per head, but only after our guide gave me the assurance that the 3km route to and fro was not too difficult. "*Tak susah sangat*", he said. A reminder that you have to bring your own torch light, as it can be quite dark in the deep recesses of the cave. Also, make sure you have your wallet and car keys (with alarms) well wrapped in plastic if you do not want to get your things wet.

The first several hundred metres of the cave were well lit with proper stairways built. We were told that the company managing the place had commissioned experts from Australia to design the stairways and in the proc-



Photo courtesy of  
Tourism Malaysia

ess had spent RM4 million for design and construction purposes. These include the placement of strategic lighting throughout the cave chambers. It was hard to imagine that the cave was once under the sea but tell-tale signs were obvious from the dead corals and rock formations formed by the flow of water. From our guide we learnt about the various cave inhabitants that included bats, scorpions and snakes. On one part of the cave walls, also known as the Rolls Royce Chamber, we came across sketches of Rolls Royce vehicles similar to the ones used by British officers stationed in Malaya before independence. Next to these were Chinese characters



detailing the time and location of hostile encounters planned against the British. The cave was an excellent hideout for the Communists until the British got wind of their whereabouts and sealed the entrance to the cave.

One of the early highlights of the journey was the section of the cave appropriately called 'Top of the World'. At first all I could do was pant and catch my breath after the arduous climb up, but after a few moments I had to catch my breath at the spectacular view and appreciate the beauty of the place. The convenience of the stairway ended after the long climb down and beyond this point, one has to have sensible shoes to go on. Sensible should not necessarily mean expensive. It is advisable to leave your branded sneakers at home to avoid heartbreak at seeing your shoes come apart as some members in my party found out much too late.

Be prepared to get cold and wet as the re-

maining trail included crossing sections of the river that flowed through the cave. Also be prepared to climb down slippery paths and clamber up steep inclines. This is where my once a week yoga lesson came in handy as the stretching exercises had somewhat made me a little more flexible and my arms stronger as I was able to heave myself up the slopes. Of course, I did land on my bottom on more than one occasion down slippery sections of the trail. Ever so often our guide would stop to point out to us the natural rock formations that had an uncanny likeness to a myriad of animals. After two hours, we reached the exit at the other side of the cave close to the North-South expressway. Our guide told us that we would be using the river on our return trail. I was a little concerned as it was still raining outside and the river was bound to be high.

It certainly was difficult to wade through the water and keep my balance, especially with the strong current and lose rocks underfoot. At certain stretches, I was completely drenched as the water reached above my neck. We encountered many challenges along the way. At some places, we had to squeeze through tiny openings in the ground, while elsewhere we had to watch our heads as the roof was very low and littered with stalactites. Despite concentrating on keeping my balance most of the time, I was able to appreciate the marble and other beautiful rock formations resulting from the flow of millions of gallons of water through the cave over millions of years.

After what seemed like hours, we reached the final obstacle — a long extremely slippery descent that required us to slide into the arms of a waiting team member at the bottom. I was among the last to go down. It was a frightening experience for me as I literally slithered down, feet first. Luckily someone caught me at the other end or I would have landed hard on my *derriere*. Another 15 minutes

Photo courtesy of  
Tourism Malaysia



and we were right back where we started that morning — drenched, muddy and utterly exhausted. We had no choice but to head for the washrooms for a shower and change of clothes.

This is where my, so far, wonderful day ended on a sour note. The horrendously deplorable condition of the washrooms with their unbearable stench, awful stains, rubbish and utter filth is something the management should feel shameful about. Being a tourist attraction, *Gua Tempurung* should at least have decent washrooms. Looking at the number of people visiting the cave, I am sure the management has enough funds to tear down the existing dump and build better facilities, and more importantly hire staff to maintain cleanliness, especially with the 50 sen toll to use the place.

All in all, it was a good adventure. Highly recommended for a weekend outing. Also, do not forget to try the delicious 'Sepam' fruit sold by a 'pakcik' near the parking lot. The taste is out of this world. **AN**



Background photo courtesy of Tourism Malaysia

MIA MELAKA BRANCH

# IROU Seminar on Taxation — Budget 2002 Proposal

IROU in collaboration with the MIA and the MIT conducted its Melaka chapter of Budget 2002 Proposal on 31 October 2001.

The seminar was officiated by Wan Ahmad Allwi bin Wan Hussein, President of IROU. IRB Kuala Lumpur's Technical Director delivered the seminar while Tuan Haji Abd Latiff bin Abd Aziz, IRB Melaka Branch Director chaired one of the sessions.

MIA Melaka Vice-Chairman, Abd Halim Husin and his two staff assisted in the smooth running of the seminar. More than 100 participants attended the one-day seminar. **AN**



Seated from L-R : Zainal Abidin, IROU Melaka Representative; Ibrahim Abdullah, Assistant Director of IRB Melaka; Tuan Haji Abdul Latif Abd Aziz, Director of IRB Melaka; Wan Ahmad Allwi bin Wan Hussein, Vice President of IROU Malaysia and Abd Halim Husin, Vice Chairman of MIA Melaka Branch, together with some of the officers from the IRB Melaka and Muar Branch who made the event successful



MIA Melaka Vice Chairman, Abd Halim Husin (third from left) with IRB Melaka senior officers at the registration counter



Tuan Haji Abdul Latif Abd Aziz, Director of IRB Melaka; Ibrahim Abdullah, Assistant Director of IRB Melaka; Abd Halim bin Husin, MIA Melaka Branch Vice-Chairman and Norazah Harun, IRB Melaka Public Relations Officer having a discussion during the seminar break



Participants listening attentively during the seminar



Abd Halim Husin, MIA Melaka Vice-Chairman (second from left) and MIA Melaka Secretariat attending to participants at the registration counter



## Members' Forum

The MIA Melaka Branch Committee organised a "meet the members Forum" on 31 October 2001, which was also attended by a few MIA members from neighbouring states.

The forum was aimed to achieve the following :

- Brief members on the activities undertaken by the Branch since the appointment of its Branch Committee members on 1 February 2001;
- Gather feedback on previous programmes and suggestions on future programmes;
- Provide members with a platform for raising any issues and forward them to the relevant committee, council or authority;
- Provide a platform for networking among its members;
- Foster better relationships between members.

During the Forum, MIA Melaka Committee Members and Council Member, Nik Mohd Hasyudeen, who very kindly spared his time to attend the Forum, clarified amongst many other issues, also several issues pertaining to membership and the MIA



*From R-L : Lee Hin Kan, MIA Melaka Branch Chairman; Nik Hasyudeen, MIA council member; Abd Halim bin Husin, MIA Melaka Vice-Chairman; Venkatramanan, Chairman of the Taxation and Public Practice Sub Committee; Piong Yew Peng, Vice-Chairman of the Education and Membership Sub Committee and Ang Teck Soon, Vice-Chairman of the Financial and Management Sub Committee*

Continuing Professional Education (CPE) programmes. Among issues raised was how members from neighbouring states could be involved in activities organised by the Melaka Branch.

The favourable response from members to the forum further reflects the interest and confidence in the activities organised by the MIA Melaka Branch, the Council and the Secretariat. The MIA Melaka Branch Chairman, Lee Hin Kan hopes that more members will participate in MIA Melaka Branch programmes in future and also assist in organising them. He also extended an invitation to members who want to get involved in organising future events and programmes to contact Branch Vice-Chairman, Abd Halim bin Husin, c/o No. 158/2, Suite A,

Kompleks Munshi Abdullah, 75100 Melaka. Tel : 06-292 2154 or Fax : 06-2922153. **AN**

## DPMM's Budget 2002 Proposal Seminar

The MIA Melaka Branch recently organised a joint talk with the Dewan Perniagaan Melayu Melaka (DPMM) regarding the 2002 Budget. The Melaka Branch solicited the presence of Prof. Ho Juan Keng from UiTM to speak on the subject with three MIA Melaka Branch Committee Members sitting in as panelists along with their Chairman, Lee Hin Kan. A senior officer from the Inland Revenue Board was also invited to give clarifications on related issues.

DPMM members were very pleased with the talk as it clarified many issues on the budget in a simplified manner and the impact of certain budget items were well explained by the panelists. The Executive Director of DPMM, Sheikh Salleh Omar who was present during the talk forwarded the request for his Chairman YBhg Datuk Md Ramly bin Mohamad and Vice-Chairman YBhg Datuk Haji Latip bin Saruggi for more seminars to be conducted by MIA for DPMM members. **AN**



*Some of the MIA Melaka members who attended the MIA Melaka Members Forum*



*MIA Melaka members enjoying a tea break and networking after the Members Forum*

MIA SARAWAK BRANCH

# Sibu Re-visited

After 36 years, MIA President Abdul Samad Alias returned to an 'unrecognisable' Sibu, where surprises awaited him in all corners. The MIA President and Council Member, Nik Mohd Hasyudeen, were warmly welcomed by David Tiang (Sarawak Branch Chairman) and the entire Sibu Chapter committee, all in white T-shirts with the unmistakable MIA logo. They were immediately escorted to meet YB Robert Lau Hoi Chew, Sibu Mayor and a member of MIA, whose office was on the 246th floor of the tallest building in Sarawak, Wisma Sanyan.

The office of the Sibu Mayor was impressive. From the Mayor's glass windows, Sibu was a showcase of development gearing for city status by 2005.

In the evening, YB Lau joined Guest of Honour, YB Datuk Wong Soon Koh, Minister of Infrastructure, Development & Communications at the MIA Sarawak Branch Annual Dinner in Sibu Tanahmas.

Then, Samad found out that YB Datuk Wong and Si Kiang Seng (Sarawak Branch Vice Chairman) graduated from the same Australian university as himself. Among the many distinguished dinner guests were YB Datuk Soon Choon Teck, Assistant Minister for Public Health Sarawak; YB Tiong Thai King, MP of Lanang; Oliver Kuo Ging Bing, Chairman of the Sibu Rural District Council and Quah Sin Hor, Head of IRB Sibu.

As for the Branch, Sibu



Abdul Samad Alias exchanging mementos with YB Robert Lau, Mayor of Sibu, in the brand new office of the Sibu Municipal Council situated in the tallest building in Sarawak



YB Robert Lau (with tie), showing off his development model and plans for Sibu City to ... (L-R) Loh We Boon, Sibu Chapter Committee; Philip Tong, Sibu Chapter Chairman; Si Kiang Seng, Branch Vice Chairman; Abdul Samad; Nik M. Hasyudeen; David Tiang, Branch Chairman and Yeo Ah Tee, Branch Secretary



Sibu Chapter Committee Member; Andrew Ling (right) played tourist guide to Farehan Hussin, Branch Committee; Andy Chia, Miri Chapter Chairman and Teo Kin Mia, Branch Treasurer



MIA council, committee members and distinguished guests sitting down to a night of 'friendship across land and sea'



Ting Wee Huong, Sibu Chapter Committee member, presenting our famous Sarawak pottery as a memento to Abdul Samad Alias



Town was a welcomed change of venue for the final Sarawak branch committee meeting of the year, where chapter committee members from Sibul, Miri and Bintulu met the main branch committee members, some for the very first time.

For others, it was a nostalgic 'balik kampung' as many members originated from Sibul including David Tiang, Branch

Chairman; Thomas Law, Branch Committee; Lucy Read, Branch Manager; Ngu Woo Hieng, Bintulu Chapter Chairman; Florence Tang, Bintulu Chapter Secretary; Richard Hii, Bintulu Chapter Committee and Sally Hii, Branch PPT Committee.

After all the hard work of organising the courtesy call, members dialogues and annual dinner, Lucy rewarded the committee

members by taking them the following morning on a breakfast-ton to savour the original Foochow 'cha-chue-prawn mee', tian-mian-ngu and 'kam-pua-mee' among many other Sibul delicacies and showed them the shops to buy 'kom-piah' freshly made from the old fashioned firewood ovens and the seasonal local 'buah daba' to bring back home. AN

## Kuching Tops in Tax Collection

The recent 2002 National Budget may not be too exciting for accountants as compared to previous years but that did not stop members in Sarawak from flocking to the nationwide budget seminar, organised by IROU and supported by the MIA and the MIT, to hear from the experts in tax matters in this new era of self assess-

ment and global challenges.

During the seminar on *Budget 2002 Proposals & Field Audit* in Kuching, Director of IRB Sarawak, Tuan Haji Adnan Wan Abas revealed that a total of 156 cases were audited in 2000 and a record RM29 million in tax was collected. He said that for the past four years, Kuching was a consistent second

in tax investigation after Kuala Lumpur even though there were more companies in other states such as, Johor and Penang. Tuan Haji Adnan continued to say, on a lighter note, that there could be two interesting views to IRB's so called success in Kuching — either his officers were more hardworking or there were more 'evaders' in the state. AN



(L to R) ... Ee Guan Heng, member; Stephen Ngui, member; Stanley Ng, member; David Tiang, Branch Chairman and Albert Chong, speaker



IROU, MIA & MIT representatives enjoying lunch at the serene Chinese Toh Yuen Restaurant in the Kuching Hilton



At the registration counter ... seated L - R : Mohd Yusuf Hassan, IROU; Sahari Abang, IRB Kuching; Hajjah Ebong, MIA staff. Standing L - R : Raymond Jee, IRB Kuching; Lucy Read, MIA staff and Thomas Teo, IRB Kuching



Ngu Khoon Teng, Ting Hua Cheong and David Wong, all members and regular supporters of MIA CPE seminars

## MIA PENANG BRANCH

## Sharing Their Expertise

**N**g Swee Weng, Penang Branch Committee Member and KPMG Partner, rendered his services as the honorary speaker for the evening talk on *MASB 23 Impairment of Assets*, held at Disted Stamford College, Penang, on 18 October 2001. An eloquent speaker, Swee Weng injected life to what many accountants have commented, "Technical topics are relevant

but dry". He shared his knowledge, particularly enlightening over 120 participants on the practical issues arising from the application of MASB 23 which would require their professional judgment.

Another committee member, Professor Dr. Daing Nasir Ibrahim who is the Dean of Universiti Sains Malaysia (USM) School of Management, also contributed by being

the honorary speaker for the 15 November 2001 evening talk held at USM despite having just returned from Johor Bahru after participating in a three-day Asian Academy Management Conference as the Organising Chairman. Prof. Daing looked fresh as he tirelessly spoke on Balanced Scorecards to some 80 participants mainly from the industrial sector. **AN**



*Ng Swee Weng highlighting the salient points in MASB 23*



*Prof Dr. Daing speaking on one of his favorite topics, "Balanced Scorecard"*



*A section of the audience at the 18 October evening talk on MASB 23*



# A Morning of Splendour



It was a morning to be remembered by the proud and newly admitted Fellows and Associates of the Chartered Institute of Management Accountants (CIMA). From gentle ladies dressed in elegant wear to charming gentlemen in their smartest suits, the ballroom was filled with excited CIMA Fellows and Associates waiting to receive their scrolls from YB Dato' Seri Rafidah Aziz, the Minister of International Trade and Industry. Such was the scene at the recent CIMA Membership Graduation Ceremony held at the Palace of the Golden Horses on 3 November 2001. At this year's graduation ceremony, a total

of 83 Fellows and Associates received their scrolls.

The crowd of more than 300 people present on that day included loved ones, family and friends of the graduates, and CIMA's guests from other professional accounting bodies, universities and colleges. For the first time in the history of CIMA Malaysia Division, fellows and associates from CIMA Singapore joined in the grand celebration.

In her speech, YB Dato' Seri Rafidah Aziz touched on the challenge ahead for accountants, an excerpt of which is presented below.



## THE CHALLENGE AHEAD FOR ACCOUNTANTS

**A**s the Malaysian economy develops and matures, there will be a higher degree of sophistication in the activities of the various economic sectors, such as manufacturing and trade, and the related activities. Such sophistication is catalysed by the advancements in technology and knowledge, and in the rapid innovation and research breakthroughs. Increasingly, those who provide the relevant supporting and complementary services, such as management accountants, would begin to assume an important role, with

them being expected to bring in new ideas and approaches.

With the advent of the New Economy, which is significantly more knowledge-based and knowledge-intensive, providers of professional services must keep abreast of any development and innovation affecting their work and in particular, to be able to assist trade and industry to make the transition into knowledge-based operations. To do this effectively, professionals must themselves be adequately equipped with the relevant new knowledge and

skills, and to be benchmarked against global standards.

As trade and industry become more globalised, and cross-border transactions and enterprise linkages begin to become the norm, providers of professional services must also adopt a world-view of their profession. Their perspective must be global as also their capacity and capabilities must be at least on par with what global standards require.

For Malaysia, the future growth and development of the economy will be driven

by knowledge-based industries in all sectors, particularly the manufacturing and services sectors. This process of transformation will spawn new areas of economic activities entailing a change in the pattern of demand for manpower or human resource. In the knowledge-based economy, high technology and science-based industries, as well as knowledge intensive industries such as Information and Communication Technology (ICT) industries and Research and Development activities, will generate occupations that require tertiary education.

The Third Outline Perspective Plan (OPP3) forecasts that between the period 2000 to 2010, the fastest growing occupations will be in the professional and technical, as well as managerial and administrative categories, with these occupations accounting for 32.2 per cent of the new jobs created during the period, and growing at the rate of about 5.8 per cent per annum for each category.

In 1990, there was a total of 27,206 registered professionals in the country, out of which 5,574 was in the accounting profession. In 1999, the number of registered professionals reached 52,953, out of which 13,661 were accountants.

The widespread application and diffusion of ICT in all sectors will require the nation's human resource to be equipped with various levels of computer and IT skills, and professional service providers will not be exempt from such requirement. Increasingly, services will be provided online, and electronic connectivity requires that the service providers become integral parts of the national, regional and global electronic networks.

Another key factor is the globalisation process which has resulted in extensive cross-border flows of technology, capital and entrepreneurship, all seeking the most competitive locations from which to cater for the demand of the regional and global markets. When such crossflows occur, owners and managers of capital, technology and intellectual property, expect to be adequately compensated by profits and dividends that accrue and an important element to all this is good corporate governance which, to some extent, can ensure

that expected compensation and returns.

Today, corporate governance has taken on a universal profile, with the market defining it according to global standards, and the concept being given a global interpretation and increasingly, stakeholders in business, particularly in enterprises that transcend national boundaries, demand legal and administrative structures and framework which can serve to realise good corporate governance.

Certainly as business modes become more complex and financial transactions assume new sophistication, good corporate governance cannot be taken for granted. Often times, it is necessary to have a clear demarcation between what is technically correct but ethically wrong, and what appears legally right but morally and ethically unacceptable. In this context, those who manage and oversee the financial aspects of business must have integrity and professionalism of a high degree, to ensure that the parameters of good corporate governance are not breached, and that the interests of the relevant stakeholders are safeguarded.

The process of globalisation has, so far, enabled Malaysia to become a global player, in the sense that many Malaysia-based businesses are integral parts of a global network, and operate to serve the larger international market.

Malaysia today trades with 232 nations, and, apart from the wide range of goods, services are beginning to be an important export commodity. Such diverse market exposure would require that those in business, also have the necessary global mindsets and an adequate understanding of how businesses are done elsewhere. This is also true in the case where professionals serve businesses which have international linkages which, in turn, mean the need to understand a diversity of rules and regulations.

As Malaysia continues to vie for and attract foreign direct investments particularly in the high technology and skills intensive areas, and as the country evolves into a regional hub for many economic activities, it is important for key human resources, such as professionals in trade and industry to be familiar with the rules and

regulations on a global basis.

This means that there must be an ongoing exercise on capacity building and the exposure to new professional experience and skills. Increasingly, academic and similar qualifications will be lesser components of the professional's curriculum vitae. The market would demand that they have adequate understanding of global business so that they can provide the widest possible range of services in the profession's spectrum. The market is no longer constrained by the national boundary but is becoming more global. Therefore it is important that today's graduands strategise early to chart their future learning and skills enhancement plans. Of importance, is to have the right attitude towards self-development and to be motivated enough to want to learn anew.

Some people say that education is a lifelong process. While that is true, sometimes the market and the situation cannot wait for someone to take a lifetime to learn. Some situations require an extremely short learning curve, in order not to be marginalised by the competition. And other situations require intensive absorption of new and basic knowledge and skills that enable the individuals to hold their own for the rest of their lifetimes.

Still, new knowledge and new elements will evolve over time, many of which can radically change old and previous ways of conducting business. The newer generation of professionals must be quick on the uptake, of these changes and innovation, so that the relevant professions can continually be infused with the new elements and thereby remain dynamic and relevant.

In this context, professional bodies must provide parallel programmes which can shorten the professionals' learning curve, and provide the global perspectives of the relevant professions through exposure to what is new and changing elsewhere.

It is hoped that accountants will significantly add value to the economy and the nation through serving efficiently and productively their respective organisations, and in their professional spheres help to move Malaysia forward to realise Vision 2020. [AN](#)



## Study in Australia 2001 Exhibition

**F**rom the 26-28 October 2001, CPA Australia Malaysia Branch participated in the Study in Australia 2001 exhibition, organised by Austrade at the Mandarin Oriental Hotel in Kuala Lumpur. Amidst the bustle of dressing booths and attending exhibitor briefing sessions, for us, the exhibition finally got off to a smooth start.

Officiated by H.E. Peter



Varghese, Australian High Commissioner to Malaysia, the exhibition saw a steady flow of visitors seeking more information on membership with CPA Australia. The exhibition closed at 6 p.m. on 28 October 2001. [AN](#)

*Guest of Honour; H.E. Peter Varghese visiting CPA Australia's booth at the Austrade Education Fair*

## CEO Forum on Economic Liberalisation Initiatives in ASEAN — Opportunities for Malaysian Businessmen

**C**PA Australia Malaysia Branch had its first in a series of CEO Forums organised by the Capital Market

Regulations Sub-Committee. The topic on the ASEAN Liberalisation process was held at the Pan Pacific Hotel in Kuala Lumpur on 6 November 2001. M. Nagarajan, Principal Assistant Director of the ASEAN Economic Cooperation Division, Ministry of International Trade and Industry, delivered an insightful presentation, which was followed by a very interesting question and answer session. An executive summary of Nagarajan's talk is presented below :

in 1993, will be in place with tariffs of between 0-5 per cent for manufactured and processed agricultural products for

agricultural products, the phasing-in of these products into the AFTA scheme will begin in 2003 for the original six with



*M. Nagarajan delivering his presentation at the CEO Forum*

tariffs of 20 per cent and less, and will reach the 0-5 per cent tariff range by 2010. In addition, member countries are allowed to keep specific products in the General Exemption List. These involve products that affect moral, security and artistic values.

4 In addition, it has also been agreed that :

■ 60 per cent of the manufactured and processed agricultural products will have zero

per cent tariffs by 1 January 2003; and

■ Zero per cent tariffs on all products by 2010 for the original six member countries and by 2015 for the new member countries of ASEAN.

5 Currently more than 98 per cent of the products from the original member countries have been offered for tariff concession under AFTA. The average ASEAN tariff will reach 2.9 per cent in 2002 and be further reduced to 2.4 per

the original six member countries (Thailand, Malaysia, Singapore, Brunei, Indonesia and the Philippines) by 1 January 2002 and with some flexibility by 1 January 2003. The new member countries of ASEAN have been given a delayed time frame involving :

- Vietnam : 2006
- Laos and Myanmar : 2008; and
- Cambodia : 2010.

3 Due to the sensitiveness of unprocessed

1 The ASEAN Vision 2020 envisages the ASEAN region to be a fully integrated economic region with free flow of goods, services and investment. In addition, the Vision 2020 also calls for a freer flow of capital.

2 In the goods sector, the liberalisation of tariffs is guided by the commitments under the ASEAN Free Trade Area (AFTA). AFTA, which was conceived

- cent in 2003.
- 6 The status of tariff reduction for Malaysia :
- 96.6 per cent of the total tariff lines have been offered for tariff reduction;
  - 91.7 per cent of the tariff lines are at tariffs between 0-5 per cent, of which 60.4 per cent are with zero per cent tariffs;
  - 2.1 per cent of the total tariff lines or 218 tariff lines related to CBU and CKD automotive products have been deferred for tariff reduction until 1 January 2005;
  - 0.8 per cent of the total tariff lines are sensitive agricultural products, which will be offered for tariff reduction beginning 1 January 2003; and
  - 0.5 per cent of the total tariff lines are related to products in the General Exemption List.
- 7 In the area of services, ASEAN is com-

mitted to progressive liberalisation of the services sector towards attaining the ASEAN Vision 2020. Three packages of commitments in the services sector have been finalised. In the accounting services sectors, Malaysia has offered improved market access for ASEAN nationals through higher equity participation of 35 per cent, compared to 30 per cent for non-ASEAN nationals.

- 8 Investment liberalisation in ASEAN is guided by the ASEAN Investment Area (AIA) Agreement. This agreement covers direct investments and investments in services sectors. ASEAN had agreed to offer national treatment (similar treatment to locals) immediately, subject to certain exclusions, which will be phased out by 2003. Sectors that offer potential for Malaysian investors in other ASEAN countries include garment manufacturing, wood products,

electrical products and automotive products.

- 9 Apart from liberalisation initiatives, ASEAN is also involved in trade facilitation measures, which include harmonisation of customs nomenclature, standards, transport and development of mutual recognition arrangements.
- 10 The economic liberalisation initiatives in ASEAN offer both opportunities and challenges to Malaysian businesses. Opportunities arise from sourcing for cheaper raw materials, relocation of labour intensive industries and catering for the wider regional market of more than 500 million people. However, these liberalisation measures pose threats to domestic industries which are not cost-efficient. Hence, there is a need for domestic industries to upgrade themselves and produce not only for the domestic market, but also for the regional market. AN

## "GIDDYUP" at CPA KL Installation

It was a wild wild night on 20 October 2001. A thunder storm failed to stop a bunch of "wild, wild, west" cowboys and cowgirls from making their way to the cosy "Melia" saloon for the wildest party of the year — the Wild Wild West CPA Kuala Lumpur Toastmasters Club's 3<sup>rd</sup> Installation Dinner. Members and guests put on their best cowboy and cowgirl gear and filled the 'saloon' with western music. The night started with a speech by Director of CPA Australia (Malaysia), Viji Nair on the heydays of WWW — "World Wide Web and Wild Wild West."

No show is ever complete without the usual 'catwalk' or in this case, 'horse-walk'. It was a colourful night; to see everyone dressed up for the hoe-down. We had the incoming President, Yanti Nizar, dressed up as "Pocahontas", Edelweiss Ooi, VP Education, as the "can-can" bar maid (which won her the Best Dressed Female), Zorro, Woody Roundup (from the Toy Story, which won the Best Dressed Male), and many more with their ten-gallon hats and lassos.



CPA KL Toastmasters Club's New EXCO for 2002

The main event, of course, was the installation ceremony of the incoming EXCO by W2 Area Governor, ATMB Tang Sum Chee. This year's committee comprises of Yanti Nizar (President), Edelweiss Ooi (VP Education), Md. Najib Abdullah (VP Membership), Melissa Albert (VP PR), Richard Lee (Treasurer), Rodney Goh (Secretary) and Soo Wei Leng (Sgt-At-Arms).

No Wild Wild West will be complete without a showdown by the EXCO. The EXCO was led by Michelle Ng, a dance instructor, for the line and step dance. The crowd joined in and partied through the night.

Surf the CPA KL Toastmasters website at <http://welcome.to/CPAKL> or <http://www.geocities.com/CPAKL> for more information and the photo album. AN



CPA NEWS IN BRIEF

Members Orientation Workshops (MOWS)

A total of three MOWs were held in November and December 2001. These were held in Sibiu and Miri where dinner and dialogue sessions were organised on 6 and 8 December 2001 respectively. At the MOW conducted on 17

November 2001 in Kuala Lumpur, CPAKL toastmasters club President Yanti Nizar and Vice President of Education Edelweiss Ooi conducted a brief introduction to the membership and objectives of Toastmasters. [AN](#)



Councillor, Manjeet Singh and members at the Sibiu dialogue dinner session



Councillor, Manjeet Singh, staff Lilian Chan and Carol Lau with part of the Miri Working Group

Members Dialogue and Dinner in Bintulu

Members in Bintulu organised a Members Dialogue and Dinner session on 7 December 2001. The event was also at-

tended by Councillor Manjeet Singh and Lilian Chan and Carol Lau of the CPA Office in Kuala Lumpur. [AN](#)



Members at the Bintulu dialogue dinner

Newly Established Outstation Centres

Tawau and Sandakan were formally established as CPA Australia Outstation Centres with their own Coordinator and Working Group on 23 and 24 Novem-

ber 2001 respectively, recognising the growth of CPA Australia in Malaysia and the growing importance of Outstation Centres to CPA Australia. [AN](#)



Members at the Tawau Outstation Centre



Councillor, Lam Kee Soon, with members at the establishment of the Sandakan Outstation Centre

YPG Corporate Awards

On 1 December 2001, the Young Professionals Group participated in a tactical adventure game entitled "The Corporate Warrior", which featured simulated warfare with the use of paintballs instead of bullets. 37 members participated in this

event which saw thrilling pursuits and lots of slips, slides and tumbles. The objective of the exercise was to create a sense of camaraderie and awareness of the benefits of interdependency, the benefits of an effective team and increased communication skills. [AN](#)



CPA Australia's Corporate Warriors

## Taylors College Open Day

CPA Australia participated in the Taylors College Open Day on 2 December 2001. Its President, Albert Wong and councillors Lam Kee Soon and Leong Kai Keong were on hand to speak to students interested in CPA Australia membership. [AN](#)

## SIT Open Day

At the Sepang Institute of Technology Open

Day on 1 December 2001, Councillors Manjeet Singh (who is also Education Sub-Committee Chairman), Deng Heng Fatt and Director of CPA Australia (Malaysia), Viji Nair met with students to explain membership processes and procedures of CPA Australia. [AN](#)

## Annual Inter-University Sports Tournament

CPA Australia will be organising its Annual

inter-university sports tournament in March 2002. Details on exact dates and events will be announced nearer the event. [AN](#)

## Extended Operating Hours

The CPA Australia Malaysia Branch office will be opened every Saturday from 9.00 a.m. to 5.00 p.m. in January 2002, to facilitate the CPA Programme enrolments and new admissions. [AN](#)

# Inaugural Inter Malaysian Accounting Groups (IMAG) Golf Tournament

In a fine effort to foster closer relationships between members of the accounting fraternity, namely members of the Malaysian Institute of Accountants (MIA), professional accountancy bodies, members of government and regulatory bodies, and other prominent members of the finance sector, the Institute of Chartered Accountants in Australia (ICAA) recently organised the inaugural Inter Malaysian Accounting Groups (IMAG) Golf Tournament.

The tournament which was held at the Bukit Unggul Country Club in Dengkil on 3 November 2001 was officiated by the Deputy Minister of International Trade and Industry, Datuk Kerk Choo Ting. Also present were the Auditor-General, Datuk Dr. Hadenan Abdul Jalil; Securities Commission Chairman, Datuk Ali Tan Sri Abdul Kadir and MIA President Dr. Abdul Samad Haji Alias.

Eric Ooi, Lim San Peen, Ooi Chee Kun and Sekar Krishnan who are also members of the Malaysian Association of Certified Public Accountants (MACPA) scored a combined

overall stableford score to emerge the best overall winner walked away with the President's Trophy, which was sponsored by ICAA's President, Peter T. K. Lim.



The winning team — from left : Lim San Peen, Datuk Kerk Choo Ting, Eric Ooi, Ooi Chee Kun and Sekar Krishnan

142 to beat the quartet of Cheah Kong Lee, Datuk Ahmad Padzli Mahidin, Kamaruddin Daud and Mohamed Jush on countback to claim the Challenge Trophy in the team event. Eric Ooi who also produced the best

overall stableford score to emerge the best overall winner walked away with the President's Trophy, which was sponsored by ICAA's President, Peter T. K. Lim. In congratulating the ICAA and the IMAG golf sub-committee on the well organised event, Datuk Kerk said the tournament reflected the finance sector's optimism about the Malaysian economy, and its willingness to use such events to build strong and sound business relationships. Peter Lim who was visibly pleased with the good response to the tournament said he hoped to pass the organiser's baton to one of the other members of the accounting fraternity. Dr. Abdul Samad who concurred with Peter on the tournament becoming an annual event, said he hoped the other scheduled bodies will take turns to organise the event on a rotational basis. [AN](#)



Eric Ooi (right) flashes his winning smile for the camera. With him is Peter Lim



From left : Datuk Kerk Choo Ting, Datuk Ali Tan Sri Abdul Kadir, Dr. Abdul Samad Haji Alias and Datuk Dr. Hadenan Abdul Jalil



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

### NEW BOOKS

*AOTCA Collection of Technical Reports 2001*, Seoul : Asia-Oceania Tax Consultants' Association, 2001.

Call No. : 332.20095 AOT

*Taxation Series 2001 : Second World Tax Conference Paper 2001*, Dublin : The Institute of Taxation in Ireland, 2001.

Call No. : 336.2 TAX

*2001-02 Miller GAAP Financial Statement Disclosure Manual*, by George Georgiades, New York : Aspen Law & Business, 2001.

Call No. : 657.0218 MIL

*Financial Accounting Series : Statement of Financial Accounting Standards No. 144 : Accounting for the Impairment or Disposal of Long-Lived Assets*, New York : Financial Accounting Standards Board, August 2001.

Call No. : 657.0218 FIN

*Statement on Auditing Standards No. 94 : The Effect of Information Technology on the Auditor's Consideration of Internal Control in a Financial Statement Audit*, New York : AICPA, 2001.

Call No. : 657.458 STA

*Report of the SMP Working Party : An Assessment of International Needs and Analysis of the Activities Offered within Seven Member Bodies*, New York : International Federation of Accountants, November 2001.

Call No. : 657 INT

*Occasional Paper 4 : The Delegation of Public Services in France : An Original Method of Public Administration : Delegated Public Service*, New York : International Federation of Account-

ants, September 2001.

Call No. : 657 INT

*Consultation Paper : Aggressive Earnings Management*, London : The Auditing Practices Board, 2001.

Call No. : 657.3 CON

### CONFERENCE PAPERS

#### 12th Conference ASEAN Federation of Accountants, AFA 18-19 October 2001, AFA 12/2001

Speech by Dr. Richard Hu, Minister for Finance. *Tax Administration in the New Economy*, by Koh Cher Siang.

*Independence of Auditors — Current Debates*, by Fang Ai Lian. *Harmonisation of Accounting Standards*, by Keith Alfredson.

*Introducing XBRL by Decision-Making in a Digital Economy*, by Zachary Coffin.

*Making the Companies Act Relevant — Company Law Reform in Singapore*, by Juthika Ramanathan.

*Educating Accountants in the New Economy*, by Prof. Neo Boon Siong.

*Responding to the E-Business Challenge*, by Ross Midgley

### WORKING PAPER SERIES

#### Universiti Utara Malaysia 2001 (UUM) WPS /2001

Working Paper Series No. 1/2001 : *Computer Crime and Security : A Survey of Financial In-*

*stitutions in Malaysia*, by Basariah Salim, Dr. Mahamad Tayib and Shamharir Abidin.

Working Paper Series No. 2/2001 : *Computer-based Accounting System Among Small and Medium Manufacturing Firms in the Northern Region of Peninsular Malaysia*, by Shamsul Nahar Abdullah, Noor Azizi Ismail and Mahamad Tayib.

Working Paper Series No. 3/2001 : *Land Tax Revenue Collection Performance : Kedah State Government Experience*, by Nor Aziah Abdul Manaf, Zuaini Ishak and Mahamad Tayib.

Working Paper Series No. 4/2001 : *Investors, Market Value and Accounting Numbers*, by Raudah Danila, Muhd Kamil Ibrahim, Haslinda Yusoff and Normahiran Yatim.

Working Paper Series No. 5/2001 : *Accounting Disclosure Practices Among Unit Trust Funds in Malaysia*, by Nor Asma Lode, Ku Nor Izah Ku Ismail, Mohamad Tayib and Shamsul Nahar Abdullah.

Working Paper Series No. 6/2001 : *A Multinational Logic Analysis of Accounting Policy Choice for Goodwill Expenditure*, by Ayoib Che Ahmad and Natrah Saad.

Working Paper Series No. 7/2001 : *Compliance Costs of Malaysia's Small and Medium Enterprises*, by Mustafa Hanefah and Jeyapalan Kasipillai.

Working Paper Series No. 8/2001 : *Communication Skill of Entry-Level Accountants in Malaysia*, by Noraza Mat Udin, Mazlina@Norzila Mat Zain and Shireenjit Kaur Johl. [AN](#)

# LOOKING BACK INTO 2001 ...



MALAYSIAN ASSOCIATION  
OF ACCOUNTING ADMINISTRATORS

## Incorporation and Aim

The Malaysian Association of Accounting Administrators (MAAA) was incorporated in 1990 with limited liability under Section 16(4) of the Companies Act, 1965 in recognition of the two-tiered nature of the accountancy profession. MAAA (previously known as Malaysian Association of Accounting Technicians) is a company sponsored by the Malaysian Institute of Accountants (MIA).

## Main Objectives

- To provide a qualification to be known as Accounting Technicians/Administrators for persons employed on duties customarily undertaken by assistants to accountants registered with the MIA.
- To provide an organisation and membership for such persons who are desirous of acquiring such qualification and persons who are granted such qualification.
- To promote in the public interest the technical competence of such persons engaged in positions and performing the functions of accounting technicians/administrators.

## Council Members (2001 Term)

### Elected Members

Izhar Abd Kahar (President)  
 Koo Yew Fook, Allan (Vice President)  
 Chin Wah Yin  
 Kasim Darus  
 Lim Ah Leck  
 Low Han Men, Aric  
 Mahadevan s/o Gengadaram  
 Mok Kam Seng  
 Panneer Selvam  
 YM Raja Noorhana bt Raja Harun  
 Wong Chee Kheong  
 Yong Yoon Kee

### MIA Nominated Members

Assoc. Prof. Dr. Nafsiah bt. Mohamed  
 Assoc. Prof. Dr. S. Susela Devi

## Secretariat Office

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Editor for MAAA News : G. Mahadevan

The Malaysian Association of Accounting Administrators was faced with challenges in the year 2001. However, one factor remains constant throughout the years, that is, the commitment of the Association and its Council to serve its members to the best of their ability. The successes achieved to date would not have been possible had it not been for the support of members.

As at 31 November 2001, the Association's membership stood at 1,072, comprising 580 Accounting Administrators and 492 Associate Technicians.

The Association is currently working very closely with the Faculty of Business and Accountancy, Universiti Malaya, the latter having been appointed as the academic consultants for the Association's Diploma in Accounting examination. The examination once approved will provide the Malaysian public with an indigenous alternative pre-professional qualification in Accounting. The examination syllabus is now in the final stage of completion for submission to the relevant authorities.

Source : MAAA

The numerous evening talks organised by the Association was targeted mainly at enhancing members' knowledge into other areas apart from the accounting aspects. To date, the Association has organised eight talks, the latest in November 2001 entitled *Tax Evasion, Tax Avoidance and Tax Mitigation*. The highlights of the talks were reported in previous issues of the *Akauntan Nasional*. The evening talks had received overwhelming support from members especially on tax topics. The first evening talk for the year 2002 will commence in March.

Another achievement of the Association is the launching of its webpage on 23 June 2001. The webpage provides key information about the Association and its objectives, its council members, latest developments, planned activities, membership application procedures, etc. The MAAA webpage can be accessed through MIA's website at [mia@mia.org.my](mailto:mia@mia.org.my) under the sponsored bodies section.

As we look forward to a great year in 2002, the Association would like to wish all our members and readers a very Happy New Year and Gong Xi Fa Cai. AN

## CONDOLENCE

*Allahyarham* Tuan Haji Hanapi bin Rasol, passed away on 22 December 2001 due to an illness. Tuan Haji Hanapi had been an active member of the Association and a Council member since 24 June 1995. Tuan Haji will be greatly missed by the Association. The Council on behalf of the Association would like to extend their condolences to his beloved wife and family members. AN



# Five New Accounting Standards for the Public Sector

The International Federation of Accountants (IFAC) Public Sector Committee (PSC) has released five new International Public Sector Accounting Standards (IPSASs) and a new exposure draft. The IPSASs and exposure draft are part of the PSC's ongoing project to develop a comprehensive body of international accounting standards for governments and their agencies around the world.

The new IPSASs are as follows :

*IPSAS 13 — Leases.* This standard pre-

scribes for both lessees and lessors the appropriate accounting policies and disclosures to apply in relation to finance and operating leases. It includes guidance on the classification of leases, disclosures to be made in the financial statements of lessees and lessors, and accounting for sale and leaseback transactions.

*IPSAS 14 — Events After the Reporting Date.* This standard prescribes when an entity should adjust its financial statements for events which occur after the reporting date

and the disclosures that it should make about other "non-adjusting" events which occur after the reporting date.

*IPSAS 15 — Financial Instruments : Disclosure and Presentation.* This standard prescribes how financial instruments are to be classified and identifies disclosures to be made in general-purpose financial statements.

*IPSAS 16 – Investment Property.* This standard prescribes requirements for ac-

counting for investment property, including the initial and subsequent measurement and disclosure of such property by governments and their agencies.

*IPSAS 17 — Property, Plant and Equipment.* This standard prescribes requirements for the initial recognition and measurement of property, plant and equipment. It also deals with subsequent measurement, depreciation and disclosures of these assets. The standard provides a transitional period to support the orderly implementation of its requirements and allows, but does not require, heritage assets to be recognised in general purpose financial statements.

“The PSC continues to make good progress on the development of a core set of accrual-based IPSASs. It has now issued 17 Standards and I anticipate it will complete

the development of the remaining three core IPSASs by mid-2002,” says Ian Mackintosh, the PSC Chairman. Mackintosh noted that work on the cash basis IPSAS was also continuing and he anticipated the release of that Standard by mid-2002.

The new PSC exposure draft is *ED 22 – Definition of a Segment: Amendment to the Definition Proposed in ED 17 Segment Reporting*. ED 22 proposes amendments to the definition of a ‘segment’ in ED 17 (issued in January 2001). ED 17 proposed that segments used for internal financial reporting purposes should be adopted for external financial reporting purposes. Respondents to ED 17 argued that segments constructed for internal reporting purposes would not always be appropriate for external reports and that the PSC should develop a definition that reflects the underlying intent of segment reporting. This ED was prepared

in response to those concerns.

“The change in definition may require some public sector entities to construct segments specifically for external financial reporting purposes. To ensure that the impact of this change is not underestimated, I urge all those that may be affected to also review the disclosure requirements as proposed in ED17, which largely remain unchanged,” says Mackintosh.

Because ED 22 focuses on only a single issue, its exposure period is shorter than for a full-proposed Standard. Comments on the ED are invited by 28 February 2002. They may be e-mailed to or faxed to the attention of IFAC’s technical director at 1-212-286-9570. The IPSASs and the exposure draft are posted on the IFAC website ([www.ifac.org](http://www.ifac.org)). Visitors to IFAC’s website may also download all other International Public Sector Accounting Standards at no charge. **AN**

## IFAC Comments on GAAP 2001 Report

**T**he GAAP 2001 Report, released by the seven largest accountancy firms in early December 2001, represents another critical step toward encouraging the harmonisation of international standards and ultimately, the establishment of a single global financial framework,” stated Aki Fujinuma, President of the International Federation of Accountants (IFAC), which represents over 150 accountancy organisations and 2.4 million accountants around the world. “The development of such a framework is vital to the efficient operation of global capital markets,” added Fujinuma.

The report compares national accounting standards with International Financial Reporting Standards (IFRSs; formerly IASs) in 62 countries. It also includes an analysis of changes and progress made in each country since the GAAP 2000 report was issued. The 62 countries surveyed represent more than 95 per cent of the world’s Gross National Product and stock market capitalisation.

Among the significant findings are the following :

About one-third of the countries surveyed are showing progress in closing the

gap between national and international standards. About half of the countries surveyed have not implemented or proposed standards to reduce the difference. Most of the major differences can be attributed to a relatively small number of standards, perhaps eight in all. One of the most important differences centres around related-party disclosure, which is of great interest to investors and parties interested in good corporate governance.

The report also pointed out that as a result of major changes in international standards that are being considered, the differences between national and international accounting standards will increase unless standards setters redouble their efforts to keep pace with the changes.

“Globalisation of business and commerce has highlighted the inadequacy of financial reporting and auditing in accordance with purely national standards. Decision-makers need assurance that the financial information on which they base their decisions is transparent, consistent, comprehensive and comparable across national boundaries. To meet this need, countries, with the support of government, standard setters, and regulators, must make conver-

gence of high quality accounting standards a priority,” emphasised Fujinuma.

In addition to supporting the initiatives of the International Accounting Standards Board and the firms responsible for the GAAP 2001 Report, IFAC is undertaking a number of actions to foster compliance with and convergence of international standards in four other key areas: auditing, ethics, education, and public sector accounting. Through the newly created Forum of Firms, it is also leading the development of an international self-regulatory regime for firms performing transnational audits. Such firms will be required to comply with IFAC’s International Standards on Auditing and other IFAC pronouncements. The complete GAAP 2001 Report can be found at the site of the International Forum on Accountancy Development (IFAD). IFAD was established by IFAC and the World Bank in 1999 to raise standards of financial reporting and market regulation around the world. Printed copies of GAAP 2001 can be obtained by contacting Hayley Mead at; tel : 44-207-951-8773 or fax : 44 207-951-8971. There is no charge for this report. **AN**



# IFAC Board Approves Recommendations to Strengthen Role of the International Auditing Practices Committee

At its meeting in Miami on 15 November 2001 the Council of the International Federation of Accountants (IFAC) approved recommendations from a special task force to strengthen the processes of the International Auditing Practices Committee (IAPC), the IFAC committee responsible for establishing international auditing guidance for the world's accountants. It also approved renaming the committee the "International Auditing and Assurance Standards Board," (IAASB) effective June 2002, to better reflect its role.

"There is a compelling need for a single set of global auditing standards that will be accepted worldwide. As security markets have become global and the cross-border issuance and trading of securities have expanded, the need has also increased for international harmonisation of accounting, auditing, and reporting standards," said Aki Fujinuma, IFAC president.

"Harmonisation of auditing standards can only be achieved if we demonstrate that

IAPC operates using due process and transparency and has the capability and resources to develop high quality standards for the foreseeable future. These concepts were fundamental to the recommendations in the report presented to the Board," commented Manuel Sanchez y Madrid, Chairman of the IAPC Review Task Force, which developed the report.

Principal recommendations include the following :

- A revision of the committee's objectives to more clearly reflect that its goals are to develop auditing standards of high quality and that it should operate and be seen as operating in the public interest.
- Expanded membership from 14 to 18 members to include 10 representatives from IFAC member bodies, five representatives from international audit firms (proposed by the Transnational Auditors Committee of the Forum of Firms), and three non-auditor representatives.
- Making committee meetings open and its

agendas and minutes available to the public.

- A mandate for the expanded committee to work closely with national auditing standard-setters on matters important to its goals, including undertaking joint coordinated projects, thus promoting eventual convergence of standards for global acceptance.
- Increasing the committee's technical resources.

These and other recommendations in the report were developed with the input of IFAC member bodies, standard-setting bodies, regional accounting organisations, international regulators, and accounting firms, all of which commented on an initial draft report.

The IFAC Board and Nominating Committee will address as a matter of urgency the individuals who will serve on the IAASB. In the meantime, IAASB will develop processes and procedures to meet the transparency undertakings outlined in the report. The full report may be viewed on IFAC's website. [AN](#)

# IFAC Board Approves New Independence Rules for Accountants Performing Assurance Engagements

The Board of the International Federation of Accountants (IFAC), the representative body of the international accountancy profession, recently approved changes to rules on independence as contained in its *Code of Ethics for Professional Accountants*.

As recommended by IFAC's Ethics Committee, the new rules set out a conceptual framework that focuses on the factors that pose a threat to independence for all assurance engagements and the safeguards that auditors should put in place to preserve their independence.

The nature of the threats to independence, and the applicable safeguards necessary, differ depending on the characteristics of the individual engagement: whether it is an audit engagement or another type of engagement; and in the case of an assurance engagement that is not an audit engagement, the purpose, subject matter and intended users of the report.

In addition, the rules provide examples of situations of how the conceptual approach to independence is to be applied to specific circumstances and relationships. The revised independence rules were exposed for public comment two times over the past two years. The Ethics Committee developed the new guidance with the input of accountants and those who use and regulate auditor services. The majority of respondents to the exposure drafts on independence were strongly supportive of the conceptual approach to independence.

"The independence of accountants who perform assurance engagements, particularly audits, is a key concern of practitioners, regulators and users of financial information throughout the world because it is central to the auditor's ability to effectively contribute to protecting the public interest," stated IFAC President Aki Fujinuma.

"IFAC's Ethics Committee studied this issue in light of changes in the global

economy, technology, and the expanding services performed by the accountancy profession and the Board is confident that the changes will increase the public's confidence in the assurance services provided by the world's accountants. Such high quality standards are the fundamental underpinnings to the world's financial markets."

The new independence rules are applicable for assurance reports issued on or after December 31, 2004 with earlier application encouraged.

"The long lead time will allow IFAC's member bodies time to make the necessary changes in their own national codes of ethics and for auditors to implement any changes that may be necessary to ensure they meet the new independence standards before they commence 2004 annual audit engagements," stated Marilyn Pendergast, chairperson of IFAC's Ethics Committee.

This new guidance may be downloaded from the IFAC website. [AN](#)